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CORPORATE PARTICIPANTS

Ursula Wilhelm *Grupo Financiero Banorte SAB de CV - Head of IR*
Marcos Ramirez *Grupo Financiero Banorte SAB de CV - Group CEO*
Rafael Arana *Grupo Financiero Banorte SAB de CV - CFO/COO*
Gabriel Casillas *Grupo Financiero Banorte SAB de CV - Chief Economist*
Carlos Martinez *Grupo Financiero Banorte SAB de CV - MD - Retail Banking*
Fernando Solis *Grupo Financiero Banorte SAB de CV - Head of Afore Business*

CONFERENCE CALL PARTICIPANTS

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Jason Mollin *Scotiabank - Analyst*
Carlos Rivera *Citi - Analyst*
Claudia Benavente *Santander - Analyst*
Carlos Macedo *Goldman Sachs - Analyst*
Marcello Telles *Credit Suisse - Analyst*
Mario Pierry *Bank of America Merrill Lynch - Analyst*
Tito Labarta *Deutsche Bank. - Analyst*
Carlos Gomez *HSBC - Analyst*
German Velasco *BBVA - Analyst*

PRESENTATION

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Ladies and gentlemen, thank you for standing by. Good day and welcome to the Banorte Fourth Quarter 2016 Earnings Conference. Today's call is being recorded. At this time, I would like to turn the conference over to your host Ursula Wilhelm. Please go ahead.

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

Thank you, Paula. Good morning everybody and welcome to Grupo Financiero Banorte's 2016 fourth quarter earnings results. I'm Ursula Wilhelm, Head of Investor Relations and today, Marcos Ramirez, the Group Chief Executive Officer will provide an overview and also participating with him are management team who will be answering your questions. Today's presentation may include forward-looking statements that are subject to risks and uncertainties that might cause actual results to differ materially. Thank you for being here and I leave it to you, Marcos.

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

Thank you, Ursula. Thank you everybody, good morning. First, very interesting times. Well, I don't have to tell you how complex things look. Let me share our quick thoughts with you. A year ago in this very same conference call, we were talking about how markets were experiencing [quite rough] beginning of the year as markets (inaudible). Things didn't look good at that time and let me stress that we were not even expecting all of [pricing events] that marked the year 2016. Despite all that, Banorte had a

wonderful year.

We achieved record results in the fourth quarter. It is the strongest in terms of growth and profitability over the past 10 quarters. 4Q results are also quite solid and they are on track versus our 2020 medium-term plan. In our view, results clearly show that we have begun to harvest the seeds of this. We got [Watson with the IBM project] and the transformation we have gone through that you have been hearing in the past couple of years.

As you can see in slide two, earnings per share accelerated to MXN1.89; growing 13% for the year on MXN19.3 billion in net profit. Quarterly sequential growth was strong at 5%. Fourth quarter results show a solid evolution on the businesses with a strong sequential growth in the credit book, deposits, and premiums.

The NIM continued to respond to higher interest rates and expanded 8 basis points in the quarter to reach 5%. An extraordinary operational performance in the quarter led us to achieve a lower cost-to-income ratio of 4.9%. The quality of the loan book improved with past due loan ratio moving down 50 basis point to reach a historically low of 1.7%. We are improving our reserves coverage of 142%.

[Full-year] results are similarly strong and I'm happy to inform to our shareholders that they are within the guidance target that we determined for the year. Total loan growth [changing] nicely at 14%, with consumer loans growing stronger at a rate of 17% with healthy performance. The NIM was 4.9%, up 39 basis points versus the year 2015 supported by loan growth, a better mix, controlled funding cost, and market [less rate growth]. The efficiency ratio declined further to 45.3%, 260 basis points less than in the year 2015 as a result of 12% growth in revenues and only 6% growth in expenses.

The annual cost of risk was 2.4% on the average loan book influenced mainly by the expansion in the overall credit book. ROA expanded 10 basis points during the year to 1.6%. Subsidiaries also achieved excellent results. The Bank posted 13% higher earnings. Insurance net income was MXN2.6 billion, 19% above last year. The [insurance posted MXN561 million in profit, 39% higher and finally, Afore's net income was MXN2.5 billion]. Overall results, they speak for themselves. You can see the result on the conference call presentation that you have.

Now, I want to move to our outlook for the year 2017. There is no doubt that the environment in Mexico changed after the US elections. Uncertainty prevails in the environment as there is a little clarity of the agenda of the new government in the US particularly towards Mexico. The macroeconomic outlook is indeed more challenging particularly as inflationary pressures are growing. The currency continues to weaken and interest rate has not only been weak, weaker than expected, but would likely further increase this year.

[Most economies have got GDP growth] estimate for the Mexican economy in the year 2017. Our growth estimate stands at 1.1%. In fact, we are among the most conservative in this sense. Our inflation estimate is at 5.7%, but we see prices adjusting for the depreciation of the currency and higher gasoline

prices. I want to highlight that we are [acting no recession] here, but a deceleration due to the uncertainties stemming from the potential policies that the US administration might implement.

Nevertheless, Banorte is in a privileged position to expand in this more challenging environment. The financial group enjoys healthy finances, a strong capital position, low and manageable foreign currency exposure, a diverse business architecture, and a solid franchise that supports a stable deposit base. Investments made in state-of-the-art technological platform and distribution network will continue to support efficiency gains while our customer base is large and underdeveloped in some segments.

The key driver is to be diligent and proactive in managing the loan portfolio. To maintain healthy asset quality metrics, we have set reasonable loan growth targets all across the credit book. We will continue growing deposits to control our funding cost. We expect the insurance company to continue performing well and maintaining double-digit growth.

Our 2020 strategic plan remains unchanged and we continue to pursue improvements in our retail banking business that should result in [better cross-sell] numbers and higher profitability per customer. Now, I will turn the microphone to Rafael Arana to provide you more details on our guidance for the target for the year 2017. Go ahead, Rafael, yes.

