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# EDITED TRANSCRIPT

Q3 2023 Grupo Financiero Banorte SAB de CV Earnings Call

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## NOVEMBER 01, 2023 / 3:00PM GMT, Q3 2023 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 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 Third Quarter Earnings Call.

In today's call, our CEO, Marcos Ramirez, will walk us through the main results of the bank, providing details on the positive trends of our loan portfolio, including nearshoring opportunities and the continued strength in consumer. He will also comment on asset quality and the normalization process of the non-banking subsidiaries as well as an update on ESG. Then Rafael Arana, our COO and CFO, will provide an overview of the main financial results, including a deeper breakdown on the margin and the components, the evolution of expense control for the year and capital allocation.

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.

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

Thank you, Tomas. Good morning, everyone. Thank you for joining our call today. The third quarter of the year showed solid macroeconomic performance, supported mainly by product consumption and investment dynamics. This trend has resulted in an upward revision of our 2023 (technical difficulty) our initial estimate of approximately 1.5% at the beginning of the year.

For 2024, we anticipate GDP growth of 2.4% despite headwinds for the global economy as Mexico becomes more preceding. Inflationary pressures in Mexico keep fading away, although we still see challenges as the non-core components already showing an upward risk. Our economic analysis team has revised its 2023 forecast for annual inflation to 5% from the original 4.5% earlier in the year and expects 4.3% towards the end of 2024. Therefore, we are anticipating a delayed start of the easing cycle for the Central Bank, maintaining the current level of 11.25% for the rest of the year and expecting their first cut in May 2024, reaching 9.25% by the end of next year.

Mexico performance will still be supported by positive tailwinds despite the strengthening of the U.S. dollar and the recent outbreak of

volatility and risk aversion in the international markets, we expect the Mexican currency to remain stable in 2023 with a year-end estimate of MXN 17.90 per dollar, supported by high interest rates, foreign direct investments, remittances and the continued materialization of nearshoring investment in the country.

Elaborating on the nearshoring opportunity, during this current first stage, we have seen tangible evidence of its potential through the new investments, an expanding labor market and increasing demand for credit, especially for corporate and commercial loans. At this point, lending activity is mainly coming from companies already established in Mexico which require resources to expand their operations or production capacity.

To fully benefit from this opportunity in the upcoming years, we have already strengthened our human capital with more 1,300 bankers in front and back office dedicated to our commercial and SME clients. And we are expecting to increase another 700 positions through 2024. In addition to this, we are currently strengthening our infrastructure capabilities, expanding our branch network by around 150 branches in the north and central regions of the country in the following 3 years, increasing our ATM footprint and enhancing our personnel abilities to capture and develop highly profitable long-lasting businesses.

Finally, before diving into the business operation, you have raised different concerns regarding the recent regulatory changes for airports. In this regard, we reaffirm our non-material exposure to the sector, neither in credit nor in market-related securities. Most importantly, we do not foresee any risk of contagion affecting the Mexican banking system.

Starting off with Slide #3, the operation in the quarter displayed a solid margin performance, supported by a dynamic lending activity as well as by a normalized valuation of inflation index securities in the annuities business. We continue to reduce the rate sensitivity of our balance sheet, already reaching MXN 650 million in NII for every 100 basis points changing rates, down from MXN 865 million in the second quarter. Fee dynamics also reflected the sound economic activity that I mentioned before. Fees had a slight reduction in the quarter due to MXN 158 million reclassifications of derivative collateral interest to the NII. Considering 9 month figures, fees for the Group grew 8% versus the same period in 2022 and 17% for the bank.

Moving to profitability on Slide #4. Net income for the quarter was 50% higher versus the third quarter of last year. ROE was up 210 basis points year-over-year. It is worth noting that most subsidiaries net profits had double-digit growth, which is also reflected in an expanding year-over-year return on assets.

On Slide #5, top-line results for the Group show NII with 16% sequential increase, mainly driven by long growth expansion together with a positive inflation valuation effect in the annuities businesses. On an accumulated basis, NII grew 10%, supported by greater loan origination volumes as well as the benefits of higher rates, offsetting the increase in the cost of funds, although we keep managing our funding mix quite stable. Non-interest income reached MXN 613 million in the quarter on the back of a regularized constitution of technical reserves in the annuities business as inflation went back to a positive ground in the quarter. Moreover, trading income was sequentially lower, mostly given to volatile market conditions observed in the period.

Fees, on the Slide #6, they grew 8% on an accumulated basis, led by a stronger electronic banking fees and more dynamic transaction volumes in consumer products, portraying strong private consumption. Quarterly figures were negatively impacted by the reclassification to the NII mentioned earlier. Mobile transactions have had a positive momentum throughout the year given the ongoing adoption of digital channels and a consistently stronger digital product offering.

Loan portfolio, this is Slide #7, continues to expand at a strong pace with a diligent focus on asset quality as we will see later on. In this quarter, the loan book surpassed the trillion pesos mark, driven by the commercial and corporate books which were the fastest growing segments. This growth is led by increasing loan demand from companies which are preparing for the imminent nearshoring opportunities. The government portfolio had a moderated sequential expansion which is expected to remain low going forward as we approach election year.

The consumer portfolio in Slide #8 displays double-digits annual growth across all products, reflecting the stability in the labor market, strong internal demand and GDP expansion. Growth in the mortgage book is still one of the main drivers within the consumer portfolio,

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consistently growing over MXN 7 billion per quarter in the year. As previously mentioned, current demand is allowing us to target a low leverage, high FICO score type deal. Powering on our analytics and hyper personalization strategy, we will increase the lifetime value of these customers.

Payroll loans and credit cards continued to show accelerated demand. Nevertheless, we are taking a more conservative approach towards them in order to preserve their asset quality. Auto loans keep displaying increasing demand. However, annual figures had an important low base effect due to the supply shortages in 2022. Going forward, we can expect it to continue as one of the main growth drivers in the book.

Slide #9, asset quality, continues to exceed our expectations as our lending decision have been centered on prudent and selected growth, prioritizing risk adjusted profitability. NPLs came in lower quarter-over-quarter despite higher growth volume in consumer and commercial books. Payroll loans are the only product that we are following closely. We have adjusted our origination strategies to preserve the quality of the portfolio. Besides this, NPLs for the rest of the products and segments continue to be stable. And the quarterly increase in cost of risk is well aligned with origination volume and mix.

Analyzing the quarterly results by subsidiary on Slide #10, the bank had some core banking operations boosted by a more dynamic and higher quality lending activity, better market-related income and efficient cost control despite higher cost of funds. Altogether, these results yielded a solid 28.3% return on equity for the bank with accumulated figures ROE stood at 27.6%. The insurance business had a quarterly reduction driven by a lower premium income as the second quarter had the benefit of a delayed premium registration, as you know. On an accumulated basis, the insurance company is posting sound business generation despite being affected by the upward adjustments in the intercompany fee scheme between the insurance company and the bank, effective at the first quarter of 2023.

