

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

Q1 2024 Grupo Financiero Banorte SAB de CV Earnings Call

EVENT DATE/TIME: APRIL 17, 2024 / 3:00PM GMT

## CORPORATE PARTICIPANTS

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

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

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

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

## CONFERENCE CALL PARTICIPANTS

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

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

**Edson Murguía**

**Natalia Corfield de Melo Monteiro**

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

**Renato Meloni**

**Rui Fernandes** *JPMorgan Chase & Co. - Head of Markets Trading Structuring*

**Tejikiran Kannaluri**

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

## 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 first quarter earnings call. I would like to start by thanking our investors for their feedback throughout the year, which has helped us to consistently improve our recently launched 2023 annual report. This year, we added a supporting document which will help you to measure the group's progress across the main financial and nonfinancial indicators. We will begin today's presentation with our CEO, Marcos Ramirez, who will provide a brief context of the macroeconomic environment that contributed to the results of the quarter followed by the main results of the bank and the subsidiaries, including Rappi and Bineo, ending with an update on sustainability. Then Rafael Arana, our COO, will provide details on the NIM evolution, the continued effort to reduce balance sheet sensitivity as well as a positive result regarding asset quality and efficiency for the group, among other relevant updates.

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, and thank you for joining us today. The first quarter of the year evolved with Grupo Banorte dynamics in our core businesses and solid performance across all the subsidiaries well within the guidance ranges that we announced at the beginning of the year. Despite a more cautious business environment brought by the electoral periods in Mexico and the U.S., we see a good economic momentum driven by domestic demand. Investments are still supported by ongoing government spending on private investment related to new (inaudible), whereas high-frequency data for private construction show a dynamic economy in the first quarter of the year, supported by permittances still at historical highs, better employment figures and a dynamic lending activity. Under these conditions, we hold a positive view of the Mexican economy, maintaining our GDP growth expectations for the year at 2.4%, with a stronger first half of the year, followed by a softer second semester with some headwinds such as lower government spending and potentially weaker external demand from a deceleration in the global economy.

Annual headline inflation continues to show a moderate decline despite a still challenging price outlook. Our [during] forecast for inflation stands at 4.3%, still far from the Central Bank's target of 3%, so we expect tight monetary conditions for the rest of 2024. As widely anticipated, the Mexican Central Bank carried out its first 25 reference rate cut in March, reaching 11%. We anticipate a pause in rate cuts in the following meeting, resuming with more traction towards the second half of 2024. However, given the Fed's less constructive natives and the foreign dynamics of inflation, we are increasing our general reference rate expectation to 10% before we had 9.25%. Regarding the Mexican peso, it is expected to remain strong at least in the first half of 2024, followed by some volatility as we approach the U.S. election in November, reaching close to MXN 70.7 per dollar by year-end.

Moving to the business operations, Slide #3, metrics evolved in line with our expectations for the quarter. Our balance sheet sensitivity continues its downward trend, reaching MXN 375 million in NII reduction or every 100 basis point change in the reference rate, down from MXN 582 million last quarter. Net fees show a positive evolution, driven by an expanded loan portfolio and a strong internal demand despite the higher seasonal activity during the fourth quarter. Asset quality is consistently evolving ahead of expectations and internal capital innovation remains strong, ending the quarter at 21.3%. Profitability, Slide #4 shows a solid 9% sequential increase in the net income amounting to MXN 14.2 billion. ROE improved 134 basis points in the quarter, driven by solid performance across most business alliance, especially the insurance company, which had its seasonal treatment renewals during the quarter, also supporting a strong return on assets evolution. Analyzing the quarterly results by subsidiary, Slide #5, we see a solid 26.4% ROE for the bank despite some seasonal headwinds, which were offset by lower expenses in the quarter. The insurance company had sound business fundamentals along the positive effect of seasonal premiums renewals during the first quarter of the year. The annuities business decreased in the quarter given higher technical reserves. As for the Afore, the sequential decline is explained by lower yield on financial programs.

Loan portfolio, Slide #6, continues to accelerate with a disciplined focus on asset quality and a building in poles of lending activity with funding trusts. Loan expansion displayed double-digit annual growth across most of the portfolios. Corporate and commercial loans continue to benefit from new shoring (inaudible) materialization, driving loan demand for small and mid-sized enterprises. Nevertheless, FX variations have impacted the dollar loan book currently representing around 12% of our loan total portfolio. The (inaudible) book displayed a mild reduction in the year, and we are anticipating this portfolio to remain flat for the remainder of 2024. The consumer book on Slide #7 remains the fastest growing segment within our portfolio, reflecting our strategic approach to optimize the customer lifetime value of high-value customers. The year of our (inaudible) revolution of credit cards has been driven by good consumption dynamics and further boosted by the adoption of our self-service opens despite being sequentially affected by seasonal factors in transaction volumes. Payroll loans are performing as expected with a more prudent approach as we get closer to a new government administration. Lastly, car loans continue to benefit from our commercial alliances with different dealerships and positive dynamics in the sector overall.

Slide #8. As I have mentioned before, asset quality continues to perform ahead of our expectations, with NPLs slightly improving to 93% in the quarter despite higher growth in our Consumer and Commercial books. This is a result of an intensified risk-oriented oration process that started in the second half of 2023 and continues as our top priority. The quarter increase in the cost of risk is a natural result of our (inaudible) volume and mix, together with the normalization effect on the reserve release from last quarter as well as the incorporation of Tarjetas del Futuro, which is wrapping into our credit card portfolios as the intrinsic risk of this product naturally requires higher reserves. On a separate note, I would like to comment on how Banorte is dealing with customer centricity and customer metrics. Our main effect and difference is our culture. We have over 2,000 working cells which warranty that whenever we acknowledge that our service portfolios are not compliant with our customers' expectations or that one of our competitors is doing something better than us, we can quickly react, adapt and execute. This is not only reflected in our overall NPS, but on the performance channel, which continues to have a upward trend.

