1Q20 Earnings Call Transcript

April 23rd, 2020

10:00 AM CT

Operator: The following teleconference is recorded for Crédito Real on Thursday, April 23rd, 2020 beginning at 10:00 AM CT. Good morning, and welcome, everyone, to Crédito Real's First Quarter 2020 Earnings Conference Call. Crédito Real issued its quarterly report on Wednesday, April 22nd, 2020. 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 Crédito 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 Crédito Real we have Mr. Angel Romanos, Executive Chairman and CEO, and Mr. Carlos Ochoa, Deputy CEO. They will discuss on the more important strategic financial and operating aspects of the first quarter 2020. I would now turn the call over to Mr. Romanos.

Angel Romanos: Thank you, operator. Good morning everyone and thanks for joining us. Drawing from its resilient model and comprehensive standards, Crédito Real was able to post double digit growth rates at both its consolidated loan portfolio and credit origination, along with a record-low NPL ratio of just 1.5%, driven by the incorporation of high-quality assets during the last twelve months, despite the challenging economic backdrop amid the COVID-19 outbreak. Here, it is worth noting that the Company before the pandemic, outlined its priorities at the light of the situation; being the main one to safeguard the health and welfare of its associates and stakeholders. Consequently, most of our associates have been working remotely since March 20th, in line with the timely execution of our Business Continuity and Disaster Recovery protocols that encompass a number of well-defined initiatives to operate under unstable environments. Additionally, we have implemented different measures to protect our liquidity, capitalization and asset quality, to run a stable volume of transactions and preserve key operating measures. Now, breaking down results by business segment. In Mexico, especially noteworthy was the portfolio growth achieved at SMEs, recording an annual growth rate of 74.8%, coupled with a 40-basis point improvement in delinquency. In addition, its origination increased 50.5%, but below than the average trend of previous quarters, as we pursued the execution of a planned deceleration, that followed the implementation of stricter standards, oriented to preserve the asset quality. On existing loans of this portfolio, we started approaching clients belonging to the industries at higher risks, such as restaurants and retailers, to support them with suitable solutions, to transit through this difficult period. Likewise, Payroll's origination followed the same deceleration trend than SMEs; and, in NPL wise remained rock-solid, recording a best-in-class ratio of 1.1%; outstanding its resiliency amidst the environment. Here, it is important to note that we do not foresee that collection of this segment suffers any major downturn, as saving's measures taken by federal and state governments, where most of our clients belong, are aimed towards upper ranks, not at the unionized-level that we serve. Meanwhile, the origination drop at Used Cars Mx is explained by softer dynamics, as a result of the temporary demand shift from durable to basic consumer goods. We expect that this challenging backdrop will extent in the next 3 to 6 months, followed by a demand surge, once the environment normalizes towards the second half of the year. All in all, our loan portfolio in Mexico totaled 38 billion pesos as of March 31, 2020, climbing in a double-digit growth rate.

In relation to Credito Real USA, the expansion of our product offering in the Hispanic market to our businesses in the United States, especially in the promotion of cross selling products, propelled an 165% annual increase at its total portfolio, which amounted to 5.4 billion pesos. Shedding some color on the USA environment, we foresee that the economic package of Trump's Administration to face the COVID-19 crisis will contribute to offset negative impacts among our target market. Last but not least, in Instacredit, the loan portfolio increased 33.5%, to 6 billion pesos, explained by a more stable economic environment in the countries where we operate, which was translated into a 21.8% year-over-year hike in origination of new loans. It is relevant to underscore that Central American governments have been stricter to contain the pandemic, adopting actions that embraces borders and air traffic closures, in addition to lockdown measures. In this context, as some of our branches have been closed, in line with local authorities' mandates, we have reached agreements with minimarkets and pharmacies to move forward with our collection processes, where we not foresee any major impact, at the time being. Wrapping up, our international businesses represent almost a 25% of the Total Portfolio, allowing us to sustain a highly diversified operation. Before these developments and striving to further fortify our liquid assets and capitalization, we have opted to delay the dividend payment scheduled for the second quarter, towards the second half of the year. And temporarily ceased the activities of the stock buyback program. These actions, together with our current cash balance of over 1.9 billion pesos and resilient cash flow generation, will provide the strength required to face the economic slowdown and fully tap the arising opportunities as soon as the environment normalizes. Separately, it is important to bring forth into the analysis the protection provided by our hedging instruments, such as FX and interest rates swaps, which have resulted in a significant mark-to-market fair valuation gain, against the revaluation of the foreign-denominated debt. Additionally, we feel confident to successfully roll-over the maturities scheduled for this year, encouraged by the positive feedback of both bondholders and credit ratings' agencies, which are positive on our asset quality and resilient operation, which is widely supported by solid guarantees and collaterals, coupled with an agile access to local and international markets, that was clearly shown over the quarter with the subscription of a US 110 million syndicated loan and a Pesos 1 billion rise in the credit line established with Banorte. Before ending my participation, in Guidance wise, we are closely monitoring the development of the contingency and its impact to our operations. Therefore, we are still compiling all due elements to update our estimates, but as soon as we get a clear vision, we will let you know, in a timely manner, our prospects for the rest of year. Finally, I would like to express my gratitude to our customers, partners, associates and shareholders, whose invaluable support greatly encourage us to overcome the headwinds. With this now, I would hand the call over to Carlos so he can explain the numbers in a more friendly fashioned. Thank you very much.

Carlos Ochoa: Thank you, Angel and good morning and thank you all. Kicking off with the P&L, interest income for first quarter 2020 decreased 4.9% or 138 million pesos year-over-year, to 2.7 billion pesos, largely attributed to a softer start of the year in our payroll business, a planned deceleration in the origination growth rate in the SMEs and a more conservative approach on credit granting procedures, to adequately overcome the arising challenge. Interest expense amounted to 1 billion pesos, increasing 1.3% year-over-year, including a non-recurring charge of 64 million pesos, derived from a derivative unwinding of a 110-million-dollar credit facility. Adjusting for this item, interest expense dropped 4.7%, mainly driven by a more supportive interest rate environment and additional debt arranged under more favorable terms, since the second half of 2019. Therefore, financial margin stood at 1.6 billion pesos, decreasing 8.6% or 152 million pesos when compared to that of the first quarter of 2019.

