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Moderator: Ursula Wilhelm

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Operator: Good day and welcome to the Banorte hosted Discussion on Progress and Results from the GFI Acquisition Analysis and Evolution of the Government Business. Today's conference is being recorded. At this time, I would like to turn the conference over to Ursula Wilhelm. Please go ahead.

Ursula Wilhelm: Thank you, (Sergio). Good morning, everybody. Thank you for joining us this morning. Marcos Ramirez, Chief Executive Officer, and Rafael Arana, COO, will lead the presentation. And as usual, at the end of their comments, we will address your questions. Marcos, please go ahead.

Marcos Ramirez: Good morning, everyone. Thanks for joining us on this call under such short notice. After we published the group's third-quarter results, I know this past week we have talked to many of our investors about the trends in the business, particularly in the government segment. Considering all the questions asked, we decided to host this call. We want to quickly give you a recap of Interacciones transactions one year after closing. We will also (elaborate) in greater detail evolution of our government business and the decisions that have led to the decline in this size of this credit book. Lastly we will share with you our thoughts as we move into the 2020 and some preliminary comments on how we see results unfolding next year.

We are excited with our position. We have delivered on our commitments as is evidenced by the growth in the group's profits of 26% this year. The integration was fast and has moved, and we have best-in-class capabilities to grow the interaction as financed business. In this area, where we believe Mexico has a huge potential, even though the infrastructure is limited and outdated and does not support the size of economy and its population.

As you know, the environment has not developed as we expected. It has been slower and challenging, and yet our results are very strong. I will stop here as I want to ask Rafael Arana to go over the information we have prepared for you this morning, Rafa please go ahead.

Rafael Arana: Yes. Good morning and thank you very much for being present at the conference, as Marcos mentioned, is a short call. But I think as he mentioned, the type of questions and the information that we need to provide to the market in order for the market to be a little sure about the evolution of really how the government book and the interacciones, as integration has really what are the milestones and the achievements that we have been able to do.

If we go to the first slide that we are presenting in this one, basically it is what (we will cover) in this. If you want to add anything else, happy to do that on the Q&A. On a very fast pace we'll do the recap of the strategic and financials here implications of the interacciones deal what has been the evolution of the market environment in the government lending group basically on overall on the lending book.

What is really looking for the opportunity to estimate for 2020 and what's the potential that we still see based upon the strategic rationale that we use in the acquisition of Interacciones.

If I just jump to the next slide, basically the strategic rationale that we look with the Interacciones acquisition was mainly devoted that we were looking at a piece of the business that – Banorte was in question that was mainly the infrastructure business that as you know Mexico has a very important infrastructure that compared to the size of the economy. We are dependent on how you measure it on the World Bank or whatever, we are the 63rd place compared to an economy that is much more larger than that.

So, basically we saw an expansion potential in a business, but there's a size around 300 billion in the past what you estimate of the need of infrastructure. And Interacciones is used to that on the 8% of what's mainly the only bank fully present in that arena and with a very experienced and a very efficient management team that was able to deliver ongoing resource in this part of the business.

Also the government book was also complemented to Banorte and this is basically where we have to understand also what has been the dynamics on that. As you know, and there has been recorded on the third quarter of the call in '18 that we knew we were going to have a huge concentration of the group, close to 32%, and our goal was, as we mentioned to you, to go to 26, 25 in due time based upon the rate of growth of the other parts of the books but also that we will be substituting mainly state's loans that are long-term loans 10 to 15 years, some of them with most ticket loans in the infrastructure business that has a much better return not only on the margin side but also on the fee side and also on the potential cross sale ratio for those states.

So that was part of the - another important rationale on that. The other things compare that with that a huge benefit that we anticipated but to be achieved on the synergies potential just from the cost space on this part and also the integration and execution was a low-risk, and we were quite confident that we could really deliver on a very efficient and a very precise execution.

On the financial side, as you recall, the financial evaluation that we really perform on the Interacciones deal was at a record relative difference on the price to go of Interacciones and Banorte, And also was at also at a - if you look whatever model you want to use to see the valuation, it was a very attractive valuation based upon the Interacciones fundamental value.

So it was a good valuation, a fair valuation. Some people were concerned that we were paying below the screen price, but I think the rationale was there. And also, we also promised the market that we will be accretive in 2018 and also in the full year of '19 on the full year of the execution of

the transaction close to a top single digit in the full year of ownership. I will go into step-by-step by showing exact numbers of what I just mentioned on this. And that's in the next slide.

The Accretion of 2018, as you well know, was around 3% to 4%. The commitment was to be above 3% and we reached the 3.8%. The accretion in 2009, the commitment was to go to 8.5 to 10.5. And it's currently trending to be around - better than 10.5. The synergies expenses, as you recall Interacciones used to round the group out with 3.2 billion pesos of expenses. Those expenses will reduce to 2.1, so 65 at - better than 65% reduction in expenses happened as we promised.

The funding for synergies that we anticipate that we could really take a much better cost of funds and reduce the funding cost from 40 to 46 basis points. Now we are sitting at close to 102 basis points. You have to remember that when Interacciones deal came into the bank, the funding was around TIE plus 20 basis points. So now we are reducing that number to 102 basis points instead of to the 46 basis points.

Also we promised the market that, based upon the structure of the transaction, the 50% in cash and 50% in shares, in order to preserve the most avoid dilution of the shareholders of Banorte, we will reach our (co-tier) 1 of 12%, but we really reach a (co-tier) 1 of 13.26.

So that really reflects the execution capabilities of the group and also that all that we committed to the market has been achieved in a much better way that we anticipated.

If we now move to what has been the evolution of the government book, we have to go back to 2016 when the financial and transparency law was in activated in April of 2016. We welcome that law because it really creates a lot of transparency, a needed transparency in the market of the lending to the states and municipalities and also put a lot of discipline on the level of debt that the states and municipalities can incur and also put an accountability on that management on the leverage between the local government and their congresses.

So the other part of what's extremely useful for the market and not for the participants in the market for the overall people that follow the government book is that the open bidding process for financial requirements was established creating all the needed transparency to be created in that book.

This is - this has been extremely, I would say relevant for the states and municipalities, but as you can anticipate that also created a lot of competition in the market, taking into account that in '16 but in the past year there has been a very slow loan growth into the overall market of the loan books for the banks. And been these assets, secure assets and also assets that can provide you on auxiliary business a lot of competition came into the market without much discipline bidding process.