Before moving into our group operation with Rafael Arana, let me give you an update on the first 2 months of operation of Bineo, our newly launched digital bank. During this period, we have been working on what you could call friends and family in the upper market mold, focusing on learning more about our customers (inaudible) and profiles, fine-tuning our platform, launching new and improved versions of our app and stabilizing our production environments as we gradually gain scale. We are working on our product and service deployment strategy for the second half of the year. We expect to bring to the market a rapid rollout of innovative financial products and services and fulfill our aspiration of providing a comprehensive value proposition, a one-stop-shop for all our clients' financial needs, including loans, insurance and wealth management products to improve their safety on financial well-being among others. During this initial phase, it has been of utmost importance to warrant the best experience for our customers, taking careful and quick corrective actions before embarking (inaudible) significant client acquisition costs when we launch our full product offering. So we will be shifting our brand campaigns from building awareness to building scale and attracting new customers. Let's recall that we want to deliver on our promise of being profitable within the first 3 operating years, and that requires discipline since day #1.

Regarding Rapid evolution, we are now operating with a proper risk metrics in place. We are taking us into our (inaudible) which are taking us to the desired of direction. We are presenting positive unit economics and are getting closer to breakeven within the following

months. Rafael will talk into more detail later in this presentation. Finally, on the sustainability form, we are happy to announce the successful issuance of our first sustainable bond in February, a relevant milestone for the bank which will follow important [grid] and social projects for many of our clients. Moreover, at the end of March, we published our 2020 integrated time report, which showcases the result of our medium-term strategic plan. And thanks to valuable feedback from our investors and other stakeholders we incorporate more disclosure regarding environmental, social and diversity metrics to name a few. This time, we also publish a historical database that will help measure progress across our main financial and nonfinancial indicators. Now I will leave you with Rafael Arana, who will walk you through our main financial indicators for the quarter, further details in our balance sheet sensitivity reduction and next steps for our digital strategy for Banorte, Bineo, and Rappi.

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

Thank you. Thank you very much. Good morning to all. As Marcos mentioned, the first quarter started with good momentum, we really anticipated a slow beginning of the year. I think we were quite surprised by continuous strong momentum in most of the business of the group, and I would like to go in more detail in that. As you can see on the slide that the return on equity of the group continues to grow on a very strong pace, 134 basis points quarter-on-quarter. Now we are reaching about our initial guidance that was close to the 22%. We are at 22.2% and the bank, even though you see a reduction on a quarter-to-quarter basis points, 7 basis points continues to be very strong, and this is also due because of the buildup of the capital at the bank that has been, as always, at a very, very strong pace. I will go into more detail on the transformation of Banorte because as we have met with many of you, you were concerned about what was the strategy of Banorte, if Banorte was not taken into consideration the evolution of the new fintechs or new banks are coming into the marketplace. And you will see that Banorte was very serious addressing that issue since 2018. I will be going into much more detail in a minute.

The net interest margin of the group continues to grow to 6.5 basis points on a quarter-on-quarter basis and the bank 6.4%. You see a reduction on a quarterly basis. That's still based on 2 things. You see a very large inflow in the fourth quarter of very low-cost demand deposits that really help us to push the margin up. Now that we enter the normal cycle of a year as you know, the first 3 months of the year, usually, we see an outflow of those big inflow of deposits that come on at the end of the year. But you will see in a minute in a graph that we are really starting now to push the cost of funds slowly but surely to the desired numbers that we would like to have. You remember that by the end of the year, we have a strong reduction on the funding cost that really pushed the margin for the bank up, now you see that, that margin was, I would say, affected by this additional growth on the loan book and also the funding total usually grows in the first 2 months of the year. I will go in detail in a minute. Expenses, we advise you that the expenses was going to be a very important point of control for us. Cost income ratio is below 34%, it's 33.99%, 49 basis points compared on a year-to-year basis. You remember that we anticipate an important part of expenses in the HR side and also in the amortization and depreciation for the group at the end of the last year but also the evolution of our shared service and centralized operations initiative is already bringing good results from this. So I think the first part of the year, the first quarter of the year was also benefited by a strong insurance growth. As you see that usually the evolution on the first quarter of the year, the insurance business basically [booked] most of the premiums for the year and then they'll go through the years.

This year, there's a difference on also why the number is so -- I would say it's a normal number because last year, we split the first quarter with the 2 quarters, the big volume of the high premiums that we put through the years. This year is a normalization of that. That moves everything to the first quarter, so that shows you a very big, I would say, jump on the revenues of the insurance business. So it's fair to say that the insurance business is in full recovery, growing at a very good pace and also looking at a lot of initiatives to keep increasing and growing the business. So capital continues to be, as we mentioned, on a fast pace on the growth side, the total capital deposit ratio is 21.3%, and the core Tier 1 is 15.5%. This has to do also with a slight reduction that you saw on the return on equity of the bank based upon the high buildup of capital at the (inaudible).

If I now move to the NII net interest and noninterest income growth. Net NII on a quarter-quarter basis grew 2% and 10% on a year-to-year basis. If we go just only for the loan deposits growth, it was 1% growth on a quarterly quarter basis. This is also important because we are facing, as we have mentioned to many of you, an equilibrium with the funding gross and the pace of growth on the asset side. So I think we are reaching that point where we can continue to grow the loan book with a very, I would say, not conservative with the world but very aligned from the cost with the asset growth. So NII continues to expand, also the loans to deposit at a lower pace. And this also has to do that 82% of the loan book on the commercial and corporate side is on the variable rate part. So since the rate has paused

for many months now, the variable rate part of the group has stayed put. And the fixed rate part of the group just barely are getting the last reduction on the rates, the 25 basis points that would be fully addressed in the second quarter. So I think to have an expansion on the NII based upon those considerations, I think, is positive for us on that spot.