Net provision for loan losses totaled 460 million pesos, increasing 123 million pesos or 36.4% year-over-year, primarily reflecting the additional allowances established in advance to the potential effects of COVID-19. Consequently, the coverage ratio improved to 219.1%, from 207.9% in the 1Q19. Moreover, the cost of risk stood at 3.7% versus 3.5% in the 1Q19, reflecting an effective risk management and control practices. Administrative and promotion expenses dropped 9.6% or 82 million pesos on an annual basis, to 773 million pesos, explained by higher savings achieved in Mexico and Central America, plus lower expenses from the divestiture of Resuelve; as part of our efforts oriented to preserve cash flow generation. All-in-all, net income reached 305 million pesos, on a normalized basis, net Income registered 350 million pesos compared to the 470 million in 1Q19, as over both periods we recorded non-recurring effects from derivatives unwinding from the settlement of our debt. In this regard, our bottom line softly reflects the COVID-19's effects on overall origination activity and risk related strategies to cope with current global situation, coupled with a softer economic dynamism in Mexico, which was partially offset by lower financing costs and generation of further operational efficiencies. Return on Average Equity reached 6.9%, as of quarter-end. And, when excluding the Perpetual Notes' premium, it attained a 9.1% rate. Return on Average Assets stood at 1.8%. Capitalization Ratio stood at 38.5% as of quarter-end, compared to 41.9% in the 1Q19 a clear indication of the Company's strong capitalization. Here, it is important to mention that in all stress tests run by different credit rating agencies, we remain in an adequate financial position before the cycle. In the same line, average cost of funds solidly improved to 9.4% when compared to the 13.7% registered in the same period last year, mostly driven by the reference rate cuts performed by central banks over the last twelve months, which are expecting to continue, in line with the prevailing monetary easing policies, which are oriented to maintain economic traction before COVID-19. Therefore, we are anticipating a further favorable environment for the Company's average cost of funding, coupled with the arise of new financing opportunities that could be instrumental to capitalize the economic recovery and demand surge towards year-end. Breaking down loans' portfolios by business segments. Consolidated loan portfolio expanded 29.7% to 49.7 billion pesos, as of March 31, 2020, following the growth achieved at all segments; especially noteworthy SMEs and Payroll. Consolidated Small and Medium-sized Enterprises portfolio posted an annual growth of 98.8%, to reach 10.5 billion pesos. On Payroll, loan portfolio totaled 28.4 billion pesos, increasing 11.5%, or 2.9 billion pesos, showing a firm resiliency. In the operating metrics of this portfolio, we do not foresee a significant impact from the lowered economic activity as income stream of most clients come pretty much from labelled budgets of federal and state governments. Meanwhile, Used Cars in Mexico portfolio rose 22.3% on a year-over-year basis, amounting to 1.5 billion pesos, as a result of an incremental demand for second-hand cars over the last twelve months, despite a lowered origination during the quarter. In this portfolio, origination is expected to resent affectations over the following months, expecting recovery towards year-end. Moving into our international businesses, our portfolio in the United States increased 165.2% year-over-year reaching 5.4 billion pesos as our product offering extension into our target market continues to fuel positive results, furthermore we anticipate NPL will remain contained as a significant portion of our clients in the USA are already receiving some kind of aid from the Federal government. Lastly, Instacredit's loan portfolio amounted to 6 billion pesos, an annual increase of 33.5%, following the strategies deployed to build a wider and solid operation. In this segment, we anticipate a softened economic impact from the COVID-19, drawing upon the timely measures adopted by Central American countries to contain the outbreak; and, our obtained learning from Nicaragua in 2018, which certainly provide valuable insights to operate before these conditions. Wrapping up with the P&L, our consolidated non-performing loan ratio decreased from 1.6% in 1Q19 to 1.5% in this quarter, derived from the continuous incorporation of high-quality assets, thus providing us firm grounds of support to weather the challenges. At the light of the prevailing backdrop, it is worth noting that, according to our estimates for total loan portfolio, as long as our NPL ratio does not exceed the 5% mark, a level that we have not seen a long time ago, we will generate enough cash to continue to grow the portfolio. Moving to the balance sheet, as of the end of first quarter 2020, total assets attained 73 billion pesos, 43.5% or 22 billion pesos higher than that recorded as of March 31, 2019, as a result of the achieved growth at the consolidated portfolio and the comprehensive execution of funding and hedging activities over the last twelve months. Total debt increased 60.6% or 19 billion pesos year-over-year to, 51 billion pesos, largely reflecting the depreciation of the Mexican peso against the US dollar over the last twelve months, and the placement of our Senior Notes Due 2027 and other activities for financing conducted during 2019, alongside the subscription of a 110-million-dollar syndicated facility over the quarter. Here, it is important to mention that of the 8 billion pesos scheduled to be refinanced this year, we have achieved significant advances, while received wide support from our current base of debt holders, to take additional positions, as they are pleased with the attractiveness of our securities' risk adjusted returns, which are anchored to our solid underlying fundamentals, that Angel well-described at its yesterday's letter to shareholders. Likewise, it is important to restate that we count on solid guarantees and collaterals at all products and business segments and broad access to international markets, coupled with adequate liquidity and capitalization levels. Finally, stockholders' equity reached 19.1 billion pesos, climbing 19.3% or 3,093 million pesos on an annual basis, as a result of the already discussed factors. With this, I conclude my remarks. And now let me turn back the call to the Operator to open the line for Q&A.

Operator: Thank you. At this time, we will open the floor for questions. If you would like to ask a question, please press *1 on your telephone keypad, if you are using a speakerphone please make sure that your mute function is turned off to allow your signal to reach our equipment. Again, ladies and gentlemen, that is *1 to ask your question. First speaker line is live and please announce yourself.

Ernesto Gabilondo: Hi. Good morning, Angel and Carlos, thanks for the opportunity. My first question is on your net interest income. We saw an important decline, in the yield of all the segments of the portfolio or particularly in the payroll loans. So, what should we expect for this segment and for the net interest income in the next quarters? Then, on my second question how we should think about provision charges and cost of risk in the next quarter? Are you going to provide a grace period to your clients as some of the banks have been doing? And what could be the segment that are on the risk of the Covid-19 would it be SMEs, US Cars loans? And my last question is in your capital ratio, we are looking equity to assets, It seems to be the same ratio but when you are seeing equity to total loans it increase a little bit, why? which would should be the ratio we should be looking at? and when do you expect to issue that in the market? Thank you.

Carlos Ochoa: Angel, would you like to address that? the first part of the question? And I address the second part?

Angel Romanos: Could you repeat the first part, please?