The other thing that we have to deal with is what has been the evolution, as you can see in the next slide. What has been the evolution of the Banorte loan book through time? And you can see that this book has always presented a very high volatility in the market.

If you look at the - when Banorte really start to grow the loan book and the government part, that's because in 2018 mainly when the crisis came, it was very difficult for the banks to really start lending into judicial companies that we used to do business with and the government book presented an opportunity because in the way Banorte started to structure the loans there wasn't a completely secure way. That allows Banorte to grew in this difficult environment and created our very strong base in relationship with the government book.

Sometimes you can see that in 11 the market touch up with us and we again spike it again in 2012. Then we reduce it again in 2014 and continue to go down as the market went down. And now we have seen a sharp decline that we see in the market because a lot of the competitors took advantage of this position that Banorte have a huge market share presence and also that I will go

into details what was the rationale for us to not compete aggressively in this market based upon price.

This explanation comes clear in the next graph when you see that the government lending evolution has been mainly devoted to 85% is demand for refinancing existing that. So basically if you look at the numbers of '17, of the overall total of 131, 83% was basically refinancing and only on 48.2 was short-term loans. If you go to '18, you'll see that 183 billion was the amount of the sort of national financial requirements and 140 was basically refinancing and 42 only for short-term loans. And if you look at the numbers in '19 the numbers look quite shy to 74.6 with only 50% of refinancing on the remains of the short-term loans.

But this really shows you to the market is that the market shrinkage substantially and there was no (new asseting) to the markets. So for the lack of (new asseting) to the market, really the competition was for the existing assets on the refinancing piece. And in this process, as you know, some of the largest competitors in the market are peers and also Banobras went actively into this market.

The next slide shows exactly after the discipline law what has in the evolution of the market without almost no growth into the market, and when you see the demand of the - of Banorte going down, has to do basically first with the size that we have in the market and second that we have always been very clear to you that we will only follow transactions that are profitable for us and return the right amount of returns to the shareholders.

So in this environment that we there was almost no growth, as we can see in a minute on the market share computation, Banorte follow a very disciplined approach to the group, in some cases because long tenure of the loans, 15 years, 20 years, that where a very, very reduced margin we decided not to participate on that.

Why? Because mainly you were putting a lot of your good money into almost no returns on those loans. But at the same time trying to keep all the most relevant relationship that we have with the clients in the market. And we will show that exactly in a minute.

If you continue the next graph -- and this is clear of why we follow the strategies that we follow -- is the - it was not just the self-demand that happened in the government book because of very slow start up of the new administration but also the margins, the spread above TIE in first half of '17 was 1.13%, in the first half of '18 was 0.67 and in the first half of '19 was 0.52.

So as you can see, if we would follow just for the sake of keeping the group at the same level, we needed to almost double the size of the loans in order to give the same amount of margin for that, and that will increase our concentration in some of the states that we would not to really increase and take more risk on some of those - on those loans.

So Banorte decided to follow a very strict policy one the returns on these loans and really to be much more active on all the ancillary business just on the loans that by the integration of the Interacciones piece allow us to have a very, very profitable relationship in the cases of states that we were not present in cross-sales like payrolls or derivatives or other type of business.

In the next graph what you see such as the evolution of Banorte in the governmental. The evolution of Banorte in the government - if we look at the number of 17 to be in accordance of the number that we have been shown when we start, Banorte used to own 24.3% of the market. If you look at this - at numbers of September of '19, the total market has go down from 546 billion to 485 billion, but at the same time Banorte has been maintaining basically the same market share that we have after the integration of Interacciones.

Why? The reason is because the market has grown at all and we have been able to keep the relationship that we would like to keep. (BBVA), as is public information, went up from 22.8% to 26.3%. And this is relevant to understand.

Also by the acquires of Interacciones, Banorte but some pressure on the funding cost. Why? In order to form 110 billion - 102 billion in assets that we occurred from Interacciones. We needed to fund those at a much better funding growth of Interacciones deal.

The TIE +20 we already mentioned that went down 100 basis points, but our overall cost response went up from 44% to close to 54%. So that oblige us to be a lot more careful on the deals and relationships that we wanted to keep in the meantime that we reduce our cost of funds because the funds are - in order to form that increase in the asset side of the group, particularly in January around costing us around (7100) pesos of additional funding costs compared to the usual funding cost that usually run the bank to upset the imbalance from the treasury and the funding, but it's around 180 billion pesos.

That number of 700 million is now down to 382 billion - million. And it will continue to go down as the former numbers that we used to have to fund the book. So that pressure that was present in the first part of the month now is going again to a normal process. So Banorte can again compete, if he wants to compete, in the market as we used to do in that part. But there was a processing time - a time that it was not worth it for us to go and look for those deals because the margin was going to be extremely thin.

In the next graph, we can show you the evolution of where the - really the reduction of the loan book has happened. And this has to do with - I will first concentrate on the Banorte book, but it's now difficult to integrate the Banorte book or the Interacciones book. For the sake of trying to convey the message, I would say that the Banorte book reduces around 35% because it was the largest book, and the reason for that is that when we did the integration of the Banorte book,

basically what we - what happened is that, in some cases, when we advocate both of the portfolios, the concentration in some of the states was extremely high. And to refinance those loans at the site of the new margins was going to be nonprofitable for us. So that was the reduction on the book.

The Interacciones loan book really only decreases 3%, but it's difficult to split one or the other. So what - the numbers that we should be looking is a reduction of around 30% on the loan book. Also, it's quite important to see - and you can see that in public information that was present before the integration of Interacciones that the book that we acquired from Interacciones was not only a government book.

It was a book from - that was a commercial book, a corporate book, the federal and state and municipalities book. Of the total 102 billion of the book that we acquired from Interacciones, the commercial and corporate book in August '18 was exactly 35 billion pesos. If you look at the same portfolio, in September '19 it's around 34.7 billion. So there has not been any reduction on the corporate and commercial from the relationship having kept aligned with the strategy of Banorte.

