Banorte

Q1 2020 Earnings Conference Call

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CORPORATE PARTICIPANTS

Ursula Wilhelm – *Head of Investor Relations*

Marcos Ramirez – *Chief Executive Officer*

Rafael Arana – *Chief Operating Officer*

PRESENTATION

Operator
Good morning, and welcome to the Banorte First Quarter 2020 Earning Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*), then one (1) on your touchtone phone. To withdraw your question, please press star (*), then two (2). Please note that this event is being recorded.

I'd like to turn the conference over to Ursula Wilhelm, Head of Investor Relations. Please go ahead.

Ursula Wilhelm
Thank you. Good morning everybody. I am Ursula Wilhelm, Head of Investor Relations and ESG. I hope you and your family are safe and in good health. Welcome to Grupo Financiero Banorte's First Quarter Earnings Conference Call. Our CEO, Marcos Ramirez will provide some remarks about we are doing to cope with the pandemic and financial events and will walk us through the quarterly results. Then, Rafael Arana, our COO, will guide through our expectations for the year. Last, we'll hold the Q&A session. Thank you.

Marcos, thank you.

Marcos Ramirez
Thank you, Ursula. Good morning everybody. I also wish you good health for you and your family. This presentation is longer than usual, as we are going to talk about some key topics relevant for the environment that we are crossing. I know we are concerned about the world, about Mexico, and about Banorte. We recognize that these are extremely challenging times for everybody, and we are focused on being there for our employees, our customers, and our country. Personally, I am convinced that we will come out of this challenge, renewed and with higher spirits.

Regarding Banorte, we are entering the downturn from a position of a strength with a healthy balance sheet, strong solvency, and a strong liquidity. We are very proud of all that our company and employees have been able to do over the past weeks. Our top priority has been to provide continued services to clients and support them through this difficult time. We acknowledge the world is facing a highly uncertain environment as COVID-19 has spread out significantly. In Mexico, society's response to the pandemic has been exceptional. Since mid-March, businesses and companies of all sizes and diverse sectors implemented drastic safety measures to cope with the sanitary emergency.

On April 1st, the government declared lockdown of non-essential economic activities, which was recently extended until May.

On the economic front, the Mexican government's narrative towards stimulus packages has been inclined toward fiscal austerity with no additional indebtedness and a reliance of the public infrastructure projects as the main engine to boost the economy. At the federal level, there will be a tightening of expenditures. Social programs will continue to be disbursed. An important government money transfer programs to the informal sector is also taking place already and is supporting micro companies short of liquidity to withstand the quarantine. Soft credit is being provided for households and SMEs through different schemes and federal government entities such as ISSSTE and INFONAVIT for around MXN 200 billion.

Additionally, through the development banks, there is around MXN 700 billion in available credit and guarantees also for SMEs. All these measures should provide some relief to the informal economy. Meanwhile, the government expects the private sector to resolve its own challenges.

At Banorte, we have been busy implementing the following measures. About three-quarters of our branches remain open and functional staff with a minimal number of employees. We estimate that there are about 50% active branch employees. Customers in branch are kept in small numbers at a time as a safety measure. At our corporate offices, employees were mobilized to work remotely where possible, assuring they have the necessary tools to work successfully. We estimate more than 70% of the staff is working from home. For those that still need to go into the office, we are taking precautions to maintain their safety. The bank is fully operational online. Close to 90% of transactions are now self-service, and customers have 24/7 access to the bank and their accounts. We also have available online opening of consumer credit as well as deposit accounts.

Our ATM Network has remained functional and accessible. Regarding clients, we are conscious that the lockdown will impose significant challenges on their finances and their businesses. To support individuals and families, on March 24th, we were the first bank in Mexico to announce a cash flow relief program for consumer credit and SMEs.

Clients are invited to sign in, as long as they are current on their loan payments. They receive a four-month grace period on principal and interest installments. By mid-April, there were 449,000 applications equivalent to 18% of the client base. On the Slide 3, you will find more details. We have also been busy helping our middle market and corporate clients with liquidity and advice. We are offering working capital loans to support immediate liquidity needs as well as extending loan payments. Eventually, as the economy is functioning again, we will be rolling out tailor-made solutions for each customer and sector.

So, we expect the credit remediation process to continue well into the 2021. Demand for credit increased at the top of the crisis with many clients consuming or using the revolving lines. For the month of March, we saw an increasing credit of 14 billion pesos. We also saw a 3% decline in billing on credit and debit cards by March. It's mainly concentrated in sectors, such as tourism, restaurants, airlines, and gas stations. At the same time, retail and e-commerce billing volume remains adequate and growing. Regarding the bank, actions have been directed to keep a strong liquidity and solvency and anticipating asset quality deterioration. Risk oversight has been enhanced to respond to the volatility and changing dynamics. Committees are functioning permanently to respond quickly, both to our own decisions and our clients. Credit risk models were adjusted to make them more rigorous to the new reality, but to still be able to [unintelligible] to those who will be less impacted by the economic downturn.

Now, please turn to the Slide 4 for the highlights of our first quarter financial performance. The underlying business fundamentals had good performance this quarter, but we have two tells. January and February, which were good business as usual months and then March when the crisis started to unfold. For the quarter, the group reported net income of

MXN 9.1 billion, slightly higher than last quarter and bringing earnings per share at MXN 3.16. Return on equity was good at 18.8% and return on assets was strong 2.2%.

Revenues on Slide 5 were 6% above last year and 3% up in the quarter. Softer net interest income at the bank and cyclical decline in fees were offset by good growth in the insurance premiums and trading volume.

The loan portfolio, Slide 6, grew 5% in the quarter excluding government loans, where balances declined by MXN 12 billion. Asset quality remained very strong, very good and is stable across portfolios. The NPL ratio remained unchanged at 1.7% and credit cost increased only 24 basis points to 2.2%. Around 25% of this increase is related to new loans and the remainder is related to portfolio deterioration. The cost of funds further improved this quarter and deposits were more efficiently priced as rates declined. The funding cost now stands at 45% of reference rate.

In the next page, deposit growth accelerated 7% in January and February. We saw normal behavior inflows. However, in March we saw volatility inflows particularly from government-related clients. Deposits from companies and individuals behaved normally.

Moving to Slide 8, solvency at the bank remains very strong with an overall capital adequacy ratio at 18.97%, almost 19%, while the CET1 ratio was 12.18%, down 56 basis points. The key drivers of growing in risk-weighted assets mainly come from the market volatility, as mark-to-market losses of MXN 6.2 billion were recognized on some available-for-sale securities and hedging instruments. These valuation losses come from the peso: dollar exchange rate and the price of some bonds. It is worth noting that through 2019 and until February, both accounts appreciated as we recognized mark-to-market gains.