Carlos Ochoa: Well, the first part, well let me answer that one Ernesto. First, thank you for your question. Well, what we saw during the first quarter, was a low origination, and especially in the first couple of months in the payroll business, this is explained by a couple of factors. One of them, as you look at the concentration that we have with the teachers, I mean that they barely amount something roughly, something around 35 to 40%. If you think that they are on the Christmas break and the Christmas break lasts until the first, you know first couple of weeks of the year. Well, that is something, you know, that sets a seasonality, a negative seasonality when it comes to the origination, it is something similar that happens, in the end was different with another important segment of our business which is the pensioners, the origination has been rather low in the first couple of months and that decline, you know, especially before the last part of the quarter, that decline increased so that led you know, to that decline in the income, in the income generated by that business. We would expect that for the second quarter, I mean, as long as, you know, with the lock down and measures that we are seeing, you know, the origination to all our lines of business will be declining and that is what partially explains the decline in the income, for the first quarter, and there was also a negative effect of an unhedged portion of our liabilities that probably amounts to 200 million or something like that. So basically, the combination of all this effects was that, was what affected the income generation for the first quarter and when it comes to what we expect for the second quarter and what we expect for the the segments to be more affected by the crisis. Well, clearly that has to be on the SMEs front. I mean, clearly, that has to be on the SMEs front. What we did in the first quarter, when the pandemia, when this whole situation erupted, what we did is that we mapped all our customers. and we, and basically we identified the different concentrations in the segments which are more exposed to the virus, mainly restaurants and also retailers probably and the other ones are something related to the tourism industry and we believe that the exposure that we have in these segments amounts to roughly 350, 400 something in that range or something. That is the amount in the portfolio that we have exposed to this segments that I was mentioning. We are not you know, we are not, I mean, as a rule of thumb in Crédito Real, when it comes to, actually in the framework of your question about, whether we are granting grace periods of renewed efforts at the time, what we are trying to do is to approach the customers, on you know, on a customer to customer basis is meaning that we try to solve the situation, we try to find a solution, a particular solution for every single customer. I mean, that has proven to be efficient, because what we believe is that, you know, the way we see things for example, when you look at the banks, we do not necessarily agree with the strategy performed by some of the banks in which they grant, you know. all across the board, the grace periods for all the customers. we do not agree, we do not necessarily agree with that one because we believe that you are generating a problem that you do not have and that every customer needs a particular solution. So, basically what I am trying to say is that by the finding of a particular solution to customer the customer is definitely more efficient. And finally when it comes to the capitalization, everybody is well aware that P&L all across the board are going to be affected by the crisis, you know, due to the economic slowdown in Mexico that started last year and the crisis in this time, everybody acknowledged that the P&Ls are going to be affected. So probably it is worth mentioning that it is the robustness of the Balance Sheet which will give us, you know, all the tools to cope with this situation and in that regards, that is what one of the things that we decided to do for, when this whole situation started was to protect the capitalization and those are the two reasons, that is the reason behind the decision of delaying the dividend payment and also that is the reason, you know, for stopping the buyback program to protect the capitalization. So that is basically what we are aiming to do. And in changes of capitalization, we feel comfortable with the level, with the current level. But we are closely looking at the rating agencies, how, where do the rating agents feel comfortable and so on. So basically, that is what we intend to do as long as the, risk adjusted capitalization consistent with the rating agency's methodology. We are, as long as we are within the boundaries of you know. Or, let me put it differently, as long as we are not risking our ratings, I think that the capitalization should be okay.

Angel Romanos: Carlos if you let me add something. We are doing exactly what we did in the 2008-2009 crisis. That is what Carlos explained. We are going on a one by one basis in all of our businesses that are not payroll. And, we are finding specialized solutions for every customer and then that worked out to be our strength, and we came out of the crisis much more stronger than most of our competitors, and we were able to surpass them both in portfolio and in good assets as the crisis went on. We are following exactly the same steps as we did in that crisis. The only difference with this one, is that people are working at their homes and something that I am very proud of our technology team is that they were able to put 100% of our people online working in less than 3 days.

Ernesto Gabilondo: Very detailed. Thank you very much, Carlos, Angel.

Angel Romanos: You are welcome.

Carlos Ochoa: Thank you Ernesto.

Operator: Next questioner, your line is live, please announce yourself.

Nicolas Riva: Thanks, Carlos and Angel for taking my question. Is Nicolas Riva from Bank of America. Well, I have two questions, the first one we saw the announcement from Banxico, from from the central Bank this week, to inject liquidity into the financial system. My understanding is that this directly impacts only banks, commercial banks and development banks and if they ask for loans from the central bank, etc. Do you expect some of this additional liquidity into the banks to filter down, to you, to some of the non-bank financials in the sense that you might be getting more credit from, let us say, NAFIN from the development banks as they would have more sources of liquidity from the central bank. So, it is my first question. And my second question, in terms of the bank financing. So, you have about 290 million dollars, coming due this year I understand that basically, bank loans. You mentioned in the press release that you continue to have good access to bank financing, you subscribed that loan for 110 million dollars, increased the credit line with Banorte. Can you discuss if you have seen the banks turning a bit more cautious? Specifically, in the last few weeks, with the lock down, with the economic crisis, if you are seeing them a bit more cautious to roll over, bank loans. Thanks.

Angel Romanos: Yes, to answer the first part of your question. We are working close together with the development banks, we go 1,000...1 billion pesos increase in our NAFIN line earlier this year and we are working with BANSEFI, with exBANSEFI now Banco del Bienestar to get a loan which we believe would be 1.2 billion pesos that should be coming in the next couple of weeks. So, we believe that the segment we are in and what the actual government was worried about, they like our segment, and they are going to push for banks to help us. We have not seen any liquidity problem so far, or obviously banks are being more cautious, banks are basing a lot of their decisions on what credit agencies have to say and how they see our balance sheets. But I think we are in a good position to renew most of our credit lines with the bank as the come to an end. We are not seeing this is a liquidity crisis, like it was in 2008, we are at different type of crisis so far.

Nicolas Riva: Okay, thanks very much, Angel.

Angel Romanos: Thank you.

Operator: Next questioner your line is live, please announce yourself.

Gilberto Garcia: Hi, good morning. This is Gilberto Garcia from Barclays, thank you for the call. I had a follow up in the interest income in Mexico. I understand that the lower origination is a headwind, but we were surprised by the magnitude in the declining yield. I do not know if you if there were any extraordinary items affecting that, because even comparing on a sequential basis where the mix was fairly similar in origination, levels were not as lower, there was, we saw a rather significant decrease in the interest income line, particular in Mexico. So, if you could be providing color, it would be much appreciated. Thank you.

Carlos Ochoa: Yes, definitely. I mean, it was a combination of two effects as I mentioned earlier, you know, if you look at especially if you look at the origination on the SMEs front, as of the end of the 1Q, the origination totaled to 2.7 billion pesos. So, when you compare that one to 4.1 billion, to the 4.1 billion that we originated on the SMEs business last quarter, the the last quarter of 2019. Well, that explains partially, that explains slash partially, the dropping on the income line that I was telling you know, that explains a big portion of it. When it comes to the payroll business as well. If you look also, the low origination, even that you do not receive payment from the government pages that you worked with for the first 3 months, the provision, the income provision that you generate was much lower and basically the combination of those two factors lead to a a big decline in the yield for the first quarter.

Gilberto Garcia: Okay, so there were no extraordinary items then?