In the government book that is basically comprised by the federal government, it went down from 14 billion that was in August '19 to 7 billion because we usually have the payments relationship that is quite qualified. In the states and municipalities, the government book went down Interacciones from 52 billion to 51 billion, so almost no reduction in that. And the reason for that -- and we will set that in a minute -- is that the infrastructure loan book that completely stable with almost a very small amortization process in that book.

So the Interacciones and Banorte book has experienced a reduction based upon the demands of the pricing that we were willing to follow. We have kept the relationship that we wanted to keep. Now Banorte has a much better funding cost on this that if we would like to compete again aggressively in the market, that we don't see a need to do so, we will continue to do so.

And now if I move in order to really add all of this up, if you look at a public information that the CNBV provides to you, you can see that the yield of the government portfolio that Banorte holds two times has been completely on a profitable trend that we would like to continue to have, and we have always been above of the market and the yield of the government book.

So all in all, what we have been doing is we have kept our market share, we have kept the relationship that we want and also we have - the most important part, we have also kept the yield of the government portfolio. If you ask us did we expect such slow demand for credits that I have showed to you on the reduction of the numbers that I just presented to you, we didn't anticipate that. anticipate that.

And the other thing that we need to see, if you see on the evolution of the net income and the net - and the total income and the net income for the governmental, and you can easily see this in the results that we provide to the market, total income from nine months of '18 to nine months of '19 went up 22%. Just consider the total income.

If you go to the net income -- and this always, and you can say that there's a possibility that some numbers have been add up that's not the case -- the net income up 54% up. And then the risk adjusted margin for the book based up on the evolution of the cost of funds have went up from 6% to 6.9% supporting the yield that I have just show you based upon public information.

Important to note is also that infrastructure - the infrastructure book, that was mainly one of the key reasons that we bought Interacciones has been study with almost no growth at all. And the reason for that is not for the lack of expertise of the lack of appetite that we have on this business. As you know, we - Banorte holds a special seminar for government officials, including the president, and governors and private sector representatives in order to present the potential of growth of the infrastructure potential for the country.

I think a lot of good things have come out from that from that. A specific program was presented to the authorities, and if you have read the latest news from the Bloomberg - on the Bloomberg or whatever news you follow, there has been a lot of good potential to growth on the infrastructure business.

The governor of the Central Bank has addressed this point. The Ministry of the Treasury also has addressed this point that we need to avoid the under spending and again regain the rate of growth of the infrastructure business. So all the integration of the specialized team that we grow for Interacciones is ready and open for business, and we anticipate that this will come at a much better time in the coming months and regain again the specific purpose of and rationale of the integration that was mainly the consolidated government books but mainly to grow on the infrastructure book and to try to translate some of the states and municipalities loans into short-term loans in a much richer margins and fees. You can see in the next slide the evolution of the infrastructure groups where you see it has been steady flat.

Another important piece to remember the market is -- and you can see that in the information that we provide on our recorded release -- is that for us the key element of really improve the profitability was not only on the cost side that was perfectly executed, but also on the funding side. And on the funding side, from - to move from 40 basis points to 110 basis points has required a very efficient management of the funding from the treasury and from the gathering of retail deposits.

You can look at the numbers of the net interest margin of the bank. As I mentioned to you, it - the cost to form those additional assets peak in the fourth quarter and the first quarter of '19 that the net interest margin of the bank that is mainly where the assets are being held went down from 8.4 to close to 7.7 now that it's up again to 8.3. So we have regained again and refunded those assets as the type of funding that Banorte is used to.

That's why we anticipate another expansion on the margin in the coming months because we will continue to reduce the cost of funds and the portfolio that we acquired will be on a much more profitable train that already has been quite substantial.

Also we would like to go into - on our specific numbers that show exactly the accretion and the evolution and the prudent management of Banorte that when you look at the numbers, the public numbers that you can get from the CNBV, up to September '19, you can see that the net income of Banorte has been growing at 21.3% while the leader in the market is growing at 5.81%.

That really shows how all the things that we have been saying to, we have been extremely prudent in the management of the risk. We have been extremely prudent in select where we want to do business with and we have a long way to go in a constant evolution to go back again into our cost of funds that we will always been tried to have.

So you will continue to see as a big push for Banorte in better recurrent set of earnings based upon a strong retail franchise that we have. So that's in a nutshell the evolution of these numbers.

And let me now give you where we see opportunities that we will come and we'll continue to consolidate the numbers of Banorte. We continue to see that the evolution of the treaty of the US-Mexican-Canada has continued to evolve in a much positive atmosphere that it has been in the past. So that was creating, again, a good mood in the market.

Low inflation or low interest rates will continue to push consumer demand up. The gas pipeline resolution was seen as a positive, as a much more clarity from the government with the investor community. The Mexico City new construction guidelines have been now released to that we will again push the GDP into next year.

We see that the national and sub-national infrastructure plan is an opportunity to support growth and Banorte is fully prepared to take advantage of this. Also the China trade evolution has brought some good investments here into Mexico and the central and north parts of Mexico.

Having said that, let me see of how we see, you know, general terms and the evolution for Banorte because this has also been some questions to us. We expect reference rates to go down from 7.25 to 6% by the end of 2020. Inflation will stay at 3.4 and GDP will be around 1.4.

Loan growth will be doubling the pace of nominal GDP, so we will be looking at numbers of 5% to 7%. We continue to see double digit growth in revenues. We continue to see stable cost of rate based upon the performance of our portfolios on the consumer side and on the corporate and the government side because as I - as we mentioned to you, we were extremely preventing the payroll loans and the SME loans, but now we're regaining the growth in those.

Expenses now will be increasing at least single digits. We will again go back to our usual growth in the expense line, and we continue to see a double digit growth in the profit line.

I stop here, and now I pass the microphone to Marcos.

Marcos Ramirez: Thank you Rafael for this precise comments and information.

Finally, I only want to emphasize our commitment to shareholders to run a profitable operations while taking measurable risks. Grupo Financiero Banorte enjoys a diversified business architecture, and it has allowed us to achieve the promised results in a responsible way.

With this we conclude our remarks and remain available to take questions if any of you have for us. Thank you. Ursula?

Ursula Wilhelm: Thank you. (Sergio), we're ready to take questions if you can help us with that.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question at this time, please press star 1 on your telephone keypad. Please make sure the mute function on your phone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered, you may remove yourself from the queue by pressing star 2.

