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Q4 2022 Grupo Financiero Banorte SAB de CV Earnings Call

EVENT DATE/TIME: JANUARY 20, 2023 / 3:00PM GMT

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PRESENTATION

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

Good morning. I'm Tomas Lozano, Head of Corporate Development, Investor Relations and ESG. Welcome to Grupo Financiero Banorte's Fourth Quarter Earnings Call. Our CEO, Marcos Ramirez, will provide an overview of the main results for the quarter and the year, including the market dynamics that favor loan growth and deposits, the tailwind from the rate environment in the country and the gradual recovery of our non-bank subsidiaries.

On our ESG slides, you will find the most relevant updates on this project. And I would like to highlight the completion of the first stage to quantify the carbon emissions of the most intensive sectors in our loan portfolio. You may refer to the medium and long-term reduction targets in our sustainability webpage. After our CEO's presentation, Rafael Arana, our CFO and COO, will provide a closer description of our NIM dynamics, the rationale behind our cost structure and our capital ratios. He will also present our expectations for this year's guidance. We will then open up the session for any questions you may have.

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. On Page 2 of our conference call deck, you will find our full disclaimer regarding forward-looking statements.

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, Tomas. Good morning, everyone. I wish you all a successful New Year. Thank you for joining us today. We closed the year with a strong quarter, marked by expansion across most of our business lines with an evident recovery in sectors that were hurt by the pandemic and sound performance at the bank. This is supported by accelerated loan growth during the quarter, solid asset quality and a well-oiled machinery that has allowed us benefit from the positive rate environment in the country.

Despite that challenging and uncertain global environment during 2022, the Mexican economy performed better than initially anticipated with GDP growth for the year ending close to 3% on the back of a consistent recovery in private consumption and increased activity in the export sector. For 2023, we expect moderate economic activity as we incorporate the effects of a potential global recession. However, we believe that these headwinds will be partially offset by the initial benefits of the near-shoring activity, along with increased external demand, private consumption and government spending.

Therefore, we have revised our GDP growth estimates for the year to 1.5% from the 1.0% previously forecasted. Regarding monetary policy, we expect Banxico to have [one last 50] basis points hike in February, taking the reference rate to its peak to [11%] for a few months, and then start the cutting cycle towards the fourth quarter of the year to end at 10%. This tightened policy together with stability in the pesos valuation are expected to have a positive impact on inflation during the year. After peaking in the fourth quarter of 2022, inflation is expected to remain somewhat sticky during the first half of the year and gradually bring down during the second half to end close to 5%.

On the political front, attention will center in the trading agreement resolutions regarding automotive, electrical and agricultural matters. Moreover, June, we will have elections for 2 governorships in the State of Mexico, Ocuilan. On the legislative agenda, discussions in Congress regarding reforms to secondary electoral laws will continue. And in March, the Lower House will elect a new President of the National Electoral Institute's General Counsel (inaudible).

Overall business results on Slide #3 describe a solid balance sheet. We're prepared to take the most out of the rate cycle in Mexico. On the loan side, we reached double-digit growth in our portfolio, further supported by continuous efforts to reduce our funding costs. Moreover, the structural changes at the bank are keeping asset quality below historical averages, while economic recovery has kept a more dynamic fee activity.

Starting off with profitability, Slide #4, net income shows a consistent quarterly evolution, yielding an accumulated 30% increase for the year. ROE improved almost 400 basis points on a year-on-year basis, reflecting an expanding performance across most businesses, which is also reflected by a solid return on assets. Our non-banking subsidiaries are gradually recovering their contribution to these indicators as we will see further ahead.

Moving on to the top line results of the group on Slide #5. Net interest -- net interest income has had a positive trend during the year and particularly during the fourth quarter as interest rate hikes has been gradually incorporated into our portfolio and strengthened by a sound deposit mix and a diligent loan insurance across most of the product lines. Non-interest income was also supported by a strong fee income from banking operations, offsetting inflation-related impacts in our annuities' technical reserves. Altogether, total revenues show solid quarterly and annual increases.

Zooming into this Slide #6, they show a 7% sequential expansion, driven by higher seasonal activity in the quarter. With accumulated figures, these have double-digit growth, led by a strong electronic banking fees, higher advisory and structuring fees in commercial and government portfolios and higher domestic demand for consumer products. Digital and physical POS transactions had a seasonal boost during the quarter, driven by retail events in November, such as El Buen Fin, which is Black Friday and Cyber Monday. However, there was positive momentum for this throughout the entire year as mobility was fully restored in the country.

Moving now to Slide #7. We see a strong expansion across the loan book, which exceeded our expectations, reaching an aggregated 12% growth. During the quarter, it was primarily led by a record high expansion of the commercial portfolio, which is expected to continue as near-shoring operation gradually materialize in the country. Emphasizing for this, we are currently strengthening our commercial teams in the north and central regions of Mexico, where most of these opportunities will be located. The government book had a strong quarter with a good credit demand from federal, state and municipal governments. Corporate loans were affected by prepayments, but continue to benefit from the dollar loan market, which currently represents 30% of our loan book.

The consumer portfolio on Slide #8 displays a strong quarterly expansion and a record annual increase. The evolution of payroll and credit card loans has been driven by good consumption dynamics and has been particularly accelerated by the adoption of our digital offerings through the mobile app, the web and other service -- self-service channels. Auto loans continue to recover as supply shortages start to normalize. And mortgages continue to expand with a particular focus on high-time value customers, which will bring long-term profitability for the group.

On Slide #9, asset quality during the quarter and the yield continues to exceed our expectations. The quarterly increase in NPLs responds to isolated cases and does not represent any industry-wide or geographical trend. In fact, some of these cases are expected to

normalize within a few months. It is worth mentioning that we have made structural changes in our origination and collection processes to account for behavioral changes in our customers' approach to credit, particularly as they have a higher adoption of our digital channels.

Analyzing the quarter's results by subsidiary, that's Slide #10. The bank results were impacted by higher extraordinary expenses that will strengthen our future operations, which we will review in detail later on with Rafael. Nevertheless, with accumulated figures, the bank continues to expand on the back of solid NII and asset quality as well as a stronger lending and fee dynamics, maintaining an ROE above 24%. As part of our commitment to our shareholders, we will be analyzing different alternatives for capital return throughout the year.

The insurance business continues to recover with good premium expansion and COVID-related claims normalizing down to pre-pandemic levels. And car insurance claims increasing also to pre-pandemic levels as mobility is fully restored in the country. The brokerage sector show a quarterly reduction driven by lower interest income. The annuities business had an impact during the quarter, resulting from a [year-long] market contraction and inflation adjustments in technical reserves.