The brokerage sector decline was mainly driven by the effect of inflationary premium during the last year. The annuities business sequential increase was driven by a sound business generation. Compared to last year, the decline was mainly the combination of lower inflation levels, a reduction in fatalities impacting reserves, along with a market related business compression. As for the Afore, it was affected by lower yields from financial products.

On Slide #11, we provide greater detailing for the insurance business operation showing normalized premium origination typical of the quarter and lower claims. On an annual basis, it presents solid business expansion despite the acquisition cost line being impacted by the bancassurance fee increase mentioned earlier.

Shifting gears to ESG on Slide #12. We are happy to announce that after a long time and diligent process, our decarbonization targets have been validated by Science Based Targets Initiative, becoming the first bank in Latin America to complete this process. This is yet another step towards providing comparable and more transparent disclosures of our environmental evolution. During the quarter, we also launched several cross-functional working groups that we call [Cellulas], which will improve the pace of ESG project implementation and product development across Banorte. We will keep you updated on their progress.

Last but not least, a few days ago, we concluded our participation in the National Week for Financial Education, an annual event organized by the banking sector which contributes towards greater financial health for the overall population, especially women and young individuals. It highlights the importance of savings, insurance on these days, protection and a responsible use of credit and debit cards among other topics. Finally, as you can see in the numbers, the internal capital generation has been consistently strong. Therefore, we expect to continue exploring the best possible alternatives to return value to our shareholders and converge towards our target CET1 ratio.

Now, I will leave you with Rafa Arana, who will go into the detail of the financial results of the quarter. Rafa, please go ahead.

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

Thank you, Marcos. Good morning to everyone. We'd like to start the financial highlights with some highlights about how we have been managing the quarter. As you know, the balance sheet, we have always been very conservative and very efficient in managing of the balance sheet. And I think we are very well prepared for the downward trend that eventually will come, I don't know, in the second or on

the third quarter of next year.

Something that is important to notice is that there has been some questions about how much by anticipating the drop in the interest rates has cost on the margin side. If you look at the cost of really positioning the balance sheet in the right track for the downward trend, you can basically take a number around MXN 2.2 billion. That is the cost that we are incurring by putting the balance sheet in the right position for the downward trend. That numbers will be more than fully recuperated on the downward trend on the balance sheet.

So it's very important to notice that when you look at the margin of the bank and the margin -- basically the margin of the bank and you see the sensitivity that we have been reducing the sensitivity, we will look into that in detail in a minute, is around MXN 600 million. The reduction in the sensitivity already in the peso book and that is basically the cost of having that drop in the sensitivity is running around MXN 2.2 billion. That will be fully recuperated during the downward trend, as I mentioned before. But even though that you can still see an expansion on the margin, on the net interest margin on a quarter-to-quarter basis around 88 basis points. So that really shows that the way we have managed the balance sheet through the cycle have been very positive for the numbers of the bank. I will go into more detail in a minute.

Return on equity continued to be quite strong, as Marcos mentioned, especially for the bank. The bank is running at 28.3% on an accumulated basis, 166 basis points year-on-year basis. So even though this, I would say, uncertain conditions in the market, we have been able to continue to provide very good returns based on the way we have been managing the balance sheet and the results of the net income statement. Basically, the NIM, as I mentioned to you before, you see an expansion on a quarter-to-quarter basis around 8 basis points. That is notable because if you look at -- obviously when you see the interest rates at around 11.2%, investors always looking to get more returns on the money. So obviously, the time deposits have been increasing in the composition on the mix and the cost on the mix. But still we have been able to manage the increase in the funding cost with a very good returns on the asset side that we have on the balance sheet.

So we will continue to manage that cost on the funding side with good returns on the asset side. And another very important thing to notice is that the balance sheet continues to be very sound concerning the quality on the asset side. Expenses continued to be under control. We will go in detail what's the recurring expense growth and what's the extraordinary expenses that we are really positioning the bank for the very near future, investing, as [Marcos] mentioned, in branches, in more bankers and also in 2 data centers that we just ended just a month ago. So when we will look at the recurrent and external expenses, you will see that expenses are well under control. Capital ratios continue to be very strong, 22.2% and Core Tier 1 15.7% after paying the dividend that we just paid to the Group.

If we move to the next slide, you will see now in more detail what's the situation at the bank. Net income of the bank is growing 22% on year-on-year, 6% quarter-on-quarter and on the first 9 months of the year is growing 22% on year-on-year. The return on equity of the bank, as I mentioned to you, is 28.3% for the quarter and 27.6% for the year. Strong returns on the equity with a fully loaded capital base. ROA for the bank now is reaching a high number, around 2.6%, 7 basis points growth on quarter-to-quarter and 35 basis points growth on year-to-year. So that also shows that the asset side of the balance sheet is continuing to perform in the right direction.

If we move into the next slide and get a closer look at the NIM and NII and net fees of the bank, you will see that the NIM of the bank, as I mentioned to you, continues to expand on a continuous basis, even though the pressure that we have on the funding cost. That shows that the mix on the variable rate part of the book and the fixed rate part of the book is really delivering the results that we anticipated, taking into consideration what I mentioned before that the balance sheet now is well positioned for the downward trend on the sensitivity side.

NII of the bank is growing at 22% on a year-to-year basis. So that continues to be the difference that we have basically driven by the loan-to-deposit relationship that we have in a positive way. So that's the 22% NII growth. So it's a very positive number. Net fees for the bank, 17% for the year. So also that reflects the full activity that we have on the digital channels and also on the physical channels of the bank.

When we go to the NIM, and I will move into the NIM of the Group, you'll see the NIM of the Group at 6.4% compared to the 6.6% of the bank. And now you see a much more balanced trend with the NIM of the Group based upon the evolution of the annuity side that is now

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reflecting a positive trend on the inflation and now it's really going into a much more normal direction. That's much more an accounting issue not really a profitability issue, because as you know, the net income for the annuities business hasn't been affected at all by this inflation-related process.

The asset quality, I would like to turn to Gerardo Salazar, Chief Risk Officer, to give us a brief description of how the asset quality is performing on a different metrics.

### **Gerardo Cuitlahuac Salazar Viezca *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Risk Management & Credit Officer***

Thank you, Rafael. As you can see, asset quality still exceeds expectations. It is below pre-pandemic averages. NPL is lower at 1.01%, improving 4 basis points quarter-over-quarter. Pre-pandemic averages ranges from 2% to 2.2%, if you remember our recent history. Provisions went up 12% or MXN 503 million versus the second quarter of 2023 given higher requirements on origination volume and mix. This origination volume and mix is very important to explain the recent trend of higher provisions. That is, out of MXN 4.54 billion provisions recorded in the quarter, 31% correspond to new loan origination. And that's very important for you to take into consideration.

The remaining balance of those provisions, talking about COVID-19 pandemic that started if you remember in 2020 for around MXN 7.3 billion is just MXN 380 million expected to be gradually used. But we used up to September 2023 MXN 320 million of the MXN 7.3 billion being made in total from the beginning in 2020 with the pandemic. Cost of risk stable at 1.8%, increasing 15 basis points versus the second quarter of 2023 and 38 basis points versus the third quarter of 2022 aligned with higher provisions given the loan origination mix.