Regarding liquidity on Slide 9, even with the support that the bank provided to clients, the liquidity coverage ratio ended the month strong at 120%. Our main source of funding continues to be sticky deposits. The bank also has available committed lines with counter parties, which have not been used so far. And do not forget that we have available liquidity facilities provided by the central bank, if needed. In March, the bank paid down MXN 1 billion in subordinated notes in the local market and have continued servicing the coupons of its perpetual funds.

Shifting to Slide 10. Insurance profits were MXN 1.7 billion, up 6% in the year, while annuities reported earnings of MXN 284 million and Afore posted MXN 325 million in net income. All in, the group produced a good set of quarterly results, but the challenges ahead are large. We expect a sharp decline in economic activity in the second quarter of '20 that will be extended well into year-end.

At this point, our assessment is that GDP will contract 7% and 10% this year. This will depend on the length of the lockdown. We are assuming 8-to-10 weeks of strict observance of social distancing as well as GDP contraction in the U.S. of more than 12% in the second quarter of this year, but a quick V-shaped recovery. We also assume that the Mexican government will increase its fiscal support measure to the private sector at some point.

In terms of inflation, it should end the year around 3.6%, as weak aggregate demand and lower gasoline prices will compensate for the exchange rate pass through effects to the inflation. So, with the COVID-19 shut economy and moderate inflation, we expect the Central Bank to continue its easing cycle, taking the reference rate to 4.75 by December.

At the beginning of the year, we shared our views for the business and expected results. The environment has changed materially and then, the challenges we face as situation unfolds are large. Clearly the guidance released in January is no longer justified. So, we are withdrawing it.

With this, I conclude my comments and now I will ask Rafael Arana to provide some additional remarks on the quarter, also the timetable of the guidance, and a few other comments. Thank you, and Rafa, please go head.

Rafael Arana
Thank you. Thank you, Marcos. Good morning everyone and we also wish you and your families good health and spirits during these difficult weeks. As Marcos mentioned, and I would like to go deep in some of the points already mentioned, the results. As you can see on the results for the first three months, are right on target of what we guide to you at the beginning of the year. There has been a very reasonable growth in the deposits, very reasonable growth in the funding side and also expansion on the consumer and corporate and commercial. So, and a very disciplined expense control at the group. So, guidance that was at the beginning for some--a little bit on the upside. I think we were right on target to comply with it. But as Marcos mentioned, now we have to move into the new reality. I would like you to guide you how do we see our evolution into this new standard that we are seeing on the market.

If you move to the Slide 11, you can see our quarterly results compared to what we guide to you at the beginning of the year. The loan growth is around 6%, and it was growing at a very good pace. NIM continued to expand for the first three months. It expanded exactly as above the 15 basis points. It was 24 basis points compared to the full quarter.

Expense growth that we guide you 5% to 5.5%, now we are aiming to have, and this is the only guidance that I can assure to you of all the guidance that we will be giving you in the next month, this is already a commitment. Expense growth will be around 4% or less than 4%. So, that will put efficiency below of what we guide to you of the 38% at the beginning of the year.

Cost of risk is standing at 2.2, tax rate exactly at 26, and net income for the first quarter is exactly 9.1. That is right on target of what we guided to you. Return on equity was below the--for the group to 18.8, but on tangible basis and return on equity of the group continues to be very strong and very solid, but we have to consider that the impact of the Afore and the goodwill of the Afore is weighting heavy on this part. If you go to tangible, then it is a completely well above the 20%, 25%, 45% for the group.

So, our guidance was right on target, but now, as Marcos mentioned, we are withdrawing this guidance. It will be very--it will not be a conscious decision for us to give you a guidance today. The only one that I'm giving you today is the expense growth, that will be below 4%. But everything else I think we need to see the evolution for the next quarter to be able to give you a reasonable guidance that we can really comply and deliver to you, okay?

If we go on a line-by-line basis, we can see that the balance of the government loans declined in the quarter, so facilities were paid, but was expected on this part. And there has been some concern about what's the collateral on the tax revenues and for the states and municipalities. And we conducted a stress test on how overcollateralized we are supporting this debt service and tax revenue would have to fall by 50% to pressure factors below this contractual term in the loan agreements.

The national exposure represents 69% of the government book; the rest is federal-related risk. If we move now to the P&L. As I mentioned to you, net interest margin continued to expand, in part by the positive evolution of the funding cost and the cyclical increase in the insurance premium. The NIM of the bank was 6.3% and grew 10 basis points from last year.

At the bank, part of the decline in the net interest income and the variable rate credit book, has been offset with a rapid re-pricing of deposits and a very good growth, as we could see, in a minute on the funding side. Our sensitivity up to March of 100 basis points in change in rates was MXN 462 million, MXN 92 million below the number, based on the balance sheet of the structure in December.

As I mentioned to you, expenses continue to go in the right direction. Now they are sitting at 4.7% and our goal and aim is to put those below 4% in order to keep improving the efficiency ratio.

Credit cost of 2.2 on the high side of our projections. This is explained mainly by additional increase of MXN 579 million. The relevant items on this part was MXN 230 million for the commercial book in part to cover some dollar-denominated loans that were affected by the depreciation of the currency and MXN 341 million were for consumer and the mortgage portfolio that, as we could see in a minute, they continue to perform extremely well.

All this together align the net profit to the year-end target that we guided to you at the beginning of the year.

As I mentioned to you, our financial commitments for 2020 are no longer valid. We will provide updated guidance as I think by the end of the next quarter, we will have a very--a much more clear picture of what is really going on, and we will continue to update this guidance to provide you all the needed information that you need to update your models and take the decisions that you need to make.

And one of the key reasons for this is that the GDP that we expected at the beginning of the year was a minus 3% to 4%. This scenario, as Marcos mentioned, is worsening and now we are looking at a 7% to 10% contraction on GDP. This steep decline in the economic activity is not even parallel to the 95% in order for to see the magnitude of the process.

We expect the labor market to deteriorate on the next several months, even though the many companies in the private sector are holding up and trying not to fire or lay off employees. One example is the bank. We are not laying off any employees and many companies are doing the same, but we know this will affect the activity and the employment on the formal employment base.

One issue that you have to remember is that a lot of the federal government relief is going to the informal economy in trying to support that part of the economy and the low income that is really moving there.

