4Q18 Earnings Call Transcript

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10:00 AM CT

Operator: Good morning, and welcome, everyone, to Credito Real's Fourth quarter 2018 Earnings Conference Call. Credito Real issued its quarterly report on Wednesday, February 20, 2019. If you did not receive a copy via email, please do not hesitate to contact us in Mexico City at +52-55-52-289753. It is important to note that the presentation and MP3 recording referred to in this call will be available at www.creal.mx. Before we begin the call today, I would like to remind you that the information discussed in today's call may include forward-looking statements on Credito Real's future financial performance and prospects, which are subject to risks and uncertainties. Actual results may differ materially, and the Company cautions not to rely unduly on these forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements. With us this morning from Credito Real, we have Mr. Angel Romanos, CEO and Mr. Carlos Ochoa, Deputy CEO. They will discuss on the more important strategic financial and operating aspects of the fourth quarter 2018. I would now like to turn this conference over to Mr. Romanos. You may begin.

Angel Romanos: Thank you, Operator. Good morning, everyone, and thank you all for joining us today. Once again, we are pleased to comment on our results. For the last quarter of 2018. We were able to maintain the solid pace of our consolidated loan portfolio; allowing us to surpass the growth target set at our 2018 Guidance, while maintaining sound profitability margins and a superior asset quality. Towards year-end, we attested the dissipation of most of the uncertainty surrounded year 2018 and saw a more favorable evolution in the Mexican market amid an all-time-high consumer confidence, as well as further stability in the inflation and foreign exchange rates that follows the closing of the USMCA agreement and prudent decisions taken on the 2019 federal budget. Here, I would like to emphasize that if the opinions to set a cap on bank fees, commented in November 2018, finally materialize in any initiative of law, they would not have any material effect on our results, as we do not receive any fee or commission revenue from our operations and we are not subject to any banking legislation either. Turning to our quarterly results, specially outstanding was the 25% annual growth recorded in our consolidated loan portfolio, reaching a new record-high of 36.3 billion pesos. Parallelly, our non-performing loan ratio remained way below than the average of non-banking financial institutions, going down from 2.1% to 1.7% in an annual basis. Additionally, we continued to post attractive growth rates in the bottom line. Net Income increased by 29% and 18%, for the fourth quarter and full-year 2018, respectively. Over the last twelve months, net income was 1.95 billion pesos, well above the recorded figure posted in 2017. These numbers clearly reflect our revitalized focus on organic growth and ongoing addition of high-quality assets, as we are being able to succeed in the enhancement of comprehensive origination standards. Breaking down the performance of our loan portfolio by business segment, Mexico's Payroll continued to have a solid weight on the consolidated portfolio, recording a continuous incorporation of clients with solid credit profiles through the active participation of our distributors in marketing and product development initiatives. In this sense, we expect that the sizeable unmet demand of financing services of this niche, coupled with the federal government programs oriented to promote financial inclusion and credit penetration among Mexican workers will bring accretive opportunities, thus regaining momentum in this segment and presenting very good opportunities for Credito Real. On Used Cars Mexico, loan origination remained firm this quarter, increasing 72% when compared to the same period last year. On the other hand, Used Cars USA loan origination amounted to 456 million pesos, up 64% against 2017, following the ongoing development of new operating synergies from the arising "Credito Real USA" brand. Likewise, our Small and Medium-sized Enterprises business continued keeping momentum, delivering an annual triple-digit growth rate. This growth follows the rapid and wide market acceptance of our new pure leasing product, attributed to the attractive conditions offered to our target market alongside effective promotion campaigns. Lastly, in Instacredit, the ongoing social and political unrest in Nicaragua was partially offset by the recovery trend started in Costa Rica, while we continued advancing to consolidate better operating grounds, drawing on an enhanced and flexible operation, to emulate most of the processes' capabilities that we have developed in Mexico. At this point, I want to reassure you that we are undertaking all necessary actions to mitigate the effects from the prevailing context in Nicaragua, while keep working on the preservation of our asset quality. Next in order, I would like to give broader color on the second issuance of 615 million pesos that we performed under our loan portfolio securitization program through the "Bolsa Institucional de Valores". With this transaction, we did not only move forward in our strategy to diversify the company's funding sources, but we also reached an important milestone in the consolidation of our position as an active and renowned issuer in the non-bank financial institutions sector; becoming the first Mexican company to issuing debt on this new exchange. Meanwhile, on the international markets, we successfully issued 400 million dollars of unsecured senior notes, due 2026, clear proof of our market access. The demand for these securities recorded a 2.5 times oversubscription; reflecting the trust and appetite of the global investors on Credito Real. Another development to discuss is about our stock buyback program, which, as it was announced on last quarter, started to intensify its operation, as we bought 5.0 million shares out of the 100 million dollars approved for share acquisition purposes were already used as of December 31, 2018. In this respect, and in compliance with the resolutions adopted at our last Shareholders Meeting, we executed the cancellation of 12.5 million shares acquired towards our buyback program; representing 3.2% of the Company's capital stock. For 2019, we expect to move forward with the cancellation of the repurchased stock, to gradually align the Company's mark-to-market equity valuation, which we consider completely undervalued, to our operating fundamentals, without implying any dilution effect for our shareholders. After commenting on these developments, I want to highlight the engagement of Roberto Garcia as our institutional relations officer, who has the clear mandate to set a solid channel of communication and coordination with the Mexican federal institutions, mostly with the Ministry of Finance, “Secretaría de Hacienda”, and banking watchdog, “Comisión Nacional Bancaria”, as we pursue to work hand-in-hand with the new government for the sake of financial inclusion. To conclude, our 2018 outstanding performance, alongside with the significant potential foreseen in the underserved market of banking institutions in Mexico, encourage us to advance in the successful execution of our business model and product development endeavors. Therefore, we set a 20% target of growth for our consolidated loan portfolio and a double-digit growth for net income at our 2019 Guidance. With this, I want to thank you again, and leave you with Carlos Ochoa for a more in-depth explanation of the numbers.