Carlos Ochoa: No. Well, it was also, it was also another, there was also another thing on the unhedged portion of a liability, that amounted something for I do not know, probably something around 300 million or something like that. So that is the combination of, of all those factors.

Gilberto Garcia: Okay, thank you.

Carlos Ochoa: Thank you, Gilberto.

Operator: Next participant, your line is live, and please announce yourself.

Marcelo Herz: Good morning. Couple of questions. Marcelo Herz from Invex. The first question is regarding obviously what we are saying here in the US, we are seeing major job losses here, we also have seen a major declining in remittances to Latin America. Your customers in Credito Real USA are, you know, mainly are Hispanics. And I would imagine that at least a part of them tend to send remittances to Latin, to Central America. So given this backdrop, if you can give us some color in terms of what do you expect? The impact of job losses that we have seen in the US would be on NPL? both for Crédito Real USA and Instacredit. I mean, any color you can give us, I mean, are you expecting spike in NPLs in Instacredit and Crédito Real USA?

Carlos Ochoa: Look, hard to say at this point, I mean, it is hard to estimate how the NPL or the performance of the book is going to be affected all together. What we believe is that given the massive support that a US economy is getting either from the federal government, from the Trump administration and from the Fed itself. We, what we believe in is that this crisis is going to be V-shape in the US, and that is not something that we would expect in Mexico. And it is probably similar, you know that V-Shape, the V-Shape crisis is what we would expect in Central America as well. I mean, the Central American governments were very pragmatic from the very beginning, from the beginning of the crisis, you know, in terms of lock downs, I mean, in terms of closing their borders and so on and so forth. And I think that they would be, they are well prepared to deal with this crisis. Hard to attend how going to be the effect, what is going to be the effect on the on the different lines of business. But I think that what we could speculate, you know, what we could speculate on, it is how how long does it take to recover in the different places. If you look at the effect that we saw in the in the US business, even if the, for example, in the different, we have several businesses, lines of business over there. For example, in the case of the Used Cars business, we feel comfortable with the way that the portfolio is performing and it is also similar as to what we are seeing in the Texas-based business, I mean, it has been rather stable so far. Where we have been hit the most, and that explains the decline in the net income in the consolidated net income in the United States that we disclosed yesterday. I mean, you see, that we posted a loss in the United States of 9 million all together. It was basically attributed to the SMEs business in California, those are the segments that have been affected the most. But on the bright side of the story is that some of those customers are already getting some, you know, several government benefits. So, I do not know, I still, it is hard to say how are going to be affected, the different lines of business. We are treating them as I mentioned earlier, on a customer to customer basis, and let us see how things evolve. When it comes to the remittances, I mean, in Mexico, if you look at our customer base, none of them rely or particularly none of them rely on remittances, because you have the payroll business, and then you got to SMEs which are more larger so we would not be expecting big change in the performance of the book, due to a small or a smaller amount of remittances. And that is something similar to what we are expecting in Central America.

Marcelo Herz: Okay. Another question. This is regarding origination. You have said that most of the employees are working from home now, and question is how, what is the process of origination now? Because I would have thought that, you know, people, this a person to person type of activity, you know, to originate new loans I mean. How is the process different now? How are you doing it?

Angel Romanos: Look, we are doing most origination from a call center for the payroll business. And, It is working quite good, it is obviously going to be down from the last quarter's origination wise. But it is not as low as we thought it would be. So, we are doing fine on that one.

Marcelo Herz: And what about in Central America? I mean, how does that work out?

Angel Romanos: That one is slowing a bit on origination and we are collecting through agents like pharmacies and drug stores and people who have agreements with to collect our payments. But things are going to normalize there much faster than in Mexico because of the measures they took.

Marcelo Herz: Okay. Thank you.

Angel Romanos: Yep.

Operator: Our next question is live. Please announce yourself.

Jerome Husant: Hi, can you hear me?

Operator: Yes.

Jerome Husant: Hi. Sorry. I was not sure if I was on. My name is Jrome Husant I am calling from Banco Financia, thank you for hosting the cold. I just have a couple of questions. First one is on the new origination throughout the rest of the year. Can you give us a bit more detail? Obviously, we understand, you know, you are more cautious now and more conservative on origination and loaning will decrease. But in terms of the origination mix, do you still have a target throughout the year? What should we expect throughout the remainder of the year? For the second question I have, is regards to, is regards to provisions. What was your coverage ratio now? it is about 200%. My question is when the non-performing loans are to... Once loans actually materialize into non-performing loans, which should we expect in terms of, coverage ratio throughout of the second half of the year, are we going to see mid one hundreds? Low one hundreds? Are you comfortable with Below 100%? If you can give us a bit of more color it would be a very appreciated.

Carlos Ochoa: Angel, do you want to address the origination part?

Angel Romanos: Yes. We are concentrating our efforts on originating the most we can on the more counter cyclical businesses we are in, and that is mainly payroll. So we are working on how to originate more through the call centers I said before. We still have a bunch of sellers on the streets, but they are having a rough time finding people obviously. We are keeping our origination in line of we want to concentrate during the crisis on that. On the other businesses we are very we are being very cautious as we did in the past crisis. So, we are concentrating our efforts in lending to people that are already our customers and that are finishing paying a loan, and they need a new one. But we know how they behave. We really do not need a lot of credit analysis just to see something material has changed on them. We are being very cautious on origination.

Jerome Husant: So, we could expect, for instance, payroll origination to be more than 50% of new origination for the rest of the year.

Angel Romanos: We do not have a number yet because this is pretty new to all of us, and it is just starting to go on. But that is how it behaved in 2008 and nine, almost 50% or more of our origination went to payroll. And we would like to see that again because that is a super counter cyclical business. We feel very comfortable originating there and the collection process is fine.

Jerome Husant: Okay.

Carlos Ochoa: Now let me address your second question. I mean when you when you asked about the coverage ratio specifically. I mean, for starters, it is worth mentioning that the way we provision for the NPL is based on expected losses consistent to what the CNBV, the Mexican regulator required us. So, in that regard, if at some point stands at 219 is it does at the end of this quarter, well that is basically an input us. I mean because it is based on expected losses. Now, when we moved from above the 200% when improves about the 200% is mostly explained because of the asset quality improved somehow meaning that it stays around the 1.5% or something within that range. So as long as the, my guess at this point is that as long as the NPL remained under the 2% probably the Coverage Ratio should keep staying at around the 200% range. In any case we feel comfortable. You know, given the current circumstances, we feel comfortable that coverage ratio.

Jerome Husant: But if NPL go above, let us say 3% and you know, you are starting to see the recovery, you would be comfortable with a lower coverage ratio, right?

Carlos Ochoa: Yeah but then again, I mean, it is hard to speculate on that one because, as I mentioned it, it is a methodology, because it is going to depend on which line of business are affected the most. And that is when you have the effect on the provisioning. So, I mean, what I am trying to say that we do not have many choices in that regard.