In terms of asset quality, we believe that it will be well into the third quarter when we start to see the real effects of the process. The timelines of support of the program of SMEs and consumer, we know, and we already know by talking to our clients, will provide significant cash flow relief and should help mitigate future losses.

At this point in time, I also want to address, as Marcos mentioned, we were the first to the launch this program into the market. But at the same time, even a week before we launched this program, our recovery unit was already in the market, talking to already clients that have issues on the consumer side and also on the corporate and commercial in order to be extremely flexible with the programs to make them and became current and give enough flexibility on the time and the rate for them to be at ease and continue to have a good relationship with the banks. That has been extremely well received by clients, not just on the relief program that we launched, but the already existing clients that we were in some kind of trouble in the past.

On the origination side, we will continue to see a much more strict and conservative underwriting risk management standards. As you know, we have been evolving in the past years to our own internal models, and we have been, as you can see compared to the market of the big banks, we have always been on the low side of the cost of risk and NPLs. And this is the result of some very disciplined origination process, good models, extreme good analytics, strong recovery unit, and the most important thing is that we have been concentrating basically in our own client base, so we know exactly how the flows are really moving into those accounts.

As you know, last year, we were not very active in growing the payroll loan book and also the SMEs, because we know that every time there's a change in administration, usually you get a lot of issues on the SMEs and there was a lot of layoffs announced by the government. So, we retreat from those two parts of the book, and now it looks that it was the right decision, based upon the potential pressure that these two lines of products could have on this process.

We have also been very diligent in the insecure part of the consumers, specific in credit cards. As you can see, our NPLs on the credit card has been extremely stable. We are below the same month last year on the number of NPLs. And we continue to be very disciplined to whom we grant the credit cards and this relief program has been extremely well accepted by our clientele.

The secured portion of the portfolio and the consumer, including mortgages and auto loans, account for 68% of the consumer credit, and there is a substantial amount of equity embedded in them. For example, I can give you the loan-to-value ratio on the mortgage book, that is 57%. So, we believe that, even with these falling prices in real estate, there are strong incentives for clients to continue servicing the mortgages. And we think that our relief program has been also very well accepted by this clientele.

On the wholesale portfolio over the years, we have focused on the right risk selection and pricing, also given priority to the long-lasting relationships that we have been creating through so many years. Risk element, such as loan mix diversification by industry, and the quality and coverage of collateral and guarantees supporting this portfolio should minimize losses. And also, there have been an extremely active and proactive actions taken by all the corporate, commercial executives in order to be extremely close to our clients, guaranteeing them the liquidity needed in order to pass this process, and thus, also have been extremely well received by clients. So, we want to be in very close communications with them. We anticipate period on the commercial and the cooperate of at least 12 months of restructurings and workouts with clients.

In the Slide 12, we have provided a breakdown on the wholesale book by industry, as many of you have been asking what type of exposures we have and what kind of collaterals we have on this. You can see of the total book that PEMEX and PEMEX suppliers are close to 5% on the electricity company, including the suppliers; 2.3%, construction; and real estate, housing 1%; commercial 1.4%; other side, around 1.8%. In malls, we have 1.9%; tourism 5.3%; restaurants 0.2%; airports 0.1%. So, we are well diversified and we are taking all the necessary actions in order to guarantee liquidity and support to these clients.

Credit cost, we know will increase next year, but this will account for a very low base for us. And we have been running several scenarios and stress tests and in different ways, taking into account the growth of the loan book, growth of the funding cost, and basically, I think the key element for you to know is how stressed that we can really move the portfolio and what will be the results on this stress.

To give you an example of how aggressive the stress test has been in order to see how strong our capital base can support very aggressive deterioration of the cost of risk and NPLs. If we move the cost of risk to 7%, from 2.2% to 7%, with no growth on the loan book and also 2% growth on the demand deposits, our core Tier 1 will still stay at 10.48. So, we have a strong capital base, and this is a very extreme scenario, because this will consider that in addition of the MXN 18 billion that we have under reserves currently won**,** you have to add another MXN 24 billion more of the reserves in this year. So, we have been running several scenarios in order to be and feel comfortable about our capital position, solvency position, and also the liquidity processes that we have been delivering and also into the market.

This projection that I have just given to you on the stress test scenario didn't include any credit relief or credit deferral program. So, this will help to minimize debt as we already saw at the end of the March on the collection side, we already see a very healthy migration on 0 to 1 nonpayment in all of the products, because of the relief program. So, that we know this is kind of artificial, but it's part of the relief that we need in all the four clients to be at ease and help them to bypass this pandemic situation that we hope that it is going to last maybe less than the four months, but we don't know, but we will be monitoring this very closely.

On the rate side, at the beginning, we were aiming to have at least 6% of rate, now I think it is 5.5%. Also, it's looking a little bit on the high end, and I think the number to look now on rate should be around 4.75%. This will obviously put pressure on the margins. Even though our book on the consumer side, on the fixed-rate side is a very strong book, close to MXN 300 million, but we have to manage--continue to manage as we have been doing the cost of funds and also to see the depreciation of the variable rate part of the book.

As I mentioned to you, expenses will continue to go down to 4%. This will require additional MXN 2.6 billion more of reduction in expenses that will come, not for personal expenses, but mainly for deferral or lack of activity in some projects that we could reduce the pace or moving to the next year and also several actions that we're taking on the expense line.

As you have seen on the--and Macros mentioned that the Mexican authorities now, the Central Bank has provided extremely strong and good program for--to assure liquidity, and also a very creative way, and also–to also allow enough to use some guarantees and also is--we are waiting for the final rules for the SMEs, but we are very pleased with the support of the Central Bank on the liquidity side and solvency side.

And also, there is another thing that we have been asking a lot, and this has to be because we received a note from the CNBV from the regulator that in order to support solvency, they were asking the financial groups to please restrain from the dividend from '19 and '20 in order to support solvency.

As we communicate to them, Banorte, being as a public institution, and the corporate governance of Banorte, we need first to present that to the Board. Yesterday, we presented this issue to the Board, we presented different scenarios and the scenario that was decided by the Board was to defer the dividend, not to cancel the dividend, to defer the dividend in order to see how this situation evolves. And when we are in a--with much more clarity about the situation, we will again go to the Board and then move again to the assembly to propose them what we think is good for the bank and for the shareholders. It's important to remember, as Marcos mentioned, that Banorte is in a very strong capital position and liquidity position, but I think it's prudent to defer, not to cancel, this dividend process.

As you know, we also guide you that we were going to be much more active on the share repurchase program that we thought was a little small, compared to the potential of what we really wanted to do with the repurchase program.