If I move now to the core banking fees that Marcos also mentioned, the bank continues to be at a very active pace on all that is related to services and fees, opening of accounts, the opening of accounts has accelerated on a very important way of in the digital channels and also in the branches in the physical channels. As you know, the balance is coming from the branches at a much higher number than the ones that are coming from the digital, but the digital is allowing us to also incorporate clients that in the past was difficult for the bank to address those clients because of the profitability that was needed for us to really address those ones. So core banking fees continue to be a good story, 14% year-on-year, mobile POS, merchant business, everything at the bank level, effectively transactional banking, cash management, everything related to the commercial corporate government is providing a continued source of growth for the net fees.

If I now move to specific metrics there of Banorte. Banorte net income grew 2% quarter-on-quarter on a year-to-year basis, also 2%. The return on equity is 26.4%, as I told you before, and the ROA is at 2.4%. The net income of the bank, as I mentioned, reached the MXN 10.47 billion and we see a steady numbers coming to the ROA and the return on equity of the bank as the bank starts to move also part of the capital to the group in order to prepare for the dividend outflow we will continue to see the group on the return on equity of the bank aligned with an increase of profitability of the operation of the bank.

I already addressed a part of the NIM, that 6.4%. The 6.4% as you know, we are basically facing not a liquidity issue in the market because we have enough liquidity, but the funding cost continues to be there and since the fact of the variable rate part of the book and the very important growth that we have on the fixed rate part of the group to prepare the balance sheet for the downward trend on the rates is taking us around the 6.4% that is perfectly aligned of what we (inaudible) at the beginning of the year. And we continue to see a slight evolution on the funding cost that will continue through the year, and that will allow us to keep the margin on the numbers that we guided at the beginning of the year. So the NIM is in the right place, fees are growing nicely on that part, NII helped also by the insurance business is giving us a pretty good start of the year.

If I move now to the next one that I think is we need to try to explain what is going on the funding cost. The funding costs, as you see a drop at the end of the year, there was a large inflow that basically comes with the bonuses that has to be paid for the payroll loans that we serve. But the important thing is that the slight reduction that you see on the 47.9% that is really now trending in the right direction after the seasonality of the large inflow of demand deposits. But also it's important to notice that the high cost of funds diminished from MXN 158 million in the fourth quarter of '23 to MXN 153 million in the first quarter of '24, and you will continue to see that evolution of really releasing the high cost fund that we needed to support the high growth of the balance sheet last year. If I now move to the asset quality, and I think we'll start to also make the separation of what's the normal trend with the bank and what's the incorporation of Rappi that we now to control in the month of November. Credit, the cost of risk continue to be very solid numbers. As you can see, the cost of risk was 1.84% at the end of the first quarter of '24 but if you take away the Tarjetas del Futuro that is rapid is really 1.71%. That is a very, very strong number, and you see how steady that evolution on the cost of risk is. That doesn't mean that Rappi is not being addressed now fully that we had control of the operation to change all the necessary measures to continue to lower the cost of risk. If you see the NPLs of Rappi is around MXN 4.8 million, the cost of the NPLs of Rappi.

The cost of risk continues to be high, and we need to trend that funding cost to a number very close to the 12%. Right now, what you see is a very accelerated write-off in order to clean up the book, that was part of why we took control of that because we consider that we have a very reasonable market fit with the clients that we will love to put on the book. So now we know how to grow in that business, how to make that business breakeven, as Marc has mentioned in the following months, and what's the potential size of the business in order for us to address that market that is completely different from the market that usually Banorte serves. If I move to the write-off rate, you see the write-off rate steady at 0.45, we will take away Tarjetas del Futuro. So we continue to see very good numbers as Marcos mentioned, an NPL that is below 1%, 0.9% and if you take away Tarjetas del Futuro below 9%. So we continue to see very solid numbers coming from the risk portfolio and that has to do with the strategy that we really like to keep the health of the book as we have been keeping for the last years. As we mentioned, we are not chasing market share. Last year, we outpaced the market in most of the products on a year-to-year basis but at the same time, we were able to do so with very, very strong risk numbers. And that's the way we will continue to grow. If we like the risk, we will grow, if we don't like the risk, we will not address the growth on that part. That has been

positive for Banorte for many years and has to do a lot of how the unique works with the commercial units and with the recovery and (inaudible).

So now if I move, some of you have some questions about the net interest income evolution and how we prepare the balance sheet on this part. Now the balance sheet, we have a graph that shows the local sensitivity against the NII on pesos and the dollar book, you see that for the group the sensitivity has come down to 0.2%, 0.3% for the bank, coming down from 0.7%. And you can see that some people could say that we anticipate too much the decrease in the rates but I think that's a prudent way to address the way we see the market. The 25 basis points was really something that we anticipated. Now we see a slower trend on the downward trend of the rates, but we will continue to see a reduction in the rates in the coming months and the MXN 2 billion that we used last year to really put the balance sheet in the way that we like the balance sheet to be, now we will start to recover as a way start to go down.

Another important part that we didn't mention that has to do in a way of how the balance sheet is prepared and how the balance sheet is affected, is that because of the strong currency that would have been facing in Mexico, that has also affected us around MXN 656 million because of the strength of the currency. We now see a more reasonable trend on the currency, so that also release that part of the effect that we have on the margin. So we have a balance sheet that is very strong on solvency and liquidity, very strong growth on the capital numbers, very well prepared for the downward trend. Obviously, that in a way, put pressure on the margin on a temporary basis but we'll fully recover when the downward trends stabilizes.

So if we now move to the expense on the cost/income ratio, the expenses for the quarter were down 14 percentage points based upon all that we anticipate at the end of the year. And the expense, including Rappi and Bineo with 13%. If you exclude those 2, you barely reached the 8% year-on-year for the bank. So we will continue to push the numbers below the 13% on the cost basis based upon the share service initiatives. And you can see that it was a very strong number to be below the 34% cost income version and is based upon all the initiatives that we are taking and also that the revenue growth was a little above 14% for the year. I would say that if I go to a graph that some of you has instructed to show the market, you see that the historical expense by category has been very positive. You see the graph on the left that we have gone down from 70% to expenses to net income to 46% expenses to net income. And when you strip those on where we are putting the expenses, we basically are putting where we produce revenue.

