

## Q3 2021 Earnings Call

### Company Participants

- Fernando Solis Soberon, Managing Director of Annuities & Pensions
- Jose Marcos Ramirez Miguel, Chief Executive Officer
- Rafael Arana de la Garza, Chief Financial Officer
- Tomas Lozano, Head of Investor Relations, Financial Intelligence and M&A
- Unidentified Speaker

### Other Participants

- Alonso Garcia, Analyst
- Carlos Gomez Lopez, Analyst
- Edson Moria, Analyst
- Ernesto Gabilondo, Analyst
- Gilberto Garcia, Analyst
- Jason Mollin, Analyst
- Jorge Friedman, Analyst
- Jorge Henderson, Analyst
- Thiago Batista, Analyst
- Tito Labarta, Analyst
- Unidentified Participant

### Presentation

#### **Tomas Lozano** {BIO 20398814 <GO>}

Good morning. I'm Tomas Lozano, Head of Corporate Development, Investor Relations and ESG. Welcome to Grupo Financiero Banorte Third Quarter Earnings Call. Please note that today's presentation may include forward-looking statements that are subject to risks and uncertainties, which may cause actual results to differ materially.

Our CEO, Marcos Ramirez, will provide the highlights of the quarter, including the relevant progress in asset quality as well as better growth dynamics in fees and loan growth. He will also provide an update on the digital strategy for the Group, together with key milestones in our ESG strategy.

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

## Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

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

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

Total vaccines already surpassed 110 million doses with more than 40% of the population being fully vaccinated. GDP growth estimates for the year are still ranging between 5.5% and 6%. However, economic recovery came at a price with the most recent inflation estimates now reaching 6.8% at the end of the year, well above the Central Bank target of 3%. Monetary policy decisions by the Central Bank took the reference rate 50 basis points higher during the quarter, ending at 4.75%. Our economic analysis teams expect two more hikes for the remainder of the year to reach 5.25%. Later on, Rafael Arana will comment on the positive implication of this for the bank's margin.

Overall, as you will see with greater detail throughout this presentation, results for the Group have evolved favorably with better-than-expected asset quality, margin improvement, cost control and solid capital ratios. In our daily operation, customer experience is permanently at the core of our strategy. We have listened to customers' feedback and have had significant improvement in the NPS score across all our channels, particularly in our mobile app. So in response to this feedback, we recently launched a newly designed mobile app with improved features, including intuitive and faster navigation, which has had a remarkable acceptance among our digital customers.

Diving into the financial results for the quarter. Slide number 4, we saw a 4% improvement in the bottom line for the Group, driven by stronger net interest income from the bank, better asset quality across our portfolios and better dynamics in this despite a still pressured insurance results from the high COVID-19 related reserves and claims. ROE of the Group was further impacted by the unpaid dividends that are sitting at the Group level, while ROE of the bank is progressing favorably, already above 19% for the quarter.

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

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

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

NPLs, this is Slide number 8, ended the quarter at 1.2%, MXN1.2 billion below the previous quarter, driven by a one-off corporate (inaudible) progressed favorably, together with improvements in credit cards.

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

Regarding our JV with Rappi the new digital credit card origination continues at a strong phase with more than 300,000 active credit cards well in line to reach the 400,000 target at the end of the year. Our partnership with Google Cloud is also going well on the three main fronts.

The first one Culture, to improve our in work methodology. The second Security Implementing solutions to improve cyber security at the group. And the third one Cloud, where we have been made very good progress towards moving services to the cloud. We are finalizing the base of our upcoming by next Investor Day, which will take place early next year. In this event, we will communicate our next medium-term plan including new operating and financial targets for the Bank. Over JV with Rappi and our Brand New Digital Bank which will position by at the full line of the digital arena in Mexico.

You will soon receive our invitation for these event. As many of you know ESG continues to be fundamental part of our core strategy. And I would like to highlight some of the most relevant updates on each of these strategic pillars. One on the environmental front by North America commitment to decarbonize its loan portfolio by the year 2015 by becoming founding signatory of the net zero banking alliance.