So, we moved that in order to accommodate mainly the same size of the shares that we issue to interactions at the moment that we plan this. So, that has been approved, is now on hold until we see a much more clarity on this, but now we have enough size on our repurchase program to be much more active, if we would like, and we see fit to do in order to provide better returns to our shareholders.

Another thing that I think is creating confusion in the market is questions about the possibility to defer coupon payments on the perpetual bonds issued by Banorte if the CNBV recommendation on dividend is followed. Regarding this matter, I would want to be extremely clear. We don't intend to defer coupon payments. The description of the perpetual bonds is very clear, in that only possibility to defer payment is if the capital ratios of the bank fall below a certain regulatory threshold, which is shown in the Slide 14. And as you see, we have a very, very strong buffers and room in order to protect these payments and commitments that we have with our bondholders on this part, okay?

On the other side is the relief program. What's going to be accounting mechanism for the consumer payment deferral program?

On Slide 15, we provide an example of this. What is the program basically is that you defer the 4 payments, interest and principal for 4 months, and then the credit starts again on month 5? During this process, you will accrue interest of the unpaid interest that will be reflected as accrued interest. And at the same time, we will create on the asset side and accounts receivable note in order to match exactly the number of that relief programs on the finance of the relief programs against this account receivable on the balance sheet. We will follow that account and how these two numbers follow, and we will provide to you on a quarterly basis what the evolution of this part. But we feel very, very comfortable about exactly how the program has been released to the market, and we also feel very comfortable that this will provide a very good support to our clients.

On the SME side that we have also a strong relief program. There is also in this part some specific legal restructuring issues that you need to do in the process and, as you know, public officers and notaries have been closed. So, this is going to take a little more time on one-to-one basis. We are moving in the right direction on this part. We are signing private agreements with our clients, and we hope that by the end of April and through May, we will almost cover most of the SME clients in order for them to provide the liquidity that they need to pass this process. We know SME is a critical point in order to sustain the cost of risk numbers that we would like to have by the end of the year.

Now with this, I finish my comments and now it is open for Q&A.

Marcos Ramirez
Thank you, Rafa. Let's open the microphone.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star (*,) then one (1) on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*), then two (2).

Our first question is from Ernesto Gabilondo from Bank of America, go ahead.

Ernesto Gabilondo
Hi, good morning Marcos, Rafael, Ursula, and all your team. Thanks for the detailed presentation and thanks for the opportunity. My question is from the relief program from--for clients. I believe most of the Mexican banks will not be creating provisions, as clients will not be delayed or will not default during the grace period. However, we have seen another Mexican bank that created additional provisions, based on expected losses and they were approved by the regulator. Also, we have seen U.S. banks reporting first quarter results, and they recognized practically all the provisions they created in 2019 in 1 quarter.

So, is there a possibility to see provisions based on expected losses or to create some provisions related to the 30% of your clients that you expect will request for the relief program or to a 19% of the portfolio exposed to riskier sectors? Any color on this will be very helpful. Thank you.

Marcos Ramirez

Thank you, Ernesto, it is a very good question. Rafael is going to give us some color on this. Rafa.

Rafael Arana
Yes. As you know one--as you mentioned, one bank provides this. This specific regulation that allows the bank under a specific permit to create general provisions on--to see what we see because everything from expected loss, but we could see an additional building up of provision if we decide to do so. That's part of what we will like to see during these 3 months. There is a possibility that we could create additional provisions, not just the required provisions, if we see fit and if we see the evolution of the loan book. Yes, there's a possibility of that on the regulation to go to the CNBV and ask for a specific permit to do so, based upon on numbers that we can present to the CNBV. At this point in time, we will like to see how this evolves and how many clients we put on to the program, and especially on the SMEs, what is really the situation of the SMEs in the next 4 months. But yes, we are considering that, Ernesto, as part of the evolution of the new guidelines that we will release to you in the next 3 months.

Ernesto Gabilondo
Very clear, thank you very much.

Operator
Our next question is from Jason Mollin from Scotiabank. Go ahead.

Jason Mollin
Thank you very much. We appreciate the presentation, Marcos, Rafael, Ursula, and the extensive details and color that you have given. My first question is related to a little bit more detail on what you just were talking about, asset quality, and you mentioned stress testing with cost of risk, potentially even going to 7%.

Just a cursory look back, not going back to '94, '95, but looking in 2009, we saw cost of risk, I think for 3 quarters, consecutive quarters, the first 3 quarters hitting 3.6%. But maybe you can give us some context in that stress test of 7% by segment. Where the biggest loss is, I am imagining there's in unsecured lines.

And then, second question is on compensating for this complicated environment, you mentioned keeping costs under control and talking about limiting them to 4% growth. Right now, that's the kind of the one area that is under your control and you are giving that kind of expectation for the next years. Clearly, there's a lot of uncertainty, but what would that entail? What--how can you talk about that cost containment and potentially relate that to some numbers or data on the digitalization trends that we've been seeing with the crisis? Is this something that's encouraging that your clients who can't--who are trying to obey the stay-at-home or increasing their use of digital channels? Thank you.

Marcos Ramirez
Well, Jason, thank you. There is a lot of differences in '94, 2009 and now. As Rafa mentioned, '94, the banks were part of the problem, now we're part of the solution. So, it's totally different game in my point of view. And Rafa is going to give us some color in the context of the stress test and where are the biggest losses. And also, yes, the world is changing. The cost is under control and we will move to the new world in the digital channels. And also, Rafa is going to talk a little bit about that. Thank you.

Rafael Arana
Yes. First, let me go into--I think, what you mentioned about the expense--on the expense line. As everybody is doing, we also are adjusting the bonus payments. That's an adjustment on that. We're also adjusting many projects that were considered nonessential at this point in time like a building additional capacity in some offices or creating additional programs to be on the forefront of some of the issues that we know, based upon what we have been achieving in the past, as you can see that on the digitalization process that you just mentioned.

Digitalization has grown very, very fast during this process. We are providing our clients, given the capability to open digital accounts on the funding side, not just on credit loans or payroll loans, or anything, but also on the finding side. So, we now are a full digital bank that we could generate.

This is the basic account, not the account that has to--been able to receive quantities above MXN 18,000 or MXN 20,000, but this account allows us to really start serving the digital base on that and then evolve into that account that we can provide also by digital means--ways to recover the paper and the necessary authentication process.

So, we are extremely pleased so far of the behavior of our digital channels, growing 50% compared to last year. And the most important thing is that the NPS of our clients, not just link to the relief program, but also by the usage of the digital channels, just to give you a very strong number, has grown from the period of the 20th of March to the 15th of April, grew 35 basis points of NPS.

