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Q1 2021 Grupo Financiero Banorte SAB de CV Earnings Call

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PRESENTATION

Tomás Lozano *Grupo Financiero Banorte, S.A.B. de C.V. - Head of IR, Financial Intelligence and M&A*

Good morning. I am Tomás Lozano, Head of Investor Relations, Financial Intelligence and M&A. I would like to welcome you to Grupo Financiero Banorte First Quarter Earnings Call for 2021. I want to take this opportunity to thank you once again for your participation in our conference call survey. We have reviewed your comments and recommendations from the last call, and they help us to improve for you.

Please note that today's presentation may include forward-looking statements that are subject to risks and uncertainties, which may cause actual results to differ materially. Our CEO, Marcos Ramirez, will provide highlights for the first 3 months of the year, which show early signs of economic recovery in Mexico and the impact for the group. He will guide us through the main financial results for the quarter and will provide an update on the main ESG initiatives. Later on, Rafael Arana, our COO and CFO, will provide further detail on asset quality and other relevant financial and operating results. We will conclude our call with a Q&A session. Thank you.

Marcos, please go ahead.

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

Thank you, Tomás. Good morning, everyone. Thank you for joining our call. The first quarter of the year started with great uncertainty regarding the [growth] and depth of the second wave of the COVID-19 pandemic in Mexico and around the world. There was a regrettable surge in the number of new cases and [dead falls] and new lockdowns were announced across different states in the country. However, after peaking in late January, new cases gradually declined during February and March, and this enabled the government to resume economic activity earlier than originally anticipated.

The COVID-19 vaccination program in Mexico also contributed to lower [in continuing rates] at the most vulnerable sectors of the population, such as elderly citizens and medical staff received their first dose in February and March. As of today, more than 14 million doses have been applied. Another key driver of this less severe impact was the fact that essential industries such as manufacturing, construction and mining did not stop operations. And this was instrumental to preventing a deeper impact to economic activity.

Furthermore, Mexico's commercial ties with the United States have also contributed to higher manufacturing and trade activity. The strong fiscal stimuli programs recently announced by our neighbor country have fueled external demand while also boosting remittances, which are expected to reach another all-time high this year after peaking in 2020.

In light of these factors, GDP estimates for 2021 have been recently revised upward and market consensus is set to 4.6%. Inflation is also expected to rebound to 4.7% mainly driven by noncore components, specifically energy. The Central Bank is expected to maintain rates at their current 4% level for the rest of the year with potential room for a first hike in December. Therefore, the guidance provided at the beginning of the year, which assumes a 4% average rate still holds.

Midterm elections will take place on June 6. The most important election in history of Mexico with more than [20,000] positions open for election, including all 500 seats of the lower house and 15 state governorships. The outcome will certainly have a relevant influence on the ruling parties participation in the lower house and on the course of the second half of the presidential term.

At Banorte, we have remained close to our customers and employees. The bank is fully operational with the majority of our administrative personnel still working remotely. And at our branches, we continue to observe a strict health protocols. All the consumer and SME support programs for our customers have come to an end. And as we have been communicating, the results were better than anticipated. Less than 1% of our loan portfolio has not resumed payment. And we have dedicated teams to provide personalized attention and offer flexible solutions to normalize their payment status.

Moving on to the Slide #4. Our provisioning levels are back to the normal methodology with no extraordinary provisions recorded during the quarter. We have taken proper measures to write-off specific portfolios in advance. Therefore, cost of risk is gradually returning to its pre-pandemic average.

The effects of this are also evident on the net income for the group on Slide #5. After the extraordinary provisions booked in December, net income in January had a relevant rebound, and March numbers are already at pre-COVID-19 levels despite a lower rate environment, almost 300 basis points below that of March of 2020. ROE is also showing a strong recovery driven by lower operating expenses and expected seasonality in the insurance business brought by premium renewals during the first quarter of the year. Capital accumulation at the group level is still sorting the ROE as we continue to hold the [on pay] 2019 dividend. We have recently received authorization from the regulator to distribute 25% of the 2019 and 2020 net income results. And we will continue our efforts to obtain authorization to distribute the rest as early as possible.

Taking a closer look at our revenue line is Slide #6. Net interest income was pressured by the lower rate environment. However, it was partially offset by insurance premium seasonality. During this quarter, there was a relevant increase in COVID-19-related claims, and this also reflected the NII of the quarter.

On Slide #7, lower activity in credit and debit cards both slightly lower fees charge while fees paid are still higher as we rely more on external sales forces to originate mortgages and auto loans. As you can see also on Slide #7, mobile adoption and online transactions have redefined customer behavior for good.

Now on Slide #8. Loan growth was primarily driven by consumers, specifically mortgages and payroll loans. Auto loans have remained stable, although new car sales have not yet recovered. We continue with a prudent approach on credit card origination, prioritizing asset quality. I would like to emphasize that the increase in NPLs is the result of a gradual return to pre-pandemic coverage as the consumer and SME portfolios resume their normal operations after all relief programs have come to an end.

Our nonbanking subsidiaries, that's on Slide #9, showed solid results in the broker sector due to higher interest income and trading days. While our annuities business was flat mainly from higher expenses associated to new projects and investments.

The insurance business on the Slide #10 show its seasonal increase driven by premium renewals during the quarter. However, we saw an unfortunate increase in claims in the life and health insurance portfolios from COVID-19-related cases, which explains the relevant annual decline in its net income.

Switching gears to ESG on Slide #11. I'm happy to announce that earlier this month, we have published our 2020 integrated annual report, which this year incorporates a greater disclosure of our ESG initiatives. This is our first year to report under the SASB standards.

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And you will also find an updated materiality matrix among other additions to our report. As in the previous quarters, we have included supplementary ESG information in the conference call presentation for the [review].

As a final comment, over the past months, we have been designing our medium-term strategic plan, which is centered around our next decisive steps into the digital world. We are preparing an Investor Day, where we will provide specific details, financial metrics and detailed time lines for different projects in the pipeline. We will be sending the invitation over the next few months. And we look forward to seeing you there.

With this, I conclude my remarks, and now Rafael Arana will give you additional detail on the main operating and financial update for the group. Rafa, please go ahead.

Rafael Vitorio Arana de la Garza *Grupo Financiero Banorte, S.A.B. de C.V. - COO & CFO*

Yes. Thank you very much, and everybody, for attending the call. I will try to concentrate on the main issues for the quarter. As you can see on the slide, we continue to be very prudent on the balance sheet, continues to be solid as time goes by. I think it's becoming the capital strength of the bank, the liquidity purposes of the bank continue to be very strong in order to be able to cope with any unexpected issues in the market.

