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Moderator: Jose Luis Muñoz

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Operator: Hello and welcome to the Banorte hosted extraordinary conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Jose Luis Muñoz.

Jose Luis Muñoz: Thank you. Good morning and welcome to Banorte conference call. I am (Jose Luis Munoz), director of investor relations and this morning, Marcos Ramírez, chief executive officer, will present a message. And at the end we will address your questions. Marcos, please go ahead.

(Marcos Ramírez: Hello. Good morning everybody. Thank you for joining us today. In light of the recent announcement in Mexico regarding the proposed cancellation of the airport in Texcoco we wanted to take this time to provide clarity on what that means for Banorte. In the past couple of days, we have got several calls from analysts and investors and we wanted to share with all of you the same information that we have provided so far. I will ask Rafael Arana to continue with the presentation. He has more clarity on what we want to say go ahead please.

Rafael: Thank you Marcos. Just for the sake of clarity, some of you may miss Ursula who is on vacation so that is why she is not present. I will continue showing you the presentation and let me begin by saying that Banorte does not hold the rights exposure to the airport project. Our expansion is through the uses of stand-by letter of credit in favor of the new airport managed by Grupo Aeroportuario de la Ciudad de Mexico. We have received six letter of credits with a term exposure of approximately 6 billion pesos on behalf of five different construction companies, one of which is a consortium formed by seven contractors. These line of credits are contingent liabilities and as of today none of them have been drawn. The main purpose of this line of credit is to guarantee that construction companies will make better use of the advanced payments received from the airport.

This means that construction companies must use these fronts exclusively for the construction of the airport project and not towards any other project that they may have.

In this regard, we have been vigilant of the proper deployment of these funds, therefore in our review there is a lot of probability that these letters will be executed. We further have reached in the use of these funds; directors might execute these line of credits and then would have to pay either the true amount or a partial amount of these letters, depending on specific circumstances of each contractor. At that point in time, Banorte would have to claim the payment directly with each contractor. It is important to mention that we are confident on the strength of our risk assessment of these companies. We went through a lot of risk analyses before granting this letter of credit and they were issued to well-known and esteemed construction companies in Mexico.

Depending on the trade of each company, we require a certain level of collateral from these contractors. For some of them, we require 100% of the amount of the letter of credit as collateral. In other cases, this percent lower, depending on the financial exchange of the company. The moment these letter of credits have drawn, there would be the distributed and treated as performing loans in our balance sheet. In addition to this information, we would like to mention that in accordance with our risk policy, we do not provide corporate loans for construction companies. Letters to these types of companies are specifically directed to individual projects whose cash flows become the main source of repayment of the loans.

Recent announcements made by the Mexican President Mr. Peña Nieto confirmed that the airport construction will continue without change whatsoever until November the 30th, which is the last day of his administration. Mr. López Obrador will create a task force lead by Alfonso Romo the appointed Chief of Staff which will be taken to give some business leaders in the country to how the airport contract will be honored and I have a negotiation with each contractor will be conducted. Mr. López Obrador worked with two of the main contractors yesterday and after the meeting, they

mentioned he left a good conversation. We left the meeting confident that the new government will act according to the law and this is a quote coming from them.

Another concern that has been brought to our attention is whether our exposure to government lending could be put at risk by actions from the next administration. In this regard, we can confirm that on the measure of all government loans have fully adopted Banorte Risk Policy and we are confident that the results of the extensive due diligence performed on each and every loan from this portfolio. These loans I guarantee by further advances which are collected in a trust. We have thoroughly reviewed this trust and feel confident with the structure. If government in the future changes to it they would not let it be retracted and would not affect the performance of these loans.

I want to take this opportunity to confirm that we are in fact to make the guidance numbers that we have the authority to announce, and we are also working on the budget for 2019, which will be timely communicated within the first month of the year as we usually do. Banorte as a well-diversified financial group, has further leaders, which can be pulled in order to confuse the legal and recurrent solid results. Thank you once again for your time today. At this time, we will be happy to take any questions and I would like also to let you know who are here at the table with us. We have our chief economist with us. We have the head of wholesale banking, the head of -chief risk officer, the head of corporate business and also the head of all structures, investment and structure deals. So, we will be very happy to go and speak at your meeting in which you have concerns that you have with us.

Operator: Thank you. Ladies and gentlemen, and if you would like to ask a question, please signal by pressing star 1 on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star 1 to ask a question. We will pause for just a moment to allow everyone an opportunity to signal for questions. We will take our first question from (Philip Finch) with UBS.

Philip Finch: Thank you, Marcos, thank you, Rafael Arana, so can you just confirm that you have no debt exposure and your exposure is only through less of a credit amounting to 6 billion pesos?