Rafael Arana Grupo Financiero Banorte SAB de CV - CFO/COO

Thank you, Marcos and good morning to everyone. Just as we do at the beginning of every year, I want to give you our expected performance targets for 2017. Please turn to page eight of the conference call presentation. Overall, we expect the loan book to grow between 9% to 11% in 2017 with the consumer book growing between 12% and 13%.

As Marcos mentioned, the focus is to grow with quality and control risk, therefore we would concentrate origination efforts on our existing customers. We know them and we have good information and channel new origination through pre-approved loans. Our loan estimates rely less on GDP growth and are based more on the dynamics that we see with our [growing] customer base on the consumer and commercial segment.

Grupo Financiero Banorte net income should be between MXN22 billion and MXN23 billion based on a margin expansion of 20 basis points to 30 basis points. Fee growth of between 10% to 12%, cost of risk of 2.5% to 2.9% of average loans and control expenses only growing in the range of 6% to 7.5%.

The cost-to-income ratio should continue trending downward as we benefit from newly released multi-channel architecture and therefore we expect to lower consumer credit origination cost. We expect this ratio to hover between 43% and 45%. Earnings for the insurance company should grow around 18% as we continue to tap the Bank's client base. Our estimated ROE target for the year ranges between 14.8% to 16%, not only improved by larger earnings, but also from our capital management plan for the year. Please note that for this guidance, we have assumed an average of only [50 basis points increase] in the policy rate for the full-year. With this, we conclude our remarks and now we open the microphone to

questions.

QUESTIONS AND ANSWERS

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(Operator Instructions) Jason Mollin, Scotiabank.

Jason Mollin Scotiabank - Analyst

I'd like to better understand the Group's earnings and book value sensitivity to interest rates. Specifically, management has talked about in the past 100 basis point increase in the policy rate adding [about MXN120] in net interest income over a one-year period. My first question is about the sensitivity of book value to changes in market interest rates through losses on the mark-to-market of securities classified as available for sale. In the quarter, we saw the Group book a MXN2.5 billion loss through equity not taking into consideration the INB accounting for its holdings of available for sale. The benchmark rate was up, I guess you could say during the quarter 150 basis points. How should we think about that, that upfront loss is going to take a year and a half to make to earn back the mark-to-market losses with net interest income?

My second question is about the INB transaction and putting this in available for sale at so-called market value. If you can talk about that market value and how it was calculated and the -- there was a loss of I guess its [MXN3.7 billion] book-to-equity. Overall, your equity fell in the quarter, so I'm just trying to understand, how we should expect this to move going forward? If there were in fact the sale of INB for the market price I'm imagining there would be no impact on the book value. Thanks.

Marcos Ramirez Grupo Financiero Banorte SAB de CV - Group CEO

Thank you, Jason. I will address these two questions to Mr. Arana. They are not so easy to -- so maybe we can start with INB and then the other one.

Rafael Arana Grupo Financiero Banorte SAB de CV - CFO/COO

Thank you, Jason. (technical difficulty) it's now the goodwill that has been removed from the INB and now that we (inaudible) on at Grupo Financiero and we make a provision for capital at the Group level plus \$200 million. The INB will be -- we cannot disclose the final price but will be above book value. So basically what we are removing from INB is the goodwill and booking [that over to] Grupo Financiero and we will be really managing at the equity base as you said. That number should be ranging around \$200 million with no impact on the net income results for the Bank.

On what you said about the available for sales and the valuation issues, yes, there has been a lot of valuation to the -- as you may say not just on the -- in every part of the book, we have now concentrated and managed that. I think that part is over. The worst one was November. We mostly recuperate that through the month of December, but everything that is related to valuations and related to market value in some of the positions that we have were affected during that process, some of them are regaining

again the value. So we expect that to be recovered through the year if things doesn't go -- if the dollar (inaudible). Besides that, I don't think we have increased, as you will see in the numbers, we haven't increased our positions in available for sales or hold to maturity during November.

That's why mainly we reported a loss of MXN175 million on the trading book because we didn't move anything to hold to maturity and we didn't play with the book at all. We mark it to market and take the loss on November. So what you see mainly on that part as you mentioned is valuations that happened through the month -- through the last quarter or through the year related to mainly the dollar value, dollar valuation and derivatives that we have on the [positions] and so on of the mark-to-market targets that we have on the book.

Jason Mollin Scotiabank - Analyst

So it wasn't Rafael, so if we shouldn't think about this as, I mean, one way to think about it, I guess you're saying it was dollar rather than rate, but I'm just thinking if rates go up another 100 basis points, what does that do to your securities and available for sale and will that -- could we see a loss of this magnitude if we have another [100 or 150 or more hike -- interest rate hike].

Rafael Arana Grupo Financiero Banorte SAB de CV - CFO/COO

No. I think as I mentioned there was loss in November and we were very [attentive] on the positions. If you compare ourselves with against the market, you will see that the available for sales and hold to maturity for the books, not other books really grew considerable in that part. So we rather stay with that loss of MXN175 million and stick with the positions and value the position at the market value and continue to be very defensive on the trading business.

We don't expect a severe loss of MXN175 million even though we know the interest rates will continue to go up. So I think we are very well positioned now on the trading book [and the sensitive] position and we will start getting the benefit of the [carried] of some of the positions that we have on the short-term basis. So now we don't anticipate any -- to be honest, any concern about our positions related to interest rates on the trading books in the coming months.

As you know, last year, we guided [at MXN700 million], what's going to be the usual rate of growth of the earnings book -- for the trading book on a quarterly basis. This year, we are even lowering that a little bit more, [MXN650 million] because of this defensive view on the positions, but what we are getting and we received already in January and in December is that inflation-related bonds that we have on our positions as I said in any market value, any mark-to-market positions that we had. So unfortunately inflation is rising, the good thing about our positions is that everything that is related to inflation is rising pretty fast.