Expenses, as you know, we did at the last -- in December an extraordinary around MXN 500 million in December that really put a tick on the cost to income ratio and deteriorate the cost to income ratio, but basically was to clean up all the efficiency process that we did in part in December and January. And now expenses are under control and even below guidance on this part.

The net interest margin of the portfolio continues to do well. I think when you look at the net interest margin, we will see that in a minute of the bank around the 5.8% that has been very, very stable and steady. This has to do with the cost of funds and also with a better mix. I will talk a minute in the -- related to the characteristics of the cycle.

The capital numbers, just to give you is 21.7%, and core Tier 1 is 15%. As Marcos mentioned, now we have the goal for the 25% of the net income of '19. And in the coming months, we are also been approved to pay 25% of net income of '20. So in the year, for sure, we will be paying the -- the '20 -- the '19, 25%; and the '20, 25% okay? That's what we have been approved to do so. Okay?

On the next slide, what you see the NIM and I think that's a critical piece for the evolution of the bank. The NIM continues to be very resilient, as you can see on the graph. It stays at the same level that we have in October, September, November on that part, even with a strong reduction in the interest rates, close to 300 basis points. But I think the NIM of the bank continues to be resilient. The trend in the cost of funds continues to go down and the level of the accumulation of deposits and the mix on demand deposits continues to improve. Now we are above the 70% in demand deposit that is really helping us to put the cost of funds down and with a very good growth year-on-year, close to 12% when you add also the time deposit piece.

The margin sensitivity evolution continues to do well. I think when we eliminate the fixed rate hedges that we have, we would have been very flexible and accommodate any issues on the market, but the sensitivity stays at the same level that we have been able to cope with all these ups and down -- up and down in rates and currencies.

The expense line, I would like also to take a minute to go to the expense line because there have been some concerns about how fast the expense line is going to go down in Banorte. And I think in this graph, you can easily see that after the December extraordinary provisions that we put on the expense line. Now personnel expenses are growing year-on-year, 2%. Professional fees, that has to do also with the evolution of all the recovery units and also the mortgage and car loans linked to that and also the corporate and commercial. So it's going up. So it's good because it shows the activity that we have on that part on the credit lines.

So all in all, we see an increase year-on-year around 4% for this. As you know, we said inflation plus 100 and 150 basis points. I think at this point in time, we are confident that we'll be below that part of the guidance. When we have more information, we will put that on -- in the new part of the guidance.

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The capital ratio of the bank, as you can see, that continues to be quite strong. We are net providers of capital because of the structure of the group, how the subsidiaries and the bank continues to evolve to a much more strong capital base on a month-by-month basis. Relevant to say that we haven't need any release of the waivers that CNBV allow the banks to have. And I think Banorte is way above those numbers, the same that in the liquidity part.

As you can see in the next graph, liquidity continues to be very strong. Obviously, liquidity has a price. It's hurting us on the net interest margin. Now you will start to see this number trending more to a normalized level around 160 in the coming months. That will also help us on the margin line. But I think during the pandemic, you can see on the graph how fast Banorte was able to immediately put a surplus on the liquidity for any issues that were related to the pandemic. This shows how fast and how efficient and flexible the structure of Banorte is.

We -- at this point in time, there has been some good questions from investors and analysts that if we are going to change the guidance, we would like to wait at least the next quarter to see if we see a change in this. There's some notes about a weakened -- obviously, the market is starting to refresh itself to grow again. But what is very important for Banorte in the loan growth is that under this environment that is just starting to move ahead and coming back to pre-pandemic levels, Banorte has been able to gain market share at a very considerable pace because on the overall loan book, we gained 112 basis points on a year-to-year basis. And if we go on a piece by piece, corporate and commercial, 132 basis points in the market share and the mortgage book, 34 basis points; in credit card 35 basis points, even though credit card reduces its growth. It is a lot less than the market.

In car loans, we grew 147 basis points. And in payroll, that is becoming again natural products for us on the growth line on the margin and on the loan book is also growing 131 basis points. This is in what is considered a weak environment. But what is relevant about this is that we are taking advantage of this to gain market share, to grow our loan book in a very safe and secure way. As you saw in the -- when Marcos presented the numbers on the credit numbers, much better than expected and at the same time, continue to expand and grow the market share.

With this, I conclude my remarks.

Tomás Lozano *Grupo Financiero Banorte, S.A.B. de C.V. - Head of IR, Financial Intelligence and M&A*

Thank you, Marcos and Rafael. Now we will continue with our Q&A session. Please raise your hand on the platform, and we will unmute you when the turn comes. Questions will be ordered automatically on a first-come-first-serve basis. Jose Luis and myself will be calling the name of the person that is next on the line. If there are any technical difficulties, please let us know by using the chat. Thank you. We are now ready to start the Q&A session.

QUESTIONS AND ANSWERS

Tomás Lozano *Grupo Financiero Banorte, S.A.B. de C.V. - Head of IR, Financial Intelligence and M&A*

Thank you. We will take our first question from Thiago Batista from UBS. Thiago, please go ahead.

Thiago Bovolenta Batista *UBS Investment Bank, Research Division - LatAm Equity Research Analyst of Banks*

I have 2 questions. You guys had discussed a bit the dividend strategy. After the approval of CNBV of the 25% of earnings of '19 and '20, how much dividends we can expect? So I know that up to now, the banks can only pay this amount, but is it possible to believe that, let's say, a new round of payments should be possible in the second half? This is the first one.

And the second question is about the margin evolution. When we look to your NIM this quarter, we saw a decline in the NIMs of the bank, but an increase in the overall margins. What we can expect for the bank's margins going forward?

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

Thank you, Thiago. (inaudible) The dividends, as soon as we can, we will pay up to 50% as we were paying in the past. It depends on the -- with the regulators, the [talkings part], we see that in near future, I guess. And talking about the margin evolution, Rafa, please.

Rafael Victorio Arana de la Garza *Grupo Financiero Banorte, S.A.B. de C.V. - COO & CFO*

Yes, the margin, Thiago, has to do, I think what you should be looking at. And I think we are going to start to see an evolution of the rates on an upward trend. So if we continue to be at the same level of rates that we have, you should be looking at a margin around 5.6, 5.65. But with a trend that we expect this should be also accelerated that number to above the 5.8. If we -- what we expect that the rates will start to pick up. But with the scenario like the current one that we have is 5.65 is what we think is that we can sustain the margin for the bank.

José Luis Muñoz Dominguez

Okay. We will take our next question from Ernesto Gabilondo from Bank of America. Ernesto, please go ahead.