During the quarter, risk profiles and mitigation strategies have been adjusted according to each different origination channel, prioritizing asset quality over growth, particularly in digital channels. Write-off rate is practically stable quarter-over-quarter, reaching 0.42% versus 0.38% in the second quarter of 2023. That reflects sound recovery management. Loan loss reserves coverage ratio stood at 187.9% in the quarter, improving 572 basis points when compared to the 182.2% from the previous quarter. So we can say that rapid loan portfolio growth with higher selectivity is a strategy that combines both expansion and risk management. It allows us to quickly maneuver our loan portfolio and focus on credit quality and risk mitigation.

The behavior of loan loss provisions within a significant positive loan growth scenario is influenced by a complex interplay of economic conditions, risk management practices, loan quality and regulatory requirements. We closely monitor the loan portfolio to assess risk and adjust provisions accordingly to maintain financial stability and compliance with regulatory standards. Prudent provisioning practices helps us manage risk and ensure the sustainability of our lending operations. So asset quality is an item we are very proud of. And we are very confident that we are managing the credit cycle with a positive, but still growing GDP. And we remain confident that we are controlling the loan portfolio in very good terms.

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

Thank you, Gerardo. So it's relevant what Gerardo mentioned that we can grow on a selected basis with the best risk in the market. I think that's the result of extremely well-managed risk, well recovery unit and taking advantage of the expansion cycle that we see on the lending side.

If we move to the net interest income sensitivity, it's exactly what I was mentioning at the beginning that some people think that we were too fast in anticipating for the position on the balance sheet. But you have to take into account that we all have a lot of natural coverage on the balance sheet by the deposit mix that we have and the stickiness of the deposits that we have. So now you see the sensitivity that is now trending to the MXN 650 million for the peso book. And that is really where we feel confident about position on the balance sheet. That, as I mentioned to you, is around MXN 2.4 billion that you see a reduction on the margin even though the margin continues to expand. But we are more than well-positioned for the downward trend on the interest rates. And as you know, you have to be in the money when you go for the coverage and for the coverage of the rates on that, you don't want to be out of the money in any way.

On the dollar book, the sensitivity is around MXN 880 million because we see much more stable and potential. Another hike, we don't know, but we are slowly not as aggressive on the peso book, but still trending more on a stable for the hiking cycle on the rates on the U.S. dollars. Some numbers that are relevant for us to mention to you because there has been some questions about what's the

sensitivity on the NII. If you go to 100 basis points on the sensitivity on the NII, you see that for the Group NII it's around 0.4% of the total NII, for the Group NII, and for the bank it's 0.5%. So you see that we are very well-positioned. And we almost have, let's say, being neutral about -- not completely, but almost neutral about the sensitivity rates for the balance sheet. I think we are in a good position to manage the cycle again.

On the next graph, the expenses. Basically, you have to take into consideration that the bank is positioned not to manage the current cycle that we have high growth, high demand, potential growth on the nearshoring that is being more and more a reality, but also we are investing for the future with the bankers, with the ATMs, with the branches very strong in technology and analytics and things. So if we like to see the expense trends that you see on the table on the top or the top of the table, you see that recurring expenses is still at 6%, very aligned with inflation. Inflation will be around 5% by the end of the year. So we always like to be around 150 basis points above inflation. So 6% on the recurrent base is pretty in line with what we like to have.

When you add the IT and the strengthening of the commercial teams, we add 5 percentage points more to the recurring base. The IT is the 2 data centers that we just opened and the strengthening of the team is basically for taking advantage on the commercial, corporate and SME on the nearshoring effect, that is by now, as you can see on the growth on the demand for the credit demand, that is already paying pretty good returns for that. So we are well-positioned for the present and for the future for taking those opportunities.

For non-interest expenses, as you can see, they're 11.5%. As I just mentioned, there's the difference on the recurrent and non-recurrent. So when you see cycles like this and you see strong demand, good quality, good profitability, good numbers, you have to keep the profitability numbers, but also invest for the future, and that's what Banorte is doing as we speak. The cost to income ratio is at 34.1%. That number maybe -- ranges from 34.1% to 35.5% for the rest of the year. But you see on the graph to the right, on the growth graph, basically the very good trend on the revenue side and a very steady state of the expense numbers.

If we go to a definition exactly how we have been managing the ability to keep investing in technology and at the same time taking the cost to income ratio in the right direction, you see the balance on how the revenue has grown -- the net income has grown 2.7x. The IT numbers has grown 2.9x. But how we have been able to invest and keep the pace on the IT side is basically by reducing the human resource component of the expense, 1.7%. The operating cost also down to 1.1%. And the administrative and facilities to 1.1% and the other one was 1.2%. So you see that we have been able to manage the expense and the investment side by really becoming more and more efficient by the investing in technology.

In the next graph, we basically go to the liquidity numbers, regulatory and capital liquidity that is 175%. So liquidity continues to be strong. We have no issues with liquidity. But as you know, liquidity has been becoming more expensive. So that's why we are managing the mix in a very tactical way. You see the capital numbers of the bank, well above the TLAC requirements. Core Tier 1 at 15.7%. That 15.7%, as you know, our goal is to be trending at 13% in the coming years. There have been some questions about dividends. As you know, we just paid 82% of the net income for the year as a dividend payout. And we will continue to balance (technical difficulty) money to return to the investors as much as we can, but at the same time, be very prudent in the managing of the capital base.

So people is asking that if we will move that 50% payout ratio. No, we will stay at 50% payout ratio, but be much more tactical on how we deliver dividends to the investor base. Another thing that has been at the attention of our investors is how Banorte is dealing with their customer centricity and their customer metrics. We are happy to report that all the NPS on the key channels of the bank continues to be on an upward trend. As you can see, the app on the mobile is 83.2, 84.6 for the web, ATMs at 73.6 and branches at 79.1. As you know, this is measured not just by us, but also by different metrics by Bain, NPS, et cetera.

Now I will turn to something that is something to report and there has been some concerns about what was the effect of the hurricane on Guerrero and how was the bank reacting to that. As you can see on the graph, Banorte again was the first one to move to be at the side of our clients. And we basically set-up a plan to have a skip payment of 6 months for credit cards, mortgages, car loans, payroll loans, personal loans and SME loans in order to give space for our clients to recovery. We used that during the pandemic and we follow on a client-by-client basis the needs and conditions of each of our clients. So we hope that we will have the same results that we got during the pandemic.

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This is not just for the credit cards and not for the credit, it's also on the insurance side. Banorte is really becoming an alliance to our clients by advancing some of the money in order to clean up the houses, repair the windows and make the houses liveable again. So not just the bank, but also the insurance company is extremely active by providing relief to our clients. We know that many of those who lost all the data and all the documents and everything, the insurance company is really giving a very strong support on that because we have all the information, so the clients doesn't need to go and dig for the data in order to comply with this. So I would say that this is what Banorte is doing for Guerrero. It's a very, very sad situation, but Banorte would be at the side of our clients and we will help them coming through this situation. We also have -- as you know, we have a Fundación that is giving MXN 1 per MXN1 that the clients of Banorte make for the relief of Guerrero. And also everybody is working in order to put Guerrero back on their feet again as fast as we can on that part.