Marcos Ramirez Grupo Financiero Banorte SAB de CV - Group CEO

Jason, we have the trading position and everything is mark-to-market there and we are expecting as everybody knows that the rates will go higher. In the ALCO position, the ALCO is covering [less than it should protect], so if you -- we know that the rates will go up and so we will make money somehow

there. So everything is good news regarding the increase [in rate now] as long as it doesn't hurt the payment of the clients, but over machinery, they increase the rate is [better in all the boxes] that we have in the bank.

Jason Mollin Scotiabank - Analyst

That's great. Rafael, you mentioned that the goodwill -- you're reflecting the goodwill from the INB acquisition, we saw goodwill and intangibles decline from MXN28 billion I think in the third quarter to [MXN26.5 billion]. So, is that reflecting what's left in that [20] is that taking out the INB, and what's left in those intangibles and --

Rafael Arana Grupo Financiero Banorte SAB de CV - CFO/COO

No, that's part of it but also, as you see on a recurrent basis you have to adjust the value of the goodwill that you have on every position of the bank, like the branding procedures and everything. So it's a mix of things that we really put on that. As you know, we don't amortize the goodwill in Mexico but we do value and put on a strict valuation the goodwill to see if there is any mutual value on that and sometimes it is and we have to reflect that, but it's not just the INB. If you follow that account on a continued basis, you will see that account sometimes [goes well, not on a big numbers this time], if it gets part of the INB, but it's related mainly to the adjustment that we do along the goodwill that we have on the books.

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Carlos Rivera, Citi.

Carlos Rivera Citi - Analyst

My first question is, I'm just trying to reconcile the forecast for GDP growth as you have it, it's probably one of the lowest in the Street with a net income guidance which is calling for 14% to 19% growth which would imply a year 2017 better than the growth that you had in 2016. So just if you could elaborate a little bit on the factors that make you feel comfortable with these forecasts? And my second question would be related to the -- for the business, just if you could comment a little bit about the prospects for growth? In 2016, we saw growth, but it was probably below what we have seen in the past. So if you could comment a little bit on the trends there, would be great. Thank you very much.

Marcos Ramirez Grupo Financiero Banorte SAB de CV - Group CEO

Thank you, Carlos. The reconciliation in the numbers, Rafael Arana is going to (multiple speakers).

Rafael Arana Grupo Financiero Banorte SAB de CV - CFO/COO

In the exchange data, if you look at the end of the year that we -- if you project the end of the year, you will see a 14% rate growth for the loan book, but that was a very extraordinary agenda and as you saw also the numbers for the credit losses and everything [whereas there are] really in the right track. For this year, what we are doing is basically concentrate on our books and our pre-authorized and authorized clients. So we don't need to push the needle to really push into the open market the growth in the loan book. We see exceptional numbers in growth in mortgages and also in the car loans and also part on the payroll loans. Corporate, they had an extraordinary year, [which ended commercial].

This year we already -- I think we have a strong pipeline with clients that we know and if you do the numbers, you will need to push aggressively into the loan book because the benefit of the interest rate has [offset by 5] -- it seems to be a lot of growth in the book. If the situation changes and we see a much more positive environment with the clients that we want to think we have positions with them, we will do so, but at this point in time we are very confident that with this loan growth, we can keep the cost of risk at a very reasonable level, have a very good growth in the earnings of the bank at a very healthy pace and the most important issue is that we will continue to serve the clients that we know and we know exactly the kind of people they are.

And in the consumer, we are moving basically to authorize and pre-authorize clients. So maybe the number looks a little bit on the low side, but when you will see the profitability of that number compared to a much aggressive number, when we go to the open market, which is a much better way to grow. Now, I pass the authority to -- if there is no other question, I would pass this to Fernando, the head of the Afore business.

Fernando Solis *Grupo Financiero Banorte SAB de CV - Head of Afore Business*

With respect to the Afore, the guidance is quite conservative. We do not expect a very large increase in the net earnings due to the following reasons. First of all, as you know, we have closer relation in terms of pricing. This year we are going to reduce the commissions by 1 basis point. The other thing is that due to the fact that the reserve portfolio that we have which [we invest in long-term bonds and some other stocks and car loan], the increase in rates that we're expecting and we're expecting higher increase than before. So those will -- since you know we marked value of the assets under management. So we're very conservative in terms of how much income we're going to be getting from managing those assets. So on income side, that's our outlook.

Now with respect to the cost side, we are also experiencing higher commercial costs due to the regulation. We have (inaudible) and so on and so forth and besides that we also increased the number of the sales force because we have been experiencing some loss in our market share. So we're investing in putting more sales forces in the weakness. So we were also seeing some pressure on the cost side.

So I will just summarize by saying that, we have been saying for long time that our Afore business being the largest in the market, generally we are the largest Afore in the country and it's a mature asset. So we're getting stable net earnings, stable cash flows, but we do not expect to pursue in this business rate of growth that we do in insurance or in the annuity business.

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

Hi. This is Gabriel Casillas, Chief Economist. I would like to ask you what Rafael was saying, Carlos. I think, if you want to see why a 1.1% real GDP growth rate can be linked to our forecast on the leverage because of four things. Number one, a nominal GDP multiple. As you know, we're projecting of course lower growth on the real side, we're projecting higher inflation.

So actually, our nominal GDP forecast for this year actually remains unchanged, [over 6% growth once again] because of combination and in this case, as you know a nominal credit growth GDP -- a nominal GDP multiple has been (inaudible). Number two, we have had a very good dynamic from formal employment and as you know former employment, we have targets that -- and since Labor Market Reform that was approved in 2012.