Ernesto María Gabilondo Márquez *BofA Securities, Research Division - Associate*

My first question is on asset quality and provision charges. As you mentioned in your starting remarks, today, less than 1% of the loan book has not resumed payments. So after this first quarter, how much of the delayed portfolio was restructured? Can you share how has been the cleanup of the portfolio? I remember you were starting with a credit card portfolio. And then in the next quarters, you will continue with SMEs. So if you can provide more color on this, I think will be very helpful.

Also, we have seen very positive asset quality trends in the quarter. So how should we think about your cost of risk guidance of 2.1, 2.3? Do you think it could be more in the low range? Also, I remember you saying the possibility to release provision charges at some point. So what could be the amount that you can release. And what do you need to see in terms of asset quality in order to do this? What should be the NPL ratio and cost of risk to release the provision charges?

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

Thank you, Ernesto. Interesting, the 3 questions. I will start the asset quality, then Rafa and then also [Carlo Salazar].

Rafael Victorio Arana de la Garza *Grupo Financiero Banorte, S.A.B. de C.V. - COO & CFO*

Yes. The asset quality, Ernesto, as you can -- you said and Marcos mentioned better than expected, all the programs have finalized. So now we have a very clear view about how many of the clients were in issues that needed to do a restructuring or tailor-made programs for them. So that's, as you mentioned, less than 1%, around 8,000 clients that are -- of the 632,000, 8,000 clients are already in a one-to-one basis with the recovery unit. And I think we have been received very positive feedback from how the clients evolution.

Let me just give you an example of how we are dealing with these clients. They have been paying their mortgage for 5, 7, 6 years and suddenly they have a reduction in their salary and they have to accommodate a different type of payments. We set up a specific tailor-made type of loans, well, not loan -- a relationship with them. So we are doing that in a one-to-one basis. The recovery unit, along with the products and the risk types, are doing an extremely very, very positive work with this. So we are very confident that this number will continue to go down as time evolves.

I would say that, that's in a nutshell that we are getting all the advantage of having, as you know, the best recovery unit for many years at the bank, aligned with a very specific product for the clients. So we don't see additional deterioration of the -- what I see is that this part of the loan book will continue to improve based upon these tailor-made products that we are providing the market with. On that, I will then go to Gerardo, and then I go back to some on the release and the others.

René Gerardo Pimentel Ibarrola *Grupo Financiero Banorte, S.A.B. de C.V. - Deputy MD of Corporate Banking*

Okay. Yes. Thank you. Thank you, Rafael, Marcos. Well, for -- regarding your question, Ernesto, let me provide you some color about the loan book trade practices. I will say that there are 4 main drivers of what we have done regarding asset quality within the financial group. The first driver is that we have adjusted the loan portfolio strategy to prevent an increase in P&L volatility. That's very important for us.

The second driver is that we have [reformed] trade management practices to prevent exposures from deteriorating. So we have acted in a preemptive manner. I will say that these first 2 drivers have provided a good market segmentation, a good deal origination. And also, I will add a third driver, which comes from our retail and wholesale bankers that initiated a process of rethinking deal origination to reflect changes in risk appetite under the pandemic scenario. That has been very important because we are not just doing corrective collection

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about bad loans, but we are also doing some preventive practices regarding the loan book, and that continues to be very important.

And the fourth driver regarding asset quality is that in -- from an institutional point of view, we have provided and made sure that new training and incentives to personnel strengthen the commercial network in a risk basis performance evaluation. That continues to be a very important value within our credit culture in order to protect our asset quality.

So there are -- regarding these loan book credit policies, these 4 main drivers, what have been the results so far? You have seen those, and I will just say 3 things. PDLs, regarding the mix at the financial group level are below budget. Charge-offs are below budget and provisions are below budget. Those 3 things are very important to know because what you see in our first quarter report comes from the things that we have mentioned.

So the PDL mix continues to perform better than expected, given that credit and collection processes are multifactorial and also of a holistic nature, as you may know. I can just for the quarter of it, regarding asset quality at 3 or 4 main characteristics. We have evaluated custom-made solutions for our customers. We have provided dynamic and adaptable credit collection policies. They change over time and are reviewed weekly. And second, I would also add that we have frequent communications with our customers and quick and easy debt settlements with our customers.

Also, there are faculties in place in order to empower our employees and all the account executives in charge with billing, collections with the necessary faculties in order to proceed and be successful. We are very pleased about the evolution of those things because, as we have mentioned several times, we expected worse, and that hasn't happened.

Rafael Victorio Arana de la Garza *Grupo Financiero Banorte, S.A.B. de C.V. - COO & CFO*

Yes. Concerning the what doing -- in addition to what Gerardo just mentioned, the potential release of provisions, if it will happen, it will happen at the end of the third quarter. That's where we will have much more clarity about the things. As we see things up to today, we see that we have enough provisions to cover different stress scenarios. And we see a real possibility to release. I cannot say how many, but it's -- because it's too soon. But we see possibility to release on that part.

The other thing that I think is worth mentioning about your question about this is when do we going to be ready for the release of provisions or what will be the key trigger of the release of provisions. Marcos mentioned that the evolution of the NPLs will now be trending to the natural level of the bank that we have been running the bank in the past from 1.8 to 2.0. The cost of risk from 1.8 to 2.1. We see already a good trend on that, and we are surprising some of the portfolios because it seems that they will be below the normal trend of the bank. When we see that, that materializes, I mean it's on a continuous basis, it's when we will really start to releasing the provisions that we think could happen if it happens in the third -- at the end of the third quarter and for sure, in the fourth quarter.

On the credit card book that you see a pickup on the NPLs. Now we start to do the charge-offs on the credit card that will normalize in the second quarter. And that will be like an example of the most risky part of the portfolio, how fast it will trend to the normal business because in the mortgage book, in the car loan book, in the payroll books and even in the SME group, the numbers on NPLs are well below the usual trend that the bank has. And even though the provision that we create and the write-off, as you know, the 7.3 billion, it seems to us that up to today, we have only used 25% of those provisions because we have been very disciplined to say these are COVID-related provisions and we used COVID-related provisions.

But we have only needed to use only 25% of those provisions. And most -- with most of the portfolios have now ended, it seems that, that could make a good projection for the remaining of the year. We continue to be very vigilant. We are not saying that this is over at all. I think the recovery unit and risk and products are all taking very good care of this. But up to today, we are very -- the surprise is very positive for us about the behavior of the clients, how good the products for the banks have been in order to sort it out the situation. And at the same time, how fast we can really decide on a one-to-one basis in order for the clients to be fully at ease with us and that this -- we will pass this bad time together.

René Gerardo Pimentel Ibarrola *Grupo Financiero Banorte, S.A.B. de C.V. - Deputy MD of Corporate Banking*

Yes. I will also add without being cocky, and I underline that without being cocky. Overall, restructurings in our wholesale banking part of the business have occurred in the cases, sectors, projects and geographies we have foreseen. Up to now, there have not been any negative surprises or nothing that we have not been expected prior to that.