Rafael: Philip, in addition to the letter of credit, we have 300 million pesos of an outstanding loan that is working capital only.

Philip Finch: Okay thank you, and so given these two exposures, have you first of all made any provisions for them and secondly how much collateral do you have for these two exposures?

Rafael: For the 200 million?

Philip Finch: 300 million and also the 6 billion.

Rafael: Oh, for the 6 billion we have a different level of collateral. Some of them have full cash, and others have guarantees from the companies in other personal guarantees, so I would say that it covers a wide range of different collaterals that we have. We haven't any provisions at this point in time. These letters of credit are treated by assets so they consume 269 million of capital currency and, but basically we don't have any need of provisions because as we sit, these letters of credit are fully performing and we don't have that.

In a general number, 95% of the letters of credit have a collateral in different ways or forms.

(Philip Finch): Okay, thank you very much.

Rafael: Thank you, (Philip).

Operator: Thank you. Ladies and gentlemen, if you find that your question has been answered, you may remove yourself from the queue by pressing star 2. We will take our next question from Arturo Langa with ITAU BBA

Arturo Langa: Yes, hi, good morning, gentlemen. I was just wondering if you could remind us, I understand that it is possible one of these letters of credit could be granted to a related party, a construction company that is related to Banorte chairman. And I was just wondering if you could remind us what the CMEV regulation states regarding the maximum exposure to a related party and how this relates to and if any possible loan granted to this construction company? That would be my first question, and then my second question, maybe this is more on the macro-economics side, but does this decision by the government change your four customer interest rate levels in Mexico and how do you relate that to credit demand going forward next year? Thank you.

Rafael: Let me first go to the first one. I first started the conversation, we have six letters of credit by stand, one of these letter of credits is basically given to seven different companies. I cannot name the companies of those, but what I can tell you is that a second of the letter of credit goes to each of the companies. So around 750 million pesos that is holding for each of these seven companies, so that is -- and we firmly comply on any related part of regulations that confirm, so there is no reaching any of those pieces. The key to understand is that these letter of credit that is given to a consortium is divided by seven parties. Each of the parties have the same amount of money given to them so it is not a difference on how the letter of credit is being constructed.

The other thing, it is about interest rates, and I would ask Gabriel Casillas our chief economist to go in his perspective about this.

Gabriel Casillas: Thanks for the question, Arturo. This is Gabriel Casillas chief economist, but it does appear to highlight. On the one hand, before the airport decision, we have already called for a 25 bp hike for Banco de Mexico for this year, but more in terms of inflation. Having said that, we are forecasting the interest rate for the Central Bank to remain at these levels for a long period of time. In fact, even though we foresee some conditions to cut rates in year 2019, we never called for that. This is very different from the Market View. Actually, a few rates will remain high at this level, around

8% for a long period of time. This is the number one thing, and it is because of inflation and because of the USA hiking

Now, if the Central Bank should have more because of what happened with the decision of the airport, we don't think so honestly. In our view, when you take these kind of decisions, what you do, the Central Bank is usually, you allow a real exchange with the depreciation and you have to act more on the side of inflationary pressure.

And in this context for example, Fuel price in Mexico, the Mexican government, the actual government, has decided to increase the sale tax they have been able to charge the consumers. It is not an increase of the total tax. For example, let me give you an example, this is very important. For regular gasoline, the excise tax for gasoline is 4.69 pesos so in this context, it will not increase. The thing is throughout the year, the government have not, they have decided not to have the full charge of this excise tax so if you go all the way up to 4.69, then well this will create pressures on occasion and this is why probably will end this year on 4.8%. I have asked the Central Bank for cuts, and this is why we think, this is why we will hike once more and probably rates will remain at this level for a long period of time.

Now, in terms of credit, you know, it in our sensitivity analysis of at which level interest rates start to have some, will have to, I mean, start to include, sorry, they are not performing long, usually these are in the back, have around 8 and 5, or 8.50. But I mean, that is when they start to increase but it is not 36.8 or anything like that.

Now, in terms of credit growth, that was the final part of your question, what we have served in the past, and you know these are hard probably in the past more than 14 years a credit in Mexico has been growing at a pace of two times not enough GDP growth, so what we are expecting this year and we have had this forecast for more than a year, we have taken a real rate of growth of 1.8% in which they actually lowered inflation to this year so probably nominal GDP this year will around 5%.

So, in this context, using, you know, the confidence interval, statistically speaking, we could be thinking of great growth of between 8 and 10%. That is what we are thinking at the moment, Arturo.

(Arturo Langa): Thank you for that answer.

Rafel Arana: Thank you for your question.