As for pension funds, the business is still impacted by the pickup imposed by the regulator at the beginning of the year, as you remember, on top of the valuation effect of higher rates in its long-term investments. These effects will slowly be offset by an increase in assets under management brought by a gradual increase in employer contributions from 6.5% today, up to 15% over the next 7 years.

On Slide #11, we provide greater detail into the insurance business performance, showing the -- a steady growth in premium origination, together with a gradual normalization to pre-pandemic levels in claims. Moving on to Slide #12, we are proud to have reached the second operating year of our joint venture with Rappi, accomplishing the operating and profitability targets initially set. We will continue with the steady growth in digital credit cards with a strict risk control and a continued focus on profitability.

On Slide #13, our obsession with listening to our customers' voice and putting them at the core of every project has still very positive results in our Net Promoter Score, NPS, across all channels. We know there is still a lot of work to do, but we are on the right track to achieve a 90-point score and beyond. Shifting gears to ESG on Slide #14. I would like to highlight that during the quarter, we completed a relevant project to quantify the carbon emissions of the most carbon-intensive sectors within our loan portfolio. We have set medium and long-term decarbonization targets for those sectors, following international guidelines and standards in compliance with our commitment with the Net-Zero Banking Alliance.

You may refer to these targets in our sustainability webpage. As a final note, I am happy to announce that we have already set the date for our Investor Day, which will take place on March 28 in New York City. We look forward for sharing with you the details of our most recent digital advancements, which are already transforming the way we do business with our clients in the digital world. You will soon be receiving our invitation with all the details on the venue, time and format, and I hope to see you all there very soon.

Now I will leave with Rafael Arana, who will walk you through these positive results in our NIM, a more detailed expansion in our expense structure, and as you know, our new guidance for the year. Rafael, please go ahead.

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

Yes. Thank you. Thank you, Marcos, and thank you all for being at the call. Let's go through, I would say there are some questions about what's the behavior of the expenses and what are the main performing and what's some potential outlook for the -- what's going on for the interest rates and the effect that we will have on the NIM.

As you can see on the slide, we have, I would say, very basic issues that are presented there. We continue to have positive operating leverage at the bank. The cost-to-income ratio and the group continues to go down, 38% is the cost-to-income ratio. And I think it's difficult at this process that we are living on the economy to really concentrate in just one metric like would be the expense line. I think we need to look at the revenue side and also look at the cost line and try to always be positive on the operating leverage. So that's basically what we are doing at Banorte.

So when you see the cost-to-income ratio at 38% compared to the last year, you see a very, very strong evolution in the right trend. We

continue to, as Marcos mentioned, to be very aggressive on the transformation on Banorte and the subsidiaries, Rappi and also (inaudible). And I think we can consider now Banorte really a digital bank with branches and you will see that on the Investor Day that we will present you the evolution that we have at Banorte and the results that we are achieving with our clients.

On the -- basically, I would say that it's important to make a difference about -- because there were some concerns about some analysts that say, well, the evolution of the NIM hasn't been so strong. I think you have to consider the evolution of the NIM at the bank and the evolution of the -- on the NIM at the group. The evolution of the NIM at the bank continues to be very positive. And you have to remember that the lag effect of the interest rates hike, it really take us around 6 months to fully take the benefit of the hike. And you get immediately the, I would say, the effect -- the negative effect on the liability side. So we see a very positive growth on the net interest margin for the bank for the coming year -- for this year.

And also, you will see a more balancing net interest margin for the group, because you have to remember that many of the group on [their foray] on the pension company and the annuity company and even in the insurance company at a lesser level, we have to bear out the effect of the inflation and that on the positions that we hold on that and the same on the broker. So -- but we see a very positive movement for the NIM for the bank. The capital ratio continues to be very strong, 22.9% and the core Tier 1, 15.2%. This is before we [finalize] the dividend for the bank to the group. There will be a reduction that we were very close depending on the time of the dividend payment, very close to again to the 14%.

If we move to the next slide, you will see the evolution of the NIM and also the return on assets and the effect that that's having on the return on equity. The net income of the bank, you see a reduction in the fourth quarter, and basically, that has to do with decisions that we took concerning the expense line and also advance some of the projects that were very close to the -- to finalize the benefits on the IT side to accelerate the amortization and capitalization of those projects.

If you strip that number out, the number in the fourth quarter will be very close to the MXN 10,000 [million]. But I think it was a very positive measure that we took and it will be beneficiary for this year. The return on equity of the bank, as you can see, it reaches 24.6%, on that part, if you normalize the net income, that return on equity for the bank will be well above the 25%. The return on assets for the bank is 2.3% coming from 1.8%. So we continue to see a good evolution. Our main goals were to be close to 2.2%, now we are at 2.3%.

And you can see the evolution on the graph to the right-hand corner that the NIM of the bank accelerates pretty strong on a quarter-to-quarter basis. Some people say, well, if the interest rates are reaching the 10% and maybe we were reaching the 10.5%, what will be the effect of the margin? You have to consider that lag effect of the 6 months that goes, that will be very positive when the hike in the interest rate stops because you still have around 6 months more of benefits of the rates, and you will get immediately the benefit on the liability side once the interest rates start to go down. So we are very confident about the net income of the bank. If you see the net income on a year-to-year basis for the bank, it was above the [23%], but I think this is quite positive concerning all the issue that you have on the funding side, on the liability side and on the asset side and the lagging effect.

If we move to the next one, please. Here, you see a much more detailed graph that shows the trend and how is the acceleration part of the margin. You see a big jump in the second quarter from 5.6% to 6.3% in the third quarter, then to 6.7% on that part. What we feel confident about the continuous evolution of the margin is that the funding costs that you will see on a slide that I think it's [2 slides ahead], we continue to be positive on the reduction on the funding costs. We understand that the liquidity issues that are not just in Mexico but all over the place eventually will move demand deposits to time deposit and put pressure on the funding cost. I think we could manage that, where we have been able to manage in the past.

The NIM of the group is having a slower pace. As I mentioned before, because of the position that you hold on the insurance company and the annuities company and on the pension and on the company -- pension company, but still will be a very positive number by the (inaudible). If we move to the next one, the asset quality, Marcos also touched on that. But what we have been very efficient in managing of the balance sheet and also on how to use the potential benefits of the margin is that we have not been able -- we have not been using those benefits of the margin to really pay for provisions that usually come under this cycle that you have a hike in the interest rates and you have a pressure on the cost of risk, that hasn't been the case for Banorte. You see a small tick on the -- from the -- in the third quarter to fourth quarter, but basically, is what we call good provisions because of the growth of the portfolio.

As Marcos mentioned, with a portfolio on the payroll growing above 22%, and credit cards, 15%, and most of the consumer book are growing at double-digit numbers based upon the way they use their provisioning lines is a very good uptick. And basically also on the commercial side, specifically to cases that are well under control, but they affect the bid on the cost of risk, but nothing -- we don't see a negative trend in any of the portfolios. On the write-off rates, you see that has also been very steady, nothing really above the line that we have seen in the past months. And the credit provision, as I mentioned before, based upon the growth of the portfolio has been extremely positive.