With this, I conclude on this. And I would just like to make, I would say, a conclusion about the comments. Banorte is ready for the future and is managing the present in a very efficient way. We know how to manage the cycles. We are managing the cycles in the right way. We are well-positioned for the downward trend on the rates. And we are very confident that next year we can still manage the loan growth with the right risk and with the right cost on the funding side.

### 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. Now we will continue with our Q&A session. (Operator Instructions) Thank you. Now we're ready to start the Q&A session. We will start with Geoff from Autonomous. Geoff, please go ahead.

#### **Geoffrey Elliott**

I wanted to ask on the guidance slide. It looks like everything is unchanged from last quarter, and that feels in some cases, a little bit strange, particularly around loan growth where clearly your year-on-year run rate was 15% and the guide is 10% to 12%, so quite a bit lower. So could you talk around is that all still current? Are there places where you see upside risk, downside risk? Just is that really the latest thinking or is there more color you can give us around the guidance?

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

Yes, it seems that we have a good tailwind, but also we have bad news like the Guerrero issue. So if you put all together in the box, we will keep our guide and it seems that it's achievable, but we don't want to change it right now. We are working in the guide for the 2024 and '25 and '26 and soon we will deliver it to you. But so far, we are not moving anything.

Rafa, I don't know if 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, I think as you mentioned, you can see that the loan growth continues to be very strong, but also you have to take into consideration that we are facing a funding cost pressure that we are managing that in the right way. But we don't like to overshoot on the guidance. We still see pressure on the funding cost. I honestly think that the peak on the funding cost was October and now we will see a relief coming November and December. So maybe at the end of the year, you will see the effect of that. But right now, as Marcos mentioned, I think it's prudent to keep the guidance as is.

#### **Geoffrey Elliott**

And just to follow-up on that funding cost point. I think on the 1Q call you talked about maybe May being the inflection point. On the 2Q call you talked about July. Now you're saying October and relief in November and December. What's been changing there that's shifted your expectations? And how confident are you that we really are at the point where we start to get relief on funding costs?

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

Basically that we are getting the cycle when you get most of the bonuses and the payments for the company, for the employees in November and December. What happened in the past and we were also hoping for that to happen before is that you have to take into account that the economy continues to be very hot. So the Central Bank is tightening the cycle as much as they can. So the amount of

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money that is disposable to really balance out the economy obviously is less than they need. That's why you do the tightening. So that is really rising the cost faster than we thought.

I mean, we thought that the economy was going to start to cool down a bit on the months that you mentioned before, that hasn't been the case. The economy continues to be very hot, full employment, good growth and good quality on the growth. But it has been an extraordinary year. I really -- we are really managing this almost by the day with a clear view of where we want to go, but we have to manage really this by the day based upon this cycle. That is a completely different cycle that we have experienced in the past. So sorry for advancing those numbers, as you mentioned before, but that was the logical way of thinking. This cycle has not been very logical really.

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**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 Jorge Kuri from Morgan Stanley. Go ahead, Jorge. Jorge, please unmute yourself. We can come back to Jorge. We have Ernesto Gabilondo from Bank of America. Ernesto, please go ahead.

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

My first one is a follow-up on your guidance. It seems that you're on track to meet the guidance for the year. So net income growth of around 16%. However, when looking to next year, do you expect earnings to keep the double-digit? And what will be the drivers behind that?

And just a second question, if may I, and this isn't related to any potential tax or regulatory risks after what happened to the Mexican airports. Are you hearing anything, for example, lower deductions in fiscal losses, a litigation process against the value-added tax in the insurance sector or for example the COFECE, the antitrust commission in Mexico, proposing to the Mexican Central Bank to reduce the MDRs related to E-Global and Prosa? So any color on that will be very helpful.

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

Ernesto, I will start with the second one. And being very honest, everything that we can see so far, we don't have any regulatory risk that we can tell you about. Now everybody is talking about something, but we don't see anything to capitalize. So everybody is talking about the insurance sector, but it seems that there is not much problem. And so we cannot talk about it. Our duty is, if we know something like real, we will go immediately with you and we will say, listen guys, this is what is going on. But so far, there is nothing that we can talk about. So we don't see any regulatory risk so far. Obviously, we need to be on ground and see what's going on, and that's our duty. And we're really very, very transparent with you if we see something.

And the first one, Rafa will talk about it.

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

Ernesto, I think your question is very timely. If you see the way we have been managing the balance sheet on the asset side, we have been building up very good quality assets on the fixed rate part of the book. That is like building up inventory for the downward trend. So even sometimes we have been sacrificing margin in order to build up this part of the book.

The good thing about this going into '24 is that is very high-quality inventory that will be delivering pretty good returns on the margin side because we already know the risk and we know the quality of the clients on that part. So '24, even though interest rates start to come down, and we hope that that's the case, we have been very well-positioned on the balance sheet, but also on the asset side on the balance sheet with our fixed rate part of the book that will be a natural hedge to counterbalance the drop in the variable rate part of the book.

So that building up of the inventory has been in anticipation for the next year, how we can really keep the margin at base based upon that strategy. So that I think will be -- we will continue to see pretty strong demand on next year. We will balance that out. And we will see based upon that. It's an election year. You usually have more liquidity on the market on the election year for the 4, 5 months of the year. So that also will balance out on the margin side. So the whole strategy has been to build up a strong balance sheet on the asset side, very well balanced, fixed and variable rate in order to balance out the drop in the interest rates.

**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 go with Brian Flores from Citi. Brian, please go ahead.

**Brian Flores**

Marcos, you mentioned about the dynamics on the payroll loan segment is a bit complicated. Could you elaborate a bit on what are you seeing there? Is it a product of competition or is it lower disposable income? Any insights you can have on the segment would be appreciated.

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

Isn't it variable that we are focused, but it's not bad, let me tell you that. Let's call it the worst, but it's not bad. Dr. Salazar will talk about it.

**Gerardo Cuitlahuac Salazar Viezca *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Risk Management & Credit Officer***

Yes. We still have, Brian, a lot of trust in consumer resilience within Mexico. You can just make an inventory of what the tailwinds are and you will see that minimum wages are surpassing inflation, GDP growth is positive, we have a low unemployment rate, we have an optimistic consumer sentiment and expectations. We project to have fiscal policy expansion for 2024, fixed rate loan products like auto and mortgages and also a very low financial leverage on behalf of Mexican families.

Headwinds are less in number. If we make a quick inventory of what we have contributing to consumer resilience, obviously, higher inflation is not good news for Mexican families. Also, the price of oil being higher, high interest rate in credit cards, personal loans, payroll loans, the one you mentioned, and also a restricted monetary policy. If you balance those tailwinds and put them against those headwinds, the balance is still positive for the credit quality of payroll loans.