Operator: Thank you. We will take our next question from (Jason Moulin) with Scotia Bank.

Jason Moulin: Hi, hello everyone, I have two questions. Just one on the specifics of how these letters of credit work, so I understand what you are saying that the construction companies must use these funds for the construction of the project, but if they were to draw down the line today and didn't do the work, it is as you go. So they could draw down on the line, would be my understanding, and then let's just say they didn't do the work, then how does that work for your getting paid or not? Then you would have to enter in proceeding. That would be one, just to understand the dynamics of how you practice, you can monitor that the construction companies are using these funds in fact for construction of this project.

And secondly, just in terms of your exposure to infrastructure loans, particularly that you purchased with the Interacciones acquisition, is it possible, do you see risk, if there could be other projects that the government would just want to cancel. And how do you measure those risks if you are building a highway or a school or whatever it is, isn't there some kind of risk that the government could just cancel the project the same way they did here?

Rafael: Okay, thank you (Jason). And I will answer, in the first one and I have with me Rene and Felipe, the one who really has structured all the process of the letter of credits. And is fully conscious very large deals, so let me pass the wire to them and they can tell you exactly how these letter of credits

work and what's the potential risk. And then we'll address the second question, that is the infrastructure deals and its risks.

Rene: Hi (Jason).

Jason Moullin: Good morning.

René: The standby letters of credit work as a guarantee and they are guaranteed that the construction companies are applying correctly the advanced payments that we're giving to them for working on the project. As you remember, financing for the airport was done through the public markets - basically through the bonds and the Fibra and these resources have been given to specific construction companies which obtained these contracts through bidding contests and therefore what we're guaranteeing is that they're applying correctly the funds. So, it is not that we have provided credit lines, but we are providing guarantees.

Now, these guarantees are governed by -- the contracts are governed by the Ley de obra pública which is the law that governs the public work contracts. If there were to be a cancellation of the project by the government, it would be done through a pre-termination of the contracts. Under this figure, the contractors have the right to be reimbursed for all construction already performed, materials, expenses, and even severance payment of the workforce that is currently at the airport. So, what would happen is there would be a reconciliation of our all accounts, tables, accounts receivables, the cash that is still in the account that was given to them for working on the project, and at the end of this analysis or this reconciliation, what would happen is if there is an outstanding payment from the government to the contractors, it will be made. But if there is any outstanding payment from the contractors to the government, then the contractors would be liable for this payment.

Now, if the contractors did not make this payment, that is when they would draw their guarantees and they would draw the letters of credit. At that point in time, if the letters of credit are drawn, they would become a line of -- a credit line, which is what (Rafael) was explaining at the beginning. So, the issue here is, there's going to be a process which is in the law and if after this process there is an outstanding payment from the contractors, and they don't make it, at that point they become credit lines.

Jason Moullin: Okay.

Rafael : And let me now pass the line to --

(Crosstalk)

Rafael: The operator of the line of credits Felipe, please go ahead.

Felipe: Thank you, (Jason). Just to add to what René and Rafael has been explaining, I'll say that we don't see the event that one of these letter of credits might be drawn, and this is because the payments, the advanced payment, has been used and this has been vigilante by several authorities and even the bank. We have been on the surveillance that the receipts are used, that the payments are used to invest in the new efforts. However, in the event that one letter of credit may be cold, we have the contractual right to collect any payment that the government made to a contractor so we are also following that regard.

(Crosstalk)

Jason Moullin: I understand that it's a guarantee, not that they are drawing and that there has to be some, this is a guarantee that the construction was done, not that they can draw the line down, so that makes sense to me. When do these letters of credit expire, so is there an end to when this

guarantee for a term of when this guarantee is made? And then secondly, on the infrastructure, on other infrastructure projects, I guess, you know, in that case you are actually funding the project so if there was a cancellation how would that work? That would be different, is that lending to the construction company or is it to the project or how does that work in the infrastructure portfolio you acquired from Interacciones? Thank you.

Rafael: Yes, let's first address the one, the first one, and then we'll move into the second one that's related more to the infrastructure, projects related in terms of Interacciones.

Rene: Yes, on the expiration of the letters, basically these are issued on a 12 month basis so 95% of this exposure would expire by June of 2019. And in terms of the infrastructure portfolio, basically as Rafael mentioned at the beginning of the call, we have a policy not to lend directly for working capital purposes of construction companies or corporate loans. So basically what we have is a portfolio where we have different projects in different industries, different segments, all of these different geographic locations, where they are self-contained, usually through trusts, and these trusts incorporate the cash flow of the projects and also the guarantees.