Ernesto María Gabilondo Márquez *BofA Securities, Research Division - Associate*

This is super helpful. Let me make you a last question. Which do you think are the potential tailwinds for Banorte. Is it upside risks to GDP and loan growth? Is it the potential release of provisions or a potential hiking cycle benefiting NIMs or your potential digital transformation?

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

I would say that the last one because that's forever. They will come and go, but we need to find something for the future or really have a tailwind forever, and we will go. That's why we will release our digital plan and -- we're new, it's called 1, 2, 3, which is the new 2020 that we will receive the lease I don't know, in a few months, and you will be invited.

Rafael Victorio Arana de la Garza *Grupo Financiero Banorte, S.A.B. de C.V. - COO & CFO*

Yes. And if I may add, Ernesto, we will continue to see a good evolution on the margin on the pricing side, a good evolution on the risk side. Expenses will be under control. I think the market share that we're gaining, I think, it's quite remarkable. I think BBVA and ourself are really gaining market share on this based upon the liquidity and capital position and also the origination models and how attractive the bank has been in releasing the digital origination processes on this.

So we see in a weak environment because the environment continues to be weak. We have been able to really go for the clients that we want, grow with the clients that we want. I think the cost of funds will be another tailwind that will help us in this. We will normalize the fee side because, as you know, the fee side has been impacted by the payments that we need to do for the external sales forces, but that will go and trend down based upon all the digital origination process. When you see the regain of growth of the fee side on the transactional side and also on the electronic field part of the bank, I think it's remarkable. We are growing 100% in some cases on that, and we rebound from the very low end of the pandemic.

So the tailwind is not coming -- it's really coming based upon how fast we see that the group is moving from January to February, from February to March. So this is moving by the month. And is moving in the right direction. While we are not more optimistic in some of the ways because still, there's a vaccination process going on because it's still a possibility of another wave. So I think we have to be prudent. We are very happy that we can release 25% of dividends on '19 right now, and we will release 25% of the '20. We are very pleased with that, and we will push, as Marcos says, in order to be able to pay more in the remainder of the year once we get the approval for that. So the tailwinds are not strong, but there is tailwinds for Banorte, yes.

Tomás Lozano *Grupo Financiero Banorte, S.A.B. de C.V. - Head of IR, Financial Intelligence and M&A*

Thank you, Ernesto. Now we will take a question from Jason Mollin from Scotia. Jason, please go ahead.

Jason Barrett Mollin *Scotiabank Global Banking and Markets, Research Division - MD of LatAm Financial Services*

Can you hear me?

Tomás Lozano *Grupo Financiero Banorte, S.A.B. de C.V. - Head of IR, Financial Intelligence and M&A*

Yes, Jason.

Jason Barrett Mollin *Scotiabank Global Banking and Markets, Research Division - MD of LatAm Financial Services*

I appreciate the presentation. One thing, I mean, clearly, the trends in asset quality were very encouraging, and you just mentioned some other encouraging trends. But some of the pain from the pandemic. This quarter, we saw in the insurance subsidiary with a large -- you disclosed, I think it was MXN 1.8 billion in claims and damages. Can you talk about that? And is that something that should be going down as well and actually helpful in upcoming quarters? Or there are still more claims you expect in the future?

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And then my second question is more about the guidance. And you reiterated the guidance, you say I think correctly, it's prudent to see how things are going. But it also showed me, I think, the diversification of your earnings this quarter, I mean, the bank was already close to 18% ROE. That's the low end of your target for the year. The broker/dealer, you mentioned, had some good trading gains, that's set to 26% ROE along with mutual funds. Insurance, even with that claim was above 30%. The Afore seems on the lower side, but I guess maybe you could talk about that if there's upside to that 13% ROE. But I think the diversification is also something that differentiates Banorte from some of your peers. If you can talk about that? And I guess we'll hear more about the digital side and the new ventures, I guess, that could lead to more diversification in the future. If you can touch on those subjects, that would be helpful.

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

Thank you, Jason. I will go first for the insurance question. [Afore] also is with us. Fernando Solis, please go ahead.

Fernando Solís Soberón *Grupo Financiero Banorte, S.A.B. de C.V. - MD of Annuities & Pensions*

Yes. Thank you, Marcos. Hello, Jason, and everybody. Well, yes, as was mentioned, I mean, we experienced very important number of claims and also the frequency was very high in January and February. It has become lower in the past month. And hopefully, it will keep coming down. Actually, what we observed in January and February was much higher than the previous months of last year. So of course, I mean, last year, the first quarter, we didn't have COVID in the -- I mean an impact in insurance book due to COVID. This quarter, we experienced a very, very important -- a very severe impact because of what I just mentioned.

Now it's very important to say that the net income of insurance company would have been 8% higher than the previous year without this impact. And also, it's very important to say that as usual, as you know, we are always very conservative with respect to the provisions that we do make for the future. And since there's not much experience in the markets of pandemics of these highs. I mean, as you know, the last one took place like an important one, took place like 100 years ago.

So we are using a very conservative model to create provisions. Hopefully, those provisions will not only be enough, hopefully, if the trend keeps going down and if we do not experience a third wave. And hopefully, the vaccination process accelerates, and of course, as more people has been vaccinated, the less likely that the impact will go up. So hopefully, we will keep seeing this trend to go down. And hopefully, we will not have to pay as much as we have been doing in life, mainly, but also in medical expenses, our exposure to the life book is higher than the one that we have in medical expenses. So hopefully, we will not be paying as much as we did in this last quarter.

And hopefully, we will not keep increasing the incurred, but not reported reserve. And as I just mentioned, using actually the criteria because we do not have experience on this before. And therefore, we will see if that's the case, that even maybe we will able to release some of these provisions by the end of the year. But as Rafa mentioned, for other things of the bank, I think that we will have to wait and see at least to the third quarter of the year to see what happens. So that's what I would say about the insurance book.

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

I'm talking about, Jason, about the diversification, yes, for instance, it's key to both the way we want to, to be seen in Mexico. And yes, we have insurance -- we have the call centers, the branches, the (inaudible). Everything is set in place. And it doesn't matter how the market moves. We will be there. The idea is to be where the market is going to be and that's why the digital program for us is so important. I will ask Franco Martha to give you some color on that, please.

José Francisco Martha González *Grupo Financiero Banorte, S.A.B. de C.V. - MD of Means of Payment, Digital Banking and Technology*

Thank you, Marcos. Thank you, Jason. As a continuing of the 2020 strategy, we start defining the next steps a couple of years ago, and we're working in 3 different streamlines. One, and I think the most important of the 3 is the accelerate the digital transformation of Banorte. We are working not only on the mobile bank and the mobile application that we will launch a new release in a couple of months. We are working also with the acquiring business, as Rafa mentioned, growing tremendously in the number of transactions. We are creating a marketplace for SMEs where they can show off the -- your products.