During the quarter, we implemented different world to establish the short the medium and the long-term plans achieve this objective. On the social area we are implementing a three stage program in -- across the financial group.

The first step is Gender Equality, where we will adopt best practices. The value talent making sure everyone -- opportunities for development. Last but not least on the Governance side, we have use just completed a comprehensive board Self-Evaluation and initiated over ESG training program to our board members. You will find this a more addition at ESG information on the final slides lies this presentation.

With this, I conclude my remarks. Now, Rafael Arana will provide important insight into Operating Results, Asset Quality and Progress in the Bank Sensitivity to rate changes.

Rafael please walk in.

## Rafael Arana de la Garza {BIO 1982204 <GO>}

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

If I would like to see how the evolution of to the third quarter and based upon what Marcos has mentioned, I think we are managing the prices in the -- I would say, not in the final stages or later stages, the crisis on during this period basically what we have been doing this taking care of the following initiatives that I think we can then communicate a specific metrics all the stock that is basically all the loan book we have been taking very good care of the loan book.

On the risk side as you can have seen on what Marcos presented, we have very, very notable numbers on cost of risk and NPLs and that's the result of a very careful management of the crises on the recovery side, on the on-boarding side, and on the risk side to tailor specific products for the clients. So there was a first commitments to put on the organization to take very good care of the book.

The second part was the Funding Side, the funding side in order to not because of the lack of possible growth that we have seen that we have regain growth on the third quarter, for the first two quarters were very slow, we needed to basically concentrate on the funding side in order to make the net interest margin on the inventory most profitable and I will go in numbers specifically to prove that.

The other think that it has been helping us is a sensitivity of the balance sheet to the hike on the interest rates that has accelerated the net interest margin growth and we see a continuous evolution of that part. The other part is that as Marcos mentioned, we continue to gain market share in the market even the -- we have a slow economy on this, but we continue to gain market share at a very good risk on a very reasonable prices.

On the digital space. We continue to evolve aggressively and we are happy to say that most of the products of the bank can be now on board in less than 10 minutes on the digital space. That's has suppose to keep on building that franchise in the new economy that we see coming for the bank. So now that we in a nutshell define what has been the concentration of these three quarters. I will not like to mention, I think there has been some comments about expenses. Expenses, as you see are growing 4% below inflation on that part. On the expense line, you have to take into consideration that on the third quarter. You now will see a movement because of the new law that the outsourcing law that as you remember we have been telling in the past two quarters that the growth in fees has been quite strong, but also the part of fees paid has also been growing basically because we needed to put external sales forces to balance out the requirements of the clients on the mortgage side and on the cost side on the car loan side.

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Those now are going to be because of the outsourcing law will be part of the cost line of the bank. So now the expense growth that you see on the third quarter is basically MXN150 million that basically was before on fees paid and now has been move internally to expenses of the bank. If you take away that MXN150 the expense line on a quarter to quarter basis was flat on that part but that part you have to continue to see in the next quarters. I mean next year that I think on the internalization of the sales force.

On the other side, what you will see is a growth on the fees from on the fees that we charge to the market, because now those fees that in the password basically on the variable rate for these external sales forces now will be passing to the expense line because that will be an internal. So you will see a growth in net fees. I would say pretty reasonable for the fourth quarter and on for the next year. After that, if we go now to on a line to line basis. Basically what we will see, and Marcos already mentioned that the cost of risk is at record lows. You have to take into account that this number is at record lows and once we start growing again, you should see that the cost of risk of the bank should return to the usual numbers, maybe a little lower than the usual 2 to 2.2, two numbers around the 1.8 to 1.9.

I'm not to think that it has been also very positive is the write-off rate. The write-off rate in the third quarter was below even that the second quarter, but you have to take into consideration that we have already clean on write-off the credit card book, the payroll book, and credit card book, car loan book and payroll but is still pending the mortgage book, a portion of the mortgage book and a portion of the SMEs.