Now, 70% of these projects are ongoing projects which are mature projects, not projects under construction. So, they can be contracts for hospitals, for roads, for jails, I mean different type of industries, different type of projects, although most of them are as I mentioned already mature projects. So, that is the exposure that we have in infrastructure.

Rafael: Yes, I know Felipe wants to add something.

Felipe: Just to add in this regard, what police are performing as Rene was saying and in the event any project is terminated, it has specific contractor circumstances that must be observed by a determination process and in those events, it might be a case -- if it's the case, credits should be granted, guaranteed after they are linked to projects, not to corporate companies.

Rafael: Yes that's quite important because there were a lot of concerns that our exposure to contractors and construction companies and it is very important, what Felipe and Rene were mentioning, we never lend any maximum lines of credit to companies. We basically go to specific projects and as as we mentioned, at site contained, most of them are fully operational so we have been doing this for many years and we have acquired an expertise on this.

Now, moving to the second question about the potential risk of our deposits of Interacciones, on the infrastructure pieces is exactly the same. We basically learned for specific projects and these specific projects used to be following a very specific rules in order to dispose the money and to release the money and the deposits of Interacciones, following this topic. We are reviewing every single one of these loans and as I mentioned at the beginning, we are confident with this so there's no way that those projects could be suddenly terminated. They are already on the budget. They are already on the Federal fund of process and they are already committed lines for the projects and I also want to abound on Gabriel our economy and exactly any potential risk concerning this.

Gabriel: Thank you. (Jason), just one thing here, if you read the, you know, the AMLO book, if you go into the different documents that have been published, these famous economics, volume I and II, if you go to Pejenomics Web site, and if you follow all the press conferences that the president elect has been giving since he was elected, you can tell that there is a lot of talk about infrastructure than there is about construction, about building new trains, building new roads. There's only one piece of work that he has been against, only one, and this is the airport.

So, in this context there is no other mention of cancelling any other projects whatsoever in all of these documents and press conferences, so I think this is important to highlight because what we can see is that the president elect, he wants to fulfil his campaign promises and there is no other project that he has expressed that he is against.

Jason Moullin: Great. That's very helpful, thank you for doing the call because I think making sure this information is out there is very helpful. Thank you.

Rafael: Thanks for the questions.

Operator: Thank you. We'll take our next question from Marcello Telles with Credit Suites.

Marcello Telles: Hi. Hello, everyone, and thanks for the initiative to do this call. I have two questions. The first one is still regarding the, you know, your infrastructure exposure, is it possible to quantify what is the amount of projects that you have under construction right now, you know, that are directly related, you know, with the federal government? And a question related to that is, you know, when you think about, you know, your other projects with the state and local governments, right, what is the possibility that, you know, the federal government could actually intervene in the transfer of the participaciones federales, you know, to the state municipality.

So that they can honor the payment on the projects so I think this is an area that, you know, was not very clear to me and there is a risk there, or maybe no risk whatsoever, so I'm interested you understand that.

And my second and final question is, on a bigger picture, you know, we are seeing, you know, the upcoming government, you know, affinity in a public consultation, you know, to decide on a matter that is very technical, right, which is another question for an airport, you know, how do you think of your business, you know, going forward and how you are assessing your risk and what is the impact, you know, this is going to have on your risk at time down the road. And if you anticipate, you know, this type of an initiative, you know, from the upcoming government, you know, how much can that affect a business confidence, and the outlook for the economic growth and what you are doing, you know, to navigate these waters? Thank you.

Rafael: Yes, Marcelo, let me just give you the big numbers. The months that we have on the state and infrastructure that we loaded, as you know, we're planning with Interacciones to 110 billion and 35% of those were basically infrastructure projects that are short-term loans, one to two years, for specific purposes like schools, hospitals and water treatment plants, so those particular projects that are with specific purposes and the money and the further transfers that go from this are specifically for those purposes. So they are not for general purpose, they are for specific purposes.

So, that is the big number. The process is in different stages of evolution, so I cannot give you an exact breakdown. We will work on it and we will be able to provide that formula with you and with the rest of the table. But what is important to notice is short-term loans, 35% of the total book of Interacciones is not infrastructure loans so everything that is on the state further out, loans, this really goes down to around 18% of the total exposure that we have with the government. That is the first one.

What is quite important to notice is that the way the trust is being built and the way the trusts have been structured are fully compliant with the loan and already been fully advised and reduced on the federal budget. So, by law, those trusts need to be funded and so in the future, as I mentioned before, there's a change in that.

Marcelo: Excuse me. Is everybody still on the line?

Male: Yes, I'm on the line.

Rafael: Hello?

Male: Yes, we're still here.