And some other different strategies and projects within the Banorte digital transformation. But we are also working, as you know, in the joint venture with Rappi. We have now more than 100,000 credit cards approved. 86% of them are already making transactions. So --

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and we are planning to have close to 400,000 by the end of the year. So that's moving very, very properly. The main driver of that joint venture and that success is taking advantage of the large amount of data that we have from the customers that are using the Rappi application, where they can ask for groceries or for food, meals, et cetera, and also being in the first page of the cell phone.

So that's the second streamline and the third is the digital bank that is going to be created. We are working in -- we're in desktop stage, but we already know how the strategy, how it's going to work. It's a bank that will be completely directed to the personalization of the services and products. We are thinking that it needs to be aligned to the motions of the customers. We want the customer to really love the bank, love the experience of the bank. Obviously, it has to provide journeys that are completely flawless and very aligned what the customer is experiencing in the moment, very aligned with the context of the different -- of each of the customers.

In that digital bank, we're going to start working with a debit account, personal loan, a payroll loan. 3 months later, we are pretending to launch credit card and 3 months later an investment account. We are planning to have a friends and family by the end of maybe July, August, and it will be a friends and family within a very close loop of persons because we don't have the authorities approval yet. We're pretending to have that by the end of the year, but the last 4 months of the year, we are going to run and run and run tests to be sure that we are completely aligned to what we believe is going to impact the -- positively the customers.

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

If I may just add to the Afore question. And I would also, Jason, like to go about what Fernando mentioned about this prudent way. But if you look at premiums, retain insurance premiums, we have a growth in the insurance business of 26% year-on-year. So premiums grew very strong. Obviously, technical reserves, as Fernando mentioned, grew 37%, and damages on claim, 77%. So if you say about a potential tailwind is when this goes and turn to normal.

Now concerning the return on equity of the insurance business that, as you say, is above the 30%, the annuities business above the 20%. And the bank also remarkable in March rebounded to 19.8% on return on equity, saying that what we have been saying before that we can -- we see the bank close to the 19%, 20% return on equity on a steady basis.

But the Afore, remember that holds a big portion of goodwill. If you strip the goodwill portion and you go to tangible, the returns on the Afore is around 40% return on equity. So I think that's also relevant to say. But the architecture of the group, as you may say, Jason, helped us to really funnel capital on a continued basis for the group, leaving the bank trade generating some capital and also it's relevant to say that we haven't moved capital from the subsidiaries to the group. So you'll see also an effect on that on the return on equity. Once we start with moving capital again to the group, the subsidiaries will show also an improvement in the return on equity.

José Luis Muñoz Dominguez

We will take our next question from Jorge Kuri from Morgan Stanley.

Jorge Kuri *Morgan Stanley, Research Division - MD*

I have 2 questions and just a quick clarification. On the -- on your loan growth guidance, I get it that it's a slow recovery on this year on the back of a very complicated 2020 and 6% to 8% seems to be in line with what the macro environment calls for. But given the improvement in your liquidity, given the improvement in delinquency and risk appetite and hopefully on economic recovery going forward, and you also mentioned taking market share. What do you think would be a more normalized level of growth for Banorte if we think about 2022 and 2023. And I also understand that the macro in Mexico has changed given the new policies on foreign investment and government investment, et cetera. So wanted to see what you think is the new normal for credit growth if we think about 2022, 2023.

My second question is on digital bank, sorry. How do we think about this digital bank that's in the works? Is it a different brand to a different segment of the population? Or does it substitute your current digital platform at Banorte, and this is the way your Banorte client are going to access the bank? Or is it just competition with the current digital? So just help us understand where does the digital bank fit within Banorte and its own digital strategies? And then the clarification is just on the dividend, sorry. So the dividend payment, is that going to be -- is there a specific month that has been determined for that?

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

Thank you, Jorge. Let me start -- I will ask Gabriel Casillas to give you some color on the economic growth of the country, and then we will discuss how many times we can outpace this goal in the credit growth of the bank. So Gabriel, please give us a color of what you think about the '21, '22 and '23, please?

Gabriel Casillas Olvera *Grupo Financiero Banorte, S.A.B. de C.V. - Deputy Director General of Economic Analysis*

Thank you very much, Marcos, and thanks, Jorge, for your question. As you know, I think, the economic prospects for the world has been improving. And in Mexico is no exception. As you know, we are also going to be quite benefited from the U.S. stimulus packages that have been approved recently, the joint to the other 5 fiscal stimulus packages approved last year. So in this context, we recently revised our forecast on the economic analysis area from 4.1% that we have to 5.3%. We did it about 2 months ago. And one of the main differences is exactly the latest fiscal stimulus package approved in the U.S. So in our view, those \$1.9 trillion will help the Mexican economy with 130 basis points of GDP growth. That's the main thing.

So this year, next year, Mexico will benefit from 2 things. The rebound from the big decline last year of 8.2%. And the second, all this boost in fiscal stimulus package in the U.S. And moreover, we're not taking into account the -- probably approval of the new infrastructure project in the U.S. -- infrastructure program, sorry. So in this context, definitely, these 2 years, I think there's going to be benefit from that. So for next year, it's highly likely that we'll be growing around 3% or even slightly more towards 4%.

Then the big question is 2023, whether the Mexican economy now that it's no longer going to benefit from the U.S. fiscal stimulus packages and probably the fed will be starting to hike or starting announcing that they will hike interest rates and the arithmetic component of growth after a big decline will not be present. So the big question is going to be whether we're going to be able to reflect the historical growth rate of 2.3% in the past. As Jorge mentioned in the call, there have been many changes here. But the changes that the government is doing, as you know, are mainly on energy loss, not another. Of course, there's some spillover effect, and the private sector is not investing a lot.

But people are -- firms, particularly local firms, are realizing that, well, it's not -- if you're not in the energy sector, pretty much you can invest, and you won't have any problems. So it's taking longer for them to realize this, but you start to see some investments, some pent-up investment that has been in the pipeline starting to [happen]. This is in terms of local firms.

In terms of foreign firms. Actually, we're seeing several important investments of companies, based upon 2 things. Number one, they want to diversify the China risk. As you know, the tension between the U.S. and China is not over with the exit of Trump. It continues to happen. It's there. And the second one is after the pandemic for the near-shoring thing, in which, as you know, companies want to have the suppliers closer to the consumption centers.