Jerome Husant: On this racial, on the loans, do you have covenants? And could you remind us what the covenant is, the covenant level?

Carlos Ochoa: On which loan? I mean, on which facilities you?

Jerome Husant: On the (inaudible) term loans for instance.

Carlos Ochoa: Yes. I mean, in those cases you have like, I think it is a 4% NPL ratio or 5% something within that range. We are well under that one.

Jerome Husant: Okay, thank you.

Carlos Ochoa: Thank you.

Operator: Next, participant your line is live and please announce yourself.

Adrian Garcia: Hi. this is Adrian Garcia for Invesco. I have two questions. One is regarding, the amount of your portfolio that is due this year could you let us know, how much is maturing this year of your total portfolio? And if you have any sensitivities out of that amount. How much expect, maybe not be able to collect due to the crisis? And the second one is on the new origination. Are you? What sort of rates are you originating at? Are you seeing, in order to incentivice more, are you originating at lower rates? And I guess my question is, what is the average yield of your portfolio? And, if it would be affected this year? Thanks.

Carlos Ochoa: Well, I mean. Let me see if I understood you on your second question. You were asking on the rates, the interest rates that we are charging? What was the second question?

Adrian Garcia: Correct. When you provide a loan, you charge x amount of rate, right? So, my question is, do you see pressure to originate at a lower rate? To attract more customers, right? So, if you can show an indication of what is your rates or return on on your loans right now.

Carlos Ochoa: Look, I mean, definitely if you look at our cost of fund, if you look at our cost of fund which is considerably higher, for example compared to whatever the banks may have. We cannot compete with the rates that they charge. We cannot compete by rate, that is what I am saying. So, for example, if you think about how we compete in the case of payroll business. I mean in the case of the payroll business you do not compete by charging a lower rate. The way you compete in that business is by having a largest sales force. So basically, that is normally, I mean, if you look at, in all our lines of businesses, what all our customers they have in common is that they value the service the most. And that is for the way we compete and not buy lowering rates. And that is how it works in all our lines of businesses. So, we would not be expecting you know, to lower rates in order to gain a share of the market. And we have not done that in the past and we would not be doing it this time.

Adrian Garcia: Okay. And then on my first question?

Carlos Ochoa: Sorry, I forgot about the first question. What was that? Can you do that one again?

Adrian Garcia: Yeah, the amount of your portfolio, of your loan portfolio that is coming due this year.

Carlos Ochoa: Let me see. I mean do not think I have that one here with me, but I could definitely provide it to you. I have all the, you know, in terms of the amortizations and things like that. But I could provide it to you later.

Adrian Garcia: Sure. Thank you Carlos.

Carlos Ochoa: But in any case, I mean probably the way to address that question. If you look at the duration, the average duration of all our lines of businesses. You know, for example, in the case of the payroll, I mean, it is on 44 months on the average, for this year we should be collecting around 25% of the book or something like that, and that duration is similar to do what we have on the SMEs front, so long and so forth. But the exact figure I do not have it here with me, but I could definitely provide it to you.

Adrian Garcia: Alright. Thank you, Carlos.

Carlos Ochoa: Thank you.

Operator: Next participant your line live and please announce yourself.

Nick Dimitrov: Hi there. This is Nick Dimitrov calling from Morgan Stanley Investment Management. A couple of questions. You did mention, you know, the global financial crisis in 08/09 and that you kind of using the same approach that worked back then and I was wondering whether you can kind of. Could you refresh our minds in terms of how your book performed in 08/09 in terms of how high did the NPLs go? And if you have to compare it to what is happening right now, do you think that you know, we are going to see NPLs go above the level of 08/09? So, that is my first question.

Angel Romano: Go ahead, Carlos.

Carlos Ochoa: Yeah, well, I mean as I can mention at some point, I mean when it comes to the collection and. you know, managing the book in general terms, we are performing the same things that we did in those years. The big difference between now and then is that we did not have the SMEs book at the time. And what we did have at the time which was more affected by the crisis where the personal unsecured loans here in Mexico. So it is hard to compare, but if you focus on the payroll segment exclusively, the asset performs just as well. And I think that, is hard to speculate about what, you know how are things going to go here, because the difference between the two crisis is that these one was created by, uh, you know, it started as a health crisis that derived into a financial crisis but other than that, I mean, when it comes to managing the book, that is what we are trying to do at this point. I do not know if you want to add something in that one, Angel.

Angel Romanos: No, I think that is clear. We are really taking care of the assets, and we believe we can maintain the same levels we did in the 2008/2009 crisis. We are very careful with what we originate, how we originated, and you think we are good at that we have proven it in the past crisis, and we do not expect the NPLs to go way higher than they were at that time.

Nick Dimitrov: Got it, looking at the SMEs book, which is kind of your new business and that is where the growth has been. What percentage? And I do not know if you have the number yet. But in terms of what percentage of the borrowers have already approached you or you have approached them for potential renegotiation?

Angel Romanos: We have approached 100% of our customers in SMEs. And we have negotiations with 90-95% of them, and about 75% as of today will keep paying as they were.

Nick Dimitrov: Okay, okay. These are very important numbers. And you did say that, you know, you go on a case by case basis, but in general, like, if you can kind of give us an idea about the extra negotiation. Do you kind of extend the terms and continue to accrue interest? Or there is a grace period during which you do not the accrue interest? And just kind of curious how. Or maybe in certain cases, you have to repossess the asset. But then considering the whole country's is been in lock down, I do not know whether you can do anything in terms of, you know, repossess the asset, but you can release it on the other side, right?

Angel Romanos: We avoid recovering assets. I think that is the worst we can try or will do now, we prefer to get to an arrangement with a customer to make them, I do not know, for three months' pay only interest and then go on paying capital and interest, and make them do three more payments at the end. Things like that. We do not want to repossess anything unless we really have to.

Nick Dimitrov: Got it. Okay.

Angel Romanos: To get through arrangements.

Nick Dimitrov: Yeah. I mean it makes sense, it makes sense, completely agree with you. One question on the end of coverage ratio, you know that it came up earlier. But when I was looking at your 1Q earnings and, you know obviously, provision expenses increased and the explanation there is, you know, preparation for the impact of COVID-19. But then I look at your NPL coverage ratio as if Q1 compared when Q4 and its exactly the same, like, 220%. And I kind of assumed that, you know, with the increasing provision and expectation of you know, more losses going forward because COVID-19, is that the coverage ratio have strengthened. And that is not exactly what happened. So, I do not know whether you can explain this.