(Rafael Arana: Sorry Marcelo, as I mentioned, I mean, if it's any potential which will come from many new changes on the law that comes from now on, but it's really being served and established. We are fully guaranteed by the way we have structured the loan, so we won't see any risk and any potential retractive process of purchasing those. So that's – the first, Gabriel also abandon this, let me just go into the risk appetite. And the risk appetite has to do a lot with the potential for stability of the loans. As you know, since the transparency law and the discipline law has been in effect, it has been a - quite a reduction of the markings that they want to charge on this process.

So loans have been quite sufficient and really been beneficial for the states and municipalities by reducing the rates that are paid by - the municipalities need to pay.

So that's been ongoing for three years. So I would say that we don't see any need to change anything with that, because that has been quite efficient for the state. So that makes that - anyone who goes for the bidding process needs to have a pretty rich funding source in order to be able to sustain the margins on the new loans that will be contest in this bidding process.

So if we see that there's loans to be - that we would like to have because this stability on the loans and potential additional businesses, we will continue to do so as we have been doing in the past. As you have seen, the numbers of Banorte in the past - the rate of growth has been slowed down quite a bit, because the further our government will go in and out on the big loans with Pemex and CFE and this, and on the state - and the state lead with the size we currently have, we are very comfortable with the size and the stability of the group that we have.

And the municipalities and infrastructure build, we honestly think there are going to be a lot of good opportunities coming in that portion. That is really the main driver why we bought the Interacciones book capabilities to be.

And let me now, Gabriel will also abandon on these loan processes.

Gabriel: Thank you, Rafael. Hi, Marcelo. Let me say first, let me elaborate a little bit on the consultation - on technical matters, on how we face risk. I have already talked about the appetite. And then I move to the possibility of intervention on the part of the federales, on the participations.

So on the first one, I mean, I'm sorry to insist, but I think it's very important, there are no other infrastructure projects that AMLO has expressed he's against to. So this is, I what I think. Secondly he wants to use public consultation for technical decisions, yes we have already seen that. Now do we think he's going to use them for other infrastructure projects in particular? Maybe, because he wants to build a lot of things, like you know this fast train around the Mayan ruins or the trans-Isthmus train.

If he decides to do a public presentation on this project, we think he's going to do it at the beginning of the project. Because I mean these are campaign promises he wants to honor. So we don't think that he's going to do this public consultation in the middle of the project. Because he really wants to deliver these things.

So this will be like any other public consultation in the middle of a project. Now he might probably use these consultations? Yes, he probably will use them. Now, on the sentimental grow that will affect in a way, because contrary to what AMLO always said, people think that the airport will be cancelled. People believe that the airport was not going to be cancelled. But now that we are adjusting for this. So I think this is main aspect once again.

I mean, this is something very important. I mean, as you know we are a federation, and states are sovereign and they can actually do the tax collection of their own taxes. Part of this is the income tax, both corporate and personal income tax. So in a way that is - our constitution was for states to do their own tax collection. However because this was not very popular to do for governors, they decided to make this federal pact. And they give this responsibility to the federal level.

So federal government collect the taxes. I know you know the process, but let me elaborate, just to finish. So the government collects these taxes on behalf of the state governments, and then they give them back the money. Of course, charging a commission.

So in context, this money, this tax collection, it belongs to the states. So changing the participation scheme, it would be something really, really major. It would be changing the constitution, to change our country from a federal government to a centralized government like Colombia or Chile.

This is something super major. I am not sure that even the congressmen and senators, or MORENA, that now they are going to have probably more governorships, they're going to allow that to happen. And now more importantly, once again we review all the documents and speeches for a long time. Not even his latest book - if you go to the books he wrote back in 2012 or in 2006, he has never talked about this. So I don't think he's going to go into this participation thing.

He's doing a re-engineering of public spending. They are describing some of the - and some of the social programs. They are doing a lot of things in terms of public spending engineering in order to be able to accommodate for the new social programs he wants to implement. But in this reassessment or re-engineering of public spending, they are not doing anything at all with this public participation scheme. As I said, it would be a major change that I'm not really sure even Morena will be willing to do. And that he has not mentioned at all this decision. Thank you.

Marcelo: Thanks, Gabriel. Can I just follow up on your answer to my second question, Rafael and Gabriel.

I mean, we have a situation that - I mean look at 10-year yields in Mexico, you know, they went up by more than 100 basis points, I think it's almost 9% you know, then go to 10, which means your cost of equity has increased substantially, right? Not to mention the higher equity spread on that you would expect from Mexican equities.

So how does that translate into your business and in terms of your required return, you know, for lending? I mean, you think in this environment requires will increase, you know you are required, you know, credit spreads, you know due to this, you know, latest developments? Or you're still not, you know, making any changes to your pricing at this point?