Carlos Ochoa: Thank you, Angel. Good morning and thank you all for be part of our quarterly conference call. During the fourth quarter 2018, interest income was 2.7 billion pesos, up 14.3% when compared to that recorded as of last quarter 2017. Meanwhile, total interest income as of December 31, 2018 amounted 10.2 billion pesos, 20.5% higher than that of 2017. This performance was primarily driven by the consistent growth in the consolidated loan portfolio throughout year. Interest expense for the fourth quarter was 692 million pesos, a 9.7% decrease in an annual basis as we recognized the interests of our Perpetual Notes as equity when the semi-annual coupon is paid, thus generating a 207 million pesos benefit in the interest expense line, as stated by the IFRS. Interest expense for the full-year 2018 amounted to 3.1 billion pesos, respectively, a 16% annual increase, which is mainly attributed to the upward adjustment in the Mexican reference rate and growth recorded in our consolidated loan portfolio. The financial margin totaled 2 billion pesos over the quarter, an annual increase of 25.5%. For the full-year 2018, it reached 7.1 billion pesos, expanded by 22.7%, or 1.3 billion pesos when compared to the 5.8 billion pesos recorded in 2017. Allowance for loan losses reached 453 million pesos during the fourth quarter 2018, 15.6% higher than the figure recorded in the same period last year. Furthermore, the cost of risk stood steady at 5.0% for the 4Q18 and for the full-year of 2018. On the other hand, administrative expenses for the quarter and year ended December 31, 2018 totaled 779 million pesos and 3.5 billion pesos, respectively, recording an annual decrease of 22% and 1.9% increase, respectively. Mainly derived from the decrease in administrative expenses in Central America and United States, which offset the increases in Mexico's expenses that went up in line with our larger volume of operations. Net income increased almost 30% year-over-year during the fourth quarter of 2018, reaching 568 million pesos, boosted by a larger portfolio. Accumulated net income as of December 31 totaled 2 billion pesos, increasing 17.7% versus the 1.7 billion pesos registered in 2017, also driven by portfolio growth. Turning to our key financial ratios, at the year-end, net interest margin stood at 22.9%, from 23.4% in 2017. Return on Average Equity was 14.6%, 10 basis points above than that recorded at the end of fourth quarter 2017. However, when excluding the Perpetual Notes, Return on Average Equity at quarter-end was 20%, 240 basis points higher than that recorded in the same period last year. Return on Average Assets stood at 4.7%, compared to the 4.5% recorded in the fourth quarter last year. The Capitalization Ratio decreased from 50.9% at the end of 2017 to 43.5% as of December 31, 2018. The funding cost expanded by 30 basis points, from 11.7% at year-end 2017 to 12.0% as of December 31, 2018, reflecting the environment of rising interest rates that prevailed in the domestic and international markets, which we strived to partially offset towards our funding sources diversification strategy. Regarding our consolidated loan portfolio, it increased by 25.2% as of quarter-end, reaching 36.3 billion pesos, as we continued to tap into the vibrant performance of our Mexico´s Payroll segment, while, at the same time, we were able to achieve outstanding growth in Used Cars Business in Mexico and the SMEs this quarter. The payroll portfolio totaled almost 25 billion pesos, increasing 28.5% in an annual basis, fueled by the operation of our three main distributors, Kondinero, Credito Maestro and Publiseg. Meanwhile, the SMEs portfolio increased 110% in an annual basis, amounting to 3.7 billion pesos. This strong growth is largely attributed to the commercial success of our leasing product, which in turn led to a greater participation of this segment in the consolidated loan portfolio, from 6% in