So, our clients are extremely pleased with our digital access to the banks, web, mobile, call center. Even on the ATM card of semi-physical that, but they are extremely pleased not just for the relief program, but also how easy it is for them to relate to the banks. So, increased 35 basis points in 15 days, 20 days is really remarkable. And compared to last year, we increased 50 basis points compared to the--in all the channels on that part.

And also, as you can see on the transactional side, even though there has been a substantial reduction in some the businesses that we serve like you can imagine like restaurants, airports, hotels that go down at 50% to 80%. There also has been a very good growth in the digital world, like on the Amazons, the Rappis--all those growing 20%, 41%, 48%, so supermarkets, telecommunications. So overall, the transactions have been around a decrease of 30%, but balancing out on the digital world. That's concerning. We are not stopping any of the projects on that. We are accelerating those projects on the digital.

We are more really delaying projects on the physical world, but on the digital world, we were quite advanced, and we are just finalizing most of the initiatives that we have on that. So, that's part of the overall reduction that we could see--that we could achieve on the cost side.

On the slide, I decided to show you the extreme case of the 7% cost of risk, because it was quite important for us to provide a number to the market of how resilient our capital base can be if we really go to extremes of 7%. That is well above, as you mentioned, the '94 part.

If you remember, of 2008, basically, the main problem was the credit card. The credit card reached a cost of risk of 15.4% at that point in time, because there was a lack of information on the Credit Bureau. There was a lack of the relief programs. We were not on time to deliver the relief programs for our clients, and we are in a completely different scenario right now. I think the relief programs were very, very timely for them, and also the collection office also was very timely delivering the new programs. So, I think we are showing you this 7%, and where we are putting mainly the big pressure in SMEs and in credit cards. That's where we are really putting a lot of that in order to go to this extreme.

Honestly, I think we will be more, and I don't want to take this as a number, but we are aiming to go--I think we can control these numbers more around 2.7, 2.8 for this year and then see what's the evolution for the next year. But that was an extreme scenario to really provide you enough information to see how the solvency of the bank really stands during this process. But yes, our main concerns will be the SMEs and the credit cards. But all the programs that we are giving to them and the quality of the base that we have, I think, will provide very decent numbers in this process. What is the number? I will feel much more comfortable to give it to you after maybe at the end of the third quarter. We will keep you posted on the evolution of those numbers, but we have to wait until the third quarter to see exactly what's the potential deterioration of the book.

Jason Mollin
Very helpful.

Rafael Arana
Thank you, Jason.

Jason Mollin
Thank you.

Operator
Our next question is from Gabriel Nobrega from Citibank, go ahead.

Gabriel Nobrega
Hi everyone. Good morning and thank you for the opportunity to ask questions. I'd like to ask you a question on your loan side and how are you perceiving corporate demand over the past few weeks and also looking...

Marcos Ramirez
Gabriel, Gabriel, sorry, Gabriel, Gabriel, we cannot hear you. Gabriel, could you speak a little bit louder and closer, because we cannot hear you.

Gabriel Nobrega
Okay, sorry. Can you hear me now better?

Marcos Ramirez
Yes, perfect.

Gabriel Nobrega
Okay. Okay. So, I'd actually like to ask you on loan demand side. What are you perceiving from the demand from incorporates over these- in last few weeks? Because, for example, here in Brazil, we have been seeing higher demand and usually from corporates, being

that the capital markets are actually muted. They're usually looking for working capital loans. And then also like to ask on your corporate loan book. Being that this loan book is usually countercyclical, do you believe that there could be increased demand from the government from final [unintelligible]? Thank you.

Marcos Ramirez
Thank you, Gabriel. Rafa?

Rafael Arana
Yes, Gabriel, we saw during the first 3 months good growth on the mortgage; decent on credit cards tables. We started to see some movement there, and so you see a potential loan growth of 7%, because you see good growth on the corporate and on the commercial, but you have to understand that the corporate and commercial was basically part of the liquidity lines that they were needed for support the process.

On the government side, we still see demand for entities, but we feel very comfortable with the size of our government book. If we see fit, we will go into specific loans on some of the government side, when we see that the returns and the relationships really support the deal.

But at this point in time, on the loan growth, we basically are devoted to support our clients on liquidity and support them on flexible terms in order for them to be able to pass through this time. Honestly, our loan growth is not the main concern at this point in time, is the health of the book. But it concerns us and provide the necessary support on liquidity to our clients.

So, I think you could see some growth, maybe 4%, 5% on this, but what is really something remarkable is the funding part, not just the loan growth. I'm sorry, you didn't ask that, but in comparison to the loan growth, our funding is growing very nicely in this first 3 months. If you see compared to the last year, you see a very good evolution, above double-digit numbers, and also keeping low our funding costs.

So, I think that if we keep our book healthy and keep on growing on the funding side, it will be a much better deal that to go and try to grow the loan book. The loan book will be to support our clients and to support the necessary liquidity that they need in order to bypass this process. But in our funding side, we are doing very, very remarkable steps to our much lower cost of funds and a much stronger liquidity.

Gabriel Nobrega
That is perfectly clear. Thank you so much.

Marcos Ramirez
Thank you, Gabriel.

Rafael Arana
Thank you, Gabriel.

Operator
Our next question is from Thomas Peredo from BTG. Go ahead.

Thomas Peredo
Hi everyone. Thanks for the opportunity. I have 2 questions, if I may. The first one is if you could just clarify how is the dynamic of the accrual of interest. So, I believe we will continue to see the interest being accrued through the P&L, right? And also, if you could clarify to us, after how many days of delinquency--sorry, can you hear?

Marcos Ramirez
Yes, we can hear you,

Thomas Peredo
And how many days of the--okay. So, and how many days of delinquency, after delinquency, you stopped accruing interest in the P&L? And due to the grace periods given to clients, this should not happen during the crisis, am I right?

And the second question is if you could give us a bit more of detail on the insurance arm going forward, because the Banorte has the strongest franchise in Mexico, and this could eventually be a key business to help through the crisis. If you could share some information on how you're seeing the evolution of premiums against claims? If you expect any decrease in claims in the short term? Although in the health segment, you could see a spike, due to people needing to go to their hospitals? And how is the breakdown of your insurance business? What is the exposure by the different insurance products? Thank you.