And I say that in general. I'm talking about of course the corporate, you know, corporate side but also talk about the consumer side, you know think of your business as a whole.

(Rafael Arana): Yes and thank you (Marcello). As you know, we are federally managed and - in this bank by the risk-adjusted margin. And we keep that number very, very closely. As you mentioned, the cost of capital has risen, but that's a reality. There's also some, apart, all our strategy has been really to increase the relationship that we have with our clients and the corporate and the commercial and SMEs and things like that also on the consumer.

So when you go into the consumer book, and I will give you the same example that I gave to some of your colleagues, so that I will give the same example. If we just follow the issuance of a credit for our clients, we will get exactly 1,000 pesos of income on that, in that loan. But if we also have the possibility to sell the issuance, also the checking accounts and very basic savings account, then the profitability of the client rises to 32,000 pesos.

So when we look at the risk factor and especially on the consumer, and on the commercial and the corporate, and my colleagues here have advanced, we look at the relationship and sometimes we will see that the repricing of the consumer is kind of slow. But the reason for that is that the MPLs continue to be very low and the car loans and mortgage side, and the risk-adjusted margin has - we have been able to defend that number because of the funding cost that we have maintained in a very disciplined way. I mean, the funding lines are growing around 12 to 13%, and the credit lines have been around 8%. So that gives us a buffer on that.

Obviously on the new loans, especially on the commercial and the corporate and the government loans, the basic price on our contractual terms, those numbers will immediately rise, and that's not exactly the case on the consumer. The consumer you can see which clients you're going to serve. Basically since we do credits we could manage the potential risk and the potential returns from the margins on a one-to-one basis.

On the corporate and the government and I would say the commercial, I will also ask my colleagues here to see the bill the thing is that they will continue to do exactly as they have been doing, keeping a very straight risk-adjusted margin and adjust to the rate of growth to the market.

But we don't see any big changes on the - because the companies that we would like to have is the companies that we have. Maybe there will be some opportunities, because maybe some people will get a little bit tired about their potential risk in the market. We saw that, that happens when Mr. Trump get into power. So we were almost kind of left alone and we were able to really choose and pick the best companies to do business with.

But essentially as you mentioned, obviously the cost of capital has gone up. The risk-adjusted margin has to be followed very carefully. The way we apply not just the capital but also the funding is of critical importance for us. We review that every single week on a meeting to know exactly how we're going to assign much of the capital but also the funding in order to keep - based upon the risk, the risk-adjusted margin where we are. And I don't know if my colleagues would like to add something.

Rene: Yes, Rafael, this is Rene Pimentel from corporate banking. We are very much focused on our relationship-based banking and basically the pricing model that we have is not on a deal-to-deal basis. It's not transaction-based, but based on the client relationship. So we actually - every time we're pricing a deal, we look at the full relationship. Of course, it is very important, the cross-selling

aspect and trying to increase transactional-based products with the client or other type of products and services that are commission-based.

So definitely as Rafael was mentioning, we look at the client on the whole relationship basis. In terms of the margin, we are constantly repricing based on this exercise that I've explained. But also I would like to mention that almost 85% of our portfolio in corporate banking is variable rate-based, and only 15% is fixed rate. So this is how we manage the portfolio.

Rafael Arana: Marcelo, as you mentioned and we understand this. This is different perspective, but I think we have all the right tools to manage the transition into these high interest rates. Based on what we have been doing in the past four years, there really is a relationship banking process and value in the whole perspective of the client.

And another piece that is critical to Banorte, we have been really outpacing the market - is that our transactional banking is - has been more and more been able to bring a lot more funds, cheap funds to our relationship with the clients, and we were lacking that capability four years ago. Now it's a prime differentiate market. If you look at how the clients relate to us and the quality of the clients that we serve, and the transactional and corporate and commercial banking, allow us to really have this kind of true relationship that René was mentioning.

If you're talking about the - if you're asking me what should do about the potential rate of growth, I think honestly as Gabriel was mentioning, we would be looking eight to ten also for the next year based upon the projections that we have on the GDP, With a different mix, yes, maybe with a different mix. And remember that we also have the - that we are just barely touching the client base now that we are able to really do business with them. There's a pension company the AFORE The insurance business is growing nicely because we have been buying portfolios also on the margin to that portfolio based upon the potential lending purpose in that.

The issuance business is growing at the rate of 20% net income per year. So we have a lot of capabilities, and the more we know our clients and the more analytics we put in place with our clients, the more comfortable we are with each client we can lend to and at what time we should lend to them. So I will say that - I would like to say that we're going to do a complete change of course, but honestly we will continue to go deep in what we have been doing in the past years.