That numbers on write-off will pick up in the third quarter and on the first quarter of 2022. To the levels basically around the 5.6, 5.65 [ph] that you see that. So don't be alarmed if you see a pickup on the write-off, because the remaining portfolio of the SME and the mortgage on the mortgage part, we still have some write-offs to do on that part.

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

On the net interest margin of the Group, you already see that the effect of the insurance company is what is screened during -- we return to the normal levels. You have to normalize that number if you add on a recurrent basis also MXN3.7 billion of margin that we have been losing on the insurance business. Okay, that will recover start to recover in the fourth quarter and continue to recover in the next year, but the bank as you see will continue to have an upward trend and the net interest margin.

I mentioned the cost of funds and they have been a lot of questions about, how we need the funding cost. We started the year on the funding cost close to the 48 concern to say that we are now sitting at 42. But we still have room to improve, as you can see that two

banks are still below us. We see that we will finalize the year close to 40% to a little below 40% and continue to have that evolution in there.

In the next year basically because all the actions that we're taking on the on-boarding under an incentive scheme for the branches. The margin sensitivity that also has been a recurrent question for the from the market. Now we are sitting at MXN842 up to MXN638 and we continue that the sensitivity will continue to move upwards close to the MXN1 billion that we have in the fourth quarter of '18.

Expenses that I just mentioned a bit, expenses if you look at the growth in the expense line of from 10.8 to 11.01 is basically what I just mentioned that we internalize the external sales force that I just mentioned on the mortgage and the car loan side and that is the effect that is around MXN150 million that is our growth in expenses, that also reflects on the other side on the net income side that is a positive expansion on the fees that we charge to market.

The liquidity continues to be strong to strong from our point of view because it is costing us money, we have been reducing that but I think we will stay around 180, 160 that will be desire numbers on the liquidity side. And on the capital ratio you continue to see a pretty strong evolution on the capital ratio upto 21.9 and core Tier 1 is around 14.9. There has been a lot of questions from the market about what's going to happen with the upcoming Tier 1. That is still next year if we want to call. Yes. We always on and as you know, we are always on the look for opportunity to go and similar our balance sheet with the potential issuance into the market. If we see that is opportunistic for us at the price that we think is the right one.

On the Digital Evolution. I just mentioned before, I think we have been made a lot of progress on Banorte all of the consumer loan products but mortgages on car loans you can all everything originate on line. On the mobile in less than 10 minutes. Most of the products, the only one that still we have above can manage and this around 11.5 minutes is the basic checking account that you open at the branches, but everything else you can on board on the digital application in less than 10 minutes, whatever you want to do on the Funding, on the Wealth Management side on the lending side on also in the digital checking accounts on that. Banorte has been improving a lot from that. Lately, and we will continue to do so.

On the Marcos you had mentioned the Rappi and I think later there will be more questions about that. So I would say that is going where we expect that to happen, I think would be accelerate on the fourth quarter to reach the 400,000 commitment that we have with the board. The Google cloud also Marco, already mentioned that. On the Google, I just want to mention one thing because there has been some question from the market that is Google replaces IBM or on the answer is we have been building from the ground up. First we started with IBM to change all the infrastructure, communication, Cyber Security, architecture of the bank and the multi-channel facilities.

And then once we start feeling comfortable that we have a much more agile way to meet with the latest with the architecture of the bank. We sell building layers upon those that

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we have the help from other suppliers like SAP and then we continue to build up flexibility into the response to the market and the latest part that we need is the to really tied up with a company that is very, very concentrated on the behavior of the client.

And when you see the Google Cloud Application that we will have a lot of benefits on the cloud and things, I think the main benefit is to really evolve at the same way that Google knows the client and that's why we are very, very happy with the relationship with Google. We have a lot of services that we're going to go into the cloud, they were really a lot more efficiency on that, but I think the key game here is that we are building from the ground-off from the basic architecture to flexibility and now to their understanding the behavior of the clients.