On the HR side and also on the IT side that allow us to serve the client better and also to reduce the operating costs and also the administrative costs that have dropped in a very important way through the years. The growth on the year show a different view that you see IT growth, 3.4x compared to the net income, you see that net income has grown 3x since 2016. So some people say, well, we are investing a lot on technology. Yes, because that's the way we see the business, we see the business an analytical-driven business, a technology-driven business and also when people are concerned about how advanced Banorte is on their artificial intelligence, we have to remember the market that we for the first one along with 8 other banks in many parts of the world that we embarked on the Watson adventure. Watson has been a learning process for us, but now it's fully embedded on the mobile application, on the transaction-driven parts and many initiatives with Microsoft, with Google that allow us to really be on the forefront of the usage of artificial intelligence.

Analytics has been heavy users of our division intelligence, restating (inaudible) of those for many years and we will continue to be on the forefront of that because we'll see a lot of advantage because all that we are doing in the hyperpersonalization move that will really address on a client-by-client basis. Everything is based upon artificial intelligence. So we see a pretty good trend on the cost basis, we know that HR [are a] spike because we needed bankers to serve near show initiatives and also the [car] growth that we have on the SME side. But this blue line that spiked to 1.9 is producing strong revenue already, as you saw on the numbers.

Now moving to the capital ratios, the capital ratios for the bank now is at 15.5%, the co-Tier 1, 21.3% total gap, well above the TLAC requirements and liquidity is 178. We know that liquidity so high cost of some on the margin, but we like to be prudent about this. So strong capital growth, strong numbers on the risk side, reasonable growth on a year-to-year basis and reasonable growth and sustaining the margin and also the most important thing is that we are growing with a very, very good credit quality. So I will now address some of the issues that you also consider every year, what's going to be the dividend policy? The dividend policy last year was 83% of net income. This year, we will go to the Board and ask to continue on the policy that we have from 16% to 50%, we will ask for the 50% dividend retribution to our shareholders. And as we (inaudible) through the year, as Marcos also mentioned, we see the potential additional dividend by the fourth quarter of the year in order to emulate what happened last year because we will continue to see very good growth



on the capital.

Now I would like to address those concerns that people -- the first one was that Banorte was not fully addressing the evolution of the new entrants in the financial markets. The second one was if it's not going to be a confusion about Bineo, Rappi and Banorte. And let me go back to 2018, that's when the decision were made about to have 3 different strategies to really face what was going in the market. And when you take this path, that doesn't mean that you're going to be perfectly exactly what you want those initiatives to be but the most important thing is what you learn from those initiatives and how those initiatives allows you to be a much better fit on the market based upon the new evolutions that we see on that space. So the strategic initiatives in '18 was basically to link with a company that was not a financial company, that was very, very useful, especially for the young people and was very easy for them to use, and they were very pleased with the application, that was the Rappi joint venture that we define with them on a 50-50 basis to grow a credit card business, very similar in some parts, not exactly, but in some parts of what [new] bank was really trying to bring into the Mexican market and what we learn about new coming from the learning process in Brazil.

So basically, the Rappi initiative that is in the midst part of the graph has been evolving, I would say, in an evolution of a high-growth business that because, basically, you are addressing clients that were not banking clients, that were new to the bank, that we're jumping into the credit cycle, and we experienced a very high growth at the beginning but also very heavy losses. So we defined what or not the strategy that we might need to grow. The risk people from Banorte started taking [tool]. We changed the CEO, the Head of Analytics of Banorte was sent to run the CEO of Rappi and now after the control that we pay in November to have full control of the operation. We now see that we are very comfortable to reach the breakeven point on a monthly basis in the next 2 months and also the most important part that based upon analytics and a very aggressive segmentation, on a very detailed basis. We now understand which clients to put on the book and which clients would be profitable for us, and we could really grow with them and have a reasonable return from the relationship with them. So Rappi now is reaching a breakeven point on a monthly basis with our good market fit, NPS is very high, is even higher than what you find in the market. And also the usage of the card now is very, very satisfying for the clients. It's very easy for the clients to use the card. The app is very convenient, NPS is quite high, so I think we're now understand the market, we know how to manage the market, we know how to manage the company and how to make that company profitable.

The second initiative was to really accelerate the full transformation of Banorte to become a digital bank with branches that I think we are in a very good trend. Last year, World Finance recognized that Banorte has the best digital app in the market and also that Banorte was the best digital bank in the market. So now the model that we have that Banorte is (inaudible) minutes is based upon all the digital process that we have put all through the bank in the commercial side, corporate side and also on the retail side. And you will continue to see a very strong evolution of the digital participation of every single part of the bank will move into that. And we will continue to have our branches because our branches continue to be a very important source of cheap funding flows. And also on the nearshoring part, the presence is needed so we will continue to open 45 branches this year. That is already put on the cost base that we anticipate to you. The last one is Bineo, the idea of Bineo was we know that the value for the banks in the near future will be cost, analytics, technology and how can you really deal with the client based upon all those 3.

So we needed to have the experience and also to really try to move into a full digital bank. We know that the onboarding process on the digital side of Banorte is very cheap, very, very low cost, when you triple the structural costs, so we needed to transform that into a new operation. That was the idea of Bineo and Bineo will be a full retail bank, a full value proposition from checking accounts, debit accounts or everything will be on digital and also to mortgages, wealth management products that you will see that evolution through the -- the most important thing about also of Bineo is that when we decide that Bineo will have -- our shared services on the back offices and operations and things in order to lower the cost more, but on the servicing side and also on the technology side, we will also implement the new technology that was basically through driven since the beginning. The evolution from the traditional banks to the cloud, you need to move from on-premises to the cloud, so that duplicated cost. So we needed to have a full digital bank that was cloud driven since the beginning and see how the evolution on the cost base could be that eventually that will allow us to move part of the technology that we have on the traditional Banorte to a much less costly technology driven platforms. So that's also a very important part of Bineo.