Carlos Ochoa: No, I mean as I mentioned earlier. You know, when it comes to the provisioning, I mean, giving that is a methodology, that is in line with the CNBV the Mexican regulator methodology. It is basically an input, that is what I am trying to say. Yes, you have to be more cautious. I mean, and definitely what I am trying to say is that I guess that the real effect of each one, especially if you look at the collection, probably the best way to see it is that if you look at the collection for the first quarter, it was, it increased compared to the first quarter of last year by a 20% or something within that range. So, the collection as of this first quarter was, still was, you know, solid. And let us see what happens on the second quarter. But yeah, I do not know, it is going to depend on, again, It is going to depend more on the NPL ratio that on the, our efforts are focusing on the on the performance of number rather than on the levels of provision though.

Nick Dimitrov: Right. And last question, those SMEs exposures that you renegotiate, and you did say that you approached pretty much all of them, but only kind of roughly 25% of them did not agree to negotiation. When you do that, do you have to set aside additional provisions or not necessarily?

Carlos Ochoa: Yeah, you are right.

Nick Dimitrov: You have it right.

Carlos Ochoa: Yes, you do have to acquit, whenever you have ever a restructure or rescheduling or something like that, you have to provision for those loans.

Nick Dimitrov: Okay, okay good. No, I just want to make sure that in certain countries, there is, you know, forbearance going on where they do not have to satisfy conditional provisions that is why I wanted to make sure that this is the case. Okay, Great. Thank you. I appreciate it.

Carlos Ochoa: Thank you, Thank you Nick. Take care.

Operator: As a reminder if you would like to ask a question, please * key followed by 1 key, *1. Next participant your line is live.

Henry Chu: Hello Angel, hello Carlos. This is Henry calling from Fidelity. My my main question is still around, why is the payroll interest down quarter on quarter by over 30%? Just how you mentioned there is, origination is one thing, but origination is it is just a covered percentage of your back book, that is one thing. And the second thing is, there is I think I have heard a seasonality, but I have not seen such seasonality in the past. So that is what' is confusing me a lot. So, I would appreciate, you walking me through why is down so much quarter on quarter on the payroll interest income. Thank you.

Carlos Ochoa: Yeah. When it comes to the seasonality, let us address the seasonality part first. I mean, if you, we have not had that seasonality before, in the last three years, we have not had that seasonality in the last 3 or 4 years due to the pensioners. If you recall correctly, if you recall, I mean we started to view about the Pensioners Book 4-5 years ago and the thing about the pensioners is that you can reach for them all year long, right? You can reach for them; you can reach for them customers all year long. So, basically what I am trying to say is that you, let me compare that, for example, with the teachers. In the case of the teachers, the extreme or the opposite, that would be kind of the opposite. In the case of the teachers and we have a major concentration with the teachers, and that was before the pensioners. I mean what happens in December, during December for the Christmas break, I mean normally the teachers to start, you know, the schools over here in Mexico, they go on Christmas holidays and let us say mid-December, and normally they last until the first week or the second week of January. What happened at the time and that is what explained the seasonality, what happens at the time was that the, was the, that you have a disbandment of the sale forces, right? Meaning that you have a huge sale forces with a concentration for 10 loans to teachers and they cannot reach them because the teachers, normally the way that we work, that they go to the schools into the workplace there. So basically, there was a disbandment, there used to be a disbandment of the sale forces and that normally lasted until January, you know, to start to start gathering all the sales force again and that led to the seasonality we are discussing. What happened this year is that first you have the seasonality with the teachers that I just mentioned, and then origination for the pensioners was much much lower. So basically, that was, that was let to the lower origination. I am not sure if I am being clear Henry.

Henry Chu: So, what do you mean is let us say a bit seasonality. So, what do you miss this quarter? You, we would expect to see a massive jump in the next quarter. Is that understanding correct?

Carlos Ochoa: No, not really. unsure for the second quarter, because normally the origination is during the first, normally origination evens out. This quarter is going to be different, in this quarter is going to be difficult as well due to the lock down, right? I mean because Angel mentioned at some point, you know, having people on the streets right now is not so easy and for them to find customers is not so easy either. So, I would not be expecting a jump over here. Though so let us see, I mean it is hard to speculate about that one at this point, right?

Henry Chu: I see, but lock down is more a 2Q two thing, right? Q1 there should not have been a lock down yet. And so, a large part of it.

Carlos Ochoa: Yeah, that is right. But January was not exactly the best month for the. Actually, the first quarter for the payroll business was not, if you look at the origination, I mean the payroll business was softened this year. Due probably to the economics slow down or things like that but the origination for the payroll business as a whole was low. And also, there were, you know, also associated to the new administration. You know, some of the, some of the re-negotiations with the government agencies and things like that, that affected the origination as well for the payroll business during the first quarter.

Henry Chu: I see, and the payroll book is flat Q on Q, so does not mean that all the new loans that replaced the old loans are of much lower rate?

Carlos Ochoa: No, I mean. over here you are not going to see the lower rate, I mean over here you do not see the lower rate, what you are seeing is the principal. So no, the lower rate you do not get to see it over here. What is actually, actually it is, you know, given that pensioners that the portion of the customers and the pensioners segment is smaller, it is the opposite, you know, because the rest of the customer, the pensioners are the ones who are charged the lowest rates in the payroll segment.

Henry Chu: So, you are saying the new loans that replaced the ones that rolled over are the same pricing? Similar pricing, you do not see a dramatic drop on the rates of the new dispersed loans? New origination.

Carlos Ochoa: That is right. That is right.

Henry Chu: Okay, great, great. Thank you, thank you very much.

Carlos Ochoa: Thank you Henry take care.

Operator: Next participant your line is live, and please announce yourself.

Unidentified Analyst: Hi, good afternoon, thank you very much for your time. I have a quick question on, regarding the exposure in the payroll loans to public employees and regarding the, you know, the credit lines that the government has developed or is developing for SMEs. Are you in the process? Will you be involved in the workings of supporting SMEs? Will you working with the government or is an entirely separate program that does not involve any player in the sector? Thank you.

Carlos Ochoa: Well, I mean, for starters, I mean, just to remember you that we on the payroll business, we just have public severance, right? I mean, we only, we exclusively work with unionized government employees and nothing more, unionized government employees. So basically, we have nothing on the private sector, so I do not know if that was your first question. If that answers your first question.

Unidentified Analyst: Oh, yes, yes it does. Thank you.

Carlos Ochoa: Yeah and when it comes to the other one. I mean, what we have been doing and we, and that, actually, that was something that we intended to do at the end of last year was to approach the development agencies. And, I mean, in that regard, what we have been doing over the past 4 months, 3 or 4 months, is that we got, you know, the 50 million dollars from the IDB and we also increased as Angel mentioned at some point, we also increased, we got additional funds from Nafin, the development agency over here, for 1.5 billion pesos. And that is entirely for to support our SMEs business. So, yes, we are trying to approach different players and especially development agencies and let us see how that evolves. But what we are doing specifically with the government agencies is with Nafin we already got the additional 1.5 billion. And on the other hand, we are still working with Banco del Bienestar, the, you know, the state owned bank here to see if we can get another line to support our businesses, but basically that is what we have been doing.