Marcelo: Thanks everyone for your answers. I appreciate it.

Rafael Arana: Thank you, Marcelo.

Operator: Thank you. We'll take our next question from Claudia Benavente with Santander.

Claudia Benavente: Hi, good morning. I just had a follow-up question again about transactional bank. I agree with Gabriel however I'm wondering about ((inaudible)), which does not depend on the tax income, and I understand the new administration has already announced that they would like to tax personal revenue, and this represents now 50% of total spend of the states and municipalities. And I understand as well that Banorte funds are relevant and already cover the full outstanding debt. I was wondering if this happens, if it would trigger the Banorte using their states and municipalities position.

Rafael Arana: Claudia, I will have to - Gabriel, let me just say - and I think you wrote a very extensive paper about the potential exposure and the way that those two, the phase 3 and 23 branch works, and how the potential exposure and risk. And honestly we were deep following the rationality of your numbers and we certainly agree with you on that part. I mean, the size of the reduction needed to be extremely - going almost to none in order to accept the potential capability of the states and municipalities to serve the debt.

The other part and I will go to Gabriel, I just wanted to introduce the process. We mentioned at the beginning the application process of Interacciones, the rate of growth of the other part of the book will outpace the rate of growth of the government book and so we're going to concentrate a lot more infrastructure with our short-term loans. The total size of the portfolio will be moving into - downsized compared to the total book.

But the profitability of the book will increase because we see more potential in the infrastructure build and the current state and federal books. So yes, you will continue to see a reduction on the percentage of the government book in the total book of the market. And I will ask Gabriel to go on.

Gabriel: Thank you. Hi, Claudia Yes, as Rafael mentioned, we agree with your assessment that it would have to be a massive reduction of these resources that go to state in order to endanger all the credits that are subject or that are - that have this as collateral. Now having said that, important once again to highlight two things, no? The major source of revenues of a state government, it's federal money, of course. But remember this is not in strictly sense federal money. As I mentioned a bit earlier.

This is - what call it, this money, this chunk of it, around 80% are part of the money that correspond to those states because is the tax collection that they should be doing. So changing that part I see it as almost impossible because of two things. One, that they will have to change the constitution, it's almost able to do that but to change the constitution and changing the regime of the country from a federal republic to a centralized republic.

The second it would be - once you do that, the second reason why we don't think it's going to happen is because the president have not said this at all. On the contrary, he wants to promote regional and state development and his home state Tabasco, he wants to give even more sovereignty to the states so this will be against his own ideology.

So in that is a very key aspect of this. Now having said that if the government in the spending re-engineering, is scrapping as you know the banks in fraction 23 it's almost a black box of discussion, the spending on social services. This is something that is decided by the federal government and as you know, it has to be approved by the legislators, by Congress. It could change this fraction 23, of course, and I don't think they're scrapping it at least on paper right now in order to accommodate for the new social programs that the government wants to implement.

Now in this context, I mean they're right now in fraction 23, 156 billion pesos, and at the beginning they were saying they could scrap it all, and now they're saying they're scrapping around 14 to 18 billion pesos out of that. So they're scrapping this from many parts, but one thing they cannot touch is the participations because of what I mentioned. And in this context the scrapping of transfers the don't put at risk the payment of governments.

So really I do think that the one, as we read the numbers, there will have to be massive cuts in order to endanger the credits, and number two, I think it's almost impossible to see that happening because of the federal pact. I hope I answered your question, Claudia.

Claudia Benavente: Yes, thanks a lot. Rafa and the others

Gabriel: Thank you, Claudia.

Operator: Thank you. Once again, ladies and gentlemen, if you would like to ask a question, please press star one now. We'll take out next question from Sivan Natarajan with Trilogy Global Advisors.

Sivan Natarajan: Yes, hi, can you hear me? Hello?

Rafael: Yes.

Sivan Natarajan: Yes, thank you. So my question's also related to the way the state and municipality projects are funded. And thanks for a lot of explanation on that. But if the federal government wants to hypothetically cancel one of these projects, can they specifically cut funding to that particular trust, or do they have to pretty much cut tax, I guess refunds back to the state? Can you explain your view on that?

Rafael: Yes. Let me start it. As you know, once the federal budget is presented and assigned, then that money is committed on the life of the project. In order for this to be cancelled, you need to go backward from the - already approved by the lower chamber and the upper chamber on the budget process. So we don't see that as a real possibility. I don't know Gabriel if you want to add something

Gabriel: I mean, these project are not - the ones that are based upon participations are not really public, they are decided by state, and it's their own money. So in this context the federation cannot intervene in this. Of course they can always say "Please cancel that" to the governor. But I'm not sure they would like to do that, and this would be extremely costly. In many ways, particularly in what I have been saying, that it will be a major blow to the federal pact.