We are more inclined to recognize an event risk regarding payroll loans because if -- the dependability and the sources of payment depend to a higher degree on who has the disbursements of the loans, what bank manages the liquidity of the payer of the client or the payer of the payroll and that constitutes a very specific event in which some cases can turn of lower quality loans. But in those cases, we have mitigating strategies consisting in selling the portfolio outright and as quick as possible. So we consider that to be a positive net effect on payroll loans and the Mexican consumer resilience in general.

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

If I may add, Brian, we can send you the graph, but if you look at the NPLs graph for the market that is provided by the CMDB, you will see that based upon what Gerardo mentioned, that full employment, wages are going up, obviously, the employees have a lot more opportunities to move for better wages from one company to the other. So when they move, exactly happens what Gerardo has mentioned. You keep the payroll, but the payroll loan goes to another bank. So in that case that becomes really like a personal loan.

So it's not that the consumer is weak or anything like that, it's that he has a lot more opportunities now in the market and he is looking for better wages all over the place. So if you look at those graphs, and we will send that to you, you will see a graph that is completely crazy, up and down for all the banks, because these movements on the labor force is causing this disruption on the NPLs of the payroll. But if you look at the numbers, we are at pre-pandemic levels on payroll loans and growing on a pretty solid way. But this is happening, and it's good for the employees.

The fact is that we have to react, as Gerardo mentioned, very fast to see if we sell the payrolls or we'll keep the payrolls based upon the quality of the client. But it's also a good condition for the market because wages are going up all over the place and that is creating a much more resilience on the consumer. So it's a mixed feeling event, Brian. It's good for the employees. It's a lot of turnover on the companies for the good reasons for the employees. So we have to follow and adjust to this new reality.

**Gerardo Cuitlahuac Salazar Viezca *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Risk Management & Credit Officer***

I'm more than concerned we are taking this as an opportunity.

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**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 Tito Labarta from Goldman. Tito, please go ahead.

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

I guess a follow-up on the loan growth a little bit. I mean, you mentioned also you kind of tightened credit standards a little bit, focusing on higher quality clients. But given a lot of the tailwinds that you mentioned, inflation coming down, rates should come down next year, GDP growth strong, I mean, is there room to be a bit more aggressive on the loan growth? And if not, why not? And do you think this -- and I know you said you were thinking about the guidance for this year, but thinking about 2024 double-digit loan growth, maybe even mid-teens loan growth, I mean, is that feasible? Just any color on how this pace of loan growth can continue into next year?

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

Rafa, go ahead.

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

Let's go on a piece-by-piece basis on the world. If you look at our car loans growing over 30%, very close to the 20%, payroll loans the same, mortgages 14%, corporate and commercial ranging from 19% to 14%, we see very, very strong loan growth. When you see our total loan growth around 14%, 15%, it's because the government book is really almost flat and it's good because of the election process. So if we keep numbers around 12% for the next year, they will be coming on a very, very high base. So that 12% will be a very noticeable number.

When Gerardo was mentioning, I don't like to use the word restricting growth, I would like to be that we have the chance and we have the opportunity to be very selective on which clients we like to put on our books. Because of the strong demand that is happening and because of the analytics that we have and because of the risk models that we have, it looks like we can grow at a very good numbers, around double-digit numbers and still keep the risk numbers where we like to be. So we are not in any way being absent from the market in any way. We are very present at the market where we like to be present. And this is a once in a lifetime opportunity that we have seen. Usually the cycles are not like this, but we are taking full advantage of that, but only if we like the risk. If we don't like the risk, we don't go for the client.

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

Okay. No, that's very clear. If I can ask a second question really quickly, actually, just more on the insurance. There was a big spike in the technical reserves I think related to inflation. Should that come down as inflation comes down? You have already 50%-plus ROE on insurance, just to think about the insurance outlook given some of the volatility there.

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

That's right. 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 you mentioned, insurance business is reaching a little above pre-pandemic levels. You see the growth in technical -- in premiums. You see the [deface] that happens in the first and the second quarter because one of the big policies moved to the second quarter. But no, we are very happy with the insurance business, but you mentioned it has to be inflation-related basically. And no, we are very clear. And I can take the opportunity and I would like to see if Fernando wants to talk or [Salvador], what's our exposure in Guerrero with the insurance that we have? But no, the insurance company is well on their way to become more and more thoughtful every year.

**Fernando Solis Soberon Grupo Financiero Banorte, S.A.B. de C.V. - MD of Product & Segment Development**

Rafa, Salvador, are you there or do you want me to go in?

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

As you wish.

**Fernando Solís Soberón *Grupo Financiero Banorte, S.A.B. de C.V. - MD of Product & Segment Development***

Go ahead, Salvador and I will get in. Well, I will tell you about our exposure. Well, in terms of how many structures we have insured in Guerrero, they are 1,579 structures, most of them in Acapulco, nearby Acapulco. Of those, 1,254 are insured because of mortgages. Just to give you an idea of how much this represents of our insured values in the whole country, it only represents 0.9%. And only if you take into account some of the proportional insurance -- reinsurance contracts that we have with the best-in-class reinsurers in the world, the retained risk for our whole portfolio, it represents in this line of business only 0.8%.

In terms of car insurance, we only have an exposure of 1,292 cars, which represents 0.8% of our whole portfolio of insured risks. However, we also have some catastrophic excess loss insurance. And it's important to mention that due to the fact that we have this coverage, the maximum probable loss that we will face because of this hurricane will be only USD 5 million. That's our exposure. That's a maximum probable loss. It might be less, because of course, that will be thinking of many of these structures and many of these cars to be completely lost, which will not be necessarily the case.

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

That's very helpful color. Can I clarify just that you said the car insurance 1,292 policies is zero point what percent of the whole portfolio?

**Fernando Solís Soberón *Grupo Financiero Banorte, S.A.B. de C.V. - MD of Product & Segment Development***

In terms of the structures?

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

Yes.

**Fernando Solís Soberón *Grupo Financiero Banorte, S.A.B. de C.V. - MD of Product & Segment Development***

Yes, it's only 0.9% of the whole risks that are insured, but of the retained risk of the proportional reinsurance is only 0.8%. But since we have also this excess loss insurance for catastrophes, that is if we aggregate all the possible losses, our maximum probable loss, as I mentioned, is only USD 5 million. So it's not very important.

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

Also talk about the (inaudible) it's USD 5 million, and that's it.

**Fernando Solís Soberón *Grupo Financiero Banorte, S.A.B. de C.V. - MD of Product & Segment Development***

That's it. USD 5 million is our maximum probable loss. That doesn't mean that we will experience that loss, it might be less, because that would represent really that all of these structures and all of these cars are useless, which is not going to be the case.

**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 continue with Olavo Arthuzo from UBS. Go ahead, Olavo.

**Olavo Arthuzo Duarte *UBS Investment Bank, Research Division - Research Analyst***

I just would like to shift the conversation for the asset quality of credit card loans because I basically just wanted to have a more granularity on the dynamics here. I mean, how have behaved the NPL of the lower income bracket of your portfolio? And also, how should we think about the delinquency rate of your credit card portfolio as a whole going forward?