So in this context, actually -- this is benefit Mexico. So in this -- we're very close to U.S. economically and geographically. As you know, we're benefiting from that despite the things that have been happening in Mexico that, as you know, President Lopez Obrador, he's doing the things exactly by his book, he's by the book man. So he's been doing the things he said he will do. The social programs, infrastructure projects, being respectful with the Central Bank autonomy and fiscal responsible. And number four, the undo policies those are the ones that he's trying to pursue right now. He already, as you know, he undid the educational reform and now he wants to revert the -- all the energy reform.

So I think that's it, and we are quite optimistic about this in this context on. Thanks, Marcos. Thanks, Jorge.

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

Well, having said that, we are thinking -- I will go directly to the point to grow this year 6 to 8, to grow in the 2022 from 10 to 12. And also in the 2023 to 10 to 12. Basically, we have the tools, and we will go for that growing in the market.

Talking about the dividends. This year, we will pay -- this time, we will pay the 2019, the [75% of 2019], and we will call for assembly soon, and we will pay another [25% of 2020]. And we will work with the authorities to go for the rest of the dividends. Is that clear or no, Jorge?

Jorge Kuri Morgan Stanley, Research Division - MD

Sorry, the clarification I wanted is the timing of it, if you have any guidance on what quarter will those dividends hit.

Rafael Victorio Arana de la Garza Grupo Financiero Banorte, S.A.B. de C.V. - COO & CFO

Yes. The second quarter, the first one goes in the second quarter, Jorge. And the next one, we will try to go for the third quarter. But that's when the really it will happen on this. We have an assembly today to be presented to the assembly. Once we have the goal for the assembly, we will set up the date, exact date to that. I would say that second and third quarter would be our goal.

Jose Marcos Ramirez Miguel Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member

If the assembly approves, Jorge, the first part that Rafael mentioned will be paid on the 4th of May, if...

Jorge Kuri Morgan Stanley, Research Division - MD

Great. And then just my last -- my second question on the digital bank, if you will. Thank you.

José Francisco Martha González Grupo Financiero Banorte, S.A.B. de C.V. - MD of Means of Payment, Digital Banking and Technology

Jorge, this is Francisco Martha. We now learn that the financial services is not that the customers are going to come to us, but we have to go and serve them where they are, when they want and so on. And I want to remark that this digital bank strategy is [noted] by the pandemic. We have been thinking and we have been defining it at the end -- if we start defining it at the end of 2018. So it's going to be a completely different organization, a completely different brand. You can guess that it will be -- it will have a last name that's powered by Banorte, but it will be a different brand with different products. At the end, it will be a competition for Banorte, of course. But we believe -- or we are convinced that considering the cost to income ratio that we will have in the digital bank, we will be able to serve a lot of other type of customers that we are not serving currently in Banorte.

Tomás Lozano Grupo Financiero Banorte, S.A.B. de C.V. - Head of IR, Financial Intelligence and M&A

We'll take our next question from [Ricardo] from BTG. Ricardo, please go ahead.

Unidentified Analyst

So first, I want to understand a little bit how you're seeing the competitive landscape in terms of fintechs. We see that Nubank, which is a large fintech player here in Brazil is talking about entering the Mexican market? And how you see that? Are you preparing? You mentioned your digital strategy, but if you could elaborate on how the competition is doing, how you are preparing to deal with that. And also, if I may, if you could please repeat what you were saying about the growth for the portfolio that you're expecting consider this improving GDP scenario [you mentioned] will also be helpful.

Jose Marcos Ramirez Miguel Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member

[Ricardo], let me just give you an idea about the fintech and the landscape, the competitive landscape. What we saw on the pandemic, Banorte has been evolving a lot in the digital transformation. But even though now you can originate most of the products on our digital space, as Franco mentioned, I think this is key to understand the strategic motive that we have.

If you are a digital client, a digital customer, that you are very comfortable dealing on the digital space, maybe you are not willing to pay any more for infrastructure that you don't use like a very large set of branches or whatever you want to put in the physical infrastructure. So that puts the clients of your bank in a way at a risk because if somebody comes with an offer that really takes away the cost of that physical infrastructure, really puts you in a disadvantage of that. So the first thing about the digital bank and the new banks and they coming to us is that we have to be better than they are in the user experience, in the process that they are, but also, you have a lot of the strength of the financial group in that part.

So in a way, you are as fast and as nimble as they are but with all the strength of the financial group and the expertise of the financial group. So this is, in a way, a tactical movement to protect your own clients if they want to move to the digital bank, they will move so because they will get benefits on the cost side and data analytics that will be very rich on that. But I think in order to really compensate for the potential entrance of banks like this we needed to be better than they are and faster than they are with all the strength of the Banorte

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Grupo. So you will have a very nimble bank with a very specific goals on cost to income ratio and simplicity and user experience and Franco mentioned. But this is obviously an aggressive movement from Banorte to capture the digital space, but also a defensive move in order to protect the Banorte clients...

Tomás Lozano *Grupo Financiero Banorte, S.A.B. de C.V. - Head of IR, Financial Intelligence and M&A*

Thank you, [Ricardo]. I don't know if that was good enough for your question, or you want to explain perhaps a little bit more. Okay. So we'll take our next question from Brian Flores from Citi.

Brian Flores *Citigroup Inc., Research Division - Senior Associate*

Just to confirm, can you hear me?

Rafael Victorio Arana de la Garza *Grupo Financiero Banorte, S.A.B. de C.V. - COO & CFO*

Yes. Perfectly.

Brian Flores *Citigroup Inc., Research Division - Senior Associate*

Rafa, just a quick follow-up. Do you -- wanted to expand on asset quality, do you have any early delinquency rates that you're monitoring? And just to understand, when are you anticipating the peak of NPLs during 2021?

Rafael Victorio Arana de la Garza *Grupo Financiero Banorte, S.A.B. de C.V. - COO & CFO*

In SMEs? Sorry, Brian, in SMEs?

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

The portfolio, the portfolio.

Brian Flores *Citigroup Inc., Research Division - Senior Associate*

I'm talking about -- if can speak about...

Rafael Victorio Arana de la Garza *Grupo Financiero Banorte, S.A.B. de C.V. - COO & CFO*

Brian, you saw the peak in credit cards in the first quarter. You will continue to see peak on payables to the second quarter. And then on the third quarter, you will start to see some of the initial SMEs getting into that. But -- and at the end, and I would say all this process will go to the first quarter of '22. But I think the peak on that has to -- you have to understand that you have the peak, then you have -- you apply the charge-offs and then you go back to the normal levels that you anticipated and [you have been running the bank].

So there were some questions about SMEs. In SMEs, we are very surprised about the resilience of the SME world. I mean our clients are really, really, really struggling about paying and being very close to the bank, and we have been very close to them. Remember that we have a very important part of Nafin guarantees on SME that we have been using in order to clean the portfolio. But SME also has been extremely good surprise. If you are looking at on NPLs, 3.8 in NPL when we used to run the book around 7.1. So still a lot of room to -- for improvement there.