On the next one, please. The funding cost, as I mentioned before, continues to be a goal that we have to continue to drop the funding cost in order to support the expansion on the margin. Even though if the interest rates start to go down, I think the funding cost tells a good story, because the mix on the demand deposits is now reaching 74% and 26% among the time deposits. So we see a good trend there that -- and that will be a strong support for the evolution of the margin whatever the interest rates on that part.

So good trend on the funding costs. As you saw, demand deposits grew close to 16% for the year, overall growth on the funding side, 12%. So well above the -- very close to the asset side. So we see a good trend on the funding side, the transactional banking on the corporate is supporting a very large inflow of funds also on the government side. So we continue to be very positive for the funding side for this year.

Next slide. Also a recurring question is how the sensitivity is really happening at the bank? You're seeing pesos, MXN 1.2 billion for each 100 basis points and in the dollar book, [\$1 billion] for the dollar book. So we continue to be very asset-sensitive and taking very good care of the balance sheet and position the balance sheet also for an eventual drop in the interest rates.

If you move to the next one, please. The expenses that obviously is a relevant question for the market. We have to split the expense growth in what is recurring expenses and what was the extraordinary expenses. The recurring expenses will -- if you look at in detail of the information that we provide to you was [5.3%], the recurring expenses and extraordinary expenses account for MXN 1.5 billion. Also, you see on the graph to the right on the bottom side, really, the pace of growth of the recurring expenses has been very controlled and below inflation on that part.

The extraordinary expenses, the rationale for the extraordinary expenses are 2. The first one is that based upon the dynamics that we observe on the commercial side, on the SME side, we decided to strengthen the position that we have on the commercial side, on the SME side. And we hired more than a 1,000 bankers to accelerate the market -- and capture the market that we see an opportunity there based upon everything that is going in Mexico. And I think we were underrepresented on the commercial side and on the SME side against one of our peers. Now we feel very confident. Now you see the expense. But this year, you will see also the benefits of that expense that we paid in the last year. So we are very well positioned as we see for the growth that we are experiencing in the commercial book and on the SMEs.

And we are now very well represented where basically the growth is happening in Mexico. So we will be also in detail, as I mentioned before, another part of the extraordinary expenses is accelerated that we did on the IT side. And also relevant to notice is that Banorte is to finalize the migration of the data centers that we currently have. I think we are moving to a top of the line data centers to have resilience. Right now, our operating capability is at [99.9%]. We want to conserve that. We have to be a top of the line on the data centers. I think we will achieve that by the first months of '24, but we are already in the -- in full migration of the data centers to the new standards that we are having for Banorte.

That has also created additional expenses, but I think is a good expense that will be there for the future and allow us to have top of the line data centers and capability on the IT side. So the expenses were not really expenses that were really non-productive at all. I think they are very productive expenses and the recurring expenses are well under control on that part. Another issue that you have to remember, you know that because you can -- we can follow that is that usually, the effect of the inflation has a lagging effect of 1 year, and that has been the story for Banorte for the -- not just for Banorte, for most of the companies.

So I think we are well positioned to have -- continue to evolve to a more positive cost income ratio in this year and in the coming years

based upon all the digital efforts that we are putting at the bank. If you see the split about staff and back office and staff and the sale part of the group, 80% is really devoted to the business and 20% is devoted to staff on the back office. So I think we have a very, very well balanced, and that's the result of all the technology that we have put in place for managing the operations and the growth of the business.

So in a much -- if you -- if we also move to the liquidity coverage ratio, you see a drop on the liquidity ratio. It has to do with the rate of growth that we experienced on the asset side. But also it's clear that liquidity, not just for Mexico but all over the world, will be pressure on the -- on this year. That's why we have concentrated a lot on the [funding] side on that part and taking very good care of the relationship that we have on -- especially on the wholesale banking that is basically the ones who requires the big tickets on the asset side, I think we are very well positioned for those companies. And we have a very disciplined view about where to put our capital is where the relationships can grow, we don't see the -- not just in the present and not just go for the tickets, but go for the relationship, and also that's the reason on the consumer side. The capital ratio continues to be very strong, well above all the TLAC requirements that we have. And as you have seen in the past, our leverage ratio continues to be the most deleverage ratio in the market.

If we move to next one. What was the result about the guidance that we gave you at the beginning of the year. And it's important to notice that, as you remember, we changed the guidance as we saw that the evolution of the market was better than expected, and maybe that would be the case also for this year. The loan growth, we anticipate 7% to 9%. We achieved 12%. The NIM expansion was in range, 90 basis points. The bank expansion was also in range, 110 basis points. The expense growth in the recurring side was positive, not on total because of the decision that we decided to invest on the business and on the IT side.

The efficiency ratio is in line what we guide. Cost of risk is also in line. Tax rate, the same. Net income at the high end of the guidance. The return on equity for the group at the top of the guidance, and the return on assets for the group also at the top of the guidance. So that was the result of the guidance that we achieved. You have to remember as I mentioned that we changed the guidance as we saw the evolution of the market. And I think it will be the same case for this year, even though there's a lot of uncertainty about what will be the potential recession in the U.S. or what will be the evolution of the market. But Mexico continues to be I think very well positioned to capture the evolution of what's going on in the market.

I will now move to the '23 guidance. The loan growth we anticipate based upon what we mentioned, GDP growth was 3% last year. We see GDP this year growing 1.5%. So loan growth is 6% to 8%. The net interest margin [6%]. This is the average number for the year. And for the bank will be very close. And in some months, you will see that the NIM of the bank will be well above the 7%. On average, we are putting 6.7% to 7%. Recurring expenses will be 7% to 8%, and the total expense grow to 11% to 13% because of the lagging effect that I mentioned to you.

But the efficiency ratio will continue to go down, and we will have a positive operating leverage on the group. The cost of risk, we are moving a bit, 1.6% to 1.8%, because we continue to see good evolution on the consumer side. Tax rate, 24% to 26% as unusual. Net income from MXN 50.5 billion to [15 points], MXN 52.5 billion. The return on equity close to 21% for the group and for the bank, very close to the 30% return on equity for the bank. The return on assets are reaching above the 2.4%. That would be a very positive number for the history of the group.

And as I mentioned to you, the GDP from 0.5% to 1.5%. If the GDP pushes over to the 1.5%, we will adjust the loan growth and the consequential numbers that are affected by the loan growth. The inflation at the end of the year, the inflation will be very close to 5.5%. Maybe there will be a discussion with our economist, but he has been very precise on adjusting the numbers for the inflation. The rates, we see an average rate of 10.75%, that will continue to be through the year, that will be the effect through the year on that part. There will be some pressure on the funding side, but I think the asset side will continue to be very positive because of the asset sensitivity that the bank have.