That's why we are very pleased with the latest partnership that we have. With that, I would say that's all from my part. Now I'll pass (Multiple Speakers)

**Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

We are open to your questions.

**Tomas Lozano** {BIO 20398814 <GO>}

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

## Questions And Answers

### Operator

Thank you. We will take our first question from Jorge Friedman from Citi. Jorge go ahead.

### Q - Jorge Friedman

Thank you. Can you hear me.

### A - Jose Marcos Ramirez Miguel

 {BIO 4413879 <GO>}

Perfectly.

### Q - Jorge Friedman

Well. Perfect, thank you so much for the opportunity to make questions, Marcos and Rafael. Thank you very much for the presentation as well. I have a couple of questions, first, with regards to your guidance of cost of risk, I heard you talking about it's running at very low levels and potentially normalizing at 1.8%, 1.9% level, but you have a full-year

guidance for cost of risk, between 1.9% and 2.1% and for you to reach the guidance you would have to be at 3% and over in the last quarter.

So how do you see I know these evolving and if I know these guidance is still makes sense. I see that you did not update guidance but I think it is now away from being reasonable. This is the first question. And the second question I was looking here into the evolution of COVID fatalities in Mexico, and of course since the peak achieved earlier in the year, we have been making very strong progress due to the vaccination, last numbers that I have here for October show. I know that's below 200 per day. So I was a bit surprised when you mention Rafael. That normalization of Insurance should start only in the beginning of 2022. So given that the great part of the claims are related to life would not be expected to see some normalization already happening in this fourth quarter.

Thank you very much.

### **A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Thank you Jorge, good questions. The second one, I will pass to Fernando Solis, we have a lack to paid in the fatalities and that's why you will see recovery of the 2022 but Fernando Solis will speak all that. The first one, you're right, we have to conservative in the numbers and I think it's okay now, because yes we need pre-in order to get to that number but we still don't now and that's why we're seeing this again but. I hope we will gain numbers for you. I will pass to Fernando Solis. Please walk in.

### **A - Fernando Solis Soberon** {BIO 15414779 <GO>}

Thank you Marcos. Well actually, yes, we are already seeing some progress in terms of the loss ratio on the claims actually the leading indicators in terms of claims, we have been seen on gallery structurally has already started, however the normalization of to go to the normal levels of net income will always have a lag because there is a lag which has been taken some several weeks for some to come up with the claims in terms of gathering information that is required to process a claim, but definitely there is a recovery already taking place.

Actually, the last month. We had a better result better than what we have expected and we do foresee that normalization is already starting to take place and I will take the opportunity just to mention that we take into consideration all these effects of COVID and if we look at the results without this effect. Naturally, the net income would have been higher than last year by 15% because other lines of business are doing much better.

So all the impact, as you know is from COVID, but yes the answer is -- to your question recovery has already started.

### **Q - Jorge Friedman**

Perfect, thank you very much. So just to understand on the point of cost of risk is a follow up, when you talk about the normalization of 1.8%, 1.9%. Should this be what is expected already for the fourth quarter or our normal levels into the mid-term such as 2022 and beyond. Thank you.



**A - Rafael Arana de la Garza** {BIO 1982204 <GO>}

Okay exactly Jose as you mentioned, the second one is the roaming rate that the bank should be around 1.8 now you will continue to see pretty strong numbers on the fourth quarter. We haven't changed the guidance for a simple reason. I mean we are ready you see the evolution of the numbers on that we present and to us to change the guidance at this point in time in the year, it really doesn't make much sense.

What I think is important to notice what you mentioned the 1.8% to 2% is the running rate that we see eventually reaching that number when we normalize the rate of growth of the loan book.

**Q - Jorge Friedman**

That's perfect Rafa. Thank you very much and thank you everyone for the clarifications. Congratulations for the results.

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Thank you Jorge.