The formal employment has been growing at a higher pace and we have GDP. Actually last year it was more than twice GDP growth, so we are also counting on that and we don't (inaudible) Marcos was saying at the beginning of the call, we're not expecting negative growth rate, we are not expecting unemployment, we are just expecting things to grow at a slower pace because of these uncertainties. So number three, the components of GDP 1.1% is quite different from the one, four or five years ago and we will grow around the same pace. In all, the 1.1% growth rate, [0.6% strict expense] will be mainly due to domestic markets. And number four, interest rate, as Marcos said in the beginning of the call. interest rates continue to be very low despite all the hikes that the Central Bank of Mexico has done. So that's only [where given far from the mutual rate, here the mutual rates will be around 8%, so that's when around 8%] you could start see some restrictions, (inaudible) our conservative growth forecast is our loan growth forecast.

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Claudia Benavente, Santander.

Claudia Benavente Santander - Analyst

I have three questions please. The first one is like it's regarding net interest margins. Since guidance for NIM expansion is a little bit conservative considering the average increase on interest rate is higher in 2017 versus 2016. Should we expect competition in the consumer business to continue during this year, which has translated into lower charter rates in almost all consumer segments? My second question is if the upper-end of the ROE guidance incorporate the sale of INB? And my third question is does the guided increase in cost of risk include a deterioration in asset quality or an asset mix change and that's it.

Marcos Ramirez Grupo Financiero Banorte SAB de CV - Group CEO

Thank you, Claudia. Maybe Rafael can help with NIM and ROE.

Rafael Arana Grupo Financiero Banorte SAB de CV - CFO/COO

Claudia, could you repeat the first one. I was not very --

Marcos Ramirez Grupo Financiero Banorte SAB de CV - Group CEO

Guidance and the --

Rafael Arana Grupo Financiero Banorte SAB de CV - CFO/COO

The guidance on the consumer?

Marcos Ramirez Grupo Financiero Banorte SAB de CV - Group CEO

It looks conservative to Claudia?

Claudia Benavente Santander - Analyst

Seems a little bit conservative because I've been looking to the pattern of the [charged] interest rates on the different consumer segments and since they have been more competitive like all the different banks have been decreasing a little bit the rates charged on the different consumer businesses. So I was wondering if you're expecting that competition to continue throughout this year and that's why you're being a little bit conservative on NIM expansion considering the average increase in interest rate is higher this year compared to last year.

Rafael Arana Grupo Financiero Banorte SAB de CV - CFO/COO

Yes, thank you Claudia. I think the key element that you mentioned is not that we are conservative or not, but we want to be much more productive in the way we address the decline in the credit lines and you have all the information about your clients and you have the information about the trade view and [new clients and the trade view and your clients with other banks and things]. You can really do on a one-to-one basis provide the right pricing and the right product for those clients. So there has been always the belief that if you grow the loan book at a really rapid basis 14%,15%, that's equivalent to better margins and better net income for that -- and that has not been the case especially when the interest rate start to rise and people start getting conservative about it. I think you have to manage your client base on a one-to-one basis and only do business with clients that you understand those clients, as you know about the expected losses of those clients will be lower. If not, you will end up behaving in the same way when the interest rates were low.

Now with all the information that we have on the analytics, we can really experience -- really very conservative loan growth and be very productive with that loan growth. If you do the numbers about increasing the margins on that -- just the basic raise on the rates give you because of the cost of funds and the deposit base and you take care of the book on the lending side, you don't need to [be explosive] on the level of growth, you just have to penetrate your client base, do business with the clients that you know, pre-authorize your queries and really provide the best price based upon the lifetime value that the client can with you. I think you will see a completely different way that Banorte has been competing starting last year and will compete in the same this year.

That's why our numbers in the credit losses and NPLs, all of those have gone down because now we are very basically concentrating on clients and pre-authorized loans and that's why you may be see that we are little shy on the level of growth. It's not that we cannot outpace or increase the level of growth, but at this point in time with the clients that we know, we really reached the numbers that we want in a very secure and a very recurrent basis with this. If there's opportunities in the market, of course we will moving into those opportunities aggressively.

Last year, we saw that Banorte really [recap] the mortgage market again. SMEs were very strong again, car loans and we don't need to really outpace anything, we just need to concentrate on our client base and understand exactly what are the dynamics of those clients and really provide loans to those. Going

to the open market, I think it's not going to be a pretty good story in this year.

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

Claudia, and to your last question, the guidance does not include [peer banking] the US, it's basically for the Mexican operation.

Claudia Benavente Santander - Analyst

(multiple speakers).

Marcos Ramirez Grupo Financiero Banorte SAB de CV - Group CEO

Claudia, you also were concerned about ROE?

Claudia Benavente Santander - Analyst

No, I was wondering if the upper-end of the ROE guidance incorporates the sales of the INB. And the last question was (technical difficulty) includes the deterioration in asset quality or an asset mix change?

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

The ROE, the top-end of the guidance, yes, it [incorporates the Bank, its owned].

Marcos Ramirez Grupo Financiero Banorte SAB de CV - Group CEO

The changing of the INB and also improving the management of the capital base of the bank. And this is also related to a question that Jason was asking us, you will see that the capital base of the bank will continue to expand in this first quarter of the year. So that will also allow us to manage the capital base in a much more efficient way. And when you take away the INB, if that happens, you have to look at least 60 basis points of [improvement] in the ROE for the business.

Claudia Benavente Santander - Analyst

Okay. So it does not include it and if it the (inaudible) this year, we should add 60 basis points in addition?

Marcos Ramirez Grupo Financiero Banorte SAB de CV - Group CEO

Yes.

Claudia Benavente Santander - Analyst

Great. Thank you and the last --

Marcos Ramirez Grupo Financiero Banorte SAB de CV - Group CEO

Then you will reach the topline of the guidance that is the [16%] and little above that, yes.