2017 to 10.1% as of December 31, 2018. As for the Used Cars portfolio, it totaled 2.9 billion pesos, registering an annual growth of 8.6%, largely supported by the operations in Mexico while in the United States we continued progressing in the enhancement of our business structure through the consolidation of Credito Real USA brand. Separately, Instacredit portfolio registered an annual decrease of 3.3%, reaching 4.5 billion pesos, impacted by the situation in Nicaragua, which was partially offset by the recovery in Costa Rica. Lastly, our consolidated non-performing loan ratio maintained its downward trend, decreasing 40 basis points from the 2.1% at the fourth quarter 2017 to 1.7% this quarter, in consistency with our solid origination standards, cutting-edge collection procedures and strong focus on pensioners in the Mexico Payroll segment. As of December 31, total assets increased 17.3% in an annual basis, amounting to 49.6 billion pesos, mainly explained by a larger consolidated loan portfolio and resources raised from debt placements conducted over the year. The Company's outstanding debt as of year-end totaled 30.6 billion pesos, 29.9% higher than the 23.6 billion pesos recorded in 2017, mainly reflecting the CHF Bonds placement of the first quarter and the second issuance under our loan portfolio securitization program over the fourth quarter. Finally, Stockholders' equity reached 15.8 billion pesos in the fourth quarter 2018, representing a 7.0% annual increase. With this, I conclude my remarks. Now let me turn back the call to the Operator to open the line for Q&A.

Operator: Thank you very much. Ladies and gentlemen, at this time we would like to open the floor for questions. To ask a question, please press *1 on your telephone keypad at this time. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that is *1 to ask a question. Our first question will come from Carlos Rivera, Barclays.

Carlos Rivera: Hi and good morning everyone, thanks for the opportunity to ask questions. My first question is regarding all the accounting changes, so I just want to make sure I understood correctly. So basically, for the fee income, you adjusted in this quarter for a full-year? And for the interest expense you are adjusting retroactively for half of the year and reflecting the fourth quarter the correct number under the new methodology, so basically this quarter has a lot of distortions and the previous quarters are not a good base either, but the full-year 2018 figures are a good way to project, and would you agree with these that as a result of the changes we should expect a lower interest income, lower fee income but higher NII and NIM, is this interpretation correct? Then I will ask my second question after.

Carlos Ochoa: Yes, the only changes that we made for this quarter was the reclassification of the interest paid for the perpetual bond during the first half of the year, on the other hand, as for the second half, It was already recognized during the second half of the year so there is not going to be any effect for that one. As for the income, yes you are right, because you know, the auditor requested us to change the commissions charged only in Instacredit, which are the only place where we charge commissions, and basically that was the only change that we made, and that is what explains the reduction in the commissions charged in the quarter compared to the last years and yes, there is a possible effect over the total income if you want to see it that way.

Carlos Rivera: Ok, so for projection, the best way to look at this would be just to look at the full-year of 2018 numbers, you are not going to provide PROFORMA prior quarter figures.

Carlos Ochoa: No, these are going to be the only changes that are going to be affected are those that we are disclosing this quarter.