With this, I conclude my remarks. And as Marcos mentioned to you, we see the Investor Day on the 28th of March. And the Investor Day tries to answer the questions that many of you have post to us, how is the dynamics in Banorte that Banorte is achieving the resource on a continuous upward trend on that part. And that's exactly what we would like to show to you live on the Investor Day, how really Banorte operates and how do we really address the market and the client.

Thank you very much for your time. And now we move to the Q&A now.

QUESTIONS AND ANSWERS

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

Thank you, Marcos and Rafael. (Operator Instructions) We are now ready to start the Q&A session. We will start with Ernesto Gabilondo from Bank of America.

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

Congratulations in your results and in your double-digit net income growth guidance for the year, which I believe already includes the new investments. My question is on that, on the new investments, we noticed your OpEx growth guidance of 11%, 13%, is considering 2% related to (inaudible) and I think 3% related to the IT investments and the commercial hirings.

I understand that the investments represent an attractive opportunity for organic growth. But when should we start to see these investments translating into revenues, especially in (inaudible) as we have seen that the focus in the digital transformation, I think globally and in the region has changed to profitability versus client growth and also the monetization is coming from having more digital deposits and digital loans. So I would like to hear your thoughts on that?

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

Ernesto, thank you very much. Yes, your numbers are perfectly right, as we are reading out on the same numbers that you have. Remember, we are running the bank and we are changing the bank. And that's why we are separating these 2 because we want to be a progressive bank and show you how it moves. And right, our main focus always is profitability. It's not -- we are a bank that we need to give that, and we are not this kind of (inaudible), so -- with this profitability.

And we are expecting, let's say, in 3 years to see the results of all these investments. And we showed you clearly where the money is going and all these comes with accountability. We are not sending money and see next what's happening. We are very careful on what we are doing. Rafael, do you want to say something?

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

No, no, no. That as Marcos mentioned, the 3 years for the renewal, the hiring of the people will be producing results this year.

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

Perfect. And just last question on dividends. We continue to see this high common equity Tier 1 ratio. So just wondering on what should we expect in terms of the dividend policy and the buyback for this year? To my knowledge, you haven't used so much the buyback that you announced last year. So just wondering your expectations on that?

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

Thank you. 50% minimum, and let's see how it goes. But we are sort of committed, let's say, that to Board, 50% minimum.

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

And buybacks will be same amount?

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

Yes, the buybacks are -- as we have discussed with you, are present, and we are analyzing every single day...

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

Opportunity.

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

The opportunity and how do we make a mix of our dividends. But as Marcos mentioned, the dividend will be 50%. And in addition to that, we are looking to ways to reward the investors in the best possible way.

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

He said way -- ways, no waste, ways.

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

And -- but remember that our guidance for core equity Tier 1, both Jose Marcos and Rafael disclosed in the previous conference call, we will be getting there eventually. So I think that can give you an idea of the total amount that Marcos and Rafael are referring to.

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

And remember one thing, Banorte doesn't have a parent company. So we need always to be very prudent with the capital numbers and with the liquidity numbers. So we are never saying no to reward more than the 50%. But if you look at the world, the world is not in steady state. So we like to be prudent and opportunistic when we see the ways to reward the shareholders.

But I think the best way that we can reward shareholders is to really take very good capital and the returns of the capital. And as you can see, for the returns for the bank very close to the 30% and return on equity for the group above the 20% and maybe very close to the 22%, I think with this level of capital and with -- and the level of leverage that we have, I think we are very prudent. We're -- we like to return as much capital as we can to our shareholders. What we know and we understand that we are living in a not very predictable world as we speak.

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

And remember the TLAC, Rafael.

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

I missed it.

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

We were talking and talking about the TLAC, and now this year, we will start to increase our refinancing capital. So everything is there.

Unidentified Company Representative

We'll now take the next question from Ricardo Buchpiguel from BTG.

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

Congrats on the results. Just a quick question here. Can you please explain what are the exact headwinds that are impacting the annuity business? And when exactly should we see the -- this pace of recovery? And also for the insurance business, is the structure there fully normalized post-COVID in terms of the claims?

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

Thank you, Ricardo. Please go ahead, Tomas.

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

Yes. No, thank you, Ricardo. I think it's important to look at these 2 businesses on a separate basis. And if you look at annuities as you asked, the actual net income year-to-year increased 36%. However, remember that part of the, let me call it, negative of the numbers are on the technical reserves and the positive is in the NII. So that's why you need to see this in a consolidated basis.

On the annuities, there was a reduction on the reserves for 2 main factors. The first one is a decrease in the business that was generated.

This is not only for Banorte. The industry had a reduction of 14%, plus related to the inflation dynamics, you also have a reduction there on the reserves. So to put it shortly, the pension company, the annuity business is growing profitability, 36%, and I think it's better to see this on a separate basis.

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

Can you refer to the pages?

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

Yes. You can see this on Page 24, you can see the insurance, and on Page 26 of the report, you can see the income statement for the annuities company. But let us know, and if you want, we can connect to see this into further detail.

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

No. Very clear. Just a quick follow-up. Moving forward, should we see then a recovery on this annuity income line because you wouldn't have the impact on inflation or this impact should still have a lagging effect and impact the next few quarters, what should be the dynamics?

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

Thank you. I think this year, we will continue to be positive, for instance, on the net income growth for the company. Now we will continue with Tito Labarta from Goldman Sachs.

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

Question on loan growth. I saw your guidance for the year, but I was hoping if you give a little bit more color sort of by segment, right, seeing good growth on both the consumer side and the commercial SME side, which you mentioned you're investing in? Should those be the segments that continue to drive growth? Any color you can give on sort of the loan growth by segment?

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

Hold on, we have it right here. And yes, it -- yes, as I said, it's -- the [neighborhood] is different depending on where -- the mortgage around 8% to 10%, credit card, 16% to 18%, auto loans, 10% to 12%, payroll is 9% to 11%. These are consumer credit rating. The meaning of all this, this is 10% to 12%, the consumer, because some -- commercial -- then commercial, 9% to 11%, corporate 5% to 7%, and government 1% to 3%, that's why the total goes to 6% to 8%. So it's very important this because we are going to go in the places that we want to grow. And remember, it's a different [animal], different NIMs, different everything. But the average goes 6% to 8%, but the composition is totally different. We are forecasting all this. We hope we can achieve it.

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

Great. That's helpful. If I can ask one follow-up, more, I guess, on the impact on asset quality right because your cost of risk is going up, I think because partly because of the mix, but NPLs continue to be very much under control. Any concerns there or when do you think NPLs kind of normalize from where we are today?