But that's another, very important surprise. I mean it's just a lot about the entrepreneurship characteristics of the Mexican entrepreneur. I mean these guys have been extremely resilient. Remember that they didn't receive any help from the authorities at all. So everything was coming from the bank. But they have been extremely responsible on this and more than willing to keep on going and going and going. So they adapt immediately to the new norm and very surprisingly a very good performance on the NPLs.

Brian Flores *Citigroup Inc., Research Division - Senior Associate*

Okay. And I just wanted to confirm, Rafa and team, are you confirming your guidance for the growth of the book in every segment as you did in the previous quarter?

Rafael Victorio Arana de la Garza *Grupo Financiero Banorte, S.A.B. de C.V. - COO & CFO*

Yes. Yes, yes, yes.

José Luis Muñoz Dominguez

The next question from [Edson Moria from Monex]. Please go ahead.

Unidentified Analyst

Do you hear me?

José Luis Muñoz Dominguez

Yes.

Unidentified Analyst

Just I want to ask 2 questions. The first one is related to this regulatory framework from the Mexican authorities that has been send and then pull back from the CNBV regarding to this passive orders and it's been said a lot. So I was wondering if you can give us your thoughts and color about this specific topic. And if you are considering a new -- I don't want to say regulation, but a new framework regarding on this?

And the second one is regarding to your net zero effort or strategy to 2050. If you can give us more detail about and if you can share with us the details about this net zero effort.

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

I will ask Gabriel Casillas to start with the net zero effort first. Go, Gabriel.

Gabriel Casillas Olvera *Grupo Financiero Banorte, S.A.B. de C.V. - Deputy Director General of Economic Analysis*

Thank you, Marcos. Thanks for the question. Actually, we are very happy that we were able to join this banking alliance because really, the -- all these ESG efforts are coming from top down. As you know, 1.5 years ago, our Chairman, Carlos Hank and Marcos, went to the UN in New York to sign the -- as founding members of the principles for responsible banking. So I think this is part of following up these commitments that now we have.

Now the thing is in order to be net zero for 2015 -- 2050, it would have to set up some objectives for 2030, some for 2040. So in this context, we'll start to, of course, to move away at a very gradual pace from all the credit part in our loan book of things that are not -- have big initials. But this is going to be a gradual effort. I mean it's 2050. So it's going to be quite gradual. The circumstances in the country right now, as you know, with the current administration that are benefiting more fossil fuels and everything will not allow us to move very fast at the beginning.

So instead of thinking about, let's say, a logarithmic approximation to this net zero, I think it's going to be more on the exponential side in which we start very gradually at the beginning. And then as we move forward towards 2030, we are going to be able to go faster. Also, I think -- this is, I think, the main idea. We just signed this agreement, and we're about to work on the shorter-term and medium-term goals. I think that that's the most important.

Rafael Victorio Arana de la Garza *Grupo Financiero Banorte, S.A.B. de C.V. - COO & CFO*

Thank you, Gabriel. And going to your question number one, the regulatory framework, I think this is very well maybe...

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

What was it -- actually, if you could repeat the first one because we have some noise in the line. So if we -- if you could repeat it exactly, what is specific regulatory issue you're referring to?

Unidentified Analyst

Yes. In the past week, it's on our knowledge that I think was the Ministry of Finance sent this regulatory framework to the broker dealers to pass this 30% passive order to the other stock exchange. So it's been said a lot, even Mexican Stock Exchange last -- no, this week

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mentioned in the call that it was an effort, but it didn't pass through because on the broker/dealer side, they didn't feel comfortable with this. So I was wondering if you are expecting another intent from the Mexican authority to pursue this? Or maybe they're going to change the law on the future?

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

I will ask Rodal to answer that question. Go ahead, Armando.

Jose Armando Rodal Espinosa *Grupo Financiero Banorte, S.A.B. de C.V. - MD of Wholesale Banking & General Director of Wholesale Banking*

Thank you, Marcos. We are working with the authority and also with all the colleagues from the other breakers to time away to encourage the competition. But right now, we are working in this process. This is the job we're working right now. We're not sure what is going to be the end of this initiative.

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

If we have some info, we will get back to you.

Tomás Lozano *Grupo Financiero Banorte, S.A.B. de C.V. - Head of IR, Financial Intelligence and M&A*

We'll take our next question from Claudia Benavente from Santander. Claudia, please go ahead.

Claudia Benavente *Santander Investment Securities Inc., Research Division - Research Analyst*

No, I just have a follow-up question regarding the reserve -- potential reserve reversal. Are this included in the guidance or not?

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

No, they are not included in that. We still don't know. We are hoping for the best, but still don't know if the third wave is coming or something like that. We think that we will see clarity in that for the next conference call, we will discuss that with you.

Claudia Benavente *Santander Investment Securities Inc., Research Division - Research Analyst*

And I have just one more question. I know that you will provide on Investor Day way more color on the digital banking side. But like if we're talking about like an entire new digital bank, I believe that probably you are going to leverage to the current Banorte franchise in order to have access to, I don't know, lower fixed cost so that you can offer this more attractive or appealing cost to income ratio, right? Would it be like sort of like that the vehicle that we see the potential improvement from this technological side?

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

Yes, we will share services on that. I don't know if Franco wants to give more point.

José Francisco Martha González *Grupo Financiero Banorte, S.A.B. de C.V. - MD of Means of Payment, Digital Banking and Technology*

Thank you, Claudia. We will -- obviously, we will leverage Banorte's capabilities with shared services wherever they are needed. Obviously, the processes that are related to customer service will be supported by process owned by the new bank. But we will leverage all as much as we can from Banorte's expertise and Banorte shared services.

José Luis Muñoz Dominguez

And we'll -- Jorge from Santander -- sorry, from Carlos Gomes Lopez from HSBC.

Carlos Gomez-Lopez HSBC, Research Division - Senior Analyst, Latin America Financials

Can you hear me?

Tomás Lozano *Grupo Financiero Banorte, S.A.B. de C.V. - Head of IR, Financial Intelligence and M&A*

Thank you.

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Carlos Gomez-Lopez HSBC, Research Division - Senior Analyst, Latin America Financials

Two brief ones for me. The first one is, do you expect any impact from the recently approved outsourcing law. In Mexico, I do imagine that you have a number of activities that could perhaps be covered by it? And second, in your changes in shareholders' equity, there is an item about the cash flow hedges. I mean that's why the equity didn't grow quite as much this quarter. Can you speak a little bit what the purpose of that cash flow hedge is?