Again, please press star 1 to ask a question. The first question comes from Ernesto Gavilondo, Bank of America-Merrill Lynch. Please go ahead.

Ernesto Gavilondo: Hi. Good morning, Marcos, Rafael and Ursula, and thanks for making this call. I have a couple of questions. My first question is to better understand how are you participating in government loans and infrastructure projects? I mean in government loans, what is the minimum credit spread that you would like to keep and what's the what is the cross selling ratio of the segment?

And then we would like to understand the future of your mix of this portfolio. What would be the contribution of long-term projects and what would be the one coming from projects at a national level or at local municipalities? How should we think on those projects impacting your P&L? Would it be through advisory fees at the beginning and then providing some credit lines? Any color on this will be very helpful.

And then my second question is on the national infrastructure plan that you mentioned. When do you expect it could be announced and how much time does it take to start participating in the financing of those projects? Thank you.

Marcos Ramirez: Thank you, (Ernesto). I will start with the second one. The national infrastructure plan is already on the table and it's like a ping-pong, goes and comes, and it's taking shape. But the -

as we can see, the government is willing to anticipate everything. So they are talking with everybody to see how they start to move all the pieces.

So I'm afraid you won't see a specific one day that you will see the launching of the national infrastructure plan, but everybody is like shaping it. And I don't know if Rafael has a comment.

Marcos Ramirez: No, that's exactly what Marcos said. You can read all day the news that's coming from the Ministry of Finance, from the Central Bank and everything that's related to really launch infrastructure plan. And I would love to have a specific date, but I don't have that.

Rafael Arana: We have a table here, and I don't know if he's going to give us some color but if it's - remember this is a plan, and it's going to be changing in the time. Please Carlos go ahead.

Carlos Rojo: Thank you so much. Hi, (Ernesto). Good morning. I'm just giving you some additional information.

What we've found is that there's approximately 478 projects in different sectors, whether it be 27 in the health industry, approximately 6 in security, 72 in total and approximately 347 in energy and so on and so on, which are worth around 7 billion pesos.

Our - from what we've seen and from what we've discussed with different government entities, some of this 478 projects should be starting construction sometime next year.

Marcos Ramirez: Thank you, Carlos excellent, And now let's move to the first question with Rafael.

Rafael Arana: Yes. All right. So I would love to tell you exactly the studies and everything, but that put us on a difficult position in front of the competition. But what I can tell you is that -- and you can see that in the numbers that we provide a market -- that the risk adjusted margin has been growing and

steady. And when we go into a relationship with the government, as you mentioned, we only - we don't go for the loan only. We go for the funding, for the relationship, the full relationship.

As you mentioned, in - the good thing about the infrastructure business is it's a business that is full with fees because remember that when you go to infrastructure business, you have to follow-up on the project, see the execution of the project that gives the good execution of the project, follow up on the disbursements that the project needs to have, look at the quality and the completion of the project, get all the technical expertise that you need in order to support the evolution of the project.

So you basically do a project management execution by required not just a financing but very - let's say that's very important on the fee base based upon all these requirements that I just mentioned to you. That's when - we will love that to start to happen because that was part of the main reason that we brought Interacciones as these diversified set of earnings, not just on the margins and on the payrolls but also on the fee side that we know - we need also to touch on once infrastructure deals start to flow to us.

So I would say that it's a completely different business. It's a much rich fee business, and it's a difficult business to cope with because you need a lot of expertise to execute this type of business. You have to do the projections to be very good in prospecting the potential growth in infrastructure, what are the - really the needs of each of the states and municipalities, gather all those states and municipalities' needs, compare it to the money existing in the federal budget assigned to specific issues in the states and the municipalities.

So, it's a very, very detailed process that requires a lot of expertise to achieve and be able to really get into this market. We have been keeping - taking good care of the risk-adjusted margin in the current book, and we are really looking forward to the infrastructure's business to deliver what we promised the market a much short-term loans, very efficient loans on the fee side and a very unique way of really dealing with this kind of business in the market.

(Ernesto Gavilondo): Thank you very much.

Rafael Arana: Thank you, (Ernesto).

Carlos Rojo: Thank you, (Ernesto).

Marcos Ramirez: Thank you, (Ernesto). Thank you very much.

Operator: Our next question comes from Jason Molin of Scotiabank. Please go ahead.

Jason Molin: Hello, everyone. My first question is on slide 13, where you're showing the evolution of the net income. I think this is - I just want to make sure I understand for Banorte government book. So, this evolution above 54% from 1.688 billion to 2.6 billion, how are you - what - is this only related to the book and related expenses, the post-provision income and related expenses and funding costs or what's driving...

Ursula Wilhelm: So...

Jason Molin: ...this here? It looks like it's now 10% of the group's earnings up from, let's call it 7.7 the year before. If you can help us understand these numbers, that would be great.

Ursula Wilhelm: It's not the - it's not related to the government book. It's related to the business unit. So it doesn't - it includes all the revenue and the profits that the business units - the national business units generates which includes part of the business is related to lending, but another part of the business comes from services and cash management and fundraising and so on. So it is all of the relationship business of the national government segment.

Jason Molin: And the funding costs are - how are they allocated here?

Carlos Rojo: If you want to...

Jason Molin: Is this average funding costs or it's the...

Rafael Arana: Yes. There's different ((inaudible)). When we follow them on a detailed basis, the integration of Interacciones is we have a specific way of look at the funding that we are using. The numbers that are you looking is the average from being of Banorte.

Jason Molin: Okay. And maybe - okay. I can follow up on that. Maybe a comment on your outlook, your preliminary outlook for next year that you're citing here on - I guess on page 16. It looks like with - I would say inflation and GDP - real GDP growth look very close to consensus.

But your outlook for the reference rate looks quite low versus the consensus that was out - this was a survey published by the Central Bank on November 1, which is that 6.75% for the end of 2020. Is that an important distinction that you're making there that you're very - have a very different view than the consensus at this point or ...

Marcos Ramirez: And so we're playing with the numbers that Gabriel Casillas has given to us, and normally he's right, and so we decided to take it. But I will ask Casillas. He's not here, unfortunately, to send you a specific - like let's call it paper that - how he's thinking about that, okay?

Jason Molin: Okay. Is that a big - is that a large - I mean that - it is a material decline. I mean how do you guys view that? Is that important to your outlook for Mexico that we really see this kind of decline in rates...