Claudia Benavente Santander - Analyst

Perfect. And so my last question regarding asset quality?

Marcos Ramirez Grupo Financiero Banorte SAB de CV - Group CEO

Asset quality, look at the numbers of asset quality, they have been improving consistently because now we are moving more and more [sales horizon of our clients]. That will continue to be a good story. We are very conservative. We like the way we grow and we like the client base that we have. We are happy with the information that the credit bureau is providing and the analytics that we have growing at the branches and the executives. So I think, even if we are increasing the cost of risk, it's because we want to be conservative, not because we see anything on the book. As we mentioned here, the [local rate should be around 8%]. Above that, we will have to see what's going on there. We are not concerned so far.

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Carlos Macedo, Goldman Sachs.

Carlos Macedo Goldman Sachs - Analyst

Couple of questions for you. First, I just want to go back to Carlos' question and just get a little bit more color on that. Just looking at your guidance, everything is down compared to what you delivered this year or weaker with the exception of efficiency ratio, which would be better, but that's a factor of everything else, but loan growth was weaker, NIMs won't expand as much, expenses will grow more, the cost of risk will be up, tax rate will be in line and yet you're talking about loan as Carlos said your EPS growth in midpoint of the range 16% versus 13% this year.

What do you forecast for what's in the middle there that's not here. Trading you said [MXN650 million] per quarter, which is again is lower than what you guided for this year, but better than what actually was delivered this year. What about fees? Is the INB that big of a factor? Just trying to get an idea here because the numbers don't really seem to add up that well.

Second question and I know it's still very early, but there is a lot of rhetoric going around particularly at this point in time. Could you talk us through a little bit your exposure to exporters, in particular the companies that are exposed to the US given what the rhetoric that's going on in the relationship between the two countries now?

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

On the guidance Carlos, these are ranges. It doesn't mean that it is going to be either one of the numbers or the other numbers. So it's a combination. We have room and flexibility to move within expenses, within the growth of the portfolio, within how much [within] consumer. So this is what we are expecting. We said at the beginning, we're not really looking so much into what GDP is going to be, but really to look at what we can do with the existing customer base that we have and this is why we are expecting the loan book to grow between 9% and 11%.

As Rafael mentioned at the beginning in his speech, if that we move forward in the months to come, things do not happen the way that we expect them to be right now, we will make changes if needed and we will communicate them to you, but overall this is the way basically where we see, you know, that the numbers could move during the year. I don't understand what is your concern?

Carlos Macedo *Goldman Sachs - Analyst*

It's not a concern. I'm not commenting on the actual guidance that you provided for each line. I think that you have your budget and all that. It just seems that you're forecasting each line to be weaker than it was in 2016 and yet you are forecasting or you are guiding for stronger EPS growth and that's what -- it doesn't really add up in my mind. I'm just trying to find maybe something that's not in the guidance like fee growth will kind of bridge the gap.

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

Yes. Like we said, fee growth we are expecting it to be around 10% to 12%. We also expect the earnings of the insurance companies to continue growing double-digit, same thing as the pension company. So all of these things together will support earnings growth.

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

And Carlos, let me just guide you because I understand your concerns, but let me guide you through some issues. If you look at the numbers on the new range of the guidance, you were looking at EPS growth of 16%. ROE will be expand close to 140 basis points of [ROE]. I mean those are very, very strong numbers that are basically on the efficiency and the operational capabilities of the bank.

If you add 140 basis points to the ROE [include EPS growth of 16%] then if you do the combination of the guidance, you are really reaching an outstanding number for the bank in an environment that is -- it will be uncertain to say the least. Expenses continue to be extremely under control and you are reaching numbers on the efficiency ratio close to 43% because we've guided 45%, inflation [explode to 12%], but if inflation continue in the ranges that we think that is going to be from 6% to 7.5%, maybe we will get in the efficiency ratio around the 43% number.

That is really outstanding that we have been providing close to 150 basis points net on a year-to-year basis, so, EPS grown 16%, ROE grown to 140 basis points more, cost to income ratio going back again to the 43%. And it would be each year for us to be very, very [judge] because of the number for the full quarter, but I think we are reaching a point at the bank that we can really concentrate on where the value is and not waste money chasing clients or chasing market share, then we can really provide a lot of value to shareholders, really concentrate it on the value that we have generated with our customer base and with all the analytics that we have been provided for the sales people to really target the clients that we want, but I don't think that -- it could look a little bit on the conservative basis, but if you go deep on the numbers, annual ROE growth, EPS growth, cost-income ratio growth and -- it's really, I would say, I don't think are conservative numbers to be honest.

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

And then the net interest income, seems it's been growing above the loan book and this should be related to interest rates and this is something that we expect to see flowing through this year through the P&L of the Group.

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

And let me just give you another example of the vision that we have. If you look at the numbers of deposits growth last year and we provide that numbers on this book. We got [mid] last year close to MXN35 billion in different pockets of costly deposits that we have or funding that we have because we didn't -- we were in a very good position with very low cost of funds, so we don't need to really get those deposits. So that improved our cost of funds. So we are getting a much better deal now with a lower cost of funds and with an increase in the interest rate. So I think a lot of the efficiency has been going on in the bank.

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

Related to the INB sale, as soon as we have more information, we will give you all that we have right now. Also, the outcome of the trading the budget is going to be [MXN650 million per quarter].

Carlos Macedo *Goldman Sachs - Analyst*

Great. Thank you for the color. I mean it was really just trying to figure out, I think Ursula answered that really well as well. As for the exposure to export, I don't mean to put you in the spot, just because there's a lot of talk about this going on.