Carlos Rivera: Ok thanks. And my second question is regarding the SMEs business, this quarter was the one where you had the most originations, so you could comment a little bit about what are the opportunities that you see there, what are the risks, and understand a little bit about the rationale of growing faster there over payroll loans in Mexico, which are pretty attractive not only from the interest rate perspective since payroll is very attractive and also with lower NPL, any little color on the decision to grow faster there, what percentage of the portfolio you would like to achieve in SMEs, that would be great, thank you.

Angel Romanos: Hi Carlos, we expect to keep growing on the SMEs business mainly through our leasing programs, we have been very successful with it, last two quarters were growing very fast with a very good portfolio performance, so we expect that to keep growing at a double digit rate this year, we expect to originate around 3,000 million pesos for the year, from 1.8 billion that we originated this year so that is almost an 80% increase, and we expect that to start becoming a more important part of the whole portfolio as the amount lended in this program are much larger than the payroll business loans.

Carlos Ochoa: You know Carlos, there is also another thing important to mention in that one, if you look at the way that the SMEs product has had in the past as a percentage of the group, at some point it reached the 10% or something, so basically what I am saying is that this is a product that we know, our origination standard continues to be those that we used in the past, and basically there is an enormous opportunity and that its why we are trying to grow on these years and the years to come.

Carlos Rivera: Ok, if you compare the profitability let's say ROA or ROE of both products, what would those metrics look like, I see the argument for volume growth on SMEs, but on profitability is not so clear to me.

Angel Romanos: It has been a profitable business for us with ROA´s around 4.5% which is in line with the whole Company. And as Carlos just mentioned, the opportunity is very large, mainly with the government pushing for financial inclusion of SMEs and we are trying to find a space there to be part of this growth in inclusion working together with the authorities in Mexico, and with the government banks that do not have the infrastructure to go to the end consumer and they can use us to do that, as is a profitable product and we expect it to remain that way.

Carlos Ochoa: And probably to add on that one as well, is that, you told it was mentioned that there are no risks of interest rate caps on that product so if you think in those terms on of the concerns that we live on the frequently not only here in Mexico but outside mostly is the risk of interest rate caps specially for the payroll business, so having these products which would not be subject to interest rate caps on one hand and on the other hand with a much shorter tenure and finally something that you can reprise easily, that would definitely help us in terms of the profitability for the business, that is how we are seeing it.

Carlos Rivera: Ok, understood, thanks.

Operator: Thank you very much, our next question will come from John Hannugh, Morgan Stanley.

John Hannugh: Good Morning, Angel and Carlos, thank you again for the call. I only want to touch base about is the origination of the payrolls segment, just maybe you could give some, I know you explained on the summary of your operations table, the origination on the payroll segment kind of went down year over year and when you look it on the sequential order is down as well, I just want to get a little more color there to what is going on.

Carlos Ochoa: Yeah, basically the thing about the last quarter is that you have the Christmas break, there is a seasonality in that regard, I mean, with all the features and basically all the payroll customers who are not pensioners so that does not have you march in terms of the origination, and also is worth mentioning that if you look at the growth rate I mean we are coming from a growth rate In the payroll business from 3Q18, so there is decline also in the origination, so that could be the explanation in both cases.

John Hannugh: Ok, do you have any thoughts on/with the new administration and some thoughts on the potential outlook there, do you expect any changes on the outlook there for the origination in 2019 or do you expect any sort of regulatory changes?

Angel Romanos: Well, as the President mentioned the last time he talked about regulation in the financial institutions, he mentioned that there will not be any changes either in regulation or interest rates for the first 3 years of his government, so we feel confident that at least in the next 3 years we wil not see any significant changes in the way we operate and the way Mexican market is regulated

John Hannugh: Ok, thank you Angel, thank you Carlos.

Carlos Ochoa: Thank you John.

Operator: Again, to ask a question you may press *1 on your telephone keypad now. Our next question will come from Marcelo Herz, Invex.

Marcelo Herz: Yes, congratulations on the results, your loan portfolio has gravitated more towards Mexico, despite the fact you have the goal of having a 50% of the portfolio in Mexico and the other 50% outside of Mexico. My question is, is that strategy still in place? particularly with the rapid growth you are having in Mexico.

