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# EDITED TRANSCRIPT

Q3 2021 Grupo Financiero Banorte SAB de CV Earnings Call

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## PRESENTATION

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

Good morning. I'm Tomas Lozano, Head of Corporate Development, Investor Relations and ESG. Welcome to Grupo Financiero Banorte Third Quarter Earnings Call. 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 the highlights of the quarter, including the relevant progress in asset quality as well as better growth dynamics in fees and loan growth. He will also provide an update on the digital strategy for the group together with key milestones in our ESG strategy.

Later on, Rafael Arana, our COO and CFO, will provide further detail on asset quality, improvements in the cost of funds progress on the sensitivity to rates and continued cost control. We will conclude our call with a Q&A session. Thank you. Marcos, please go ahead.

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

Thank you, Tomas. I hope everyone is doing well, and thank you for joining our call today. The third quarter of the year presented a mix of factors that resulted in overall recovery. During July and August, the highly continuous Delta variant of COVID-19 generated a few of new lockdowns threatening to delay the incipient recovery in economic activity in Mexico.

Fortunately, less severe symptoms accompanied with lower mortality rates and higher vaccination rates in Mexico have led to recreation across different industries, such as construction, tourism and entertainment, in addition to the manufacturing supply chain with the United States, which has been present since the beginning of the year.

Total vaccines already surpassed 110 million doses with more than 40% of the population being fully vaccinated. GDP growth estimates for the year are still ranging between 5.5% and 6%. However, economic recovery came at a price with the most recent inflation estimates now reaching 6.8% at the end of the year, well above the Central Bank target of 3%.

Monetary policy decisions by the Central Bank took the reference rate 50 basis points higher during the quarter, ending at 4.75%. Our economic analysis teams expect 2 more hikes for the remainder of the year to reach 5.25%. Later on, Rafael Arana will comment on the positive implication of this for the bank's margin.

Overall, as you will see with greater detail throughout this presentation, results for the group have evolved favorably with

better-than-expected asset quality, margin improvement, cost control and solid capital ratios. In our daily operation, customer experience is permanently at the core of our strategy. We have listened to customers' feedback and have had significant improvement in the NPS score across all our channels, particularly in our mobile app.

So in response to this feedback, we recently launched a newly designed mobile app with improved features, including intuitive and faster navigation, which has had a remarkable acceptance among our digital customers.

Diving into the financial results for the quarter. Slide #4, we saw a 4% improvement in the bottom line for the group driven by stronger net interest income from the bank, better asset quality across our portfolios and better dynamics in this despite a still pressured insurance results from the high COVID-19 related reserves and claims.

ROE of the group was further impacted by the unpaid dividends that are sitting at the group level, while ROE of the bank is progressing favorably, already above 19% for the quarter.

On Slide #5, NII was driven by stronger loan dynamics in consumer and commercial portfolios, increased mobility and reactivation across different economic sectors, pushed this 5% during the quarter, while trading income showed a normalized behavior.

Going deeper into fees on Slide #6, net fees are already up the pre-pandemic levels, driven by higher origination fees in consumer, mortgages and commercial portfolios as well as by higher activity in credit and debit card transactions.

Loan growth, Slide #7 show positive recovery signs for the quarter, led by government, commercial and corporate portfolios while consumer loans have not eased their pace. Despite the pandemic, our loan market share rose more than 50 basis points during the year. Asset quality continues to exceed our expectations.

NPLs, Slide #8, ended the quarter at 1.2%, MXN 1.2 billion below the previous quarter, driven by a one-off corporate [pace] that progressed favorably, together with improvements in credit cards.

Looking at the rest of the subsidiaries of the group on Slide #9. The insurance business regrettably continues to face a high number of COVID-19-related claims in the life segment. Remember the life accounts for more than 70% of the portfolio of insurance, making COVID-19 the most expensive event in the history of the insurance companies in Mexico. The rest of the segments, however, show a steady quarter, contributing to the overall results for the group.

Regarding our JV with Rappi, the new digital credit card origination continues at a strong pace with more than 300,000 active credit cards, well in line to raise the 400,000 card target at the end of the year. Our partnership with Google Cloud is also evolving well on the 3 main fronts. The first one culture, to improve our teamwork methodology; the second security, implementing solutions to improve cybersecurity at the group; and the third one, cloud, where we have made very good progress towards moving services to the cloud.

We are finalizing the details of our upcoming Banorte Investor Day, which will take place early next year. In this event, we will communicate our next medium-term plan, including new operating and financial targets for the bank, our JV with Rappi and our brand-new digital bank, which will position Banorte at the front line of the digital arena in Mexico. You will soon receive our invitation for this event.

As many of you know, ESG continues to be a fundamental part of our core strategy. And I would like to highlight some of the most relevant updates on each of the strategic periods. One, on the environmental front, Banorte made a commitment to decarbonize its loan portfolio by the year 2050 by becoming founding signatory of the net 0 banking alliance.

During the quarter, we implemented different workgroups to establish the short, the medium and the long-term plans to achieve this objective. On the social area, we are implementing a 3-stage program to improve inclusion across the financial group. The first step is gender equality, where we will adopt best practices to value talent, making sure everyone has ample opportunities for development.

Last but not least, on the governance side, we have just completed a comprehensive board self-evaluation and initiated our ESG training program to our Board members. You will find this and more additional ESG information on the final slides of this presentation.

With this, I conclude my remarks. Now Rafael Arana will provide you further insight into our operating results, asset quality and progress in the bank sensitivity to rate changes. Rafa, please, go ahead.

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**Rafael Victorio Arana de la Garza *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Financial & Operational Officer***

Thank you, Marcos, and thank you all for attending the conference. And also thank you very much for the reports that allow us to concentrate on the key issues that you want to discuss on the conference that help us a lot to really focus on what we really want to communicate further some of the points.

If I would like to see how the evolution of to the third quarter and based upon what Marcos has as mentioned, I think we are managing the crisis in the, I would say, not in the final stages or later stages of the crisis. And during this period, basically, what we have been doing is taking care of the following issues that I think we can then communicate a specific metrics.

All the stuff that is basically all the loan book, we have been taking very good care of the loan book. On the risk side, as you can have seen on what Marcos presented, we have very, very notable numbers on cost of risk and NPLs. And that's the result of a very careful management of the crisis on the recovery side and the onboarding side and on the risk side to tailor specific products for the clients. So there was the first commitment to put on the organization to take very good care of the group.

The second part was the funding side. the funding side in order to not -- because of the lack of possible growth that you have seen that we have regained growth in the third quarter, but the first 2 quarters were very slow. We needed to basically concentrate on the funding side in order to make the net interest margin and the inventory most profitable, and I will go in numbers specifically to prove that. The other thing that it has been helping us is the sensitivity of the balance sheet to the hike on the interest rates that has accelerated the net interest margin growth, and we see a continuous evolution of that part.