Marcos Ramirez
Thank you, Thomas. The first, yes, we are accruing the interest in the P&L, but Rafa is going to be most--is going to be--give us more color. The second one is 90 days, as I remember, also, Rafa and Ursula. Talking about the insurance, it's a big topic, because we have a lot of insurance, and the claims are totally different, and some of them has to be with the FX and all this, but also, Ursula is going to give us some color. Thank you, Thomas. And please, Rafa, go ahead.

Rafael Arana
Yes, Thomas, thank you for the question. Let me go step-by-step on how the process was. The first 4 months will be deferred of payment of capital of interest. So, there's no cash flow coming into the bank in these 4 months, okay? There will be no charge of interest for this new financing, okay?

When you defer the payments, you will not charge any interest like this deferral. The third issue, this interest that we don't recover for the fourth month, based upon of the accounting methodology that is required, because the loan is a live loan, you will, in an accounting base, you will register those accrued interest into the P&L. And at the same time, you will create an account on the balance sheet on the asset side that it will cause collection of interest, based upon these programs.

So, this asset that we are building up on the balance sheet will start to amortize at the moment that the payments start and reactivate again, that will be on the month 5. So, you have 4 months that you don't--that the client doesn't pay anything. Those you accrue the interest, you create an account on the balance sheet. That is an account receivable, account based upon the interest to be collected. And then you restart the credit on month 5. If the client doesn't start paying in month 5, you apply the same methodology that you used to apply on a product-by-product basis. 90 days, as Marcos mentioned, on the--on most of the credit cards, and that on the mortgage side, you pay up to 12 months to fully reserve the loan.

So, it's just an impact of the 4 months, and then everything restarts again and the same methodologies that apply for past 2 loans for the bridging up of the reserves starts to operate on month 5.

I don't know if that's clear enough or you want me to go deeper into any of the things that I said?

Thomas Peredo
No, no, that is very clear, thank you, and ….

Rafael Arana
Thank you, and now we move into the insurance part.

Ursula Wilhelm
Yes, regarding your questions about insurance, we expect our initial thoughts at the beginning of the year for the insurance operation was to have net profit grow by at least 10%. This, obviously, we are going to review this and give you an updated number, when we provide more detail on the overall expectation for the group.

Remember that in the insurance business, half of the book, if not a little bit more than that, probably it's around 55% right now, of the book is made up of life insurance, which is very stable and very low in losses. The health book of the insurance company is very small. It's probably around less than 12% of total premiums, and it is mostly concentrated in high-end customers. So, we are not expecting a major increase in claims on the life--on the health book because of the pandemic.

Also the--what we might expect through the next month is that the insurance origination of premiums that are related to the credit products of the bank will follow the similar trends that we see at the bank, meaning that if we continue to originate mortgages, well, that will fit through the insurance company, and it will continue originating life premiums related to the mortgage book and so on. So overall, we are not that concerned about the insurance. In fact, we expect to maintain a pretty solid result through the year.

Marcos Ramirez
And just to add to Ursula, also on the digital world, we also--I think you can now ask for your payroll loan on a digital way and everything. We're also providing facilities for them on a digital way to really acquire a life--simple life products for the clients. So, insurance is a key business for us. I think it will be--it will continue to provide decent results for this year, as Ursula mentioned. And just that we are in that part of the business, the pension company continues to do extremely well. I think we will go to very good growth numbers, and that will not be affected by this pandemic that we see. So, one thing will compensate the other, because we continue to see very strong numbers on the annuities company.

Thomas Peredo
All right.

Marcos Ramirez
All right.

Operator
Our next question is from Marcelo Telles from Credit Suisse, go ahead.

Marcelo Telles
Hi and hello to everyone and thanks so much for the opportunity to ask questions. I have 2 questions. The first one, with regards to your liquidity position, we've seen a decline in your LCR from 133% to 120%, and I was wondering if you think, considering that the market remain stress levels, and you continue to have to renegotiate some of the loans, if you'd expect your liquidity position to potentially deteriorate in the coming quarters? And what is your action plan in that respect?

And my second question prior to that is, if this is-in your stress scenario, you did mention, right, about your capital ratio or your core equity Tier 1 close to 10% in that extreme scenario. What would that be in terms of your LCR in that same stress scenario? Thank you.

Marcos Ramirez
Rafa?

Rafael Arana
Yes, the liquidity, Marcelo, I think we continue to support that we will be ranging on the numbers from 115 to 130 on the liquidity ratio. We don't see any reason why not, and the reason for that is that if we need to go to--for a new loan, we'd rather stay with the liquidity that our clients need.

So, we are not going for high growth in order to stress our liquidity positions. We only are maintaining our liquidity to support the client base, and we have still room to grow the book, but we are going to be very careful how to grow the book in order to maintain the liquidity at the levels that we would like to have. Even if we have the relief that was given by the CNBV that you can go below the 100% and it's going to be on an average basis and things. No, we would like to stick with our process that we have the liquidity base. We have committed lines that we have not withdrawn those committed lines, and as I mentioned to you, we have been having a very good inflow of funds through this process, because also the relief program will also give liquidity to the consumers that will be part of the funding side. And the companies, once they feel comfortable about the liquidity that they will have enough liquidity, then that part of the lines also stay with us. So, we are managing liquidity on a daily basis. I think we have been--it was a very stressful process before the Central Bank really came into the market, and I think once the Central Bank really published the initiatives that we really like those initiatives, I think the market now is at much more at ease on the liquidity side. So, liquidity, we need to manage the liquidity. But we will be managing that based upon how we can really manage the growth and where do we really want to grow, once we have room for growing the book.

On the CET1 that you mentioned, and I think what I gave you to--also that we see a reduction on the funding side of minus 2. That's the stressed part. So, no even the LCR holds pretty well into that scenario. It's not a matter of liquidity, and that scenario is much more a matter of if we have enough solvency to support the book or not. That has been, and believe me, we, every single day, at the end of the day, have a liquidity meeting in order to address the issues, and we are completely connected the treasury with the consumer, the corporate, and the commercial and SMEs to see if they have a new client that they want to go and incorporate. We see if we have room for that, but first, we privilege the already existing relationships that we have. Yes, we can grow, but I think it's a much better situation now if we concentrate on what we have, and we manage what we have.

Marcelo Telles
Thanks, Rafael. Do you mind if I just ask one additional question here? Regarding your government portfolio, in particular, the loans to states and municipalities, given that it's very likely there will be a significant decline in tax revenues for the state and municipalities in light of the crisis, have you been approached by states to try to renegotiate the debt or provide sort of a grace period for the debt payment? Because even though, of course, you have a big- it's very collateralized, in the end, the states, they need to pay their bills, right? And I think that Banorte has historically been renegotiating when needed. How do you see that playing out right now?