Ursula Wilhelm: Well, it's not.

Jason Molin: ...for your business?

Ursula Wilhelm: You know that the market is expecting another 50 basis point cut for 2019. So that would put the rate at the end of the year at around 725. And for next year the market is between 100 basis points to between 75 to 125 basis points in the different economies that follow. But all in, it would still be a significant...

Marcos Ramirez: Yes.

Ursula Wilhelm: ...decline in rates in 2020. We believe -- as we mentioned in the presentation here -- that we see it relevant to support a credit demand going forward. In the conversations that we had with you and with investors since 2018 we have already been citing that interest rates were way too high and that we favored lower rates because it would support a strong loan demand, so - which is a positive in our view.

Jason Molin: And when we look at your comments that loan growth should double nominal GDP - so if we have inflation of 3.4 and GDP of 1.4, we would have 4.8 and doubling that would be about 9.6% loan growth. That - I guess you're talking about for the system. Is that what's in there or that's for Banorte specifically? And consumer, the main driver, does that mean that government will stop these large declines we've seen and what kind of range do we expect for consumer and commercial and government in this concept? I know it's...

Rafael Arana: Yes.

Jason Molin: ...very general.

Rafael Arana: No, no, no. Thank you for the thank you for the question, and let me just follow on the last one and then I jump into this one. So the overall rate that we put on the - in the potential budget that we are working on it is that you will lend the rates that we mentioned to six, but the average rate that you have to take into account for the budget's around 6.3, 6.25.

Concerning the loan growth, I think you should be looking at numbers from 7 to 10. I think it's a wide range, but that's the number that we have seen. Banorte because the payroll loans will again regain its growth. The SME book that we almost cut everything because we always have very cautious when the new administration came on the payroll loans and on the government and on the SMEs. We'll also will see the growth.

We continue to see good growth in the mortgage book, in the car loan books and in the credit card. So consumer will be a very strong driver of that. I think commercial was staying around the 6 to 7, and corporate maybe will be the most affected by growth based upon that all the needs that they have to go on refinancing the market when the interest rates go down. But we see another of strong good growth in the book for Banorte.

Jason Molin: Rafael, maybe you - I think you made one comment. It was hard for me to hear if - you said that you - I couldn't tell if you said you did not expect or did expect the growth that you've seen now in the government book...

Rafael Arana: Oh, yes.

Jason Molin: ...today compared to when you guys were doing the Interacciones transaction. It was - this is much lower because I believe, if I remember correctly, the idea was that clearly the portfolio wouldn't grow. But I don't remember initially hearing that it would go down that much.

Rafael Arana: Well, I think - no, I agree with you, Jason, and the fact that the agreement, as I mentioned to you, is that a huge contraction that we just mentioned on the slide from a substantial reduction from 17 to 19 that allow us to Banorte to get the market share but the competition for the existing the refinancing of loans was extremely aggressive and in some cases honestly irrational in our point of view.

So we kept the market share. We kept the margin, but we never anticipate a such loan and a construction of the government book. We continue to see that the government book and you will see that on the end - at the end of the year that usually you will see a pickup at the end of the year on short-term loans that usually are based to balance out the budgets on the states and municipality levels.

But it's - I honestly think it's going to be hard for Banorte to keep on growing to keep on growing the states and municipalities to the state's book and federal government book. But the book that we are really aiming to grow is the one that we aiming since the beginning of the integration that is the infrastructure book. But we see a completely different dynamics in the revenue side and also on the - and especially on the fee side.

So you shouldn't expect a growth on the overall book. You also will not expect to see a decline on that because now we have a much better position on our funding costs, and if we want to aggressively compete in one of those we can now achieve that. I don't think that's a good strategy, but if that's needed, we will do it. But what we are really aiming for the infrastructure book to grow as expected before this slow reduction in the states and municipality needs. That has completely impressed not just us but everybody.

Jason Molin: That's helpful. Thank you.

Rafael Arana: Thank you, Jason.

Operator: Moving on to our next question from (Arturo Langa) of (Itaú BBA). Please go ahead.

(Arturo Langa): Hi. Good morning and thank you for taking my question. I have two questions. First is, in my opinion -- and maybe this is short-sighted -- but your outlook for 2020 sort of contrasts with some comments that BBA Management made last week regarding their outlook. They said that 2020 could be slow in terms of loan growth, citing the lack of public and private investment and that eventually this should catch up to the consumer book.

I'm just wondering, you know, maybe if you could just detail more the difference you might be seeing is just startling that, you know, this contrast between yourself and the other largest Mexican bank.

And then my second question is you cited regarding the loan government - some mutual volatility on that 14 billion pesos reduction. But I was just wondering if there's anything you guys are seeing on the energy sector particularly. We saw Pemex has result last week and just maybe if there's also some reduction of exposure on maybe some asset quality concerns or just on the general industry sector. That would be very helpful. Thank you.

Rafael Arana: Yes. Thank you.

Marcos Ramirez: You go.

Rafael Arana: The first one, the contract, BBVA I think the key for large groups like office to keep on concentrating on the - our customer - on our customer base. The numbers that we are projecting are only on the numbers that we have on our customer base.

Remember that Banorte has a group has a huge number that climbs that are not present at the bank that are currently sitting on the pension company that we more and more are starting to do business with them based upon the new regulations that allow us to do so.

So based upon those numbers is that we are really, given this evolution of the loan book, we are not considering really to go into the open market to acquire and to grow on the books. So basically what we are doing - we continue to do is basically what we have been doing in the past.

And also an aggressive evolution of the digital platforms that we have releasing into the market will allow us to really provide our clients with a much better way to deal with the bank based upon a personal offering that we are now releasing into the market.

That's why we are putting these number. We respect a lot of the message coming from our competitors, but on the both point of view, that's what we are aiming for and that we will try to achieve in the next year based upon - on this.

Ursula Wilhelm: If I may ask, Arturo, some of the things that we see at the macro level that are changing versus this this year is exactly what we mentioned in the presentation. If you look at the 2020 budget at the federal level, it already includes disbursements going into the infrastructure projects that this administration wants to support, the trains, the airport.

Additionally, to what Carlos mentioned about mobility, about health, about education and so on. So these are things that we already identified in the federal budget for next year.