So Bineo has many strategic initiatives. First, to have a full value proposition on the retail offering on a digital base, a low cost base because we need to achieve 20% cost/income ratio in this platform. And as Marcos mentioned, we need to put this bank in breakeven in (inaudible). So the value proposition that you see in the market right now is very limited because we are on a friend and family base and

testing the frontiers that we could have on the evolution of the technology on that part. But now that you will see as the year goes by, a full value proposition will be in place with the traditional values of Banorte customer centricity, personalization, low cost to operate and high NPS for the market. So with this, I conclude my remarks, and I'm moving into Q&A.

## 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*

(Operator Instructions). We'll take the first question from Rui Fernandes from JPMorgan.

**Rui Fernandes** *JPMorgan Chase & Co. - Head of Markets Trading Structuring*

Congrats on the quarter. I will stay with Bineo, if I may have, I understood you are still on friends and family here. The numbers are too low, on the pause, it's on low. So my question to you is if you can share any metric on the pause that is long, number of clients, anything that we could see maybe 1 year from now. And I understand from past meetings with you that you should not overpay on the pause or be super aggressive on those kinds of things. So if you can also give us a little bit of a strategy for Bineo. And what would you say to investors that think maybe this will be a lot of investments or a lot of uncertainty on returns, what you do tell those investors like, oh, we believe Bineo, I don't know, can help on cost efficiency in the future? Like what is the speech here for more bearish investors? Thank you.

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

As I mentioned, what we see Bineo, and I can give you a very basic number, that first friends and family, 10,000 clients are the numbers that we have now. The value proposition is very limited. That's the way we needed to launch because first, once you get the goal from the authorities, you have 1 month to launch, and that's what we did on that part. What you will see is that basically, the full motion will start also with financial inclusion. In a very short period of time, you will see that remittances will be also an important part of this. Then we will move into the credit card, then we move into the payroll, then we'll move into the payroll loans, then we'll move into the wealth management process, then we'll move into the mortgage group. So what you can tell the market, and that's our commitment, at least we need to be very close to the 0.5 million clients by the end of the year on this, on the Bineo platform.

We'll address in this value proposition that I mentioned to you. I think we can achieve that based upon what we saw when we launched the positioning campaign because it was not a campaign really to address any value propositions. If you saw the campaign was basically proposition in the brand, the brand has been well positioned now. Now we have to put content on the brand on that part. And I think that's the number that you can see and you will see that the evolution based upon the shared services philosophy that we have, we have a huge advantage because we will be sharing the cost base of Banorte with the scale that we have in Banorte cost base with Bineo and also with Rappi, just with Bineo, with Rappi, and that will be a huge advantage to accelerate the reduction in the cost/income ratio. But the numbers that you should see is -- what you are looking is not what Bineo is, what you are looking at this point in time is an initial launch on a very friends and family initiative that needs to be strengthened a lot in the coming months. You will see a full value proposition by the end of the year and on a month-by-month basis, you will continue that evolution. But a number around 0.5 million clients is possible to that at the end of the first year.

**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 Thiago Batista from UBS.

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

My question is on the funding costs. There's a lot of new players in Mexico that are paying a very high yield up to 15% per year versus, let's say, 5, 6 of Banorte or the other regional banks. I know that those guys are still very small, but do you see a risk of higher deposits, higher cost of deposits over time for Banorte? And just a follow-up on Rui questions will Bineo also trying to attract clients paying those, let's say, very high yield on the deposits?



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

Thank you for your question. Yes, there's not a lot of competitors, specifically is one. And first is not a bank, that's the first difference. We are a bank, and we have different rules and things of doing things.

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

Yes. I think and this is also to complement what Rui mentioned. We don't follow that. We didn't follow that. Other banks didn't follow on that because we are based upon relationships. We are not basing on a transactional basis with the clients. If we were based upon a transactional base, I think we could really raise the pause and fill up their clients. And just give me an example about that, when we launched Rappi, and that has to do also with the questions, and I will combine Rui and your question is we grew 1 million cards on a year basis. I mean, to grow fast in that market is easy, it's very easy. To be profitable and really deal with the client in the way that you have to be to a client, not to push very high interest rates to try to really extract all the value from the client, no matter what it's going to happen for the client after 3 or 4 months, I think that's not our strategy. So the funding cost has to be related to the service that you provide on a relationship basis. And that's the way we compete, that's the way we compete in the market and when we show that initial, that figure on the slide that you see a slight downward trend on the funding cost because it was a big drop at the end of the year, that offer was already on the market.

So I think some people will choose to go and test the 15% or whatever, but most of the people will stay on a relationship base because remember that we see the client on a lifetime basis. We don't see and we don't price the product based upon the product by the client. We really price the relationship based upon the value of the client. And in some cases, that will give the client a better funding return than the normal rate that we have in the market and in many cases, not because they would have a better advantage on the mortgage group or on the credit card or on the payroll and things. That's the way we compete. We don't compete on a product-by-product basis at all. That's the whole idea of personalization on that part. That's related to the funding cost and the other thing that you mentioned Thiago, sorry, it was related to -- let me just give you an example and this is very important.

If we go to the remittances market, the remittances market currently is a market that has been served based upon the fees that they pay to the banks, and there's no relationship with the clients. They just come and we draw the money and walk away. But we really now want to try is to make those clients part of the of Banorte and part of Bineo. We have very, very strong value proposition that will allow us to start building not just relationship with those prints. And those clients believe me, are very, very big numbers coming on those fronts. So no, we don't compete on trials. We compete based upon the whole relationship we produce to the client. I'm sure the market was shaped by the 15%. Some went with them, many stay with us. We honestly didn't see any reduction at all in the relationship we have with our clients on this part. But it's a way to compete, and I respect that. We don't compete in that way.

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

Very clear Rafa and congrats for the results.

**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. Now we'll continue with Renato Meloni from Autonomous. I think we can come back with him. We can go with Patrice [Abri] from Goldman Sachs.