Rafael Arana *Grupo Financiero Banorte SAB de CV - CFO/COO*

Okay, thank you. We made an exercise and we'll review all the customers where we have an exposure of over MXN100 million. It was a very exhaustive exercise. Aside from a couple of clients that we have identified, we don't have dollar exposure significant to the exporters or importers of merchandises. So, we have our [big] check and there is no major threat in our balance. I'd say probably there is none, but we have a very well identified customer that can have some exposure, which [are at least once].

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

Less than 7% of the total loan book, which (inaudible). As Gabriel mentioned, of those 7%, less than 2% are the ones that we think that have to be monitored a little bit closely. Everything else is a natural hedge on the dollar base?

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

If I may add, this is Gabriel Casillas. If I may ask you Carlos you remember also that even either the US or Mexico abandons [NAP] that it's not the best case scenario. Even if that happens, it will be six months with the normal rules and then afterwards, then WTO rules will kick in. Those tariffs over WTO rules are very low. Non-agricultural goods, the average tariff is around between 3.5% and 5%. So [that was that depreciation] that the Mexican peso has already experienced. It is pretty much within even evaluating both as the border adjustment tax with depreciation of the peso I think everything has done well, but as (inaudible) mentioned, of course we are closely monitoring.

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Mario Pierry, Bank of America Merrill Lynch.

Mario Pierry Bank of America Merrill Lynch - Analyst

I only have one question, it seems to us now that the sale of the US operations is imminent. You already are very well capitalized. I was just trying to wonder what could be some possible uses of the proceeds especially considering right, you are in a very healthy position right now, very well capitalized, I would imagine that some of the banks or some peers in Mexico, they are wholesale-funded, they are not doing as well as you are. So I also wanted to hear your appetite for acquisitions in case if anything appears?

Marcos Ramirez Grupo Financiero Banorte SAB de CV - Group CEO

You are right Mario, we still don't have the -- first, we need to sell it in order to -- we need the kitchen to -- but, maybe we can -- yes, you are right. We are very strong and maybe we will give more dividends, but it's in there, we still don't know. Let's wait. As soon as we know how everything evolves, we will go with the market and we will stay. It is going to be very easy to understand what we are doing and why and people moving on business.

Rafael Arana Grupo Financiero Banorte SAB de CV - CFO/COO

As Marcos said, Mario, the policy will stay at 40% and remainder that will be given as extraordinary dividend to the market.

Mario Pierry Bank of America Merrill Lynch - Analyst

You would not consider acquisitions?

Rafael Arana Grupo Financiero Banorte SAB de CV - CFO/COO

Not at all.

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Marcello Telles, Credit Suisse.

Marcello Telles Credit Suisse - Analyst

I have two questions. The first one is more specific and I think will help reconcile kind of the overall impact of the market volatility right on your book. The MXN767 million loss related to Urbi renegotiation, was that pre-tax or post-tax? And related to that same question, I want to run some of the math that I've done here just to -- which leads me to believe that the impact of market volatility was indeed very small for you.

When you look in terms of the change in your available for sale valuation right and the hedge and excluding Urbi renegotiation, it seems that happened to some of your peers as well, it seems that you had probably like a pre-tax loss of roughly MXN1.8 billion, right, and you made some MXN439 million or MXN460 million in trading in the P&L.

So overall, it looks like that your loss was MXN1.3 billion pre-tax, which would give like only like 0.7% of your stockholders' equity. Does that math sound right and it looks like it reinforces your point that you actually did not suffer much from the rate hikes right given the small impact on your equity. So, if you

could just elaborate a little bit more on that will be great?

And the other question is regarding your guidance for 2017, just to understand the comparison base of 2016 to calculate your guidance, are you including INB or excluding INB on a pro forma basis or it is pretty much how you reported 2016? Thank you.

Rafael Arana *Grupo Financiero Banorte SAB de CV - CFO/COO*

Hi, Marcelo. Thank you. I would start with the easy one, which is the third one. In the guidance of the year 2017, we took away already the INB. We want to compare apples to apples and that's why we decided to play without the INB. If something happens and INB is back, we will talk to you, but in our head at least and in the numbers it's like a done deal and let's see what happens regarding the budget. And now I would turn the microphone to Mr. Arana, the first on market volatility and the market (inaudible).

Rafael Arana *Grupo Financiero Banorte SAB de CV - CFO/COO*

Yes, Marcello, good morning. Let me guide you to the trading results in November that are the ones that are really causing some concerns about because that's when the market hikes happened. If you look at the trading results for the bank, what really was the loss concerned the trading -- the trading book was MXN125 million as you mentioned before. So the net results for the trading was MXN87 million, a loss, okay? When you go to the -- exactly as you mentioned, when you go to the part of the book which says valuation of the titles that we have available for sales, you have a [minus value of MXN1.038 billion] there, okay? So, the effect that you have really on the results for November that on the capital -- against the capital, because of valuation of the titles that were available for sales was MXN1.2 billion, okay, and that's the accumulation for the year, but after month of that November that it's really when the numbers moved because of this was MXN1.2 billion that is against available for sales on the capital numbers.

Marcello Telles *Credit Suisse - Analyst*

So indeed your -- like you had very little exposure to the higher rate environment, I think supports very much your argument on that, excellent. And just one additional question, if I may, regarding -- there's a lot of debate about like the consumer story in Mexico and how that could be derailed by the increase in inflation. In your case, especially look at your guidance of still healthy loan growth, how do you think the consumer book will play out? And have you seen any slowdown now at the beginning of the year, I mean at least looking at the month of January, how are you seeing like the consumer lending demand, so far? Thank you.

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

No, Marcello, we continue to see good growth in the book. To be honest, we are facing a pretty strong month of January not only on the consumer growth, on the corporate and the commercial. So, no, I think the country, it's moving, it's working, it's -- and the size and length and the depth of the supply chains that Mexico has are very healthy. Nobody is really being aggressive on the new projects, but the already existing ones are fully in motion.