Angel Romanos: Yes, that strategy is still in place and we are concentrating a lot our efforts on dollarized economies, which will become a natural hedge for our funding outside of Mexico, where everyday it becomes more important for us to grow outside of Mexico, specially on the US or places like Panama with dollarized economies, but that strategy is still in place and we are very careful following it.

Marcelo Herz: Another question that I have is that if you maybe can describe more specifically the opportunities that may come with the AMLO´s administration objective of increasing financial inclusion and credit penetration. Are you seeing more opportunities to increase the loan portfolio on the payroll side or maybe are you seeing opportunities in creating new products? I know you spoke about the SMEs, are there any other potential credit products you think there might be any opportunity coming up for Credito Real?

Angel Romanos: Yes, the biggest opportunity we see is that development banks in Mexico will fight for financial inclusion and they do not have the infrastructure to go to the end consumer, so they will use companies like Credito Real to get the money to the lower side of the population and to the underserved market so we really do not see any new products, but it will be on SMEs, payrolls and all of our products, and we will be working hand in hand with development banks in Mexico to be able to penetrate more on the Market, that would be the best opportunity for us in that sense.

Marcelo Herz: Ok, thank you.

Operator: Thank you, our next question will come from Roberto Garcia, Barclays.

Roberto Garcia: Given that the share of the payroll portfolio that comes from pensioners continues to grow, is it fair to assume that the yield might continue to slide downwards this year?

Carlos Ochoa: Look, in that sense it could be the case, and actually that could be partially the explanation for the decrease in the yield this quarter, however I would say that that is not beyond the explanation for that one, in order to mitigate the decrease or the negative effect or the concentration of the pensioners in the payroll, we could and that is actually what we are going to do, we are going to enhance the origination in Central America which are our products with the largest yields, so basically the explanation for the lower yields are the combination of 1) the decrease of the weight of the Instacredit products and 2) the concentration with the pensioners. However, is also mentioned if you look at the NPL's trend they continue to decline quarter-to-quarter, and that is also helped by the pensioners, so there are positives and negatives on that one, but we believe that the yield in the future will continue the same trends that we observed in the 2018.

Roberto Garcia: Ok, thank you very much.

Carlos Ochoa: Thank you Roberto.

Operator: Thank you, our next question will come from Ernesto Gabilondo, Bank of America Merryl Lynch.

Ernesto Gabilondo: Hi good morning, Angel and Carlos, thanks for the opportunity and congrats on your results, I think they were great results even taking out the non-recurring effects of the quarter. So three follow up questions from my side, the first one is on your cost of funding, so I believe that is 12.0% in fourth quarter, so is it reasonable to expect an increase of around 50 basis points by recognizing the issuance of the recent notes and that you have been prepaying former notes that were issued at a lower cost?, and then on my second question is on your non credit related revenues, so we saw higher commissions paid for this recent debt issuances and we saw a trading lost due to hedge in derivatives, so I believe those were somewhat of the happenings in the quarter but should be normalized in this year so would you continue to see net income around 100 and 120 millions per quarter and positive other income? And finally, my last question is related to the competition we have seen the new government with Banco del Bienestar looking to offer microcredit loans, "tandas", charging no interest rate, while the increased presence of private banks moving to the sector through social programs and digital channels, so how do you feel about this increased competition in the sector?, and how do you see the level of your interest rates if we see the government or private banks offering lower interest rates? Thank you.

Carlos Ochoa: Hi Ernesto, let me address your last question first, I mean regarding the competition, yes, what is worth mentioning is that we have been in this business and that we know this segments of the population, the low income segments, we know what they value and basically what they value is service, and we are in a very good position to provide them with this service, given that we have the largest (inaudible) over the country and something like that, but that does not come over night, I mean, it has taken us over 20 years to build up this structure and is not going to come so easily for the new administration, for the Banco del Bienestar, that is not going to come easily for them, to build up all these capacities, on the other hand, if you think about the potential market, I mean for example, they have announced the recently disclosed with Banco del Bienestar they say they are going to grant, I think it is a million loans without interest, but I would say that that is only, let's leave aside, the headline part of the story, If you think about the population, the total market, one million is not going to help them much, and on the other hand, if there is something that we have learned over the years in terms of microlending is that in order for them to reach a much larger universe, they have to be sustainable and that is not something you can do with low very interest loans so in that sense, we have acknowledged that there is going to be a competition but is going to take a few a years in order to see that, and I think we are very well positioned in order to cope with this new competition, I do not know if that answers your question.