The other part is that, as Marcos mentioned, we continue to gain market share in the market, even though we had a slow economy on this, but we continue to gain market share at a very good risk and a very reasonable prices. On the digital space, we continue to evolve aggressively. And we are happy to say that most of the products of the bank can be now on board in less than 10 minutes on the digital space.

That has helped us to keep on building the franchise in the new economy that we see coming for the bank. So now that we in a nutshell define what has been the concentration of these 3 quarters, I would now like to mention I think there has been some comments about expenses.

Expenses, as you see, are growing 4% below inflation on that part. And on the expense line, you have to take into consideration that on the third quarter, you now will see a movement because of the new law -- that the outsourcing law that, as you remember, we have been telling in the past 2 quarters that the growth in fees has been quite strong, but also the part of fees paid has also been growing basically because we needed to put external sales forces to balance out the requirements of the clients on the mortgage side and on the car side, and on the car side -- on the car loan side. Those now are going to be because of the outsourcing law will be part of the cost line of the bank.

So now the expense growth that you see on the third quarter is basically MXN 150 million that basically was before on fees paid and has been moved internally to have expenses of the bank. If you take away that MXN 150 million the expense line on a quarter-to-quarter basis was flat on that part. But that part you have to continue to see in the next quarters and in next year, that effect on the internalization of the sales force.

On the other side, what you will see is a growth on the fees that we charge to the market because now those fees that in the past were basically on the variable rate for these external sales forces now we'll be passing to the expense line because that will be an internal cost. So you will see a growth in net fees. I would say, pretty reasonable for the fourth quarter and for the next year.

After that, if we go now to -- on a line-to-line basis, basically, what you will see and Marcos already mentioned that is that the cost of risk is at record lows. You have to take into account that this number is at record lows. And once we start growing again, you should see that the cost of risk of the bank should return to the usual numbers, maybe a little lower than the usual 2 to 2.2, to numbers around the 1.8 to 1.9.

Another thing that is -- has been also very positive is the write-off rate. The write-off rate in the third quarter was below even the second quarter. But you have to take into consideration that we have already (inaudible) clean on -- on write-off the credit card book, the payroll book and the credit card book, car loan book and payroll, but it's still pending the mortgage group, a portion of the mortgage group and a portion of the SMEs.

That numbers on write-off will pick up in the third quarter and on the first quarter of 2022. To the levels basically around 0.55, 0.56 that you see that. So don't be alarmed if you see a pickup on the write-off because the remaining portfolio of the SME and the mortgage and the mortgage part, we still have some write-offs to do on that part.

On the net interest margin, I think it's relevant to mention that we have already had a pretty good trend even before the hike in the interest rates and that's basically because of the funding cost that we continue to [absolve]. I will go into that in a minute. But what we see is now that the effect of the hike start really to being noticed on the net interest margin is now at 6.1, and we see that evolving into the fourth quarter to a better number around the 6.2 on that and then continue into the next year to a better evolution than what we saw this year.

On the net margin of the group, you already see that the effect of the insurance company is what is hindering the return to the normal levels. You have to normalize that number. If you add on a recurring basis, close to MXN 3.7 billion of margin that we have been losing on the insurance business. Okay. That will be recover -- start to recover in the fourth quarter and continue to recover in the next year. But the bank, as you see, will continue to have an upward trend on the net interest margin.

I mentioned the cost of funds, and there have been a lot of questions about where we need the funding cost. We started the year on the funding cost close to the 48 concerned to We are now sitting at 42, but we still have room to improve. As you can see that 2 banks are still below us we see that we will finalize the year close to 40% or a little below 40% and continue to have that evolution in the next year basically because all the actions that we're taking on the onboarding and incentive scheme for the branches.

The margin sensitivity that also has been a recurring question from the market. Now we are sitting at MXN 842 million up to MXN 638 million, and we continue that the sensitivity will continue to move upwards close to the MXN 1 billion that we have in the fourth quarter of '18.

The expenses that I just mentioned a bit in a bit, expenses, if you look at the growth in the expense line from 10.8 to 11.1 is basically what I just mentioned that we internalize the external sales force that I just mentioned on the mortgage and on the car loan side. And that is the effect that is around MXN 150 million. That is our growth in expenses. That also reflects on the other side, on the net income side, that is a positive expansion on the fees that we charged to the market.

The liquidity continues to be strong, too strong from our point of view because it is costing us money. We have been using that. But I think we will stay around 180% to 160%, that will be the desired number on the liquidity side. And on the capital ratio, you continue to see a pretty strong evolution on the capital ratio up to 21.9 and Core Tier 1 is around 14.9. There has been a lot of questions from the market about what's going to happen with the upcoming Q1 that is due next year if we're going to call and yes, we are always on all the calls. And as you know, we always on the look for opportunity to go and strengthen our balance sheet with a potential issuance into the market if we see that is opportunistic for us at the price that we think is the right one.

On the digital evolution, I just mentioned before, I think we have been -- made a lot of progress on Banorte, all of the consumer loan products, but mortgages and car loans, you can -- everything originate online, on the mobile in less than 10 minutes, most of the products. The only 1 that still we have above 10 minutes and is around 11.5 minutes is the basic checking account that you open at the

branches.

But everything else, you can onboard on your digital application in less than 10 minutes, whatever you want to do. On the funding, on the wealth management side or on the lending side and also on the digital checking accounts on that part. So Banorte has been improving a lot on that lately, and we will continue to do so.

On the -- Marcos just mentioned the Rappi, and I think later, there will be more questions about that. So I would say that it's going where we expect that to happen. I think it will be an accelerate on the fourth quarter to reach the 400,000 commitment that we have with the Board. The Google Cloud also Marcos already mentioned that. And on the Google, I just want to mention one thing because there have been some questions from the market that if Google replaces IBM or -- and the answer is we have been building from the ground up.

First, we started with IBM to change all the infrastructure, communication, cyber security, architecture of the bank, the multichannel facilities. And then once we start feeling comfortable that we have a much more agile way to deal with the legacy and with the architecture of the bank, we start building layers upon those. We have the help other -- from other suppliers like SAP.

And then we continue to build up flexibility into the response to the market. And the latest part that we needed is to really tied up with a company that is very, very concentrated on the behavior of the client. And when you see the Google Cloud application that we will have a lot of benefits from the cloud and things. But I think the main benefit is really to really evolve at the same way that Google knows the client. And that's why we are very, very happy with the relationship with Google. We have a lot of services that were going to the cloud and that will be a lot more efficiency on that.