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

Well, we will say (inaudible) prepandemic year. Please, (inaudible).

Unidentified Company Representative

Yes, yes, Tito, this is [Carlos Gonzalez]. I will tell you that perhaps you're referring to a small bump in provisions, but that small bump is not a new driven event. We -- they do not constitute a trend or a person to a idiosyncratic-type risk. That is -- this is not a workout case to explain it. This small bump is seasonal growth mainly in credit card, payroll and government loans.

The loan portfolio as a whole also increased in the last year. We continue to increase recovery rates, increase write-offs and overall, control origination, managing, collection, practices and execution. If you see cost of risk, the historic average throughout the life of Banorte is 2.2%, 2.2%. And prior to the pandemic, if you take an average cost of risk from December 2017 to March 2020, you will see

that the historic average is almost 1.97% or 2%. So cost of risk should increase, but there is no even 1 or 2 events that can explain it as of now.

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

Yes, Tito, and remember the dynamics that we had on the growth as Marcos (inaudible), I think it's extremely positive. When you see numbers on payrolls, 22% credit cards above 15%, car loans fully recuperating, the mortgage up also double digit, obviously, you will have a different pattern on the provisioning line, but not because you have bad risk, it's because you are growing in a very positive way the consumer group.

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

That's clear.

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

We'll now take the next question from Jason Mollin from Scotiabank. Jason, go ahead.

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

Congratulations on the strong quarter. I guess since some of my questions have been addressed. I wanted to talk on the strategic side about the initiative you mentioned to strengthen the commercial teams in the center and north of Mexico. And that you mentioned adding 1,000 bankers. And the headcount, I guess, has gone up just for the banking sector brokerage and SOFOM, I guess it includes the long-term savings employees. That was up 700 plus in the year 2022 and over 1,800 since 2020. If you can talk about how you stack up in that business, what kind of loans are you planning to offer in this segment? How should we think about that business? Sounds like a pretty big investment from my side.

And then the second question would be talking about the payroll lending business. It's growing quickly. It's a reasonable size of the portfolio these days. And I did notice an uptick in the stage 3 payroll loans, actually quite high, 19% quarter-on-quarter and 60% year-on-year. If you can tell us what's going on there on the asset quality in that segment and perhaps talk about why people with payroll-deducted payments were seeing some issues? Are they losing their jobs? Is that the main driver?

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

I will start the second on the payroll. Rafa, please?

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

Yes. Jason. As you can see, the expectation for the growth in the payroll loan this year comes down to 12%. We haven't seen any weakness on the job market. On the contrary, continues to be quite strong. But we are prudent about where we want to keep on growing the payroll loans. I think we have to wait and see. I think the starting of the year is very positive on the economic side. But obviously, when you grow a portfolio like payroll loans or any portfolio above the 20%, you have to expect that even if you have a very good origination process, just the provision in line because on day 1 that we have to put on the book will create uptick on that part.

We haven't seen any weakness really on the payroll or on the job market, but we are very --- we are being prudent in a way that we're reducing at half the level of growth on the payroll book. I think that's -- I don't know, Miguel, if you want to join.

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

Yes. I would just add that non-performing loans ratio for payroll loans are still below pre-pandemic levels. And every business line, segment and product, credit product, is still below pre-pandemic NPLs.

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

Yes. I think Jason if you look at a payroll loan book on an average for the years, you are around the 4.4%, 4.2% on NPLs. Right now we are 3.4. So we're still on the right part of the trend. But it's a product that we have to wait and see how the job market goes. It's going pretty well as we speak, but we are prudent. That's why we are reducing the pace of growth to half.

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

Just remembering, this product registered a robust performance of 3.3% quarter over quarter and an impressive 22.5% year over year growth. In terms of asset quality, [NPLs] we saw a 40% deterioration, but that corresponds for a [growth factor].

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

Yes. And the other part (inaudible).

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

As you know, everything -- the genesis of all this is near shoring. We are hoping that a lot of companies will come here. Mexico is a -- it has a lot of Mexico, so we know where we need to go. We have a lack of *banqueros de relacion* (inaudible) with another banks. So we need to close that gap and then we want to continue and maybe grow more because we see a lot of business coming in the next month or years, no. We are not going to grow from 0 to 1,000 in 1 month. As soon as we see that 100 people is there and they are working, we will commit with more and more and more. The name of the game here is accountability, no. The areas that they are asking for these people, they need to give us back in the numbers, and we will continue with that. But the numbers show that we need to grow in PMS, we need to grow in all the (inaudible) and a little bit in the big company, so we have a (inaudible) employees that we are closing and hopefully we are growing and you will see that in the numbers at the end of this year and at the beginning of the (inaudible). But it's not that we're going to hire right now 1,000 people. We will start little by little accountability and growing and growing and growing and maybe we see that the numbers show that maybe we will need around 1,000. That's why we're saying this.

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

Should we think about these kind of loan -- these kind of bankers -- sorry, go ahead.

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

No, no, go ahead, Jason. Please go ahead.

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

My question is I'm thinking like should we be thinking on some metrics like these bankers are in the commercial side, like they could have 30 clients per head, they try to have 50 clients, and then they're growing an average portfolio of I'm not sure what amount, like what segment you're really targeting there, and what is that -- what could be the growth related to these hires? Is that the way to think about that business that you needed the bankers in order to have the relationships and grow the commercial portfolio?

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

Exactly right. We manage the corporate and the commercial banking as a full relationship bank, so we are not selling credit. We are selling the full relationship. And that requires that people needs to be present with the companies all the time, not for the credit or for the transactional banking or the derivatives, for everything. I think it's quite important that the relationship side of the corporate and commercial banking in Banorte is very, very strong. We don't drive by credits. We drive by relationships on that. And that's why we need the people to be there with the companies that are being put in place, the new ones, the ones that we were absent from because we lacked the size and the presence in some parts of the country or the country is moving quite aggressively now.

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

Is this headcount where you are today, is that reflecting what you believe you need or do you think you could even go higher going forward?

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

No, no. I think the analysis was on a region-by-region basis, on a very detailed how the competition is present, especially one competitor, and how we compare to that. So no, I think it was a very detailed, and we got very specific metric as you mentioned, Jason. How many relationship by banker we need to have. And another thing that you have to take into consideration that part of the expenses that we put in place in December is the severance payment, and the severance payment usually goes around, let's say, 500 people to 600 people. So the 1,000 people that we are putting on the business side have been compensated in part by the severance that we have on a year-to-year basis when I was referring to the numbers of the (inaudible).

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

That's very helpful.

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

Now we will continue with Rui Fernandes from JPMorgan.