Also you - we have a, you know, remittances in the country continues to grow at a very strong pace and continues to support domestic demand. Same thing for salaries. We have been very bold on the labor market. While not growing at the same pace as it was growing maybe in 2018 and before, we continue to see at benevolent labor market with a controlled unemployment, with good growth

in salaries, especially in the private sector. So this is also another element that we see that should support growth and expansion in the consumer side.

Third, very important infrastructure in the country was not only at a halt in areas - in not just in infrastructure but we even saw it in the real estate sector. This is changing. Why? First, in Mexico City, which was very important, we have now the new guidelines for construction, for actions and for projects in the city. So this should also support economic activity as we move into 2020.

So these are elements that are already moving that were - that are now here to support 2020 and were not there for 2019. So this is basically what we are driving our expectation.

Marcos Ramirez: Okay.

Rafael Arana: Yes, I will turn the microphone Armando Rodal, who is the head of corporate commercial and federal business, to guide you on what we see and expect from this credit risk evolution on this part of the business.

Armando Rodal: Yes. Well, good morning everyone. Right now we don't have any tax about any change in any of the sectors. We feel quality of customers with assets that looks well. Also in the corporate side and the commercial side right now, there's little respect for the next huge changes in the sector around the quality.

(Arturo Langa): Thank you.

Marcos Ramirez: Thank you.

Operator: Okay. So we'll now take our - oh, pardon? Sorry. Arturo Langa, please go ahead with your next question.

Arturo Langa: No, no. Just - thank you for answering my questions.

Operator: Thank you. We will now move to our next question from Nicolas Riva of Bank of America-Merrill Lynch. Please go ahead.

Nicolas Riva: Yes. Thanks very much for taking my question. I guess one of the main takeaways I get from this call is that if I divide the government bulk into loans to the federal government and states municipality and infrastructure, you seem to be more positive on the outlook for growth in the infrastructure business.

Rafael Arana: Okay.

Nicolas Riva: Can you remind us the collateral that you have in each of these core businesses? So for example, I guess in the case of infrastructure financing you would tell us collateral cash flows from the project, for example the tarred roads. In the case of the lending to the states, I think you had in some cases collateral which was the transfers from the federal government to the state. But if you can walk us through collateral for each of these vicinities to assess to create risk really or for each of these businesses? Thanks.

Ursula Wilhelm: You're right that the - Nicolas. At the federal level we basically lend to two entities -- the utilities company and the oil company. We keep our contracts registered with the Minister of Finance because that gives them additional enhancement in terms of payment.

At the state level, the long-term loans that we provide usually are collateralized with...

Marcos Ramirez: Federal.

Ursula Wilhelm: ...federal transfers from the income tax to the states. And then in the infrastructure side it depends on the project, you know. It depends on the project, and usually we try to find the collateral coming out from the project. If it's a project that generates cash flows usually there is a type to the cash flows of the project.

If not, then it might go to the project of whoever is financing the project. If it's not - and it also depends on the tenor of the projects at the municipal level. For example, projects tend to be shorter than at the federal level where we have the largest day projects. But that's - usually we - in long-term financing to the sector we always take the latter.

Rafael Arana: Yes. We always go fully collateralized on the deals. We don't do open deals on any of our relationship that we do with the government.

Nicolas Riva: Great,

Rafael Arana: Eventually...

Rafael Arana: ...on short term loans that are really short term loans we do basic on the rating on the grading of the states, but that's not the usual way to do that.

Marcos Ramirez: Maybe 1% or 2%. No, nothing...

Rafael Arana: Right.

Marcos Ramirez: ...really much.

Nicolas Riva: Okay. Thanks very much.

Rafael Arana: Thank you.

Operator: We will now move to our next question from Alonso Garcia of Credit Suisse. Please go ahead.

Alonso Garcia: Good morning, everyone. Thank you for taking my question. My first question is on government loans. I mean you have tried to - the government to represent around 35% of the total loan book. Now you said 21%. So my question is besides loan demand and lower spread and profitability that you mentioned, I wanted to hear is there any considerations regarding the health of state's finances that has made you reduce exposure in the state's portfolio more than initially expected?

And my second question is just to clarify on the loan group guidance for next year. I think you mentioned 7% to 10% range for Banorte. Is that correct? And also if that is considering the government book for which you mentioned particularly zero growth. I just wanted to clarify those numbers. Thank you.

Marcos Ramirez: And thank you, Alonso. As we said, we manage the books in a responsibility which means that only we will do business if the business is there. And with - I'm sure that the business is going to be there, you know. But so we will grow as the businesses is growing and taking, as Rafael said, not only the loan that's a piece for us is the relation with the government and the state or the municipality, whatever.

So it's a process in which we think that we are the best in class and we are going to continue with that way of doing business. And Rafael?

Rafael Arana: Yes. No, it's exactly what Marcos mentioned, and considering that the growth I think you should be looking at more stuff flat or the beginning of the good growth in the infrastructure business on the small tickets about the ones that we are going to be seeking to get.

So you will see the numbers that we have given to you on the loan growth having also a almost are flat to a very small growth on the overall government book. But you will see it's a much more active infrastructure book in the coming months once the country starts to really regaining the spending part of the infrastructure.

Alonso Garcia: Okay. Thank you. And considering that flattish government portfolio is 7% to 10% loan growth what you are more less seeing for next year, right?

Rafael Arana: Yes. Exactly, Alonso.

Alonso Garcia: Okay. I mean I know that you look at the overall business and you will only be doing business when it all but I have - are you as comfortable with the state of the subnational governments finances as you were a year ago or do you think that because of the transition in administrations not only at the federal level but also at the level of some states you are probably at this point more cautious on the state's finances or are you as comfortable as in the past?

Rafael Arana: Well, I think one of the main effects on the discipline law was the transparency and the grading and the overall monitoring of the states and money. So no, I think we are very comfortable with the relationship that we hold and that we have. So we haven't seen any - you start to see this really - many of the states really deliver actually the amount of debt that they have on the market. So the discipline law has been very positive on that side. So no, we haven't seen any weaknesses at all on the relationships that we have or the relations that we have of the state and municipalities.

Alonso Garcia: Thank you very much.

Operator: Thank you. We'll move now to our next question from Anna Renau of Schroders. Please go ahead.