Ernesto Gabilondo: Yes, yes, thank you, and how about Private Banks also moving into the sector with the social programs, with digital channels? I believe your interest rate is around 50% which I think is not so high if you compare it to other microlenders at around 80 or 90%, or even to a payroll loan from the bank which could be at around 35%, so how do you feel about the interest rate?, and if you have this pressure coming from competition, if you will be able to be lowering your rate.

Carlos Ochoa: I mean, two things about that one, first in these segments, you do not compete with interest rates, the way to compete in these segments is with service, so if you can recall about the the Bansefi program a few years back, if you think about the results, they got with a much lower interest rate than ours, I mean, the result was not as they expected, so that is on the one hand, on the other hand, something which is very important to mention, if you look at the growth rate that business has experienced, that Credito Real has experienced over the past years, is about 30% for the past 8 years, we have been growing consistently about 30% or something like that. Those costumers, a lot of those costumers, we took them from the banks, so meaning they have been trying to access our market for many years now, and we have a solid position based on our competitive strengths and I think that we can continue to explode those ones in the future. And you know finally, we are excited about this situation, about the new situation in the country because struggling for financial inclusion definitely is going to open new opportunities for our business, as long as there is people outside willing to pay interest rates, in order to improve their life standard, I think that is the opportunity that we are seeing right now

Ernesto Gabilondo: All right Carlos, and what about the first two questions?

Carlos Ochoa: Ok ok, I will answer the first one, the cost of fund and then you can recall me the second one, when it comes to the cost of fund probably there is going to be an increase probably, we are estimating the range that you mentioned, 50 more basis or something like that. But there is two things about this one, first one, our main source of fund is the collection itself, so basically something to bear in mind which Is very important is that we can grow the Group, we can grow probably not for 25% but we could grow around 8 or 10% only with the collections that we generate, secondly, if you think about what we passed over the 4 last years, we have started, we have seen an unprecedented increase in the cost of fund, so what I am trying to describe you as that we believe that we are in a good position to continue to cope with interest rate standards as long as we continue to make improvements in the efficiencies, cutting expenses and everything, as long as we continue to make improvements in our most profitable businesses like Costa Rica along business in the US, that could definitely help us with the cost of fund, but yes probably, at the end of the year is going to be something around 12.5% or something like that.

Ernesto Gabilondo: Perfect thank you Carlos, so my second question was related on your noncredit related revenues, so we saw these higher commissions paid for the recent debt issuance, and we saw the trading loss due to hedging derivatives in other income, I believe those were one offs to happen in the quarter but should be normalized this year, so I remember you were like guiding to see income between 100 and 120 million pesos per quarter and is difficult to forecast the other income but at least I think it would be positive, do we agree?

Carlos Ochoa: Yes, definitely you have two main sources of other income, of income other than interest expenses, so basically on the one hand you have the commissions charged, that does were mostly Instacredit commissions and the Resuelve business and that is the reclassifications that we saw for the fourth quarter, but normally for that line, we expect for the Resuelve business to generate something around the 150 million per quarter, that is normally how it should stand, 140 or 150 million per quarter and the other important element, in the other income from operations line, which are mostly late charges or collection from charges account, I think is comfortable for that to amount around 100 or 120 million, hard to predict again, because as you might know, late charges basically is an expectation of the collection that is the first thing you negotiate, and on the other hand the collection of the charges account comes mostly from Instacredit and from the business in the US, so it would be first to state around 100 and 120 million per quarter in that line and we would be feeling comfortable.

Ernesto Gabilondo: Very helpful, thank you very much Carlos.

Carlos Ochoa: Thank you, Ernesto.

Operator: Thank you very much, our next question will come from Natalia Corfield, JP Morgan.

Natalia Corfield: Good morning all, thank you for taking my question. My first question is with regard to adjustments that you made in commissions and fees, is it possible to explain how much exactly it impacted for two? because I am in doubt about the numbers that you have in your press release.