But I think the key game here is that we are building from the ground up from the basic architecture to flexibility to agile and now to the understanding and behavior of the client. That's why we are very pleased with the latest partnership that we have with Google.

With that, I would say that that's all from my part. And now I'll pass.

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

We are open to your questions.

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## QUESTIONS AND ANSWERS

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

Yes. Thank you, Marcos and Rafael. Now we will continue with our Q&A session.

(Operator Instructions)

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**José Luis Muñoz Domínguez**

We will take our first question from Jorg Friedemann from Citi.

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**Jorg Friedemann** *Citigroup Inc., Research Division - Director*

Can you hear me?

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

Perfectly.

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**Jorg Friedemann** *Citigroup Inc., Research Division - Director*

Perfect. I have a couple of questions. First, with regards to your guidance of cost of risk. I heard you talking about it running at very low levels and potentially normalizing at 1.8%, 1.9% level. But you have full year guidance for cost of risk between 1.9% and 2.1%. And for you to reach the guidance, you would have to be at 3% and over in the last quarter. So how do you see this evolving? And if this guidance still makes sense, I see that you did not update guidance, but I think it is now away from being reasonable. This is the first question.

And the second question, I was looking here into the evolution of COVID fatalities in Mexico. And of course, since the peak achieved earlier in the year, they have been making very strong progress due to the vaccination. Last numbers that I have here for October show -- I know that's below 200 per day. So I was a bit surprised when you mentioned, Rafa, that normalization of insurance should start only in the beginning of 2022. So given that the great part of the claims are related to life would not be expected to see some normalization already happening in this fourth quarter.

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

Good questions. The second one, I will pass to Fernando Solís. We have a lot to pay the fatalities, and that's why you will see a recovery until 2022. But Fernando Solís will speak about that. And the first one, you are right. We are too conservative in the numbers. And I think it's okay because, yes, we need a fee in order to get to that number, but we still don't know, and that's why we're saying the same. But I hope we will again have numbers for you. I will pass to Fernando Solís, please go ahead.

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**Fernando Solís Soberón** *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Development Officer of Products & Segments*

Thank you, Marcos. Jorg, well, actually, yes, we are already seeing some progress in terms of the loss ratio and the claims actually the leading indicators in terms of claims we have been seeing on (inaudible). So actually, it has already started. However, the normalization of -- to go to the normal levels of net income will always have a lag because there is a lag, which has been taken some -- several weeks for some to come up with the claims in terms of gathering the information that is required to process the claim.

But definitely, there is a recovery already taking place, actually the last month we had a better result, better than what we have expected. And we do foresee that normalization is already starting to take place. And I will take the opportunity just to mention that if we take into consideration all these effects of COVID and if we look at the results without this effect, actually, the net income would have been higher than last year by 15% because other lines of business are doing much better. So all the impact, as you know, is from COVID. But yes, the answer is to your question, recovery has already started fortunately.

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**Jorg Friedemann Citigroup Inc., Research Division - Director**

Perfect. So just to understand on the point of cost of risk as a follow-up, when you talk about the normalization of 1.8%, 1.9%, should this be what is expected already for the fourth quarter or more normal levels into the midterm, such as 2022 and beyond?

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

This is exactly you mentioned the second one is the running rate that the bank should be on around 1.8%. Now you will continue to see pretty strong numbers on to the fourth quarter. We haven't changed the guidance for a simple reason. I mean we already -- you see the evolution of the numbers on that we present. And to us to change the guidance at this point in time in the year, it really doesn't make much sense. What I think is important to notice what you mentioned, the 1.8% to 2% is the running rate that we see eventually reaching that number when we normalize the rate of growth of the loan book.

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**Jorg Friedemann Citigroup Inc., Research Division - Director**

That's a perfect, Rafa. Congratulations for the results.

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**José Luis Muñoz Domínguez**

Now we will take our next question from Ernesto Gabilondo from Bank of America.

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

Congratulations on the solid asset quality in the quarter. I have 3 questions from my side. The first one is on your expectations for loan growth and net interest income. We have seen still modest loan growth in the first 9 months. However, looking to next year, do you think that the net interest income should be favoring from easy year-over-year comps in the insurance business from higher rates and from increased retail exposure, and this helping the loan book to gain some time to show again strong activity.

My second question is on provision charges. I remember you that you have a stock of preventive provisions from the ones that you built last year and that you can be releasing at some point, if I'm not mistaken, around [MXN 1.5 billion]. So considering that the country is



already in green in most of the states in terms of COVID, what do you need to see to release those provisions? Or do you prefer to keep conservative for the rest of this year and maybe to release them early next year? And then my last question is on the dividend payment. I just want to know if there is any update with the regulator to let you fully pay the deferred dividends by year-end or early next year?

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

Thank you, Ernesto. I will start for the third one, the dividend. Yes, we are talking with the regulator next we'll have another meeting. And we think we will have good news for you at the end of the year. We still don't know, but it makes sense now for everybody. So we will tell the market as soon as we know.

Talking about the provisions, we will wait until the end of the year to make the numbers and let's say this was to return the release the extra ones. So it's going to be at the end of the year, the beginning of the next year, we will start fresh, and we will make the numbers there. And the first one is the loan growth, Rafael, please go ahead.

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**Rafael Victorio Arana de la Garza** *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Financial & Operational Officer*

Yes. No, I think Ernesto, what do you say about the NII, yes, I think if you project the third quarter based upon the loan growth that we have in the ones that were lagging behind, like the corporate. I mean -- but it's worth a mention on the corporate is that we were coming from a very strong last year of around 15% loan growth in the corporate because of the liquidity lines that the company has [drawn].

But -- and we start -- as you know, the second quarter was minus 12. Now we are going to minus 7 because we have a pretty good growth on the third quarter on the corporate. So that's already in a good trend. I think I see it very difficult to go to positive, but we will be much better than the minus 12 that we were at, and that will continue to evolve on the next year on the corporate.

The government book is also picking up pretty fast. So they will continue in the fourth quarter. I would say, a good acceleration on the government book that already started to happen in the third quarter. So that will help the NII.

The consumer will continue to be, as Marcos mentioned, pretty strong on the mortgage and on the car loans. The only issue with the car loans is the availability of cars, but I think we have all the processes in place. And the credit card is already regaining a pretty good growth, and the best part of the year is now in the -- in November and December.

Payrolls continue to evolve nicely. So yes, we will see that net -- the NII will continue to expand nicely into the fourth quarter and also into the next year. I would say a big piece of that will also will come from the insurance company as we just mentioned from Fernando that all really see the start of the recovery there. So also a big push will come from the insurance company that if you see the insurance and the annuity company NII is minus 21 up to today. So that will balance out on the next year. So NII will improve, I would say, in a very reasonable number.