Anna Renau: Hello. Thank you for the call. I want to clarify a mix-up I have in the messages about what happened with the government book. In your press release for the third quarter you mentioned a 20% decline year-over-year in government was in line with the strategic decline in Interacciones' book. And now to me the data on slide 11 showed some reality that portfolio's quite stable and the one that collapsed was the Banorte. So can you help me reconcile those two different messages?

And also my second question would be who in the senior management with Interacciones remains part of the Banorte team and what is their role?

Ursula Wilhelm: I think that on the government book, what you have to keep in mind is that since we merged with Interacciones a year ago, we only have one government book. For purposes of clarifying in this call, we presented the separate books, but from a business and relationship management and risk management view, we only have one book.

And when we were negotiating in the case some of the exposures that we let go because of pricing, as we showed to you. It didn't really matter if it was from Banorte or Interacciones if it was a single exposure as to an entity that we let go because of pricing. So, you know, at the end of the day, it's a consequence of the revision in which book did we have the decline, but what we want to convey to you is that decisions are being made on an integrated basis and looking at the relationship with the customers, not us, which book did we get this loan from.

Rafael Arana: And also of what Ursula mentioned and debt is also important that when we integrate the business unit of Interacciones that business unit is fully integrated in the Banorte operational and management team in a way that you can only have one entity, one book, one business team that really deals with the government entities, not separated Interacciones or Banorte or infrastructure of that. It's fully Banorte. It's under the management of Banorte and ruling under the credit risk and a follow up on the Banorte regulations.

So as Ursula mentioned, it's now difficult to separate but for the sake of explanation we were very clear. But that doesn't mean that one loan was better than the other. It was mainly that this loan, there's a much concentration of the...

Marcos Ramírez: Our level...

Rafael Arana: ...level of pricing we just let it go. So that's the case. It's nothing to do with either one or the other.

And if you could repeat your second question, please, (Anna).

Anna Renau: Sorry?

Marcos Ramirez: If you could repeat the second question, please.

Anna Renau: Yes. Who in the senior management of Interacciones remains part of the team at Banorte and what is their role, their current role?

Marcos Ramirez: Yes. They are with us. As we said, this program play infrastructure and all of them with us. Now their name is Banorte but they are here with us. Yes.

Ursula Wilhelm: We have a - as we disclosed in July, I believe, Carlos Rojo who stayed in Banorte. He is just supporting the chairman of the board. And then the infrastructure team that came Banorte that is led by Tamara Caballero they are part of the state's government lending business of Banorte and they report to the head of that division which is also an executive of Banorte.

(Anna Renau): Okay. Thank you.

Marcos Ramirez: Thank you.

Carlos Vázquez: Thank you.

Operator: Moving now over to our next question from Roberto Garcia of Barclays. Please go ahead.

Roberto Garcia, please go ahead. Your line is open.

Roberto Garcia: Hi. Good morning. Thank you for the call. A couple of questions, if I may. Looking at the reports of all your peers in the Banking Commission that - it seems that the private banks combined are losing share to Banobras in particular. Do you believe that Banobras has the appetite to continue to grow its book with the state governments? And if so, to what extent could that continue to pressure your own book or the overall private bank book?

And on the comments for next year you mentioned that the consumer business should be a growth driver. This is something that has also been said by some of your peers. And you clarified earlier that you are going to focus on your existing clients, but I was wondering if you are concerned that this additional competition in the consumer segment could lead to impression in yields there? Thank you.

Marcos Ramirez: Thank you, Roberto. Yes. Banorte is - with more appetite now what this is here that should - they should complement the banking system and not compete the banking system. But in all the years and with all the governments they entered and then they decide to complement and something they decide to complete too.

So we - exactly we don't know when this is going to end, but for sure it's going to be some point in the future because they need to - we need to do a lot of business together in the long term, right? So we will find a way to do it.

And the other question was ...

Rafael Arana: On the consumer - I think the consumer business is always a business that you have to be very well equipped in order to deliver on the consumer. You have to have the channels. You have to have the product. You have to have to risk modeling, the write off and the right pricing and the right funding. I think that's needed in order to compete in the consumer and also the distribution and the physical distribution also take into account that.

So I think Banorte is more than prepared for that. If there's going to be a competition, there always have been competition. If you look at the mortgage book and the car loan book and you follow up the CNBV numbers you can see that the competition on that market has been very fierce for the last two to three years but the one who has been prevailed are the largest banks BBVA, ourselves and other banks. So that has been all the competition in Mexico's extremely efficient by the size and the quality of the banks that compete in the market.

So we don't anticipate irrational competition and we anticipate a good evolution of our client base based upon a much better rate for the consumer and a much better atmosphere in the - how the country sees itself on this new evolution of trying to understand the new guidelines of the new governments. So that's what we see.

And just let me just add to the first one. But I think it's very important to see. The transparency level rely put a lot of discipline in the market and the operating process. And Banorte sometimes can go into the market and really reduce the price substantially. The reason for that is that they don't have to cover the insurance deposits that the commercial banks do.

So you have to read very carefully if you want to go and chase after that competition. That has been a much more rational amount, but there were cases that they would not even the deposit -

the insurance of deposits was covered by the rate. That has been a much more moderation and I think that will continue to evolve on that because one thing to put discipline to the market, and one other thing is to really a method to the market and I think we are in a much more disciplined market now.

But just to give you an example, just imagine that you go into a bidding process but one of your competitors doesn't have to attend for 25 basis points of operate just because they have - they don't need to cover the insurer. I don't think that's a very easy way to compete. So we go and we will go again into a lot of deals that are much more rational and profitable for all the people in the table.

(Roberto Garcia): Understood. Thank you very much.

Rafael Arana: Thank you.

Operator: Our next question comes from...

Ursula Wilhelm: I think...

Operator: Yuri Fernandez of JP Morgan. Please go ahead.

Yuri Fernandez: Thank you very much for the opportunity of asking questions. I have just one questions on loan renegotiation. And you mentioned the - I think it's slide 7 -- that most of the demand has been coming from refinanced debt. So my question is how easy is it for a state, a municipality or an infrastructure loan to renegotiate the loans and if in a lower rate environment if that's not going to be the case, you know, like this pressure continues and you continue to have your loans moving away to another competitor. So the question is, how is easy is it to happen?