**Operator**

Thank you. Now we will take our next question from Ernesto Gabilondo from Bank of America. Ernesto, please go ahead.

**Q - Ernesto Gabilondo** {BIO 16384492 <GO>}

Hi, good morning. Marcos and Rafael and all your team. Congratulations on the solid asset quality in the quarter and thanks for the opportunity. I have three questions from my side. The first one is on your expectations for loan growth and net interest income, we have seen still modest loan growth in the first nine months however, looking to next year, do you think that the net interest income should be favoring from easy year-over-year comps in the insurance business from higher rates and from increased retail exposure and this helping the loan book to gain some time to show again strong activity.

My second question is on provision charges. I remember you that you have a stock of preventive provisions from the ones that you build last year and that you can be releasing at some point, if I'm not mistaken around MXN1.5 billion. So, considering that the country is already in green in most of the status in terms of COVID what do you need to see to release those provisions or you prefer to keep conservative for the rest of this year and maybe to release them early next year.

And then my last question is on the dividend payment. I just want to know if there is any update with the regulator to lead you fully paid the deferred dividends by year end or early next year. Thank you.

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

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Thank you, Ernesto I will start for the third one. Again, yes, we are talking with our regulator, likely we have another meeting and definitely we will have good news for you at the end of the year. With listing of -- makes sense not for everybody. So, we will tell the markets as soon as we know. Talking about the provisions, we will wait until the end of the year to make the numbers and let's say we work to return that's the -- extra ones. And as always we'll have you there.

At the end of the year, the beginning of the next year we will start fresh and we would make the numbers there. The first one is the loan growth, Rafael, please go ahead.

### **A - Rafael Arana de la Garza {BIO 1982204 <GO>}**

Yeah, I think -- what you say about the NII. Yes, I think if you project the third quarter based upon the loan growth that we have in the ones that we're lagging behind, like the corporate. I mean, but it's worth to mention on the corporate is that we were coming from our very strong last year of around 15% loan growth in the corporate because of the liquidity lines that the companies draw.

But, and we start. As you know, the second quarter, it was minus 12 now we are going to minus 7, because we have a really pretty good growth on the third quarter on the corporate. So, that's already in a good trend. I think I see very difficult to go to positively. But we will be much further the minus 12 that we will that and that will continue to evolve on the next year on the corporate.

The government book is also picking up pretty fast. So, we will continue in the fourth quarter. I would say, a good acceleration on the government book -- that already started happening in the third quarter. So that we will have the NII. The consumer will continue to be, as Marcus mentioned pretty strong on the mortgage on the car loans, the only issue with the car loan is the availability of cars.

I think we have all the processes in place and the credit card is already regain in a pretty good growth and the best part of the year is now in the November and December, payroll continue to evolve nicely. So yes, we will see that met -- the NII will continue to expand nicely into the third into the fourth quarter and also into the next year. I would say, a big piece of that will also will come from there. The insurance company as we just mentioned from Fernando that we are really see the start of the recovery that also a big push will come from the insurance company but, if you will see the insurance and the annuity company NII is minus 21 off to today. So that will balance out on the next year. So NII will improve I would say on a very reasonable number. Also the funding side also we will help us because we are growing pretty strong on the funding side, and the cost continue to go down as I show you in that part. So I would say that we think the margins also will continue to expand, the net interest margin two numbers around 6.2 for the fourth quarter and going into the first quarter of next year. Based upon the hikes that we expect to come on at the end of the year, we will continue to see evolution to two numbers before the start of the downward trend in the -- in the interest rates. So that's the overall and I will just start to what Markus mentioned about provisions. We still have 2.9 billion of provisions to be release, we are looking at what is the best time as Marcos mentioned at the end of the day, I mean we were criticized at the beginning, that we were not prudent building up

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provisions and we show that we were very prudent building of provisions, and we will be as prudent in the release of the provisions.

**Q - Ernesto Gabilondo** {BIO 16384492 <GO>}

This is super helpful. Thank you very much. Just last question related to some regulatory risks in the energy sector and the cap rate for the Afore is, just wanted to know your thoughts on potential impacts on your business.