Also, the funding side also will help us because we are growing pretty strong on the funding side and the costs continue to go down, as I show you in that part. So I would say that -- we think the margin also will continue to expand, the net interest margin, to numbers around 6.2% for the fourth quarter and going into the first quarter of next year based upon the hikes that we expect to happen on the at the end of the year.

We will continue to see an evolution to numbers before the start of the downward trend in the interest rates. So that's the overall. And I will just start to what Marcos mentioned about provisions, we still have MXN 2.9 billion of provisions to be released. We are looking at what is the best time as Marcos mentioned at the end of the year because I mean we were criticized at the beginning that we were not prudent building up provisions. And we showed that we were very prudent building our provisions, and we will be as prudent in the release of the provisions.

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

This is super helpful. Just last question related to some regulatory risks in the energy sector and the cap rate (inaudible). Just wanted to know your thoughts on potential impacts on your business.

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

What would I say, it's irresponsible now to talk about the -- what's going to happen, we don't know, but we know that the [tops] are right now, and we need to wait. So let's wait a little bit and then you will hear from us, but we can say that we are not worried so far and we expect the best on that. And what was the other?

**Rafael Victorio Arana de la Garza** *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Financial & Operational Officer*

The energy, investor book and the exposure.

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

The exposure. Gerardo? Gerardo is going to talk about that.

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

Yes. Yes. Ernesto, what I would tell you that we have an extremely manageable exposure to green energy. And as of now, NPL ratios, we think that part of the loan book are equal to 0. I will tell you that for the time being, I mean this energy transition in relation to fossil energy to bring energy exposures is more than 8 to 1. So in any case, what we have done is that we have modeled expected a very key that is on the terms and conditions of legal modifications, potential legal modifications of the self-supply contracts on the green energy realm, and we remain very comfortable in managing that kind of a scenario we will wait, as Marcos said, and provide you with the precise information once this regulatory reform or constitutional change takes place.

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

Talking about the following, I will ask Fernando Solís to talk a little bit about that. But yes, we have a bad news if these are going down, and we have a good news that the volume is going to grow. So it's not the same, but you need to add the 2 factors to the equation. Fernando, please go ahead.

**Fernando Solís Soberón** *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Development Officer of Products & Segments*

Yes. Thank you, Marcos. Just you mentioned the rest of there has been a major change in the regulation of ForEx. There was a change in the law. And as you mentioned, they put a cap. And the cap is established, taking into consideration 3 markets the one in Chile, the one in Colombia and also the 401(k) in the U.S. I will not talk whether that methodologies are proper or not, we believe it is not, but I will not elaborate on that.

But they have not published yet the cap, but we are aware that the Board of the regulatory body last week gathered. And the information that we have is that the reduction in the commissions will be very high. Actually, the cap, as far as we know, it may change because caps has not been published, and we are aware that the association and some Afores are talking with regulators to see whether they can change this cap that has been mentioned. I will give you a number in a moment.

So taking into consideration that this may change, but I'm not quite sure that will be the case.

We will see and we will see a will be the legal action if it happens from some players, we don't know. But what we have heard unofficially is that the cap -- and let me be very careful on that, unofficially. It has not been published. But the cap that they want to establish is 0.57%.

For us, that means a reduction since we are currently charging 0.8% on assets under management. It means a reduction of 23 basis points. This is a huge impact. And this will be the cap for all the (inaudible). That's something that will be changing that will change in terms of what has been seen in the past because in the past, we are -- except for the public institution (inaudible), we're the lowest in terms of prices.

So the impact to other Afores will be even higher. So this will -- everything else the same, of course. We do not do anything. We were expanding the same way in commercial and so on and so forth. Certainly, this will have an impact on net income.

As you can imagine, it would mean with the assets under management, currently, we have been a reduction perhaps of MXN 700 million

to Banorte. The double of that would be for the [40] because, as you know, we only own 50% of this firm. However, that is everything else the same, it's very hard to forecast what will happen in the future, but we do think that for some Afores it will be hard to remain in market. So I think it will -- there will be some consolidation. Also, we foresee, but as I have just said, we have to wait and see how the players will do with this change.

But we do foresee also that the sales forces will be reduced and also what has been paid for the sales forces will reduce. So there will be some offset on these numbers that I just mentioned, but it's hard to tell how much we will be able to offset the impact, the negative impact. I would also say that the impact for us will be less than for others.

And I would also say that we are the best in place for to this change because we have the largest assets under management. We are the most efficient Afore in terms of expenses. We also have a very high quality of the portfolio. That is, if you take the average -- I mean, the assets under management taking into account -- divided by the accounts that we manage, we are among the best.

So we are better positioned for this impact. This will impact us in the short term. But we do think that in the long term, we're going to be the player that perhaps will benefit the most of this change. But -- and also, it's something that we have to take into consideration is that we have 2 very strong partners.

We have (inaudible) and, of course, Banorte. And we have been -- and that would also provide some advantage to us. In what sense? For instance, we will have a very productive sales force. And then we have to see how taking into consideration the laws and the regulations and so on and so forth. But I think that we can use these sales force also to help us into what is called the portability of or the people that is on a payroll. So I think there are some other things that we can do to offset this impact. But definitely, in the short term, it will hurt us as Marcos mentioned. But that's the considerations at this moment.

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#### **Operator**

Now we will take the next question from Thiago Batista from UBS.

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

I have 2 questions. The first one about the profile of RappiCards holder. So what do you look for the clients that you got in Rappi, in the partnership with Rappi. Are those clients already or do they used to be already clients of Banorte? Are those guys that used to be in bank. So if you can give you to us some profile of the clients that you got on a RappiCard?

And the second one about the ROE of Banorte. Clearly, the bank is posting a very good operating trends, but ROE still at, say, at 50% for sure because of the high level of cat position that the bank has right now. So when you look for next year, I know that you don't have the guidance, but is it possible to see already ROE of, let's say, high teens next year or at least in the next years.

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

Thank you, Thiago. I will start with the profile of the RappiCard holders. It's another business, that's why we call it another business and it's another platform for (inaudible).

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#### **Unidentified Company Representative**

Thank you, Thiago. The profile is 28% of the customers that -- of those 300,000 customers they have not a previous credit card. They were all Rappi customers. They were all using Rappi, but they were using Rappi in cash. The 28% were not users of a credit card. From the rest 72%, if we assume the market share that we have, 10%, 11% will have a Banorte credit card. The rest, the other 89% will have credit cards from other banks.

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

Thank you (inaudible). Talking about the ROE. Can we see ROE, the high things next year? Yes, as soon as we pay dividends. Remember that in the bank, we already have almost 20%. So it's not so difficult, let's say that. And as soon as we pay dividends, we are aiming to go to -- close to 20% as soon as the end of next year, yes.