Ursula Wilhelm: For a state or a municipality, just like as easy for a corporate, no, they talk to their banks involved and they provided the terms of what they are looking for and they let banks and competition to decide.

So it's just as easy as a corporate. It's not - if you talk about an infrastructure loan that is tied to a project, then that's different because you have to look at the project and so on, but in this case what we have shown you is not infrastructure related projects. It's just long-term loans that have been provided to mainly to states and there has been a lot of refinancing activity as we showed to you.

And we expect this that will remain well into next year because, as you mentioned, with interest rates going down we expect a lot of refinancing activity at the state level and also in the corporate side. And in the corporate side it already started. You saw it in our third quarter numbers and we decline in the government - in the corporate book was related to prepayments because there's a lot of refinancing on prepayment activity going on.

Yuri Hernandez: Thank you.

Ursula Wilhelm: Thank you. (Sergio), if there's no more questions, let us know and we can finish here because it's already past the hour.

Operator: We still have a few questions in the queue. Would you like to take the...

Marcos Ramirez: Oh, that's okay.

Operator: ...quickest one?

Marcos Ramirez: It's okay to...

Ursula Wilhelm: Yes.

Marcos Ramirez: ...it's okay. Perfect.

Operator: Okay. So we're going to move to our next question from Mariel Labrille of. Please go ahead.

Maria Labrille: Hi. Most of my questions have been answered. But if you can touch a little bit on what - how do you manage the concentration - individual concentration within the government and is there any areas of government that you're more cautious or avoiding?

Rafael Arana: The concentration is basically about the credit risk committee that allow us to have the specific concentration but state and municipality level based on the ratings and the grading. So that's an ongoing process that gets review on a constant basis by the level of concentration. And we don't see any specific areas that we see concern because as we mentioned before the transparency loan now have very clear picture of what exactly the level of debt of the states and gradings and municipalities.

So in all the deals that we are in, you know, the relationships that we are in, we are very confident and comfortable with the deals that we have.

Mariel Labrille: Okay. Thank you.

Rafael Arana: Thank you.

Operator: Our next question comes from Claudia Benavente from Santander. Please go ahead.

Claudia Benavente: Hi. Thank you for allowing me to ask questions. Basically I would like to know if the net interest margin improvements that you mentioned you're expecting is driven by lower rates or

should we expect sort of our funding composition change? And my other question is how strong will be this national program that you were mentioning, the National Infrastructure Program? Is it will allow to continue seeing the former role of that Interacciones drove on the infrastructure book or should we continue seeing like sort of flat growth? Thank you.

Rafael Arana: Thank you, (Claudia). On the net interest margin, everything is coming from the funding side because we acquired a very good set of assets, but we're at a very high cost of funds and we are improving the cost of funds on a daily basis. So you will continue to see an expansion on the margin based upon the good assets that we have on our book and a much better funding cost.

The second one...

Claudia Benavente: But it sounds like...

Rafael Arana: ...I will not - yes, please? Continue.

Claudia Benavente: Sorry. No, but from the funding side it's like it will be driven - I understand that you've been switching Interacciones time deposit for Banorte time deposits that are at a lower rate. But the end the improvement - the continued - the further improvement that you're expecting is because you are - there is still liabilities from Interacciones that need to be switched to Banorte or because you're expecting the (overnight) rate to drop and therefore the timed deposits to reprice at a lower rate?

Rafael Arana: Well, I think both of that, and one question that you mentioned that I think is quite (right) is that Banorte used to have a mix of a much more higher demand deposit with zero cost. We shift that mix because we needed to increase the timed deposits gathering at a faster pace. So that makes move in some cases close to 42. Those 42% now that used to be 35 will replace down at a much better rate so that will help us on the funding side.

The other thing is that the overall reduction of the loan to the deposit ratio that increases with Interacciones is what came into ((inaudible)) has been reduced every single day by the evolution of the gathering of the demand deposits at the bank. So it has to do with both, (Claudia).

Claudia Benavente: Perfect. Thank you.

Operator: And we will now take our last question in the queue from (Naha Argavalla) of HSBC. Please go ahead.

(Naha Argavalla): Thank you for taking my question and I will not keep you for long. Just one clarification on your primary estimate for the venues. You mention a double digit growth in revenues and this is in view of a (mild) 7% to 10% loan growth and along with a decline in rates. So what will be driving this revenue growth? We expect some pressure on margins with the lower rates and the government lending will probably put more pressure on margins. So what are the main drivers for this double digit growth? Thank you so much.

Rafael Arana: I think the key element to consider is that the expansion of the book should deliver at a much better funding cost those rate of evolution on the revenue side. You have to consider that each year Banorte was zero growth in the payroll book, zero growth in the MSMEs but good growth in the mortgage and also in the credit card on the car loans.

So by just regaining and maintaining the already existing loan growth that we had this year plus in addition the regaining of growth on the payroll book and also on the SME book we'll ((inaudible)) the additional revenue side at a much better funding because you remember that Banorte currently holds 290 billion of fixed rate assets in a book. That's fixed rate asset book will not reprice immediately on the down trend of the interest rates because in the same way that we with price on the upward trend of the interest rates.

So in the evolution and managing of the balance sheet to reduce the reduction in rates will allow us to give additional mark into the balance sheet. So we see a good source of revenue. Also the subsidiaries, the insurance company, the annuities company and the pension company again will deliver very good resource on the net income growth 15% to 17% at least for the next year.

So overall we see - and also very good control in the expense line and good growth in the revenue side. We'll - that's what we are anticipate is these numbers to you.

(Naha Argavalla): So just to clarify, you mentioned 15% to 17% earnings growth for next year should be reasonable to expect?

Rafael Arana: On the subsidiaries, yes, and then...

(Naha Argavalla): In subsidiaries?

Rafael Arana: ...insurance annuities and pension.

(Naha Argavalla): Okay. Perfect. Thank you so much, Rafael. Very helpful.

Rafael Arana: Thank you. Good to see you.

(Naha Argavalla): Thank you.

Operator: Thank you and there are not other...

Marcos Ramirez: Thank you, everyone.

Operator: ...questions in the queue. I would like to turn the call back to our speakers for any additional or closing remarks.

Ursula Wilhelm: Thank you very much for joining us and we'll be in touch. Bye.

Operator: Thank you. That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.