So changing, as I said changing the constitution from federation to the centralized republic is something that president has never mentioned. On the contrary, he has mentioned that he wants to promote development, regional development with sovereignty of the states because this is what he wanted for his home state, for Tabasco, right?

One of his later comments for a long time, I mean AMLO has written around 18 books, more or less, and in all of them one of the big issues is that his home state, Tabasco, they have been extracting a lot of oil and that the government has not given back what the state, what's supposed to get, right?

So this conduct is completely outside his ideology, and the intervention would mean a very important change that he has not mentioned and I don't think it will happen, in all likelihood I think it's very close to zero.

Sivan Natarajan: And one follow up. What is the exposure to direct federal projects, if any?

Rafael: Could you repeat it? Because there was noise on the line.

Sivan Natarajan: Yes. What is your exposure to direct federal projects, not the states and municipalities, but direct federal government projects. Do you have direct exposure there?

Rafael: No, I mean we have - on the federal side we have mainly two companies, to Pemex or CFE, those are really the recipients of the - they eventually end up in a specific projects, but we don't - sometimes we go to a specific project, but in general we lend to the company, to Pemex or CFE, that's where the money goes.

Sivan Natarajan: Okay, great, thank you

Felipe: Thank you. Just regarding some comments that Gabriel has just mentioned. I just wanted to say regarding projects, infrastructure projects. You have two layers in the law that actually cover these provisions. The first one is that at federal level, the government builds the federal budget or the budget for the entire country, taking aside all items that cannot be taken from - or that are already induced for whatever projects or organizations that the government has.

And then there's a second legal layer at state level when the state build their own budgets. So you have those two legal layers that go to these projects and we believe that this will not change in the future.

Operator: Thank you. We'll take our next question from Scott Kenworthy with Family Capital.

Scott Kenworthy: Hi, it's Mark for Scott. I just have a question. You know, talked, you know, he was against the airport and these were some of the campaign promises, he also talked about cracking down on corruption and I think there's 17 or 18 governors, former and current that are on trial for some form of corruption.

You know, what happens if it's proven that the government that was in these trusts from the federal level went to the state level, the resources weren't allocated properly and for whatever reason, whether the project wasn't built or through some sort of actions of corrupt individuals the money never got to any destination.

Like, is there recourse on the bank for the money going to the state instead of the project? Is there, like is there a dangerous precedent that could be set if it's found out, you know, a school or a bridge or you know a railway that was supposed to be built with federal like transfers never got built?

Like, what, you know, he clearly wants to make an impression on some of these things. Like, how should we think about this?

Rafael Arana: I think one specific way. As I mentioned, federal lending to the companies usually are for general purposes and end up in specific projects and things like that. But we have to be very vigilant is exactly - what's the rating for the state and what's the rating for the muni and what's the rating for the companies. In a way you consider to lend the money. And the way that really shows the stability and the cleanliness of the state.

Honestly, when there have been these cases that you mention, there have been a deep follow up by the minister of finance and many authorities to immediately go and see exactly what was the performance of the state, where the money is. That's completely different about what the

procedures, the money's going to be paid or not. That's completely - that could end up in our structure, in our assignments of the process, yes, but the commitments always have been paid in the past.

Maybe there's a call for refinancing but always in a way that is best of all for both parties, for the state and for the bank. So there has been something in the past, yes, and that has been the process. And every time it happens, the law becomes stricter and there's a lot more transparency, and that's really mainly the discipline and transparency law was issued for.

So we are in a much better state. The reason that you mentioned about the government is the resource that this follow-up process is more and more, each time it's much more this thing.

Scott Kenworthy: So let's say hypothetically there was an exposure to a state where the governor was corrupt or some sort of individual within the state-financed position was found to be corrupt and some of the money didn't get to where it was meant to go. Would you take a provision for that? Like what...

(Rafael Arana): Let me just give you a real example about - there's a state in Mexico that that's exactly that you describe. That state is Vera Cruz, there was a full refinancing of the debt. More provision was needed, there was a full restructuring of that, and that's on them and we've been in accordance to the capability of the state but the process for the legal debt is continued. The payment for the bank and the need for provisioning is exactly - there was no expectation on us for that process.

Scott Kenworthy: Okay, thank you.

Rafael Arana: Thank you.

Operator: Thank you. At this time we are showing no further questions in the queue. I would like to turn the conference back over to (Jose Luis Munoz) for closing remarks.

Jose Luis Munoz: Thanks everyone for joining. This concludes our call.

Operator: Thank you, ladies and gentlemen. You may now disconnect.