**Unidentified Analyst**

My question is on insurance. So you delivered very good results this quarter, and it was very clear that it was mostly on seasonality of premium renewals that happen in the start of the year. But I was wondering if you could give a little more color on your expectations for insurance for the full year? What growth rate are you expecting from premiums this year? And if you think that total insurance contribution should improve in 2024 when compared to 2023?

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

Thank you, Patrice. Regarding this influence, let me pass to Fernando Solis. are you there?

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

Yes, Marcos, I'm here. Yes, we had a very good -- as was mentioned by both Marcos and Rafa due to the seasonality of the premiums and in this year, one very large policy was fully paid in the first quarter and not split between the first and the second quarter as happened in last year. Having said that, and despite that, the premium growth is going to be strong. Remember that the most profitable products are those in which we cross-sell products with credits. So what will happen at the year-end will be very much affected by the way in which we grow the credit portfolio. So given the outlook that we have and, of course, and some other efficiencies that we have been implementing also by seeing very strong increases in some products that we are going to start selling that we have not been yet doing that. So I would say I'm going to be -- let me put it this way, I'm very optimistic that we definitely will have a better number than last year, but it's going to be a very strong number. Of course, we will not end with a 65% increase in net income 24% versus 23% but I would say that perhaps we will be somewhere around 20% to 25% at the end of the year. And I will make this very clear, it will depend, of course, on how we grow in the credit portfolio, particularly in the retail portfolio. That's what I would say.

**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 Renato Meloni from Autonomous.

**Renato Meloni**

Congrats on the results, I think, pretty solid trends everywhere. I have a question here on Rappi. Charge-offs were pretty high this quarter, about 10% of loan balances. So I wonder if you expect this to be the recurring level there or if that's going to improve now that you've taken more control on the JV? And also related to this, if the earnings that came out of minority interests were all related to the consolidation of Rappi so about those MXN 200 million of net loss that were coming out of Rappi. Thank you.

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

I will pass this to (inaudible).

**Unidentified Company Representative**

Thank you Renato. Yes, the charge-offs were high because as Rafa mentioned at the beginning, we finished now cleaning the portfolio, and we are creating some additional provisions. You are not going to see anything additional like that. We will start growing again with the right numbers and with the right criteria, as Rafa mentioned.

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

Thank you, Marcos. I would add to what Francisco just said is that a high level of cost of risk does not necessarily imply a worsening loan portfolio quality. And certainly, that is not our expectation going forward. As all of us know, because of refers to expenses associated with potential credit losses within Banorte's loan portfolio they include provisions from last loan losses, charge-offs and other credit-related costs. The increase in the cost of risk often indicates higher anticipated credit losses, but it does not necessarily imply a worsening credit quality of its own because of mainly 3 factors. Factor number one is the portfolio composition. The cost of risk varies depending on the composition of Banorte loan portfolio and its exposure to different sectors, industries or geographic regions. Even if the credit quality remains stable or improves within certain segments of the portfolio, changes in the overall mix of loans or shifts in the risk concentration scans can impact the cost of risk.

The second factory's timing and recognition of losses. Banorte may choose to accelerate the reposition of potential losses, which is the case, talking about Rappi and also we did so in anticipation of future credit losses. But we do not expect that to be repeated in the short term, not even the medium term. And their factories, the cyclical nature of risk, the great risk is inherently reciprocal with periods of expansion and contraction in great quality driven by economic cycles and market dynamics. An increase in the cost of risk may reflect a natural adjustment in response to changing risk conditions rather than a permanent or irreversible deterioration in credit quality. So we are not associated even more provisioning, not a higher cost of risk with lower loan portfolio quality, and that's a very important statement to make.

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

And if I may just add Renato, the evolution on the recovery unit concerning Rappi has been very, very positive. If you go to the roll rates and the evolution from 0 to 1, Rappi is now reaching very similar numbers to the credit card portfolio of Banorte. So I think the reason that we really took control of the company was really to put and implement all the methodology that we run Banorte way. And the key part was risk and also recovery. I think the commercial part of Rappi and the analytical part of Rappi is very strong. So we just needed to clean up that part, control the recovery unit, put all the metrics of risk in place and now that's why we see now a very, very I would say short period of time where we will become breakeven on a monthly basis, maybe in 2 or at the most 3 months on that. And believe me that is a very, very okay, taking into consideration the market that we are addressing.

**Renato Meloni**

That's very, very clear. And just like last year, on the minority interest line. So everything that moved out of it was due to the current results from Rappi, correct?

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

Exactly. So what you see on the margin side, there will be an report on the margin side, and you fully report all the things on a line-to-line basis and at the end, you subtract that and go to the additional interest that we have in the company is only the 4% part. So on the cost side, it's less than MXN 50 million on the cost side and on the risk side, it's around MXN 284 million. So MXN 332 million on the risk side. If you strip that from the risk side, then the Tarjetas del Futuro is adding to the overall cost of risk from 1.71 to 1.84. That was this increase in the cost of risk of Tarjetas del Futuro in the way that we really consolidate based upon the accounting rules that we have. But the NPS of Tarjetas del Futuro was 4.8%. So I think you are looking at a number of 4.8%. Obviously, the numbers in Banorte are lower than that than that so I think the trend is (inaudible).

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

I have 2 questions. The first one is you mentioned in your earlier remarks that the holding company is Banorte issued a sustainable bond in Mexico for MXN 13 million. I imagine the proceeds of the bond are going to be used to finance social and/or green projects. My question is, why the decision to really issue out of the [hold co.] rather than out of the bank directly? I assume that the loans are going to be provided by the bank. And in general, if you can discuss your senior funding needs, particularly in dollars, it seems that you do not expect your dollar loan book to grow for the rest of the year, but if you can discuss senior funding needs in dollars and a preference to issue out of the hold co. or of the bank in the senior format? And then second question, the call date for the 6th and 3 quarter for the purpose coming up in September, if you can give us an update in terms of your preference for replacing their capital with Tier 2 with an A to 1 or not issuing at all? I think you have made pretty clear that most likely you're going to be calling the seasonal 3 quarters in September.