Unidentified Analyst: Okay, thank you very much.

Carlos Ochoa: Thank you.

Operator: Next participant, your line is live and please announce yourself.

Natalia Corfield: Natalia Corfield from JP Morgan. I have basically 3 questions. My first one is still related to the drop in interest income in this quarter. I understood that, one, there was a decline in origination of SMEs. Secondly, there was also seasonality related to pensioners. And you mentioned something related to not receiving Payroll payments for 3 months. I do not understand if this is related to the seasonality on that you mentioned on the pensions. Or this is something else? And.. -- go ahead.

Carlos Ochoa: No, no, no. It is basically those 3 months it is normally the time. That is normally the time it takes when you, that is normally the time it takes when you disburse the loan and you get to collect the first payment, right? So normally, on the average, and that has always existed, normally that last for 3 months. That period when the, normally how it works is that every single government agency we work with in the payroll business, they have a particular calendar whenever you disburse and whenever you are going to collect the first payment. That is normally how it works. And normally, this period lasts for 3 months on the average. So, in order of not affecting the yield dramatically, what you do is that you generate a provision, an income provision that amounts for roughly that, those 3 months, right? And basically, when you have a smaller, when you have a low origination that affects clearly, that affects the income as well. I do not know if that answers your question, Natalia.

Natalia Corfield: Okay no... It does. So, I understand now the, what you mentioned about not getting the money for 3 months. And then on the seasonality, I still did not understand why would not this -- if it was seasonally, why would not you see a rebound in the second quarter? It is not clear for me how the lock down will impact you there. And also, with regards to that, in the interest rate, that you charged. The average interest rate that you charged in the first quarter, how does that compare to the average interest rates that you charged in 4Q19, for instance?

Carlos Ochoa: Yeah. Look, what I meant, and we do not expect to bounce back in the second quarter, it is due to the situation that we are living today, to the pandemia, basically to the pandemic. So, basically, that is how, it is hard to assess, how it is going to bounce back that. When you have the lock down for, that is going to last at least until May. So I would not expect the bounce back in the second quarter. This is the abnormal situation that we are living. However, you are right. Normally how it works, in a normal situation, for example, if you look at the previous year, yes, it used to bounce back in the second, for the second quarter, but we would not expect it for this year for the unusual situation that we are to currently living. Basically, that is it. And when it comes to the rates, the rates that we are charging, I mean the difference that you see between the years, the 2018 and 2019 in terms of rates, those are basically associated to the concentration with the pensioners. You know at some point, if you recall, the pensioners are the best asset and at some point, they amounted for up to 40% of our book. And when, and that led to a pressure on the yield of the Payroll book altogether. Now that it has leveled with the other lines of business, for example, know that the pensioners amount for 30% or something like that, you know the yield, the consolidated yield for the payroll business increases a little bit. That it is not, what I am trying to say is that we are not lowering interest rates for in many of our lines of businesses.

Natalia Corfield: Okay. Now going back to the seasonality, the seasonality is impacting the pensioners. Am I correct on that?

Carlos Ochoa: The seasonality affects the teachers, especially in January. For the first quarter affects the teachers and the things that, you know, basically everybody over here have Christmas break, that affects the origination. However, this year was unusual in the sense that the origination for the pensioners at the beginning of the year was lower, was much softer at the beginning of the year. And also, the combination of another factor. I mean the renegotiation with some of the government agencies rework. So basically, those are the different factors that affected the seasonality for this first quarter.

Natalia Corfield: Okay. And then 2 more questions. One in, about your collections. I found a number in your annual statement of 32.5 billion expected collections for 2020? Is this number more or less what you are expecting?

Carlos Ochoa: Yes. I mean, actually, if you think in terms of collection, what we got for the first quarter, what we collected for the first quarter, it's roughly 8.2 billion pesos for this quarter, only, exclusively for this quarter. If you compare that one to the first quarter last year, in the first quarter was under 7 billion pesos, 6.8 or something like that. So, it was an, there was an improvement this quarter of about roughly 20% in terms of collection this quarter.

Natalia Corfield: Okay. And lastly, you had your covenants related to NPLs, and I am sure now if it is NPL above 4%. But can you remind me if you reach these covenants, what happens?

Carlos Ochoa: Look, we just have that covenant for the syndicated facilities. Because if you look at the other, if you look at all the seniors and so on and so forth, we do not have a performance of the book as for covenant. So, this is only for the syndicated facilities that at this point are worth the 2 of them are worth, I do not know, 210 million. And that is basically, I do not recall about what happens if you reach that one because we are way, way lower than that one. But in worst-case scenario, as you can imagine, well that definitely calls, calls a loan, right?

Natalia Corfield: So, this is just to this new loan that you are talking about. Did not you have that for your Credit Suisse facilities in the past? Or to the existing one?

Carlos Ochoa: So, this is just to this new loan that you are talking about. Did not you have that for your Credit Suisse facilities in the past? Or to the existing one?

Natalia Corfield: Right. Well, if you could find out what exactly are the consequences, that would be great.

Carlos Ochoa: Yeah, I will tell Renata to contact you and to see what has happened, to send you that information.

Natalia Corfield: Thank you very much.

Carlos Ochoa: Thank you Natalia, take care.

Natalia Corfield: Thank you.

Operator: Next questioner your line is live, and please announce yourself.

Nick Dimitrov: Hi. This is Nick Dimitrov again. Just 2 follow-ups. The first one is, what is your strategy about Instacredit? In terms of are you going to give borrowers the ability to defer payments or restructure, negotiate, whatever you call it? And my second question is going to be, obviously, the dollar price of your outstanding debt has declined quite dramatically. And I was wondering whether you have considered possibly doing some liability management? Or is it all about liquidity at this point?

Carlos Ochoa: Hey Nick, it has been a while. What we are doing basically in the case of Instacredit, what has proven to be very, very useful at this point was the experience we had in Nicaragua a couple of years ago, given the crisis in Nicaragua. So basically, what we are doing over here in the whole region is we are acting exactly as we did during that time, meaning that the most important thing that we do at this time, even if at some point, you have a spike in the NPL is to be close to the customer and to receive money from the customer. You are not collecting the full payment or you are not collecting the full installment, but at least you get money in order to know how things are working. In every aspect, it has to be impacted with the situation that the customers they are living, and we have to be more lenient in that regard. But what we need to do in every case, is to collect, to try to collect a, try to collect at least a small fraction of the payment or the installment. That is how we normally proceed, right? Even if at some point, you have a spike in the NPL, but you get to know who your customer is, so to speak.

Nick Dimitrov: Right.