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

Interesting question, Olavo. I will need Gerardo -- Dr. Salazar, please go ahead.

**Gerardo Cuitlahuac Salazar Viezca *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Risk Management & Credit Officer***

Yes. Olavo, what I can reveal to you is not a very detailed analysis of this very good question that you are presenting to us. But I will tell you that in consumer credit in general, we have adopted stricter credit scoring. We have done also lots of stress testing and scenario modeling. And we have higher minimum credit scores, and that's very important for us. If we talk about some other consumer loan

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segments, like auto or mortgages, we have ended up with higher down payments. We also have lower loan-to-value ratios and higher minimum or lower loan-to-income ratios.

So as a matter of fact, our credit standards have been increased just to play the credit cycle in a responsible way, and that includes credit card loans. Let me remind to you and to all that payroll loans and credit card loans are very provision-intensive, but have the highest ROEs there are in that family of loan products. So we remain very confident that we are almost also [disseminated] lower quality clusters and cohorts within the credit card segments in order for us to assure profitability in a risk adjusted basis.

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

Another number, before the pandemic, the NPL were 5.5 and now we are running at 2.7. And what Gerardo mentioned is quite important, the low end of the segment that you were mentioning, obviously, they have a much more strict authorization models for that. So we are very cautious about getting (technical difficulty) we basically are much more into the mid to the high, that doesn't mean that we don't touch the low end of the segment, but we are much more center in the mid to the high on that part.

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

And just to elaborate on that, if we talk about personal loans, there are just 2 clusters which we are satisfying the needs of our customers. The other clusters are not allowed in into loan origination. And that's a good example of what Rafael is saying.

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

We will go back with Jorge Kuri from Morgan Stanley that had a technical issue. Jorge, please go ahead.

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### **Jorge Kuri *Morgan Stanley, Research Division - MD***

Congrats on the numbers and thanks for the call. I wanted to ask about expenses. So you had the strengthening of the commercial teams and IT investments pushing up your total growth to 11% for the first 9 months of the year. Is that done for this year or will the fourth quarter still have another uptick of these extraordinary items? And then as we look into 2024, if growth continues to be above trend, meaning that you hopefully potentially see another year with 15% loan growth rather than 10% to 11%, would you need again to invest in the commercial teams or you think that this investment will be able to manage an accelerated growth going forward?

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

Yes, you're right. It's not expenses, it's investment. So Rafa will you give us a little bit of color on that.

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

I think we're done for the year, Jorge, for this year. And the good thing is that the investment that we did on the bankers, on the 1,300 bankers is already becoming profitable. So that's a good number. We will need to go and invest maybe to 700 more in the coming months. But this will be already repaid by the excess that those bankers that we put on last on this year already bring into the bank.

The effect that you will have on the next year is the Bineo that we'll start, will bring around 3% on additional expenses for the year. But you will see that going through the year, you also will see that the recurring expenses becoming lower and extraordinary expenses becoming also lower. So that in a way I think that 2024 will be the peak of the expense line, and then from '25, we will go back again to the usual numbers of inflation for 150 basis points. But no, for this year, we're done on that part. But we will see the opportunity to continue to invest in the bankers because we'll see a lot of opportunities coming through that not just for the nearshoring, but the expansion of the internal economy that is happening in Mexico.

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

Jorge, if you ask how do I see the -- the name of the game is going to be keep it simple. We already have all the structure that we need, all the -- everything is in its place. And now the name of the game is to go for the market and to be like in a military way to perform. So you won't see that we will move too much in the strange directions of inventing things. We will keep it very simple because we know that we have everything that we need. And for the next years, that's the name of the game.

**Jorge Kuri Morgan Stanley, Research Division - MD**

Great. And if I may just add a follow-up to that. So if that extraordinary investment/expense is behind and given that you're accelerating growth now which will generate earnings revenues in the next 6 to 12 months and the fact that it is possible that the Central Bank is delayed with cutting rates, that would probably indicate a nice optic in your return on equity for next year. So it would be reasonable to expect that ROE is going to be higher in 2024 versus 2023. Would you agree with that?

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

That's happened. We don't have the same model that we had this...

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

Yes, I agree with you. Yes, you're right. Completely right.

**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. Edson, please go ahead.

**Edson Murguia**

I have a follow-up on Bineo. Could you give us a little bit more color, your expectations. I know that the launch of Bineo is delayed for 2024, but could you give us a little more color about this? And my second question is regarding to ESG, specifically in pension or the Afore. Could you describe a little bit more about the thematic investment part of the business and the impact investment, because this quarter increase is 15%? Just trying to understand what specifically is about impact investment and thematic investment for you guys.

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

Yes. On the first one, I will ask Paco Martha to answer it.

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

On the digital bank, we are in the last steps of the certification with the authorities. We have been working with them closely in the last quarter. And yes, we are expecting to launch at the beginning of next year. You know that even we're just about to be ready, it's not the right moment to launch anything in the last months of the year because of the parties and Christmas and all that. So you will hear more from us starting next year, no later than a couple of months.

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

Okay. And annual growth of the (inaudible) Solís, are you there?

**Fernando Solís Soberón Grupo Financiero Banorte, S.A.B. de C.V. - MD of Product & Segment Development**

Yes, I'm here. Well, I would say that, well, I'm convinced that perhaps our Afore is the one that is most advanced in this arena among the industry. I mean, we were the first ones to subscribe the principles of ESG. And we are also following the major guidelines of the Group by moving into following investments which are friendly to the environment, but also in the social and also in terms of the gender. And so I think we're doing quite well there. And we're the most advanced in this arena. And of course, we're also going to be moving accordingly with the Group in putting in place more measures to be followed by our investors in what we're doing there.

**Edson Murguia**

Just a quick follow-up on this. I think what is the differences between impact versus thematic investments?

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

Jose?

**José Luis Muñoz Dominguez**

Yes, I can take that. Edson, this is Jose Luis Munoz from ESG. Most of the thematic investments are basically either green or sustainable. Those are the ones that have been issued in the market by development banks and other federal entities. And the Afore does have

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appetite for those. The impact are not so popular right now in the market. I think eventually there will be appetite for the Afore, but for now it's more thematic.

### **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 continue with Yuri Fernandes from JPMorgan. Yuri, please go ahead.

### **Yuri Rocha Fernandes *JPMorgan Chase & Co, Research Division - Analyst***

I have a question regarding net fees. Despite the sound macro, the good loan growth, we are seeing fees up only 6% year-over-year and they are slightly down quarter-by-quarter, but I think there is some seasonality here on a quarterly comparison. But still, my question is, should we see fees accelerating at some point or not really, I don't know, because of competition, maybe because of electronic transactions? So just more color on fees here. What is the outlook for the net fees for the Group?