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

Thank you Nicolas. As you know, we cannot say that we are going to call it, but we can say that in the past, we have always paid no, that's why whole we can say. And regarding the preference, it's very easy. It doesn't depend on us, depends on the market, and we won't see the window and we will be there. So we want to be open and to see what's going on in those days. You know it's very volatile right now in the market and something will come up and you will see us going for the best option on that day. Regarding the first one, for (inaudible).

**Unidentified Company Representative**

Yes. Nicolas, just to clear that the bond was issued at the bank level, not at the holding company level. So just wanted to clear that it's the same as all the other bonds that have been issued by the bank.

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

Okay. Understood. Okay. I thought I read in the press release here, so I thought it was the holding company, but I understood, and that makes more sense. And that was in pesos, but if you can discuss senior funding needs in dollars for the rest of the year?

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

Nicolas, as we have mentioned, based upon the activity that the country is having in the flow of dollars and Banorte participates in a very important way on the dollar book in the corporate and commercial (inaudible). We have increased in a very important way our funding in dollars. So it's not just a peso because in the past, we issued the ATIs to be able to compete on the dollar book but now in addition to the ATIs that we still hold, we now have a very important flow of funds on the dollar side. So that doesn't really restrict us to continue to be very present of the total funding part.

The ATIs that we have, as Marcos says, we cannot say that we will call, but we always call is that we don't have any call coming over the next year. So we have a very, I would say, opportunistic view of when to go into the market. We have just been in Asia, and some people were saying, "Why you don't go into the market?" We will jump into the yes, at 5, 625, we will jump into the market, but not at the current price that we have. So what we -- can say is that we are very well prepared for the funding side on dollars. The ATIs are very well programmed to be called when they need to be called based upon our policy to hedge to call that we have since day 1. So Nicolas, what I can tell you is that we have a very, very disciplined way to address the funding needs of Banorte always. And the schedule that we have on the ATIs give us not just this year but also the next year to be ready when the window is there.

**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. We'll now go with Carlos Gomez-Lopez from HSBC.

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

I wanted to go back to the insurance business. I understand what you said about the premium being collected in the first quarter as opposed to between 2 quarters. Could you quantify what that amount is? Second, have you been affected by the increase in auto insurance premiums in Mexico, like in the rest of the world? And finally, still in this segment, can you tell us if you expect any impact from the proposed legislation regarding the Afores and the concentration of unclaimed funds to a public one?

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

Carlos, we'll start for the third one, and then I will pass to Fernando Solis. Regarding the Afore initiative mentioned by the government, we are respecting of the process that they are growing. And in case it went through, we estimate that we will not have a material effect on the business results. They are around 200,000 initiative accounts amounting to around, let's say, MXN 4 billion, which represents, if you do the math, 0.3% of the total assets under management of the Afores, and we cover MXN 1.2 trillion in the Afores. Therefore, we anticipate no material impact.

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

Sorry, it's very much for you, not for the system, right?

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

Yes. And we're talking about the Banorte. We have Afore Banorte. And first, yes, the financial is backed with the first one.

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

Yes. Yes, of course. I mean the business that was behaving differently is the one that is regarding the largest life insurance policy in the Mexican market. That is the policy that is protecting all the workers of the government. That's a policy that we experienced a huge difference this year with respect to last year. Last year, in the first quarter, we were paid around MXN 1,300 million and this year, we were paid in the first quarter, MXN 5,860 million. That's the difference in that. With respect to the -- can you repeat about the -- I'm not question I understood your question about the current risk?

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

Yes. I was wondering if the increase in car insurance rate, again, in Mexico, as in the U.S. and other countries had an impact on your results, although it seems small compared to this particular premium. You said 5.86% for this quarter. That's obviously a premium, would you be able to quantify how much that represented in terms of net income or pretax income?

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

Yes, no problem. Let me go back to this one. Yes, the previous quarter, net income due to this policy was MXN 132 million. And in this quarter, we have MXN 657 million. That would be the net result due to the fact of this policy. I should mention that we have been growing strongly in other lines of businesses. So despite this, the results of the insurance company are very strong. That's something that should be mentioned. But of course, we have this distortion due to the way which we were paid last year and this year. okay? That's one thing.

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

Okay. And again, to understand, that means that in the second quarter, since you will not have this, there has to be a lower results?

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

That's exactly where it's going to be. Actually, what we were expecting, for instance, let me put you not the level, but in terms of the distribution or the share of the profits between quarters, I would say, for instance, that perhaps this means that it's doing our forecast of the results as of today. that perhaps 44% of the results will be explained by this quarter versus like last year, it was like 32%, 33%. Of course, the level will be larger, but the distribution of these results will shift accordingly, as I just mentioned. Is that clear?

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

That's very clear.

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

Yes. But I should emphasize that the business insurance is doing quite well in all the lines of businesses, and hopefully, we will see a very strong loan portfolio and that will also push results further into the future. We will have just to wait and see. And regarding the question of the Auto insurance, I would say that for us, we are not expecting, on the opposite, we have been growing because we also explained because of the loan portfolio in the car businesses because we grew 27% between 1 year and the other. So despite that there has been some increases in the premiums as you just mentioned, not only in Mexico, but also in some other parts of the world. We have been benefiting taking into account all the effects. We have not seen the -- actually, we have seen more growth in the business regardless of the behavior of prices.

**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 Andres Soto from Santander.

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

Congratulations on the results. My question is related to taxes. We saw a significant increase in the tax burden this quarter close to 30%. You usually pay around, let's say, 26%. I would like to understand what is behind this? Is the different contribution from the nonbanking business or is it related to some nondeductible expenses or maybe the losses from or your other Bineo and the nonprofitable units? So I would like to understand what to expect on the coming quarters regarding taxes?