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**Rafael Victorio Arana de la Garza *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Financial & Operational Officer***

Yes. Just talking about this, what Marcos mentioned on the bank. I think the bank that is already funnel of dividends. We already see, as Marcos mentioned, above 19% of that. On the group as soon as we get the normalization of the insurance company, you will see a strong pickup as soon as -- and also with the dividend payout that those numbers will normalize. I think I'm totally agree with Marcos, we are in a very good trend on the key metrics. And if you look at the ROA for the bank, it's already close to the 2.1, 2.2. So I think the key metrics are already in the right trend.

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**Operator**

Now we will continue with Tito Labarta from Goldman Sachs.

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**Daer Labarta *Goldman Sachs Group, Inc., Research Division - VP***

Two follow-up questions, I guess, on my end. First, going back on the provisions more thinking about it from asset quality, right? Because NPLs have improved further, right? Your coverage ratio is 170%. So when you're thinking about potentially releasing provisions? I assume the trend for asset quality may play a role. So any color you can provide? I mean do you think asset quality has is bottom here? Do you expect to see some deterioration to year-end and into next year? How do we think about the NPL evolution going forward? And then the second Go ahead, you can answer and then I'll ask my second question.

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

First I will ask Rafa then Gerardo to...

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**Rafael Victorio Arana de la Garza *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Financial & Operational Officer***

Yes. No, I think -- Everybody is looking at numbers that are extremely low. And remember that when we have these numbers and then suddenly we have a pickup because of the charge-off that we did on the credit card on the second quarter -- then some people know that this is going to go to the -- on a very aggressive upward trend because deterioration. No, that's not the case, as we mentioned before, and I will -- Gerardo, will go into this, the only things that we need to clean up on the consumer group the mortgage group and the SME Group at levels that are pretty low compared to the expectation that we had the beginning of the pandemic.

If you look at the NPLs that are running 1.1, 1.3 on the mortgage side, that number is once we apply the charge in the fourth quarter and remains on the third quarter will go down again to the 1.1. So the overall numbers that you will continue to see at the beginning of next year will also believe very strong on the cost of risk. Eventually, we will go back to the usual numbers of 1.8. And it's not because we don't see any deterioration on the consumer group.

On the commercial book, we are managing. As you know, there was no relief programs like the consumer, and there are specific relief situations for each of the clients that would have some issues on the commercial. So maybe on the commercial view eventually, we'll see a pickup, but also coming down from a very low numbers. And the remains are the SME that we still need to pass the fourth quarter to charge off the numbers on the SMEs. But if you look at the NPLs of the SME are extremely low. So we have a lot of room to expand the number before we're going back to normal. Now I'll go to Gerardo for the risk point of view on this.

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

Yes. We are also surprised but positively surprised. We are convinced that from loan origination to loan recovery, sooner or later, credit process quality equals asset quality. We have seen that. Remember, we were first to market in relief and forbearance programs. Internally, we use agile methodologies. We engage and organize with sales in order to originate and also to recover loans. We have had a quick and important workout efforts. We use internal modeling with a thorough cost benefit analysis in order to propose restructuring schemes. We overall have reasonably low loan-to-value and loan-to-cost parameters. We do lots of follow-up to restructuring schemes. We have good second sources of payment. That's the importance of collateral, mainly in SME -- in the SME loan book.

We also have good timing with the payroll and credit cards, debtors in regards to income generation. We collect until there is income to be collected. And we use a holistic active management of nonperforming loans. We are continuously calculating probabilities of default, exposure of default, loss given defaults and so forth. We are accustomed internally to compare expected losses as the loan is currently in one state of nature versus the expected loss with the selected payment alternatives, we calculate the expected benefit. We compare that

to the cost of recovery. We expect positive net values, and we proceed, and we continuously review those schemes. So we have been surprised about the behavior and performance of the loan book. This asset quality has been very good, as you have seen. And of course, we do not believe this is going to be stable. As Marcos and Rafael said, we are expecting the cost of risk to go higher and also the PBLs to go higher.

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**Daer Labarta *Goldman Sachs Group, Inc., Research Division - VP***

All right. That's very helpful. And my second question was back on the insurance results in 2 parts. I know you said the claims are coming down. But just to understand because if I go back in July, you initially thought claims were also coming down, and it looks like it did pick up marginally. So I mean, the main difference just vaccinations have increased. So I guess the question is, do you have more confidence now that the claims should come down going into the fourth quarter? And then the other part was the technical reserves picked up a lot because of inflation, right? And inflation seems to be trending a bit -- staying at that higher, for now, at least. So is there a risk that those technical reserves remain high or go even higher into 4Q? Just to think about, I guess, the insurance on those 2 issues.

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

Please, Fernando Solís?

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**Fernando Solís Soberón *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Development Officer of Products & Segments***

I'm sorry, I lost your last question because I was answering one by chat. Could you repeat the one on the insurance, please? Sorry about that.

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**Daer Labarta *Goldman Sachs Group, Inc., Research Division - VP***

Yes. No, no problem. Yes, just the insurance, right, because if you go back in July, claims were also initially coming down. So I just want to understand that what gives you more confidence that claims will come down in 4Q? Is it just vaccination levels have increased? Or is there any other risk that claims can go up again because we did see them go up in 3Q, even though they had initially started to come down. And the second part was on the technical reserves. They went up a lot this quarter on higher inflation. Inflation seems to be remaining a bit high. Is there a risk that those technical reserves have to go up more?

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**Fernando Solís Soberón *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Development Officer of Products & Segments***

Well, actually, well, for the first one, I think that things are better and are going to be better because, as you mentioned, vaccination is accelerating. And also even though people get sick, the protocols in the medical experience are better. And so I think -- I'm confident that things are going to be better for the last quarter. And as I just mentioned, the last observation that we had the last -- the previous month, it was much better than we expected. So it's very hard to forecast things that happens every hundred years and so on and so forth, but I'm very confident that things are going to be much better in this quarter. But I have to put a disclaimer that we cannot foresee the future as much as we would like to.

And now about the technical reserves, what happens in technical reserves is explained mainly because we have -- the annuity firm has been growing very fast. So that's mainly what is explaining the -- and also because of inflation, but mainly because we are doing so well in terms of how much we're selling premiums. Actually, the size of the market was much higher than expected. And even though we have a market share more or less of 46%, but mainly what explains -- because last year, at this point, we were having perhaps the same or perhaps 46%, 47%, but the size of the market was much more higher, and therefore, maintaining this market share that explains.