Marcos Ramirez
Marcelo, thank you. So far, the states are not trying to negotiate any debt, and we are open with you. And so far, that's the situation. I don't know in the future, but so far, they feel comfortable and we feel comfortable too. No problem.

Marcelo Telles
Okay, thank you, Marcos.

Operator
Our next question is from Carlos Gomez from HSBC. Go ahead.

Carlos Gomez
Hello, Good morning. Like others, thank you very much for the presentation. It is very detailed, and we really appreciate having the exposure to the sectors and now your concentration on the perpetual bonds. I think that's very clear, very useful. Thank you so much.

Two minor questions. What is your expectation for interest rates for the end of the year? I don't know if you have mentioned that. On the dividend, we understand that you have deferred the decision. Is there a time when you have to retake the decision, which is--I mean, is it September or after September? And finally, and I realize this is the least of your priorities, what happens to the 2020 plan now? Thank you.

Marcos Ramirez
Carlos, the first one, we don't have a magic ball, but we are expecting the Banco de Mexico to continue with the easing cycle. So, so far, we see our 4.75% at the end of the year as the rate. What happens to the 2020? It is still there? We will go for it. We were above the curve, and now we are a little bit behind. And let's see, and that's why we are asking you to give us 4 more months to know what's going on and to see. Now it's too dark, but we are committed to deliver all that we can, and let's wait a little bit to see what happens.

Carlos, what was the second question? Sorry, there was a cut on the line.

Carlos Gomez
Yes. When do you need to make a decision about the dividend, since it has been postponed? Do you have to do it by September or October? Or you will decide that an indeterminate point in the future?

Marcos Ramirez
We don't have a time--specific time. Give us these 4 months, and as soon- we will tell you the date, when we will be ready to answer that question.

Carlos Gomez
Thank you.

Marcos Ramirez
Thank you, Carlos.

Operator
Our next question is from Thiago Batista from UBS. Go ahead.

Thiago Batista
Hi, guys, thanks for the opportunity. I have one follow-up and one question. The follow-up, Rafael, you already mentioned in the beginning of the call about Banorte's intentions to pay dividends and maybe do a buyback. Can you give us the magnitude of those distributions? Or at least, how you guys are looking to it if you are working with any new capital guide--new capital target, if this distribution will be a percentage of the earnings or any specific amount? So, if you can try to quantify a little bit this potential buyback and dividends?

And the second question, if you see any kind of M&A opportunities in the current scenario. For sure, probably not now, but in a couple of months, if this is a possibility?

Marcos Ramirez
I will start for the second one, and I will leave then the first one to Rafa. As always, we are telling, we are open to see what's going on in the market. It's our duty to see what's going in the market. So far, it's--we cannot see. The weather is not clear. So, we don't have any M&A opportunities, although we see some investments. As you mentioned before, the digital should be the new world and all this, but the weather is not clear. So, we are not seeing any M&A opportunities, although we need to say that we are open and if something comes, we will go to the owners of the bank to see if we found this, and that's it. But no, we are not looking anything actively, and the first one, Rafa, please.

Rafael Arana
Yes. I think it's important, and thank you, Thiago, for the question, because it allows us to clear some issues. The dividend number is already sitting on at the group level, it's not at the bank. We already funnel that to the group. So, that is sitting at the group in a way that is hurting some of the name of the bank, but that's the situation, because we were really planning to distribute the dividend close to the 50%. But that is already sitting there at the group. As we said, we see prudent to wait a bit to see how the situation evolves, but it's important to convey to the market that a dividend is already completely funded at the group level, at the level of- that we decided at the beginning of the year, that up to 50%. So, but we need to see how this evolves, and then we will move into a much clearer number to give it to you.

Ursula Wilhelm
And I would like to take the opportunity to remind you that the current dividend payment policy has not been changed. It remains as it was yesterday and last year and so on. The dividend policy is that the group can pay up to 50% of dividends. The range is from 16% to 50% of dividends.

As Rafael mentioned, before March, we were expecting to pay a 50% payout, and that dividend has already been funded to the holding company from the subsidiaries. What we are going to do now is to defer the payment until a date in the future, which have not been decided yet, and it will depend upon how this situation unfolds in the next several months.

Thiago Batista
Okay, perfect.

Rafael Arana
Thank you, Thiago.

Operator
Our next question is from Nicolas Riva from Bank of America. Go ahead.

Nicolas Riva
Yes. Thanks very much really for the chance to ask questions. I have 2 questions, and I apologize if you answered this before already. But the first one is, on the measures that Banxico announced earlier this week that they are going to be providing these loans for 18, 24 months to commercial and development banks to be used towards lending for SMEs and some individuals. Is the government going to provide any kind of guarantees on these loans? Because my understanding is that more than having a liquidity problem, the reason really why the banks are being a bit hesitant to lend more in this environment is, of course, because of credit risks.

And also, if you were to be used in this credit facility, are you going to be using this mainly to lend to your existing clients or also to new clients? And then, the second question is, in your earnings presentation, you talk about the exposure to PEMEX, and you say that loans to PEMEX are about 3% of the loan book and loans to PEMEX suppliers are 1.9% of the loan book. I understand that Mexican banks in general have very low, if any, loan or reserves for this exposure. My question is, given that PEMEX is now rated high yield by 2 rating agencies, does that change your need to grade loan or reserves for this exposure to PEMEX? Thank you.

Marcos Ramirez
Ursula, go ahead.

Ursula Wilhelm
I will address the question about the PEMEX. Basically, Nicolas, remember that we follow the guidelines that are provided by the regulators. The regulators view the state-owned enterprises as quasi-sovereign risk, and therefore, they have different risk weightings than--and reserve requirements than, let's say, the private sector portfolio.

In the case of the state-owned enterprises, the risk weighting is 20%, and the reserve requirement is related to the lowest level of reserve requirement, given that is used as a quasi-sovereign. Up until today, the regulators have not made any changes to these guidelines, and therefore, the bank has not made any changes to its either risk weighting or level of reserves that it has for these exposures.

Nicolas Riva
Yes. So, Ursula, so just to clarify, so we shouldn't expect an increase in loan loss reserves for the exposure to PEMEX in the second quarter, for example?

Ursula Wilhelm
Unless the regulator made a change to the regulation, we would not. Because on the other hand, the exposures that we have are very dynamic, and all of through this period, PEMEX has been paying on time, and there is no evidence that we will see something different. On the Central Bank liquidity facilities, we are still evaluating how these facilities will play in terms of the lending book. So, we still don't know exactly if we are going to get collateral or we are going to get funding, what are going to be the requirement. Now this is still a work in process. However, it's very welcome.