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

Yes. Andres, as you mentioned, yes, what you will see is a normalization to the year to reach the 26%, 26.1% tax numbers. What we usually do is that based upon some projections that we see on some legal issues, some other type of potential tax provisions, we like to put those provisions in the first quarter and start releasing those through the year as we finalize those initiatives that we got. We are very confident that by the end of the year, then you will see a number very close to the 26.1%, 26.2%. So this is, as you mentioned, an extraordinary number that is 400 basis points above the normal level that we need to have on the tax issues that will be released through the year as we finalize the initiatives that we have on the legal side and on other sides.

**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 Natalia Corfield from JPMorgan.

**Natalia Corfield de Melo Monteiro**

I will actually go back a little bit to the point of AT1 and issuance. I totally get that the market stopped there right now and you're monitoring how the market develops. But if you had a window now, I think I would like to know what would be your preference to issue an AT1 or a Tier 2?

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

No, I think Natalia, I think we discussed this, it looks that the Tier 2 is more convenient when you see from outside the bank, for the AT1 really provide us on the liquidity side on many other things on accounting base, a much better fit for us on that part. But that doesn't mean that we are not reviewing every single day, if there's an arbitrage that we could do among them is in benefit of the other, we will issue that is more benefits for the bank on that part. So we are not saying no to any one of those.

**Natalia Corfield de Melo Monteiro**

Okay. I get it. I just mentioned that I'm sure you know in the past your AT1 curve underperformed 8-months of other banks in the region. And I believe part of that was because you have too many AT1s. So perhaps issuing a Tier 2 might not be the most ideal but could help in your AT1 curve in the future? Like of course, right now, the bonds performed super well but I am thinking ahead, it might help you on your AT1 cost for future if you don't have too many of them in the market.

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

Natalia, what you say is I think it's a correct way to see that. I mean, Banorte was not present in the market for many years. We started to issue the AT1s. We become very present in the market and now we are so present that people say, well, you have a lot of AT1s on that part. So what you will see is a more active Banorte in the markets as the window start to open. So I will not say just about Tier 2 or maybe senior will be a possibility. We are active now on the green bonds so we are open to everything. And the treasury is always doing what we have to be very careful is not to have arbitrage against those. That's the most important point.

**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. Now we will continue with Edson Murguia from SummaCap. E.

**Edson Murguia**

I was just trying to understand if you see a value added from the GB with Tarjetas del Futuro, I know that in November, you took control. But if it's our consumer credit card business, I mean, at the bank level, you are doing pretty well. So I just want to understand if you see any value added from Tarjetas del Futuro. And my second question is regarding Bineo. I know that you already explained that you expected to have 500,000 clients by the end of 2024 but I'm curious about that an operational level. There is a different type of technology, I know that you already mentioned that in the back office, your share part of the digital bank with Bineo. So I was trying to understand on operational level, what will be the differences between the digital bank Banorte and Bineo?

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

Thank you. First, remember the strategic initiatives, we needed to understand perfectly the market that was coming with the ideas of the new bank of the [Gualas], of those coming to the market. And we also need to understand the behavior of the own clients that were very heavy users of super [Rappi] on that part. That's what we did a joint venture with Rappi and I said it has been very beneficial for us in the way that we have now a very good market fit about how to address this type of market. So I think that's very valuable for us. So I think the word market fit is critical here, to have a market fit with a company and the clients that you serve in a completely different landscape that you mentioned because it's completely different. And you say what's the value? The value is that you need to address every single part of the market. Maybe you will decide how strong you will participate in each of those parts of the market, but you need to understand every single part of the market. You cannot be surprised by anyone or any competitor in the market. That was the idea on that. And I think we are very pleased about the evolution of Rappi concerning that we have a very good market fit, a very, very strong analytical base to deal with the clients and the evolution of our product base just in the way we manage the credit card, I think it's completely different from what you can find in the market, and that has been a very important lending process for us.

The technology that you see on Bineo, Bineo has a full independent technology base from Banorte. So that's completely, completely



different because that was the main idea to test the new technologies available, to see the frontiers and limits of those technologies compared to the evolution of the technologies that the bank has, because Banorte has a lot of things on the cloud and goes into the latest technology that we run, how do we run Banorte with. But remember, legacy is still there. When you are born on a digital platform, the legacy is fully digital. That's the big difference on this. And that should drive the cost base down in an important way. So that's the difference Edson.

---

**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 the last question from Tejikiran Kannaluri from WhiteOak Capital.

---

**Tejikiran Kannaluri**

If we see from a 3- to 5-year perspective, all the investments, let's say, in the increased (inaudible) of Rappi and Bineo, should we expect to see Banorte as a more retail bank? Could you help us understand if you are thinking of a higher mix of, let's say, retail loans or higher mix of profits coming from the retail bank over the commercial bank?

---

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

We see ourselves as a universal bank. So I know, Rafael, if you want to add something else?

---

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

No, I think your question is quite important because if you see the evolution of what's happening in other parts in Brazil is that it seems that the new banks are being part of the retail base of the large banks on that part. No, I think Banorte is very clear. We are very happy with our commercial and corporate growth. Last year, we outpaced the market and commercial and auto in SMEs. So that's a very important part of business for us but Banorte was on the underweight on the consumer. So Banorte now started to reach the potential that we have on the consumers that, that was not the case 5 years ago. So we still have a long run to go on the commercial and corporate and also and SMEs and also on the consumer. You will see a very balanced growth for Banorte because the pace like, for instance, corporate grew 20% last year, commercial 12% last year, SME 32% last year compared to car loan 30%, credit cards 16%, mortgages 11%, payroll 6%. So you see very strong pace of growth overall, the bank. When we install technology, we install technology for the whole bank, not just for a part of the bank. Now you will continue to see, as Marco said, a very, very strong universal bank. That's the way you should see Banorte. The things that we are doing in Bineo and also in Rappi is just to accelerate and catch up on the consumer base but that doesn't mean that we are not growing fast in the other parts of the business.

---

**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 very much for your interest in Banorte. This will conclude our presentation. Thank you.

---

#### DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024 Refinitiv. All Rights Reserved.