And remember that in the annuity business, when we sell the annuities, most of it goes at the first moment to reserves, which eventually are used to pay to the pensioners over time. And of course, these reserves also, we will have to actualize them by inflation. I mean we will have to -- because remember that the pensions are paid in real terms. And therefore, whenever the inflation goes up, then the technical reserve will have to go up, but mainly it's because of the growth of the market. And remember also that, of course, we do not have a problem in terms of the asset management -- the asset liability management because even if liability goes up due to inflation, we are investing in securities, which are linked to inflation. So there's a hedge there. So it's no problem for us. So that's what you will see in the technical reserves. It's because we have been growing so much. That's the explanation.

Actually, in the insurance business, it's actually in the loss ratio where you will see -- we have 2 things there. We have the claims that

have been paid, but also we have what we call the incurred but not reported reserve. And that's according to the previous behavior of the claims, we forecast how much it has not been reported, but has already occurred. And since -- and experience with this pandemia is that we have seen a lag as far as 45 days to get the documents that show that the beneficiary have the right to claim. So we care about not reporting to serve also is in this loss ratio is not in the other technical reserves. I hope I have been clear with the answer, if not, let me know.

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**Daer Labarta *Goldman Sachs Group, Inc., Research Division - VP***

Yes. No, no, very clear. That's very helpful. If I could ask just one last quick question, just back on the guidance. On the net income guidance, MXN 34 billion to MXN 35.5 billion, you're on track to deliver that. So -- and you're not changing it. So given the low cost of risk, but is the right way to think of it that net income guidance is still pretty much reasonable because of the low cost of risk potentially offset by the weakness of insurance?

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

Yes that's right, yes.

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

We will take the next question from Ricardo Buchpiguel from BTG.

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**Ricardo Buchpiguel *Banco BTG Pactual S.A., Research Division - Research Analyst***

Congrats on the good results. I have 2 questions on my side. So first, we know that the bank is doing an IPO process, and Mexico is naturally one of their target markets. In Brazil, we saw the valuation of incumbent banks have been very much impacted by this competition with impacts like bank. So our first one, I wanted to understand a little bit, how do you understand that competition with fintechs to impact your business? And how Banorte is preparing for that? You mentioned the partnership with Rappi has some initiatives in the digital as well, right?

And for my second question, I wanted to understand a little bit if you can give us an update on CoDi in Mexico, the eastern payment initiative. I understand it hasn't picked up as much as we saw in Brazil with Pix. So can you help us understand why is that? And what is the expectations ahead for CoDi.

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

I'll start with the first one with Paco.

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**Jose Francisco Martha Gonzalez *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Digital Business Officer***

Thank you, Ricardo. Well, we have 3 different layers for the strategy and to prepare ourselves to compete with the fintechs. One is the -- as Rafa mentioned, in his exposition, accelerate the digital transformation of Banorte. You can open almost every product in less than 10 minutes, mainly digitally. If you have to go to the branch, the process are completely lean. So that's on one hand.

The other hand is the new digital bank, brand new, that we are working on. And the third one is the strategy with Rappi that we already mentioned. So the key point here is, as they are not being as regulated as we are because they are not the bank, we have to move forward towards the digital onboarding where we are working on, and we will be ready to launch before the end of the year. So -- and as I mentioned, the last quarter, Ricardo and I will insist on that, not all the fintechs are the nirvana, neither the banks are the hell, no. There are plenty of room in the middle, and we have to work on that. And if you want me to answer the second one, too, the CoDi one?

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

Yes, please.

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**Jose Francisco Martha Gonzalez *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Digital Business Officer***

It's a big challenge, Ricardo, because the CoDi -- we have been tracking peaks. And the challenge here with the CoDi, you need an account to open the -- to operate CoDi. So it's not a design based on financial inclusion because you need to open the account. So we are working with the authorities to see if we can leverage CoDi in a different way. We can, in some way, let the people use some kind of payments, as happened in India, below some amount that can be under the fiscal or the taxes review. So we can improve and we can

foster the use of CoDi. But mainly, the main challenge is that, one, you need the account and the financial inclusion, as you know, in Mexico, the financial penetration is less than 50%.

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

Now we will take our next question from Alonso Garcia from Crédit Suisse.

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**Ricardo Alonso Garcia** *Crédit Suisse AG, Research Division - Research Analyst*

Can you hear me?

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

Yes. Now it is.

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**Ricardo Alonso Garcia** *Crédit Suisse AG, Research Division - Research Analyst*

My first question is on insurance. I mean, you mentioned an impact of MXN 3.1 billion in claims from COVID for the first 9 months of the year. Based on that, I estimate that it's MXN 400 million for the third quarter, which is less than half in second quarter. But I was wondering if there was something else, any other line of your insurance business that was impacted by COVID in this third quarter. I think you mentioned in a previous question about the incurred but not reserve -- include but not reported reserves.

So I don't know if you can possibly quantify the impact on that line during the third quarter? And my second question is on Rappi. I don't know if you could provide a bit more color on that initiative. For instance, how do you define active rates for your clients, if you have already set a target in terms of cards for next year? And finally, if there is -- if you could provide color on the average ticket so far in those cards.

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

Alonso, I will start with the insurance business. We don't see any -- remember that as I said, 70% of the insurance business is like insurance. So everything is there. So we don't see anything more. Talking about Rappi, Paco is going to...

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**Jose Francisco Martha Gonzalez** *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Digital Business Officer*

Thank you, Alonso. We prefer to give you all the information at the Investor Day. As you know, the -- as you can imagine, all the numbers are very volatile. So we are working on them for giving you some forecasts and definitive numbers.

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**Rafael Victorio Arana de la Garza** *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Financial & Operational Officer*

And also, just on your third question about insurance, the number you have MXN 400 million is almost MXN 1,000 million once you adjust by the reserves. So in total for the year, the impact has been MXN 3.1 billion. So the third quarter accounts for 1 if you net this.

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**Ricardo Alonso Garcia** *Crédit Suisse AG, Research Division - Research Analyst*

So it's MXN 400 million impact in claims and MXN 600 million in technical reserves from COVID?

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

That's correct.

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**Rafael Victorio Arana de la Garza** *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Financial & Operational Officer*

The impact from COVID in the third quarter is MXN 1 billion.

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

We will take the next question from Jorge Henderson from Santander.

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

So I have a follow-up question on your loan growth expectations. I mean, you already spoke about government, corporate and consumer segments, but regarding SMEs, your growth was flat on a quarter-to-quarter basis. So my question is what do you expect or when do you expect SMEs to pick up and reactivate? And how do you see the asset quality trends in this segment? And also I have another question. I



mean this is on RappiCard. I know you are saying that you want to provide more detail on your Investor Day. But I was wondering if you have any asset quality data such as NPL rate or something like that.

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

Rafa?