Carlos Ochoa: That amounted for 142 million pesos.

Natalia Corfield: So, this refers to the accumulated number for Instacredit.

Carlos Ochoa: That is correct, accumulated commissions collected in that business for the whole year.

Natalia Corfield: And what to the 142.8 that is related to Resuelve?

Carlos Ochoa: You know that they offset, even that we reclassified a 142, this quarter for the Resuelve collected 143, so that is the amount, the difference that you see for the quarter is the net of those.

Natalia Corfield: Ok, all right, and, also you mentioned SMEs that they have shorter (inaudible 42:28), can you explain which is the (inaudible 42:32) for SMEs business?

Carlos Ochoa: We have 2 kinds of products for the SMEs, the one that we have been doing in the past, you know which it mostly for working capital, normally the duration for those loans ranges from, I do not know, 6 months on the average is the duration of those loans, cause they are for working capital purposes, and then you have the other line, which are what Angel was mentioning earlier, which is the leasing business which is growing steadily over the last couple of quarters and the duration over there can be 36 months or something like that on the average.

Natalia Corfield: And do you have the (inaudible) of how much of the 36 months or how much is the 6 months?

Carlos Ochoa: I would ask Renata to provide the information in that line.

Natalia Corfield: Ok, and lastly, collections in 2018, can you provide the number for us, and if you also have some estimates relative for 2019, that would be very helpful.

Carlos Ochoa: Yes, I will ask Renata to contact you with that one as well.

Natalia Corfield: All right, thank you.

Carlos Ochoa: Thank you, Natalia.

Operator: Thank you very much, once again ladies and gentlemen, to ask a question you may press *1 on your telephone keypad at this time. Our next question will come from Nick Dimitrov, Morgan Stanley Investment Management.

Nick Dimitrov: Hi there, thank you for the call. I have two short questions, so the first one is going to be on your 2019 outlook, you already mentioned that your loan growth is going to be about 20% and that there is going to be double digit net income growth, but if you can give us some comments about your outlook on asset quality and cost of risk, as well as funding, not so much in terms of cost of funding but your plans about funding in 2019, since you already did a senior secured bond earlier in the year, so that is going to be my first question.

Carlos Ochoa: Yeah, in terms of the cost of risk, we would expect to stay steady as it is, if you look at the figures we saw during 2018 normally that range is from the 5.2 to the 5.5%, I would say that is going to be around the 5%, you know, the most difficult part is when it comes to the NPL as a whole where with the Nicaragua situation, the thing is that our exposure there is less than 25 million dollars, as of today, and on the other hand if you look at the growth rates that we have been experiencing within the whole book, I would expect the cost of risk should stay steady around 5% and net of the other income of operation is going to be probably around 4.5%.

Nick Dimitrov: Got it ok and then my question is going to be, is it possible to give us the amount of intangibles and goodwill as well?

Carlos Ochoa: Yeah, is 4.2 billion that is basically roughly, and you can see that one if you go to the balance sheet, we saw that one on the debt insurance cost intangibles and other that amounted for 4.8 billion and for that 4.3 billion mostly come from intangibles and goodwill.

Nick Dimitrov: Intangibles and goodwill, ok, Thank you gentlemen.

Carlos Ochoa: Thank you, Nick.

Operator: Thank you, our next question will come from Rodrigo Ortega, BBVA.

Rodrigo Ortega: Hi good morning, Carlos, Angel, thank you for taking our questions. Just a quick one regarding your efficiency (inaudible 46:38) for next years, in previous calls you have mentioned the (inaudible 46:41) opex of around 800 to 850 million per quarter, should this be our assumption going forward or the lower expenses seen this quarter should be considered the new normal?

Carlos Ochoa: I would say that you know one of the offset in the non-recurrent that we see in the total in the net income thus 447 billion is that the efficiency if you want to look in terms of the efficiency rate is going to be around the 42 to 45%, mostly, we feel comfortable with the 45% range.

Rodrigo Ortega: Right, thank you.

Operator: Once again, to ask a question, please press *1 on your telephone keypad at this time. Once again is *1 to ask a question. Thank you very much. With no questions in queue, the question and answer session is concluded. Thank you all for being in today conference call, now you may disconnect.

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