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

If you look at the bank fees, bank fees had grown 17% and we are entering the cycle of the time of the year that you get extraordinary events that fees really pick up for the year. I think you have to look more on the banking fees that are growing around 17%. If you look at the overall Group fees, you will see a balancing out because we basically are much more centered on how the electronic transactions and the POS, ATMs, all the banking transactions, the transactional banking fees, cash management, all those happening in the bank and that continues to expand above the credit numbers. So no, I think you will see a pick-up by the end of the year on these numbers. And I will -- you will continue to see for next year on the banking side that fees will outpace the loan growth.

### **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 continue with Nicolas Riva from Bank of America. Nicolas, please go ahead.

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

So I have 2 questions. The first one on the perps. So you have said many times that you plan to call the perps, but in the last few calls you mentioned that one possibility could be to refinance the perps by issuing AT1s. Right now you essentially have almost no Tier 2s outstanding. So I wanted to ask if there is a possibility to refinance the calls of the purpose issuing Tier 2s?

And then the second question on your dividends. Should I read your comments earlier in the call as essentially saying that you're going to be paying a minimum dividend payout of 50% minimum payout. And then you said, we want to be more tactical about our dividend payments. Should I read that as essentially you could be paying extraordinary dividends depending on the opportunities to deploy capital?

And also I wanted to ask if assuming a 50% dividend payout at the [holdco], if we should also assume a 50% dividend payout at the bank level? Because I remember that in the past you did have some excess capital at the holdco that you could use.

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

Well, what a question, Nicolas. I will start with the second one, the dividends. Yes, we have a tactical approach and maybe you will see strong dividends. We don't know what's going to happen, but the idea is to put everything there and see what's best for you. And can we see this opportunity? Yes.

And the perps, obviously we are open. We don't know the rates, we don't know how it's going to work so far. So if the window opens, let's call it that way, we will go for them. If not, we have a lot of another tools in the box. So we will maximize for you the capital. That's the idea. But right now, I cannot tell you exactly what we're going to do because we don't know how it's going to be the market. But we will be ready. And we know that we can move past and we have everything ready in order to eventually issue the perps. And going back again to the dividends, it's a way to pay, but maybe we can do another things. I'm not saying anything. I am saying that we are open to everything. That's the idea. Rafa?

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

And Nicolas, as you know, I cannot say by law that I will honor the call, but the usual story of Banorte is that we will always honor the calls. And something is happening in Mexico because of the position that Banorte now has on the dollar book. Banorte has been becoming a very important play on the dollar book. And the funding side on the dollar book has been very rich for us this year. So that in a way has been a very positive element for us in order to refinance the AT1s in a natural way, we are getting the funding on the dollar book and that has allowed us to balance out that position and that we have in the market for the dollar book.

So Banorte is always having the position on the AT1s. If the Tier 2 is a position, we will do a position on that. But a very important issue now for the market to know that the calls that we did last year has been more than offset by the funding that we have on the dollar book. And that has a much more cheaper way to finance the dollar book that we used to have on the AT1s. We like the AT1, but we have a very good opportunity now by the raising volume of the funding in dollars that Banorte is experiencing.

**José Luis Muñoz Dominguez**

The main 2 things that Marcos mentioned at the beginning of the call is we have a dividend policy from 16 to 50 and we have a commitment of a Core Equity Tier 1 between 12 and 13 that Rafael and Marcos have been mentioning that we'll be close to the 12, 13. So I hope that -- as you mentioned, we constantly upswing dividends, not only from the bank, but from the other subsidiaries. But even with that, that Rafael mentioned, the bank will finish the year close to Core Equity Tier 1 around 15% even with another upswing that we just did a couple of weeks ago.

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

And remember the TLAC that we need to increase our capital to...

**José Luis Muñoz Dominguez**

17.9% by 2025.

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

But you had another question, Nicolas. What was...

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

No, I was just going to confirm then that most of the dividends that the holdco is going to pay we should assume are going to be upstream from the bank to the holdco. You don't have much excess capital at the holdco level that you could use to pay dividends?

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

Yes, we do have. And we also have dividends potential at the insurance company and the annuities company and the Afore company. So we continue upstream dividends to the Group level coming from all these entities. The good architecture of the Group allow us to have a continuous flow of dividends for companies that are very efficient in the use of capital and the bank. So we'll continue upstream dividends to the Group. At the Group level, we still have a very important portion of dividends to be paid, around MXN 12 billion.

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

Yes. By year end, we expect 18% at the holdco, plus 15% at the bank, Nicolas. And MXN 18 billion to MXN 20 billion at the holdco by December.

**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 go with Carlos Gomez-Lopez from HSBC. Go ahead, Carlos.

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

Congratulations also with further results. I wanted to go back to the loan growth, which has been quite extraordinary, especially in commercial and corporate. Again, 7% this quarter is very high and it also goes against the trend, because if you look at the aggregate figures for the system, corporate loans are not growing quite as much as retail. What are you doing differently there? Where have you

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find opportunities to grow the commercial loan portfolio? And is this something that you expect to continue in the coming 2 years? And second, on the sensitivity to rates, you showed 2 numbers; one for the pesos, one for the dollar. I noticed that the dollar has not decreased, it's about MXN 890 million. I mean, the intention is to keep that stable because you think that rate could stay longer in U.S. dollars?

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

First one, the opportunity is for everyone, not only for us. I will ask Alex Padilla to give us some color, what we can see in the future for the commercial and corporate business. Padilla, please.

### **Alejandro Padilla**

Well, regarding, Carlos, your question about rates, well, in the U.S. what we are expecting is that the Central Bank will keep on with...

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

Alex, not just rates, it's really the opportunity for the corporate and the commercial.

### **Alejandro Padilla**

Okay, perfect. In terms of the opportunities for commercial loans and corporate loans, well, from the economic perspective, what we are forecasting is that the economy will continue very resilient with very positive figures growing next year around 2.4%, still above potential. And what we are expecting is that first half will be very positive given all of the spending from the government in social programs, but also in infrastructure programs.

We also see very positive dynamics coming from nearshoring. We already are observing some very promising data there. For example, the demand for industrial parks continue increasing around 30%. Foreign direct investment in Mexico in the first half of this year was USD 29 billion, which is almost 6% above what we observed in 2022. And given all of the investment announcements that have been taking place throughout this year, we think that in 2024, we should see larger demand for industrial parks, for infrastructure, for expanding capacity. And I think that's going to be positive for the economy and also for loans in 2024.

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

Now the second one, Alex, rate sensitivity -- of reduction. I think the fact is that we mentioned before we see dollars still, a potential hike on dollars. And in pesos, we don't see any potential hike in pesos. But I don't know if you want to add anything else, Alex, there.

### **Alejandro Padilla**

Yes. Maybe just in terms of our monetary policy outlook, we think that the Federal Reserve could still hike one more time by 25 basis points in December. And the most important thing is that we think that they will remain with these very high levels of interest rates for a very significant part of 2024. Indeed, we are forecasting the first rate cut from the Federal Reserve in July 2024. And maybe in a gradual way, we will see the easing cycle throughout 2024 and 2025. And in Mexico, as you mentioned before, Rafa, we think that the Central Bank will stay put for longer. We think that we will see this 11.25 until May of 2024 when Mexico will start cutting rates. And once the Central bank starts cutting rates, they will go also in a gradual way. And we expect the ripple rate in Mexico to close 2024 at 9.25.