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**Rafael Victorio Arana de la Garza** *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Financial & Operational Officer*

Let me start with the second one. As you can imagine, when you start a business and you not even see the vintages of the first part, this would be very difficult to give numbers. That's why I think what Paco mentioned about wait to see the evolution of the cards and look at the evolution. What I can tell you is that the milestone at the beginning was in activation and a number of costs, and we are right on track on to achieve that. And we are taking into account all the elements to make that business as profitable as it needs to be.

The other one that you mentioned is the SME. It's not that we are retreating from the SME at all. I mean if you look at the numbers up to the second quarter, we were the only ones that were gaining on the market. We were flat, as you mentioned in the third quarter, not because we want to retreat from that, but because it's a segment that you need to be very careful on that. What we are doing right now is creating the right products for that segment based upon the new normal that we see and also taking advantage of the huge funding that, that segment is giving us.

So we are concentrating a lot more on the service side from the SME, and we are not disregarding the lending side at all. But with the service side, we understand the behavior of the client and then we move into the lending side. So you will start to see a pretty good moment on the SME study on the first quarter of next year.

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

Okay. Just a follow-up on the RappiCard. So I was wondering if you -- I mean I think you already asked this, if you have any target for next year. And I mean, you talk a lot about this. You see a lot of competition coming from new bank and coming from (inaudible) and other credit cards also. So I don't know if you think you're going to be able to compete with this, like, being the leader in this segment or do you expect like to -- I don't know, more detail on the competition, like, and your opinion on that.

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

No, look, I think what Paco mentioned is key. Three strategies Banorte decided in '19. Complete the evolution of Banorte in the digital space. You can open a digital card on Banorte now in less than 5 minutes with extremely good customer experience. So that's not the lack of competitive advantage of Banorte. I think the advantage that the new banks have is the cost because they don't have any branches at all. That's why the launch of the digital bank that Paco mentioned is key because that bank will operate at even a less cost income ratio than the new banks because of the shared services that we will provide from Banorte.

So we are -- we don't disregard the competitions. We like the competition a lot. And in order to compete with the initiative like the new bank, you have Rappi on one side and the digital bank on the other side that will not only provide the lending side will also the wealth management side and all the services of a full bank with a digital cost. I think that's the way we are preparing for the competition.

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

Okay. Just one last question. Do you have a data of the net promoting score on the Rappi joint venture?

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

At this point in time, what we have is, we are testing the market on that part, and we will start getting the NPS once we normalize all the processes and products that we are launching in the market. Because right now, to launch the NPS -- as you know, in Banorte, we have an NPS online, real time, every single moment of the client relationship. And Rappi will happen the same. We are building up that feedback in order to have that metric for you. As Paco mentioned, pretty soon, you will get those numbers.



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

Thank you. We have received 2 questions in the chat. So one is from (inaudible) about Rappi. I think that with this -- your question was already answered. The other one from Jeff Amundi regarding the variation in the CET1.

Jeff, it was basically the dividend that the bank paid to the group that is MXN 10 billion. That basically explains the difference.

So with that, now we will take the next question from [Edson Murguia].

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**Unidentified Analyst**

Do you hear me?

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

Yes.

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**Unidentified Analyst**

I have a couple of them. The first one is related to digital transformation, not only in the bank but what about the other part of the businesses as the group, maybe the brokerage business or even the pension or Afore. Are you expecting to transform those business in more digitalized world? Or there is a part of the strategy that it's going to take maybe a couple of years from now?

The second one is related to a follow-up on the dividends payment. I know that you already mentioned that you are in talks with the regulatory authorities. But my concern is, it is something about their regulators are not comfortable with? It seems that the economic recovery is in a good pace and maybe the worst is over. So I just want to understand is it part of the regulators or it's a concern from regulators or it's more like a market concern?

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

I'll start with second one, I think the regulators are waiting a little bit to have more clarity in what's going on, but they definitely want to reach the dividend. They need hard data to release them, but we expect that to happen before the end of the year. We still don't know vividly. And we are talking with them, but that's my opinion.

And the first one, you are right. We don't want to be a digital bank. We want to be a group that works in a digital world and that's the whole difference. So we want to be digital everywhere. So in the pension funds, in the brokerage, in the Afore, you will see that we are taking some steps going there. So it's our decision to move in a digital world and be there, everywhere. And you will see that we are working in all the fronts. And that's our main target for the 1 to 3, which we will release in the Banorte Day.

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**Unidentified Analyst**

Okay. And last question about maybe efficiency that you discovered during this pandemic times. Are you expecting to be in a hybrid working mode for the following years and maybe efficiency on the property levels, maybe you don't need all the office spaces that you have in Mexico? And regarding on that, what is your thoughts?

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

Yes. We want to learn something about all these. So we released, like, I don't remember a lot of meters of rents here in Mexico. It is like MXN 200 million per year. So we will go release and everybody is happy to do it. So I think we will learn something. And in the future, we will work hard but a little bit flexible. It depends on the areas. Obviously, if you work with a branch, you need to be there. But a lot of people is preparing to work hybrid, we will respect that, and then we will make some accountability and see if that's working. And my bet is, it's going to work perfectly. And so we want to be a modern bank and the people is going to be happy, and if they are happy, they will produce more, and it's a win-win situation. We will go through that mode.

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

We will take the next question from Gilberto Garcia from Barclays.

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**Gilberto Garcia** *Barclays Bank PLC, Research Division - Assistant VP & Equity Research Analyst*

Several state governments, particularly those where there were elections this year, have been in the news lately due to having very severe liquidity situations. Have you seen any impact from this? Are you comfortable with your exposures to state governments?

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

Yes. The answer is, yes, period. We don't see any problem there, and we would love to go to work with them. Remember, when we make this (foreign language), everybody was concerned. But all the competitors, all of them, they went after the governments and the rates went down drastically and now everybody is there. So we were the first ones. We know how to do it, and we are very happy with them.

**Operator**

Now we will continue with Jason Mollin from Scotia.

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

Can you hear me?

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

Yes.

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

Thank you for the presentation, Marcos, Rafa and team. I have 2 questions. One on potential risks and one on the group's digital strategy objectives. I mean you've made comments on insurance normalizing next year in 2022, loan growth picking up, NII, NIM recovering. What are GF Banorte's management's greatest concerns related to generating the kind of pre-COVID ROE levels of 20% that you mentioned. One, I think that you mentioned was that the potential regulatory change for the Afore is the pension funds.

And actually, I just want to make sure I got that number. I think you guys disclosed or spoke about an all-else-equal hit to net income if the commission's level was indeed to be reduced to 0.57%, but also what are the other main risks you see? And just on the -- it seems like we're waiting. We're excited to hear about more details on the three-pronged digitalization strategy that you've talked about and that we should hear more at the Banorte Day. What have you guys established a firm date for that?