Carlos Ochoa: On addressing to your second question, well, right now, it is hard to look in terms of growth. It is hard to think in terms of liability management exercises and so on and so forth. So basically, we are focusing on the liquidity, and we are taking good care of the liquidity.

Nick Dimitrov: Okay. Okay. And just on Instacredit. I assume that you are basically waiting to be approached, considering how gradual the business is rather than approach borrowers proactively the way you did in the case of SMEs. You are basically waiting for the borrowers to become delinquent and then you kind of start addressing the issue.

Carlos Ochoa: No, we approach customers proactively.

Angel Romanos: Not really… Exactly. We do it proactively.

Nick Dimitrov: Okay, thank you.

Carlos Ochoa: Thank you.

Operator: Next questioner your line is live.

Unidentified Analyst: This is Maria, hello can you hear me?

Carlos Ochoa: Yes.

Teresa: Okay. Thank you. Okay. Yes, I have some questions. This is Teresa from Seminaria Peru. I wondered that (inaudible). So, the financial regulator the CNBV has given flexibility to (inaudible). Particularly, I want to know how will be the accounting for the provision?

Carlos Ochoa: Yes, do you hear me?

Teresa: Yes, yes.

Carlos Ochoa: Yes. Basically, we have not changed the way we provision. We have not changed the way we deliver the provision. And normally the changes that the CNBV has, you know, normally the changes, if any, that the CNBV has announced lately, they are more, those changes involve the banks. But in any case, we have not changed the way we provision.

Teresa: Okay. So, you do not apply for that, right?

Carlos Ochoa: No.

Teresa: Okay. So maybe if I could also be given by e-mail the information about the, how much do you expect to collect this year? And that would be very helpful.

Carlos Ochoa: Definitely, if you could send us an e-mail because we do not have your phone number, we just have Maria over here. So, shoot us an e-mail, and we will provide you with that information.

Teresa: Thank you very much.

Carlos Ochoa: Thank you.

Operator: Next participant your line is live, and please announce yourself.

Unidentified Analyst: This is (inaudible). 2 quick questions. You talked a bit about working with your customers in SMEs. How do you work with your customers in a payroll lending segment where you already have access to the cash from the payroll? And what kind of things do you look to do there? And number two, kind of related to that, as you look at origination for 2020, and you said you are focusing really on your existing customers. How much of this is really just sort of re-upping into a new loan for existing customers in payroll versus growing the pot of payroll available? I mean, it is kind of a growth driven model, but it is hard to see as you are focused on your existing customer base, how growth will be that much more dramatic or to keep up to boost the yield you need to keep going.

Carlos Ochoa: Okay. When it comes to the, the big difference between the SMEs and the payroll business, I mean, in the case of SMEs, the customer pays. I mean, you are following. Let me put it differently. I mean in the case of the payroll business, the collection process has not changed, and we are not required to approach the customers, all the customers because we collect when it comes to the collection. We collect directly from the employer, and that has not changed, right? I do not know if I am being clear. So the big difference is that in the case of the SMEs, there has to exist a willingness to repay. And that situation does not exist in the case of the Payroll business because we collect and get the money straight from the employer. So basically, we are approaching the SMEs, the customers. We are approaching the used car business, all the other lines of businesses, except for the payroll business where we collect the straight from the employer. So basically, that is the big difference. I do not know if it answers your first question.

Unidentified Analyst: It does, but is there any sort of back and forth or to request for renegotiation from those customers? And how do you deal with that?

Carlos Ochoa: It is similar to what I described in the case, for example, in the case of Instacredit or something like that, it ensures that you, first, we focused on the segments in the. Speaking about the SMEs businesses, specifically. We are focusing there. First, what we did for first was to focus on the segments more, of the segments of our portfolio most exposed to the pandemia, right? So, the investments and things like that and try to figure out a way to solve the situation. As Angel mentioned at some point, yes, in the worst-case scenario, what we do is we repossess the asset because we have collaterals, or we are the owners, or whatever we want in that regard. But before getting into that, we try to find a solution. But in any case, normally, it is a different solution for every customer. But what we intend to do on every case is to collect some money from the customers in order to know the prevailing situation of the business. That is for the SMEs, right?

Unidentified Analyst: Right.

Operator: As a reminder, please press *1 to ask an audio question. Next participant your line is live in the conference.

Roger Horn: Hello, thanks for making the call. This is Roger Horn from SMBC Securities in New York. I am still having a hard time understanding the 800 basis point drop in yield. Can you help me see if I understand it is a large portion of that due to your proactive risk management by going to SMEs and other clients and saying, okay, I understand you will not have revenues for the next 3 months. So, let me give you this new loan that defers payments and dramatically reduces the coupon for a short time, that you can still manage and see, as you said, the credit quality, their ability to pay something?

Carlos Ochoa: No, it is, we are not granting new loans. I mean you have 2 situations in that regard. I mean the new loans that we are granting are not restructures or are not to repay existing loans. That is on the one hand. And when we have a situation, when we had a problem with a particular customer that, with a loan that we already disbursed, is when we try to find a solution for them that in every case, in both payments from the size of the customer. I do not know if I...

Roger Horn: Yes, so it is okay. So then that is really the same question. So you are changing the terms of the loan to lower the interest rate for a short time, but still make sure that the company, the SME or whoever pays you something, so that you can see their ongoing credit quality. Is that right?

Carlos Ochoa: Yes. It is right, but not necessarily lowering the interest rate. And quite frankly, we do not lower the interest rate. What we lower is the amount that they pay and it is either, let me put it differently. I mean, we could extend the duration and charge them I do not know, for example, 6% for extending the duration of an existing loan. I do not know if I am being clear. So, it is basically, it is something in terms of they have to pay something. We have to receive some money, but we are not lowering the interest rate that they pay at the origin, at the beginning.

Roger Horn: To me, the yield is, the yield to me is interest received during the quarter divided by average portfolio, right?

Carlos Ochoa: That is correct. That is correct. That is correct.

Roger Horn: You are getting what I am saying?

Carlos Ochoa: Yes. In that regard, yes, you are lowering the yield. But you are not lowering the interest rate paid by the customer. from those customers? And how do you deal with that?

Roger Horn: Okay, thank you.

Carlos Ochoa: You are lowering the yield in the sense that you are not receiving the full payment. But the customer, you are not lowering the interest rate that the customer pays originally accepted, right?

Roger Horn: So, they will eventually pay you that interest at a later date?

Carlos Ochoa: Yes.

Roger Horn: Okay, thank you very much.

Carlos Ochoa: Thank you Roger.

Operator: At this time, we have no further questions in queue, and I would like to turn it back over to today's speakers.

Carlos Ochoa: Thank you, operator.

Angel Romanos: Thank you... Go ahead, Carlos.

Carlos Ochoa: Thank you, operator, and thank you all for participating in this call.

Operator: Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.

####