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

I have a follow up regarding efficiency and operating leverage. I guess you mentioned you expect this to improve in 2023 from 38% to maybe 36%-38%. And my question here is how, right? Because if you're going to grow your expenses by 11%-13%, you must improve your revenues, right? And looking to the margins, I know like on a full year there is some room for expansion, especially in the first half of the year, because the comps versus the first half of 2023 is very easy, but growing your loan book by 6%-8%, your NIM at the midpoint of the guidance is like 6.6%, 6.7%, right. It's mostly stable when you analyze the first Q. And [that] should grow faster than most for sure but not much faster than the loan book.

So the point is how to improve efficiency, growing expenses 11%-13%, and again, I totally understood the strategy, you're going for revenues, is digital transformation, but just the guidance of cost to income improving is not clear for me how you're going to get there. I don't know if it's the nonbanking business, if it's fees. So if you can explain that would be helpful. So that's the first question.

And also on expenses, just depreciation and amortization it was higher, you mentioned faster amortizations on your report. So if you can explain a little bit more why G&A are higher now?

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

Hey, Rafa, please go ahead.

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

Yes. No, thank you for the question. I think that the key part is to understand the dynamics of the margin as you mentioned. If you look at the dynamic of the growth in the margin at the bank, it's growing 18% at least on the low end of the guidance, 18%. That can accelerate more, I think so, but I think we have been prudent on that part. At the group side, as you mentioned, this is growing only 13%. So the big push for the margin will come from the bank because of the positions that the subsidiaries hold on that part. When the interest rates go down, the subsidiaries will be very beneficiary for that part.

So I think it's very important to understand that the margin at the bank will grow at least 18% compared to the 23% that grew last year, but that's the low end of the guidance. So I think you have to expect that the margin at the bank growing from 18% to 22% again on that part. So that's a very important part of the operating leverage that will come from that part.

So we are confident to reduce that cost because of the control of expenses that we have, the return of the investment that we have on the commercial bankers that will produce this year as we speak. And on the amortization part, we put [on the book] MXN 865 million. Why we did that? Because some of the projects that we were coming from 2016 already are reaching the full efficiency of the projects. So instead of holding those for longer, we basically are cleaning up those projects, and reaccelerate that part. It was not a small part. It was MXN 865 million. That money will not be present in this year, okay, because we already cleaned up.

So that's why the operating leverage, even if you sit tight, the operating leverage the revenues growing 13% and expenses 12%, I think that's a very tight measure because of the dynamics of the margin. But we'd like to be prudent with that, and we are fully confident that the cost/income ratio will again decrease next year and that the operating leverage -- this year, and that the operating leverage will be positive. Because as I mentioned, you guided that very well. The subsidiaries are going to be penalized a bit on the margin, but the bank will continue to accelerate the margin from a -- if you look at the expansion of the margin from MXN 85 billion on the bank numbers, it will go above MXN 100.5 billion for next year. So that's a pretty big jump on that for already existing big number on the margin.

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

No, that's super clear, Rafa. And by the way, 38% cost-to-income ratio is a very good number. So, no pressure here, but just to try to understand. So very clear.

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

We'll now take the next question from Carlos Gomez-Lopez from HSBC.

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

My question is about asset quality. I remember in the previous cycle, Rafael, when we were talking about what would happen if interest rates went to certain levels, and at that point, you were thinking that perhaps going to 8% would be the maximum that companies could take. Today we are contemplating 11%, and I do not see much concern. What has changed in Mexico in the meantime?

And also, in your expansion for the SMEs and the corporate, that would seem to be targeted to a specific competitor. Would that be correct?

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

Thank you. The second one, the specific competitor is everybody. And the first one maybe, Carlos, (inaudible) or Rafa, go ahead.

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

Carlos, I think (inaudible) what's changed on this. We know that we have fixed rate part of the group, that is the mortgage group and the car loan book is fixed rate. So that part of the book, as you see, we see a reduction for this year, not a big reduction but a reduction compared to last year. And there's another issue. We understand in the same way that the corporate and the commercial bankers work, we're working the same way on the consumer. We know that we cannot exactly put the same trend price on the mortgage because we will be completely out of the market, and there will be a lot of good customers that are willing to, that the risk is very low, so the expected loss is almost zero on that part. So the risk-adjusted margin, even if you are slow on repricing the book, you still get a very sensible return on the portfolio.

Last year you have seen the growth on the mortgage book, that was our fixed rate book, we almost face the largest competitor in the market. But we understand that this is also a time to help the clients, and we are helping the clients based upon the relationship that they have with us. We are not just pricing the assets on following the rates. We are pricing their relationship based upon the lifetime value of the client, and that has allowed us to have a reasonable growth in the market with very low risk. If you look at the NPLs on the car loans it's 0.6%. The NPLs on the mortgage book is 0.8%. So that is really half of what the competitor got. So we have an advantage there to price their relationship in a positive way for the client. That's what's changed, Carlos. We are not just following the race by following the race. We are really keeping the relationship and building up relationship for 2024 that will see a reduction in the rates. So we are building up the [pipes], and we are building up the inventory with very good [risk and returns] on car loans and on the mortgage group that are fixed rates.

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

Yes, I will come for that. Just talking about resilience. You're just seeing rates, the monetary side of the economy. But if you take into consideration the deal side of the economy, GDP growth is there, job market resilience is there, tourism activities are increasing, international transfers are there, territories and economic sectors have been very dynamic. And I think this [movie in full] remains to be seen. And it will all depend on the slowdown, duration, and size of a possible recession. So we're taking a prudent approach, and we are just seeing these figures with humility because up to now things have been great, but we remain with our arms in a defense position, and we're trying to see what's going to be next.

We have been working the loan portfolio, and we have taken an approach -- bottom-up approach and also an expert approach reviewing the portfolio that could be linked to United States recession, that could be linked to insecurity factors, that could be linked to rule of law

in some territories, and we have -- yes, we have provided a lot of scenarios, as Marcos is saying, stress tests of our loan portfolio, and we have changed the dynamics of where to promote, what sectors to promote for this 2023 year. So we remain prudent and expecting and doing internal activities just to deal with this scenario that makes us also a bit nervous.

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

But I think, Carlos, you know very well, in the past, when the crisis hit in Mexico, the banks were not capitalized, interest rates just flowing all over the place, and provisions were killing the banks. In this case and in this cycle, what we have seen is that the margin are expanding, the margin are not being used to cover for the losses, and the capital generation of the bank continues to be very strong.

So we are in a different cycle on this part. But as [you rightly] mentioned that doesn't mean that we are not being prudent about this. We are very vigilant, very prudent, but we are very beneficiaries of the way that the bank is managing the cycle.

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

And remember, Carlos, the peak of the rate seems to be short lived, no. From February to September are only 7 months, then rates were going lower, and so the timing is very important for the company loan, no. We need to see that from that perspective also.