And if you look at the numbers of the consumer for the last two months continue to be strong. I'm not saying that this is going to be a [story] this is going to be a lot of concerns, but I think you will see that there is reasonable health on the consumer up to today and we monitor this on a daily basis. We talk every single day with the guys, with the collections department to see if they see any rise in restructuring or any promises not comply.

So we are following these on a daily basis, that's why we are -- the new origination concentrating basically on pre-authorized loans. So not everything related to what you mentioned (inaudible) and all those mark-to-market valuations are in the MXN1.2 billion that I mentioned before. So, we are very, very vigilant. I think we have all the metrics and monitors and systems to see any problems when they arise, the commercial guys, the corporate guys are in continuous communications with the client.

So I think we are in a very vigilant mode, but at the same time we are very confident of what we have seen in the market up to today. It's not that is -- as I mentioned before, that's why we are not giving you 14%, 16% loan growth, we are giving you a 10% loan growth, but a very healthy growth for this year.

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

Just let me add real quick, Marcello on the consumer growth. One important thing here is to highlight is that with [respect to capital crisis] indeed increased significantly, however inflation is currently [around 4.4%]. Remember that even though in the past three years, we lead with inflation below the target of the Central Bank. Remember from 2004 to 2014, in Mexico we live with inflation rates was between 4.5% and 6.5%. So, this is not a very bad scenario. We have experienced that and at the end, the consumer really -- adjusting regarding prices that unfortunately they have much more to spend and they continue to do well so far.

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

Marcello, let me emphasize again that we didn't move positions, the authority gave us a special permit to move positions and we say no. The trading, we lost a little bit of money there as you saw it in November -- on November and in the ALCO, if you see the other part of the balance sheet, we're making [normal] income that we really one that we are looking in over here -- in here. So as I said, we are prepared for increasing rates. In all the boxes, we will make money if that of course. So, we are very happy in our position and it wasn't the case I think for our competitors and let me say that out.

Rafael Arana *Grupo Financiero Banorte SAB de CV - CFO/COO*

Yes, we will send Marcello and to as well public information that is provided by the [team. When you see that movement on available for sale and mark-to-market and valuation results for November, not just for us, but because it's public information for the system, and you will see that we were extremely conservative as Marcos mentioned (inaudible) we were not more moving positions for available for sale to hold to maturity or anything else. We speak with -- we lost market value with mark-to-market and we registered the loss in November, but we recovered by far that in December. And January, with inflation related trends that we have that's already in the right path, but Ursula will be very kind to provide that information to you.

Marcello Telles *Credit Suisse - Analyst*

I appreciate, that's very reassuring.

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Moving on we will go to Tito Labarta with Deutsche Bank.

Tito Labarta *Deutsche Bank. - Analyst*

Hi, good morning. Thanks for the call. Just one follow-up question in terms of your loan growth guidance. I understand that the 9% to 11%, I just want to -- but looking by segments, we look at 2017, most segments grew above 15%, it was really government lending which only grew around 4% on the years. I was wondering if you could give some more color on your loan growth guidance by segment. Does it mean a significant slowdown in all the segments or will government lending continue to be weak, I just want to get a little bit more color on the growth by segments. Thank you.

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

For this year, we are aiming commercial growing 13%, corporate growing 10%, again government only 4%. We want to do business with them, and we are doing business with them and [they don't need] much money there used to be, so only 4% and consumer, 13% which revolve that way, however the focus will be in all budget. And payroll is going to be 14%.

Rafael Arana *Grupo Financiero Banorte SAB de CV - CFO/COO*

Payroll 14%, credit card 14%, mortgages will be in the same number 14% and car loans will be a little bit shy on 11 percentile. SMEs will be -- will continue to be a pretty good story close to 12%. So we see healthy growth on the consumer, nothing extraordinary, nothing fancy but solid growth on our own client base.

Tito Labarta *Deutsche Bank. - Analyst*

Perfect, that's very helpful. Can you just repeat the SME growth, I didn't understand that one?

Rafael Arana *Grupo Financiero Banorte SAB de CV - CFO/COO*

SME is at 12%.

Tito Labarta *Deutsche Bank. - Analyst*

12%, okay, perfect thank you very much.

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Moving on, we will go to Carlos Gomez with HSBC.

Carlos Gomez *HSBC - Analyst*

Hello good morning. Two brief questions. First, you are committed to [selling] INB, so you're thinking about the structure of the group. I was wondering about the Afore business, it has grown 2%, 3% in the

last three years, as you mentioned it produces cash but is not a growing business. Is it still part of your core strategy to maintain the Afore business? And second, I would like to have an update on the IBM project and whether -- how long that is continuing and there was a cash payment that could go one way or the other, how that has been evolving? Thank you.

Marcos Ramirez Grupo Financiero Banorte SAB de CV - Group CEO

Okay the first one, INB it wasn't in the core strategy, we want to focus in Mexico as you can see we have a lot of things to do in Mexico. And Foxes for us is very important as Fernando Solis is different our [unit cost]. It's a mature business, it doesn't have any let's call it [bricks] and that's why the ROE is less. But if arguably we want to do to keep that business with us and we in the future, we will see more opportunities cross selling in that Afore and the banks and everything. So for us it's essential to have it. We are very happy with these assets. And we get it from part of our business plan. Yes

Rafael Arana Grupo Financiero Banorte SAB de CV - CFO/COO

If I may add, just remember that for if you take away the goodwill and intangible therefore it's giving you on tangible basis ROE, tangible close to 42% is a prime provider of dividend for the group in order to sustain the 40% dividend payment. And just to give you a color of what Marcos mentioned about the potential of relationship that we can develop with Afore. If we just, [attach] more than 12 million clients that Afore has, if we target 400,000 that are high value client, we will duplicate the wealthy clients that Banorte has. So just a lot of value to be extracted from Afore, is a strong provider of dividend for the group. If you choose the goodwill, is extremely good business. As Fernando mentioned, it's a mature business. But remember that we have to see Afore in conjunction also with the Pensiones business. They will cross in a quantum time when the Mexican population start to age faster than stay. That's why we are so confident with 2020 plan because we still have a lot of things to do -- room for improvement.