**Fernando Solís Soberón** *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Development Officer of Products & Segments*

Around April, we still don't know. As soon as we know, we will see the invitation to you. And -- but let me give you some answer on that. We call it the 1, 2, 3, the new step of the bank and is to be the first one in the year '22, talking about digital. So we better move there, and you will see a lot of stuff that we are working on. And in April, we will see the Investor Day. And the potential risk, yes, the Afore.

Remember that the Afore is like 6% of our business, around that. And it's going to be hurt, maybe we still don't know. We will fight for that, but you will see some good news in Afore in the future. So I am concerned, obviously, but not so concerned. We need to work. And the potential risks, all of them, so is -- we have a lot of business in Mexico and whatever happens to Mexico happen to us and concerning if we're a proxy of Mexico. So whatever happens to political issue, immediately, the reaction comes to us. But it is what it is, and that's our risk. On the other hand, if you want to buy Mexico, you buy Banorte.

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

Yes. And about the clarification you asked about the impact on the Afore that Fernando discussed. He stated MXN 700 million, assuming we don't do anything, but of course, we will take actions to reduce that number.

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

So I mean -- I understand clearly the proxy of Mexico and political risks. But on the operating side, what are the things that could limit your ability to achieve the profitability prospects that you've been talking about. Is it competition? Is it irrational pricing? Is it that costs for some reason, get out of control or what keeps you up at night when we think about the operating side and not meeting these -- you have -- and I think you've shown it and talked about it and we like to talk about the diversified nature. Yes, Afore is only 6% and insurance is X. But what can you tell us on the operating side that you want to control and make sure or concerned about going forward?

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

I would say, Jason, that it's not external. It's internal. It's our ability to adapt using Mexico and using the digital world. So we better be prepared. We better be prepared to be -- whatever you call it, work. We need to work a lot. But my concerns are internal to work as a team, to make it understand everything and to move faster than the others because we are in Mexico and we know the situation. And if you pick -- we do that, I'm sure that we will grow faster than our good competitors because they are very good, and we can provide good results for you. And that's my main concern internally to work as a team and to understand perfectly what's going on and to be faster than the rest as soon as...

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

Is that a way of saying that is the market getting tight for good talent in Mexico given these startups willing to pay? Is that a concern about the talent pool and that being pulled towards these new ventures that are achieving, looks like so far, pretty attractive valuations?

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

No. The way I see it is that the -- we were the first one to launch this program to our customers. We were -- the past is very good for us. But now all the competitors are there. All of them, they want to be in Mexico. Mexico is a great country. And if you want to be on the world map, you need to be in Mexico. So they will unleash everything, and we need to be prepared, and we need to move faster. I'm saying that we have the best talent, on my point of view, in Mexico and we need to put that to work.

**Rafael Victorio Arana de la Garza** *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Financial & Operational Officer*

Jason, just one thing. The digital evolution of Banorte, and you will see that on Investor Day, but we can also show to the investors whenever they want because you can do that on a mobile app. I think we have achieved a really big advantage on the digital process on the consumer and also moving aggressively into the transactional fees of the bank.

When you see what Marcos mentioned, the culture of Banorte has evolved a lot in the last 5 years. So I think culture is also a key factor for Banorte and it's what is helping us to attract the talent that we need. And another thing that we want all to tell the market is that we are joining forces with the most prestigious institution in Mexico, University and graduate programs that is Mexico Tecnológico de Monterrey, in order to keep providing all the services to the young and coming, to the higher talented individuals in that alliance. So we are moving in every single part that we need to put the ground of Banorte, and the digitalization process is going extremely well and the culture we hit evolution of Banorte is also something to be proud of.

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

Now we'll continue with Yuri Fernandes.

**Yuri R. Fernandes** *JPMorgan Chase & Co, Research Division - Analyst*

Can you hear me?

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

Yes, Yuri.

**Yuri R. Fernandes** *JPMorgan Chase & Co, Research Division - Analyst*

I'll be brief here. I have just one question, actually a follow-up regarding asset quality. This quarter, your settlement gains on the new information, I guess the cash collection was a bit higher than normal, like 3, 4x the usual run rate. And again, I got -- your NPLs are very good, asset quality trends are very good this quarter. But we don't know what drove the settlements to be much higher. So my question is, what is explaining this, I guess, MXN 2.2 billion, like, reversal this quarter regarding settlements? That's my question.

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

I don't think nothing is extraordinary, Yuri. As you can compare to that to other years, you see that there is a kind of seasonality in that part. What I can tell you about also is that the cash recovery in the collection shop has been going up, and up and up. We expect to have

compared to last year close to 40% more cash collections than the year before. So nothing extraordinary. I think it's part of the seasonal if you compare on year-to-year part. So that's what I can say. Nothing really out of the ordinary. The only thing that we have improved a lot is the cash collection process in this funding.

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

And we will take the next question from Carlos Gomez-Lopez from HSBC.

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

Two questions. The first one, I kind of know the answer. If you already have the name and the date of launch of your new digital bank, I suspect that is going to come in the Investor Day. And second, regarding competition. We have seen asset quality being very good across the board. And I wonder how come that is not reflected in some of the places starting to be more aggressive and seeing narrower spreads. Are you considering that for yourself? Or are you seeing that in any other player that competition has started to pull out just simply because the asset quality performance has been so good?

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

The first one, yes, we have the name of the bank, but yes, we will revisit the Banorte -- very sorry. It's fresh and different. So you will hear on that. And competition is there, and this will start the pressure, yes. But we have been working with this competition. We have 50 banks in Mexico. So for us, it's not new. And we know that everything could happen and everyone is going to be there, and we need to be prepared. And it's good for the country, so welcome. We know how to work with that. We prefer to work internally and not to worry too much about that competition.

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**Rafael Victorio Arana de la Garza** *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Financial & Operational Officer*

And Carlos, if I may to add what Marcos mentioned. Banorte has the balance sheet, has liquidity, has capital to compete in the market at a very strong position and also the best risk numbers in the market. So our risk-adjusted margin is the best in the market, second to only 1 bank because of the mix of the portfolio. But the risk-adjusted margin and the risk numbers are extremely strong. So whenever we see that the risk is right, Banorte will be there.

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

Okay. But again, you have not seen a significant increase in competition. You have not seen somebody becoming significantly more aggressive after the pandemic than they were before.

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

No. As usual, it's a lot but as usual.

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

We'll take our next question from Federico Balassi. No, he unraised his hand.

So thank you, everyone. Thank you for your interest in Banorte. With this, we'll conclude our presentation. Thank you very much.

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

Thank you.

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