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

That was very detailed. And to clarify, again, you are expecting a lower growth, you are expecting -- you are preparing for a possible recession. But so far in your numbers, in your origination, your day-to-day business, have you seen any type of a slowdown in demand or any reason for concern or you're just thinking about the future?

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

No, not at all. We see at the start of the year, very strong start of the year. But I think we cannot ignore the world. We have [to impress] that Mexico is very linked to them, to the U.S., so we are prudent on that front.

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

Now we will continue with Marcelo Telles from Credit Suisse.

Marcelo Fedato A. Telles *Crédit Suisse AG, Research Division - MD of the Latin American Equity Research and Head of the Latin American Financials Sector*

Congrats on the results and on the guidance as well. I have 2 different questions. #1, with regards to your OpEx growth, your guidance for 11%-13% in 2023. Can you say this is -- how do you see this growth in terms of -- is this a multiyear -- and trying to look a little bit beyond 2023 with my question -- can you save that Banorte will be over the coming years let's say at a heavy investment phase? And do you think we should expect operating expense growth to be high beyond 2023 in light of the investments or whatever you guys are doing? Of course, you have the digital bank initiative as well, which you mentioned I think is accounting for 2 percentage points of the growth. So if you could comment on that if this is the beginning or continuation for heavy investment phase for Banorte?

And the second question related to your loan portfolio. As you said there was a very strong growth in the fourth quarter across the board and when you think about -- I'm more interested in knowing a bit more about the credit card portfolio. As you know, we have seen [Nubank] and other players have been quite aggressive in growing customers in Mexico. So I'm wondering what your strategy in credit card has been. Are you still focusing more on your existing client base or you're seeing the need maybe to expand, maybe go more to the open market to try to be more competitive vis-a-vis these newcomers?

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

Let me start with the second -- Marcelo, thank you -- and Paco Martha, please (inaudible).

Jose Francisco Martha Gonzalez *Grupo Financiero Banorte, S.A.B. de C.V. - MD of Digital Businesses*

The strategies we have been working in processes and product, and we're confident that we have the best-of-breed processes either in the branch or in the mobile banking or in different platforms, including call centers. So we are focusing -- we have a lot of customers within the bank that are not using our credit card. You can see the numbers, 2 million credit card versus 10 million customers, so there's

plenty of space. But that doesn't mean that we're not going to the market.

And also, on the product side, you can see that we have now alliances with different companies, we Marriott, we have United, we have some other cobranded cards that can cover whatever the customer wants. And last but not least, in the usage of the card, we have our platform that we call Mi Tarjeta Favorita that can be your preferred card where you can see -- as a customer, you can see all your promotions, all the things that we are launching, all the advantages that you can have in one single site. So we are confident that with processes and product, we will be able to grow what you saw in the guide.

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

Thank you, Paco. Rafa, please, OpEx growth trend.

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

Yes. The OpEx -- I think, Marcelo, that's a very important question and thank you because it'll help us clarify the trend. You will see a reduction in '24 and '25, an important reduction in the expense growth related to inflation. What you mentioned about investment, we continue to be very active investment in technology, but this year what was different that the usual rate of growth on the investment side of the IT was the data centers that we put and the cleaning up of the projects on that part. That is really close to MXN 1.3 billion on that part. That will not be present on the next year. But I think the important part is to remember that Banorte has a very disciplined way to invest at least 12% of the revenues in technology.

And we have been able to invest at that pace because the reduction in the cost on HR, operations, and everything related to managing the infrastructure has been reduced drastically through the years. So that reduction has allowed us to accommodate the investment in technology. That's why we continue to see the cost/income ratio going down and down on a year-to-year basis. While we are confident that we can reduce the cost/income ratio this year because we already pay for many of the expenses that will happen on this year and we pay for those on last year. But investment in IT will continue. We don't have a parent company that we can split the cost among the different countries, so we have to be on ourselves investing at the same level that all those competitors invest in the global markets.

Marcelo Fedato A. Telles *Crédit Suisse AG, Research Division - MD of the Latin American Equity Research and Head of the Latin American Financials Sector*

Very clear, Rafael and Marcos and everyone. Appreciate it. Congrats, again.

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

The next question is from Gilberto Garcia from Barclays.

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

I had a follow up on the SME growth strategy. Obviously, SMEs are a very broad concept. But are you going for the clients that used to be clients of the nonbank lender financial institutions that have gone into trouble, or are you going for, let's say, higher average tickets on those?

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

Gilberto, on a very straight way, we have 420,000 SME clients and only 30,000 of those have a loan with us. So we need to tend to the clients that we already have because we already know the flows, we already know the behavior of those clients, and that's exactly the clients that we want to serve with these number of bankers that we put in place. That's the strategy.

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

Now we will continue with Jose Cuenca from Citi.

Jose Luis Cuenca Gonzalez Citigroup Inc. Exchange Research - Research Analyst

Just a very quick question on credit provisions. In the report it was mentioned that there was a particular requirement in the commercial portfolio that affect a little bit provisions. Even though you say that it does not represent a trend or anything like that, just wanted to understand to what sector was this related and any color you could give behind what drove this situation would be helpful.

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

Yes, Jose, I will tell you that we just moved forward making provisions with one specific case, which is a very small one. And we are expecting recoveries by March of this year.

Jose Luis Cuenca Gonzalez Citigroup Inc. Exchange Research - Research Analyst

Great. Just can you comment on what sector it is or just to get a vague sense?

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

This is a [medium] company in the manufacturing sector of business. Very small.

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

Now the next question from Nicolas Riva from Bank of America.

Nicolas Alejandro Riva BofA Securities, Research Division - VP in Credit Research & Research Analyst

So I got a few questions. The first one if you can comment a bit on competition and the impact that a new player in the financial system such as German Larrea potentially buying Banamex, how that would change the competition maybe between you and Banamex, for example, if you can make any comments on that?

Then second on capital. If you can remind us your internal targets and the plan to get there? And you know what, I'm going to make a pause there, and then I have 2 more questions, if I can.

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

The first one, as you know, we cannot say too much, but there is a [split] of banks. We will see instead of one bank, we will see 2 banks, one bigger than the other. And how will this change the competition, I don't know, Mexico will have 3 new banks instead of (inaudible). And the 2, Citi is going to be divided in 2 and they're very good banks. I understand that Citi alone is going to be the 8th bank and Banamex I don't know, they're 4th, 5th, I don't know. So we'll see more competition, but we are used to that, because we're the best in the class in the world, so we don't have anything more to say there. And the internal targets of capital, we have it right here. Rafa, please.

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

Yes. As you know, we have always said that Core Tier 1 has to move from 12% to 12.5%. In cases that we see stress in the market, we move to 13% the Core Tier 1. We are well above that even after paying the dividends on that part. And we would like to converge to the 12.5%, 12.6% in the next years to be much more efficient in the use of capital. But the world has been not very steady for us the last year, so we better be proven about that.