Carlos Macedo Goldman Sachs - Analyst

And if I may ask on Afore, when you get the authorization from the authorities as to what percentage you can increase your commission this year?

Rafael Arana Grupo Financiero Banorte SAB de CV - CFO/COO

We cannot. Actually you see in the following years for the following years is that commissions will go down not up. We know that. And we are taking care and, we did that much, we knew that. There is no change there. We are sort of resilient because we are one of the low commission players. I mean that's why it can happen. And the name of the game is not increase the rate -- commissions, the name of the game is to [assets] under management and that's talking about the -- I mentioned before we have been recently hurt because of the hike in rates but higher rates in the long term is going to be much, much better for this business [than however] so this is a short-term also problem and potential, but I think is very stable [provider] has been mentioned of cash flow. We have a lot of opportunity on synergies that have not been exploited. We not only trying to move some of clients of Afore that run a principle bank, but also on the other hand, move some clients of the bank which are huge base which are not like clients of Afore. And besides that, we can use now the sales force also to sell product for the Financial Group and that income is not that we've seen in the book of Afore but if Afore is providing income to other

business units of the bank. So I think and also I mean we are increasing investing in a lot of businesses within the country. And that give us a lot of views of how things are involve in the country. We have a lot of -- you have these businesses in each need financial products and we have also with this view, we can provide of course a lot of information within regulation to other business channel which can kind of also take samples of it. And this is the most important institutional investor of the country and increasingly we will be investing in many, many areas in bulk deals or in [nickel], so I think it's a terrific asset.

Carlos Macedo *Goldman Sachs - Analyst*

It's pretty clear.

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

Let's move to the IBM project, let me start saying that we are very, very happy and you will see in the future wise and maybe Rafael is going to giving you more color on the IBM project, the cost and benefits.

Rafael Arana *Grupo Financiero Banorte SAB de CV - CFO/COO*

The IBM [as we] mentioned is now moving into a second stage. As we commit last year, we were concerned to really roll out on the IBM, new mobile, new web platform. The onboarding has been half in all the branches. We hope to end up by the end of March. But you will see a completely different way of selling and providing content management and offers to the clients that are really based upon the potential value of the client and really, the lowest risk client that we have in order to provide and the right credit product. And it's been more and more very convenient for the client to do business with Banorte. We are on -- and we are committed with the commercial part of the bank. In the remaining of the year, we'll move most of the process in a way that the client could be on a sale-to-sales basis in a way that we can really move clients away from the branches and move everything to the mobile applications that are already -- we are already in that track and we are moving aggressively, we'll continue to move aggressively into that. In order to manage the cost, the growing part of the cost in order to -- in the security, in redundancy and things, we are moving now to the second stage of the IBM, starting in July. But we will outsource most of the operational networks and monitoring of the operational capabilities in the IP side. In order to match the security systems and the redundancy systems that IBM has all the world platforms that they have. That will allow us to reduce the cost to offload the businesses in at least 12% in the coming years.

Carlos Macedo *Goldman Sachs - Analyst*

Thank you very much.

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Moving on we will go to German Velasco with BBVA

German Velasco *BBVA - Analyst*

Hi guys, good morning, and thanks for the call. Just a quick questions with regards to the loan portfolio growth. Breaking down the business by regions, do you expect different performance over the regions, I mean specifically different performance within our against the [South or the Center]? Thank you.

Marcos Ramirez Grupo Financiero Banorte SAB de CV - Group CEO

Carlos?

Carlos Martinez Grupo Financiero Banorte SAB de CV - MD - Retail Banking

Hello German, this is Carlos Martinez here, Retail Banking. What we have been seeing in the short term is that we don't expect that, actually something have happened, talking to the people, (inaudible) in the recent past. They weren't tragic about -- [in order] that Board wasn't investing in (inaudible) fee, A, they already have problem in their manufacture and -- in the low grade manufacturing. They were starting to see problems of immigrations, and so they found that it didn't happen in the short term.

What we are seeing in the other part of the country, the connection is still working as we expect business as usual. So in the short term, we don't see that in the retail and the commercial banking. We are more concerned of inflation or in the - what didn't happen in the capability of the bank's profits that we didn't see that it is going to decrease in the short term.

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

(technical difficulty) German, some states where we're seeing less activity, mainly related to [oil] not like the case of Tabasco, or you have the case of Oaxaca where because of combination of the local economy and politics there's also been a lackluster activity but that compensates with where for example, you have in the Yucatan Peninsula, a very strong growth, driven mainly by tourism, which is clearly one of the areas where the exchange rate have benefited. Same thing when you look at the [Baja] region where there's also been a lot of activity because of tourism. And as Carlos mentioned, we continue to see in the center and the North of the country continued activity and investment that have continued to flow investments that were announced last year or two years ago. That have been -- that are in the process of being deployed.

Marcos Ramirez Grupo Financiero Banorte SAB de CV - Group CEO

And also Ursula mentioned, I think, I agree with her 100% that we have seen it in the past 24 months, [nothing new].

German Velasco BBVA - Analyst

Okay, okay. Thank you very much.

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Moving on we will go to Philip Finch with UBS. It appears that he has taken himself out of the queue. There are no further questions at this time, I'll turn it back to our presenters for any additional or closing comments.

Marcos Ramirez Grupo Financiero Banorte SAB de CV - Group CEO

Well, thank you very much and let's hope in the next quarter, we'll give you more good news and see in three months. Thank you very much.

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And that will conclude today's conference. We'd like to thank everyone for their participation. You may now disconnect.

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