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

If I may add, Carlos, to the first question, what we are doing different? The corporate and commercial banking in Banorte has always been very client-driven and they were lacking some tools in the past like a full capacity on transactional banking. That we are very happy to say that we can outpace the market in many ways in the intelligent treasury, in many services that we provide to the companies.

So what I can tell you is that Banorte in the past, some years ago, we were not able to compete with the international banks in the syndicated loans or anything like that. Now Banorte is fully in motion to compete in any place that we need to compete for the transactional banking, the cash management, the services, the syndicated loans, dollar books, fees, services, international trading. Everything that you need to have, Banorte now is fully equipped to match any offer that the market has. That's what has been happening on the corporate book and we are taking full advantage of that. That took us like 3 or 4 to build up, but now we are in full motion about this.

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**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 is from Tejkiran Kannaluri from WhiteOak Capital.

**Tejkiran Kannaluri**

Just wanted to understand, could you let us know what were the AT1 coupons paid directly in the equity for the third quarter of 2023? And I have some more questions on asset quality. Maybe I'll come back after this -- after your answer to this question.

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

Sorry. AT1 with coupons, because there was some noise on the line, could you repeat it, please, the question?

**Tejkiran Kannaluri**

Yes, sure. The first question is around what was the AT1 coupon paid in the third quarter -- I mean, in this quarter that was directly charged to equity?

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

Well, it depends on what tenure you have. If you have the 24 or you have the 36. I don't know exactly what -- coupon that we have is basically -- I don't know exactly which one you're referring to.

**Tejkiran Kannaluri**

I mean, the impact on equity, the total Mexican peso amount impact that gives you to AT1 coupon payment that occurred during this quarter.

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

What was the impact on the income statement?

**Tejkiran Kannaluri**

Yes, on income statement and equity book value.

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

I think you want -- I can send you the calendar for the payment of AT1s. I will send it in an email to you quarter-by-quarter.

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

Yes, we will send you everything, all of them that you can.

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

Yes, it doesn't affect the P&L, just to be clear. It goes directly to capital, but we will send you the detail. I'm happy to connect up if you want to see the full year.

**Tejkiran Kannaluri**

That's very generous. The second question, I just wanted to understand if I got your commentary on payroll loans correct. You're seeing this as a resultant of the increased economic activity. So would it be fair to say that although the gross NPL stock is at 3.2%, your expectation of loss given default and the measures you're taking is actually quite lower and that's what makes you comfortable with the payroll loans?

**José Luis Muñoz Dominguez**

Yes. No, I think basically what Rafael mentioned is the key. That is, since employment is very good, people can move from one company to the other. So what you have is, as I mentioned, you change the bank and then it takes you around 3 months to collect and to have again that. So that's why the NPL moves, but it's not that we're expecting a higher NPL looking forward. It's just that if you look at the graph that we will send it to you as well, you can see that it's like a zig-zag for all the banks due to this. And it typically takes around 3 months to normalize. We will send you a graph and happy to connect afterwards to go into the full detail about this.

**Tejkiran Kannaluri**

My final question on the loan growth, if you look at the segments, the 2 segments that stand-out are government loans, which have grown at a smaller pace and auto loans at a much higher pace than the rest of the loan book. So are these conscious decisions that we've taken to grow government loans at a lower pace or is it a factor of demand in the market? And with auto, we are seeing...

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

On auto -- sorry. Just for autos and mortgage (inaudible) is part of the strategy of growing this part of the book. But also in autos, consider that last year there were no inventory of autos and that's why we had a low base. So in autos in particular, it's the base that was very low.

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

And because of the year that we're living that the government is going to be low and we expect it to be low until the election and we will see next year. It's typical. It's not always the same every 6 years in Mexico.

**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 the question from Andres Soto from Santander. Go ahead, Andres.

**Andres Soto *Santander Investment Securities Inc., Research Division - Head of Andean Research***

I have a couple of follow-ups regarding your expectations for 2024. The first one related to margins. In the previous call 3 months ago, you mentioned you were expecting 20 basis points reduction in your total NIM next year. Since then, we have seen interest rate moving up. You have reduced your sensitivity to interest rate movement. So based on that, should we expect margins to be stable? And even that will be sort of conservative, assuming that you're expecting better liquidity conditions next year and we could even see margin improvement. Is that the way that you are looking at this?

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

We still don't have the figures for the next year, but maybe Rafa can talk a little bit about it. But we will release as soon as we have the guide for the next year. We are working on it.

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

I think in order to answer your question honestly, it's not that I'm trying to move away from your question, but I need to understand exactly what's going to happen in November, December and January and in the first months to be able to really know exactly how the margin is going to behave. What we now see is that the balance sheet is in a very good position to sustain the margin in the numbers that we gave before, around 20 basis points less. But maybe that number could be better based upon what happen in November, December and in the January month. So sorry for not being so precise, but that's the information that I have.

**Andres Soto *Santander Investment Securities Inc., Research Division - Head of Andean Research***

Understood. And then a small follow-up on the loan growth expectations. I want to understand the fact that we have an electoral year in 2024, is that a tailwind or a headwind for loan growth, specifically on the government segment?

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

The government book will stay flat as is because we basically wait until the elections to see the federal budget, how things move. So you will continue to see 3 to 4 loan growth on the government book. That's what we expect.

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

And another way around, as soon as the election is there, you will start to see a big movement there. It's always the same. So we expect it to remain the same.

**Andres Soto *Santander Investment Securities Inc., Research Division - Head of Andean Research***

So it will be sort of slow growth the first half of the year and faster growth the second half. Is that correct?

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

(inaudible)

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

We will take one last question from Federico Galassi from Rohatyn Group.

**Federico Galassi *TRG Management LP - Consultant***

Congrats for the results. Two quick questions. The first one, Rafa, if you continue to grow, this is very speculative, at 15% next year, I'm assuming that you continue to increase the capitalization rates -- ratios. There is any number of growth that you are in the limit to increase the capitalization ratios? And the second one is more related with the competitive environment. Looks like you are continuing to gain market share. How is the competition in the north of the country in particular, Bajío? These are the two questions.

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

Federico, if the bank grows below 16%, we continue to generate capital at a very fast pace. I think the limit for us to grow is 16%, 17% and we start consuming capital on that part. So that's the number that we follow. If you ask me what's the number that you want to reach on the capital numbers is from 15% to 13% and trending to 13% on Core Tier 1.

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

And the competitive environment, competition in the north and in Bajío, as Rafa always...

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

That's why we strengthened the bankers in the north and in the center, because it's a tough competitor, but it's a good competition really, believe me. It's a very rational competition, the one we are facing.

**Federico Galassi *TRG Management LP - Consultant***

But we can assume that part of the growth in the loans -- in the corporates is coming from the increasing or gaining market share in the north of the country? That is yes (inaudible)?

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

Yes.

**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 for joining. This concludes our call. Thank you.

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