Nicolas Alejandro Riva BofA Securities, Research Division - VP in Credit Research & Research Analyst

Okay. And then, Rafa, if I can make 2 more questions. In the guidance, you are assuming 0.5% to 1.5% Mexico GDP growth for this year. How would an assumption of zero GDP growth in Mexico change your outlook for cost of risk and for the bank ROE? And then the last one on issuance, on bond issuance plans. If the rally in the bond market continues, would you consider issuing more [bonds] this year to replace the 6.75% in 2024 or the 5.875% in 2027?

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

I think I'll start with the second one, Nicolas. We are open to all the possibilities there, and if we see a window and we can tap it there, we will indeed do it. And the first one is very interesting because maybe the GDP is going to be zero, yes you're right, but if that move a lot of things, so we are aiming to this -- I don't know how to say, the same objective which is net income. So we will move to other parts in order

to compensate that more if it is positive. I don't see that it's going to move too much so far. But if does go to zero, maybe instead of that number that we're giving you is a little bit less, but we don't see a lot of movements there.

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

And Nicolas, let's assume that zero GDP growth on that part, remember, that the benefit that the bank has is that we are very asset sensitive. So we already have a very [potent] inventory that will be producing the margin, and we have enough buffer on the provision side to continue to be positive on that. Remember during the pandemia, Mexico reached levels of minus 8%. On average, minus 5. So we've already been there on that part of -- very negative part. So I think loan growth, as we mentioned, remember that last year we started the guidance from 5% to 7% and then we upgraded that to close to above 10%.

We think that even though you go to zero, at least loan growth will be at the rate of [4% to 5%]. I don't think that because of everything that is happening at the center and in the north part of Mexico, unemployment continues to be there on that part. So I think we've considered that scenario, but we're still confident that it will be more on the range of [5.5% to 6%].

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

Now we will continue with [Edson Murguia from SummaCap].

Unidentified Analyst

I have 2 of them. The first one is related to (inaudible). It seems that, of course, 2022 was a difficult year because cap on fees. So looking ahead are we going to be or expecting the same numbers as a base scenario on revenue and so forth?

And the second one is regarding on (inaudible). You mentioned in the press release this as looking ahead for new path for the bank. However, I was wondering if this can be replicated in other part of the business. I just go to my notes and I remember that (inaudible) I think last year the transformation on digital, it's not only in the bank but as a group. So I was wondering if you could give us a little bit more color about that.

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

I will start with the first one. Yes, we expect better numbers for next year because of 2 things. The critical mass is going to be bigger each year and this is good, and the hit that we took this year financially is not going to be there the next year. But I want to elaborate on this a little bit. (inaudible), are you there?

Jose Francisco Martha Gonzalez *Grupo Financiero Banorte, S.A.B. de C.V. - MD of Digital Businesses*

If not, I can elaborate, Marcos. Yes, I think what you said is quite right. Afore was really hit this year because reduction in 30% in the commissions and we were also hit because of the markets, as we already explained, because the mark to market devaluation. And those 2 things explain why this year was very bad for Afore. Well for one thing, there will be no -- we do not expect any reduction this year -- further reduction in the commission, so that hit will not continue. And also, we foresee that perhaps the markets will be behaving more reasonably this year. So we do see that -- we have a guidance expecting an important recovery, we're expecting somewhere between, depending on the markets, but somewhere between 30% to 50% increase in net income in Afore.

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

(inaudible) Yes, and on the digital transformation and digital (inaudible).

Unidentified Company Representative

Of course, we will extend -- we will keep extending Maya to some other business and processes. We are using it. You can see it in the portal, in the webpage. Now we're using it in mobile banking. We are using it in the acquiring business. So the more we can -- the more the technology is learning, as an artificial intelligence, it will be extending the capacity to some other business and processes and channels.

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

The next question from Natalia Corfield from JPMorgan.

Natalia Corfield De Melo Monteiro *JPMorgan Chase & Co, Research Division - Head of Latin America Corporate Research*

Just going back to the topic of issuance. You mentioned issuance of AT1, but I'm wondering what about senior issuance. And if you could remind us of your rationale for issuing so many AT1s that would be great. And lastly, on the [core fee] of the AT1s, which you have been always very clear about your intentions, just to reiterate that we remain on the same page that nothing has changed since we have seen some extensions in the region.

Jose Francisco Martha Gonzalez *Grupo Financiero Banorte, S.A.B. de C.V. - MD of Digital Businesses*

Rafa, go ahead.

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

As you know, the AT1s for us are part of a very important business strategy, not just a funding strategy or just on a capital basis strategy. That allows us to compete on the dollar group on a midterm basis and even sometimes in the long-term basis because we don't have the advantage that some of the global banks have on the funding side on the dollar group. So the AT1s are critical for us on a business perspective to really serve our clients and be part of the dollar group credit lines.

If you see the growth on the dollar group from Banorte for the last 2 years, it has been exceptional.

We are now a very strong player in the dollar group. We'd love to continue to issue AT1s. We have a limit for that based upon the total gap that is part of the AT1s. But we have to wait, as Marcos mentioned, for a window to be there. And we will continue as usually to call our AT1s, why do we need always, sometimes some people think that we are not very smart financially because we are calling the AT1s, but we have a promise to respect to the market, and we will honor that promise to the market because that's the way we sell the AT1s based upon the call dates. So we will continue to do so, Natalia, and we will continue to issue AT1s to a point when the window is there for us to go back into the market again.

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

Now we'll take our last question from Mariel Abreu from T. Rowe Price.

Mariel Abreu-Santiago *T. Rowe Price Group, Inc. - VP*

Congratulations on your results. My question is on capital. You have excess capital at the moment. Growth is expected to slow down. So I would like to hear about capital allocation and capital allocation plans since your capital is in excess at the moment.

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

Seems like (inaudible), Mariel. Rafa, please go ahead.

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

Yes. As we mentioned, and Marcos already said that 50% it will be the payment on the demand side. And as always and as we know the story in the past, if we see that we can also reward our shareholders with extraordinary dividends or in this case we are looking also at a buyback mix, we also will do so. But right now we are committed to 50% of dividends of '22. That's where we are. And remember as I mentioned at the beginning, we know that we have excess capital. We are not leveraging the bank, but we also understand that we are living in a world that is not very predictable at this point in time. I would like to be on the safe side, and we are giving returns to our shareholders, at the bank level, about 24% and very close to 20% at the group. So we are always looking at that potential to reward our shareholders. But also we understand the dynamics of the economy of the world and how the world is behaving at this point in time. So I think 50% is for sure and maybe buybacks and extraordinary dividend is a possibility.

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

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

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