Jose Marcos Ramirez Miguel Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member

Thank you, Carlos. We don't see too much impact in the outsourcing law. For us, it's almost 0. Obviously, there is a little bit, but nothing to change our guidance or anything. And the second one is (inaudible) shareholders' equity cash flow hedges.

Rafael Victorio Arana de la Garza Grupo Financiero Banorte, S.A.B. de C.V. - COO & CFO

Yes. Carlos, could you explain a little bit more like the second one, please?

Carlos Gomez-Lopez HSBC, Research Division - Senior Analyst, Latin America Financials

Sure. So if you go to your changes in shareholders' equity, you have, I think, it's about 1.3 billion decline from securities, which is normal and also another [1.3 billion or so] from, I guess, adjustment of cash flow hedges. That's how it is described there. Result from valuation of instruments of cash flow hedges 1.3 billion to 7 billion.

Rafael Victorio Arana de la Garza Grupo Financiero Banorte, S.A.B. de C.V. - COO & CFO

Yes. This is quite normal and that's why we released that information as much as we can because, as you know, we have a different positions for sale -- available for sale or to maturity valuations. We have a currency. So I think if you go and go back on a month by month -- on a quarter-by-quarter basis, you will see that this is -- we have been in some quarters, movements around 3 billion to 5.8 billion. So now that the volatility is going down, I think it's much more stable. So this is a number that you will continue to see on a quarter-to-quarter basis. I think the volatility has been reversed substantially. But that's the way the balance sheet is being structured. So you have to -- some go against capital to go against the P&L. But nothing -- honestly, nothing relevant for us, Carlos, I will go deep into that, but nothing really brought any issues to me, but I will go deep into the numbers. But if something abnormal, I'll immediately let you know.

Carlos Gomez-Lopez HSBC, Research Division - Senior Analyst, Latin America Financials

No, there's nothing abnormal. And actually, if you look year-on-year and your equity grows very nicely. So there's nothing -- I was just wondering what the cash flow hedge is because it's not get to me with the intention is, but it is really an important. Sorry for taking your time.

One last final thing. You are showing here, and thank you for the disclosure, your monthly numbers. And we did see this big decline in NII in the second quarter. Was there any specific in the second month of the year in February. Was there anything specific that happened there for the NII to move so much in that particular month?

Rafael Victorio Arana de la Garza Grupo Financiero Banorte, S.A.B. de C.V. - COO & CFO

No, it's basically that you are missing 3 days compared to the usual month because February, the number of days in February, and that was basically what happened in the second month. Nothing -- because we usually, you are measuring 31 days to 28 days. So that was basically the reason for it.

Jose Marcos Ramirez Miguel Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member

To add to the cash flow, they are totally symmetric. So you have the other part of the view in the balance. So this is totally symmetric and the real -- there's no effect from the cash flow into capital.

José Luis Muñoz Dominguez

We'll take our next question from Rui Fernandes from JPMorgan.

Rui Fernandes *JPMorgan Chase & Co. - Head of Global Equity Derivatives Structuring*

I will limit myself to one question. I guess everybody is tired now. Regarding capital and credit risk. First, congratulations, I guess, 15% core active Tier 1, it's pretty sound. But looking to the risk weighting assets, we see about 10% decrease versus the 4Q on risk weighting. And you mentioned there were adjustments to our internal risk model. So I just would like to ask what were those adjustments. And if this is an anticipation to what Minister Hera has been commenting on lower density for credit, if you kind of implemented this already. So basically, why your RWAs are decreasing in the quarter? What were those adjustments?

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

(inaudible)

Rafael Victorio Arana de la Garza *Grupo Financiero Banorte, S.A.B. de C.V. - COO & CFO*

Rui, yes, I think if you look at risk weighted assets for the [quarter] 6%, the risk weighted assets on this, we have prepayments -- strong prepayment from the federal entities that we have. And usually, it's a slow start of the month. As you know, we finished last year with very strong growth in commercial and corporate, well above 12% on both of those. Things are normalizing. People are now much at ease with the liquidity purposes that they need the money for. But I think the pipeline will start to mount again. So we don't see anything.

Usually, the first quarter and up to the second quarter slow months for this, especially right now that we are going into the election process. So I think it is to be expected. Nothing -- honestly, nothing that we see extraordinary or anything like that. So no adjustment. I honestly, it's not that [risk] -- risks have been very cautious always with the risk appetite with the companies that we want to be cautious, but we have been, as you can see in the market, I mean, when you look at the market share of the corporate and commercial on a year-to-year basis, 132 basis points of gain. It shows that the risk appetite is there for the companies that we want and the same goes in the consumer side. So no -- it's not that risk is becoming a gatekeeper at all. On the contrary, I think more and more is coming, we know exactly which companies we want to do business with.

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

Yes. And adding to that, the main answer was -- has already been provided by Rafael. RWA, risk weighted assets came down because of the federal entities prepayments. But also I will add 3 factors, which will, from the analytic point of view, just get to the whole answer you're looking for. One of these is our internal models, particularly with the [sticky] deposits that decreased the necessary capital for the calculation of liquidity coverage ratios. Also, the derivatives portfolio use less capital in the first quarter. And also, I will say that ex-VA, or counterparty risks are less because of the trend that interest rates have taken.

Tomás Lozano *Grupo Financiero Banorte, S.A.B. de C.V. - Head of IR, Financial Intelligence and M&A*

And we will take our last question from Jorge from Santander.

Jorge Henderson Cubillas *Santander Investment Securities Inc., Research Division - Research Analyst*

Just a quick question on the Rappi Alliance. I was wondering if you have any updates on the Rappi card. So how many cards have been distributed so far? Or do you have any data on asset quality or average ticket as of today. Just that.

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

Thank you, Jorge. It goes very well. So far, we have been delivering, let's say, 100,000 (inaudible). This year, the program is to get close to 400,000. And we are on the track of that and Franco will give more color on that.

José Francisco Martha González *Grupo Financiero Banorte, S.A.B. de C.V. - MD of Means of Payment, Digital Banking and Technology*

Thank you, Jorge. We have, as Marcos mentioned, as of yesterday, we have 100 -- a little bit more about 100,000 credit cards. And from those 86,000 are already used. And we're planning to close the year with 400,000 cards. And we are seeing -- the average balance of the cards are like between MXN 6,000 and MXN 7,000 per card. And obviously, there's no delinquency as today and, knocking on wood, we will believe -- we will still in that way. We are being very careful with the credit approval. So we are not expecting anything on that side.

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Tomás Lozano *Grupo Financiero Banorte, S.A.B. de C.V. - Head of IR, Financial Intelligence and M&A*

Thank you. With this, we conclude our presentation. Thank you very much.

Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*

Thank you.

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