And we also have--still we have available from the development banks the guaranteed programs that they have up until before the crisis. Those programs are still open. So let's say, if we continue to originate SME loans, for example, if we wanted, we could draw down on the guarantee program that NAFIN has for SME, but those have not been canceled. This is what we have so far.

Nicolas Riva
Okay. Thanks very much. Thank you.

Rafael Arana
And the only thing that you said is that we will use this liquidity for new loans. No, I think that will not be the purpose of the program. I think the purpose of the program is to provide liquidity, because that will create a very unstable market that people would like to try to poach, based upon funds that are really devoted to liquidity. So, I think we will stay with our clients, and if we generate new clients, it will be based upon our own liquidity, not this liquidity.

Nicolas Riva
Okay. Thanks Rafael.

Rafael Arana
Thanks.

Operator
Our next question is from Claudia Benavente from Santander. Go ahead.

Claudia Benavente
Hi, thank you for the call. I was only wondering about the deferral program like a [audio difficulties].

Marcos Ramirez
Sorry, Claudia, I cannot hear you.

Claudia Benavente
The risk scenario has tight- now it's better?

Marcos Ramirez
[Unintelligible]

Claudia Benavente
Is it better now? Sure. No, I was wondering like about the commercial book. Maybe most of the loans not necessarily enter into the program of deferring the installments. So, I was wondering, taking into account that the overall risk, macro risk has deteriorated dramatically, should we see an increase on the provisions there solely because of using the expected loss basis provisioning model.

So, I was wondering if you could provide some color there. I understand that there could be many repercussions on a per-client basis, but I was wondering only regarding the expected loss base issue. Would see an important increase in provisions because of that on the commercial book? Thank you.

Marcos Ramirez
Ursula, please go ahead.

Ursula Wilhelm
Claudia, let me clarify something. The deferral program is only for consumer credit and SMEs. The SME book is worth MXN 32 billion, and it is included in the commercial book, but as you can see, the majority of the commercial book is made up for loans that go to middle market and larger companies. This book is not part of the deferral program. We are handling on a case-by-case basis, talking to the--to our customers and understanding what the situation is with them. So, out of SMEs, everything else that is related to companies is being handled on a case-by-case basis and is not going to go into the deferral program, because it's not a [unintelligible].

Claudia Benavente
Yes, yes, no, that's my point. Since the commercial book is not included in the program, and probably you are running the provisioning model under an expected loss basis, even though their declines at the moment may not see a deterioration in their operations, you still probably will have to increase provisions because of that. Is that correct?

Rafael Arana
Claudia, this is Rafael. I think it depends on a case-by-case basis. Basically, what you're doing at this point in time is that you go to the client and you provide a liquidity line for the client in the process that you start the restructuring process. So, if you don't achieve that the client can really go through this process, then that will be an increase in reserves, yes. At this point in time, what we have seen with our commercial clients is that we are--once they know they will have the liquidity that we promised to them, I think they are much more at ease on that. Eventually, do we see an increase in provisions? Probably yes for clients that cannot go through this process, but we will see, as soon if the talking on a one-to-one basis doesn't work, then we will start to create reserves? Yes. We don't know exactly at this point in time the amount, but we are doing everything in order to try to minimize this.

Claudia Benavente
Okay. Thank you, Rafael. No, the thing is that what I was wondering is that at the end, you incorporate in the model an input to outline a little bit of the framework of how the industry will be performing. If the industry as an overall is deteriorating, then without then maybe talking to the customers, there should be an important deterioration in that front. Only to give an example, like toll roads, even though they are there, the traffic has been reducing dramatically. So, their sales or revenues are going to be lower. So probably, they still got an important cash position, but still the environment as an overall is weaker. So that was like the question that I had.

Rafael Arana
No. Yes, and you're right, Claudia, if we know that this is going to go for 6 or 7 months and there will be no--not an end in sight, I think what you say is exactly right. I mean that will be a very strong deterioration of some of the--I think we expect this goes to start to reactivate sooner than that, but we are--that's why we are going, and as Ursula mentioned, talking on a one-to-one basis to each of the clients.

And let me give you an example because--on tourism. I think the other day, one of your colleagues was asking, do you have strong collaterals on the tourism side? Yes, we have very strong collaterals. I mean, prime properties are, but that's not the problem. I mean, the problem is not that the collateral is not there. The problem is that when the hotels are going to open again, and that's how long do we have to work with them on the liquidity issue in order for them to allow them to start--restarting again in Cabo San Lucas and Cancún. That's where mostly of our properties are.

So, it's a matter about how long this really is going to take.

Claudia Benavente
Thank you so much Rafael.

Operator
Our next question is from Geoffrey Elliott, who is an autonomous investor. Go ahead.

Geoffrey Elliott
Hello. It is Geoffrey Elliott from Autonomous Research. Curious to get an update for those of us not on the ground in Mexico on the social distancing. What does the compliance there look like? And then you kind of gave a time frame for how long you expect that to last. I think, 7 to 10 weeks was the kind of time range you discussed. How realistic do you think that is? We've seen lockdowns in lots of countries be extended already. Thank you.

Marcos Ramirez
Thank you. Geoffrey. It's a tough question. So far, our analysts, and I think the average is that we are expecting 7 weeks around out of total lockdown, and then to start to reopen again, but it's too early to say that it has to be--with the climate that has to be with everything.

So, we still don't know that--we're seeing, though, that it will go by states. There are northern states that when they are doing the things, I think, right, and they will come out first. So, it's going to be different in the whole Mexico, and you will see some difference, I think, in the future. But still, it's too early to say something about that. Sorry, I don't have the answer.

Geoffrey Elliott
And in terms of the compliance with the measures, how good is that?

Ursula Wilhelm
No, the compliance has been generally well behaved. I mean, people are not--if you go to the streets, let's say, of Mexico City, you will see there's almost very little people, very little movement. Schools are closed. Some of the factories that are not related to essential economic activity are closed, and so, it's been working.

Geoffrey Elliott
Thank you.

Marcos Ramirez
Thank you.

Operator
This concludes our question-and-answer session. I would now like to turn the conference over to Marcos Ramirez, CEO, for closing remarks.

CONCLUSION

Marcos Ramirez
Thank you, everybody. I hope you are doing well with your families. And if we have something to say, we will meet with you first, and if not, in 3 months from now, we will discuss how this evolves. Thank you very much to everybody, and thank you, the team of Banorte. And let's wait for the best. Thank you.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.