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Rafael I say, he is responsible now to talk about the, what's going to happen we don't know. We know that the talks are right now, we need to wait now so let's we wait and then we will keep on those. We can't say that we are not worried so far. We expect that based on that.

**Q - Ernesto Gabilondo** {BIO 16384492 <GO>}

The energy if not that in book and again exposure.

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Exposure. (Multiple Speakers)

**A - Rafael Arana de la Garza** {BIO 1982204 <GO>}

Yeah, I'll take that.

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Rafael gonna talk about that.

**A - Rafael Arana de la Garza** {BIO 1982204 <GO>}

Yeah, Ernesto, what I would tell you that we have an extremely manageable exposure to green energy and as of now NPL ratios we seeing that part of the loan book are equal to zero. I will tell you that for the time being. I mean this energy transition in relation to a fossil energy to green energy exposures is more than 8 to 1. So, in any case what we have, but we have done is that we have model expect. It's a very key that is on the terms of and conditions of legal modifications, potential legal modifications of itself supply contracts on the Green Energy Real and we remain very comfortable in managing that kind of a scenario, we will wait as Marcos said and provide you with the precise information once at this regulatory reform or constitutional change takes place.

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Talking on the following. I will ask Fernando Solis to talk little bit about some of that, but yes, we have a bad news that if these are going down, we have good news that volume is going. So is not the same but, you need to add the two factors to the equation.

Fernando. Please go ahead.

## A - Fernando Solis Soberon {BIO 15414779 <GO>}

Yes, thank you Marcos.

Yes, As you mentioned Ernesto there has been a major change in the regulation of -- there was a change in the law. And as you mentioned, they put a cap and the cap is establish taking into consideration of free markets that the one in Chile, the one in Colombia and also the one case in the US. I will not talk whether the dermatologists appropriate or not. We believe it is not that will not elaborate on that. But they have not published yet the cap, but we are aware that the Board of the regulatory body last week gather and the information that we have is that the reduction in the commissions will be very high actually the cap as far as we know it may change because cash not been published.

And we are aware that the association and -- are talking with regulators to see whether they can change these cap that has been mentioned. I will give you number in a moment. So take into consideration that this may change, but I'm not quite sure that will be the case, we will see and we will see what will be the legal actually if it happens from some place. We don't know, but what we have heard on officially is that the cap and let me be very careful on that. On official, it has not been published, but the cap that they want to establish is 0.57%. For us that means a reduction, which is where currently the charging 0.8% on assets under management. It means a reduction of 23 basis points. This is a huge impact and this will be the cap for all the Afore, that's something that we'll be changing. There will change in terms of where it has been seen in the past, because in the past, we are the except for the Public Institution -- we are the lowest in terms of prices. So the impact to over FRS will be even higher.

So this will be everything else the same. Of course, we do not do anything, expanding the same way in commercial and so on and so forth. Certainly this will have an impact on net income, as you can imagine, it would mean the assets under management. Currently would have been a reduction perhaps of MXN700 million to Banorte the double of that, would be for the 40, because as you know we only own 50% of this firm.

However, that is everything else the same. It is very hard to forecast what will happen in the future, but we do think that for some of -- it would be hard to remain market. So I think it will, there will be some consolidation. Also we foresee but as I have just said we have to wait and see. We have the players will, we do with this change, but we do foresee also the sales forces will be reduced and also -- has been paid for the sales forces will reduce.

So there will be some offset on these numbers that I just mentioned. But it's hard to tell how much we will be able to offset the impact, the negative impact. I would also say that the impact for us will be less than four hours. I will also say that we are the best the in-place for -- to this change because we have the largest assets under management.

We're the most efficient in terms of expenses, we also have a very high quality of the portfolio that is if you take the average with the asset management take into account divided by the accounts that we manage. We are among the best. So we're very positioned for this impact. This will impact us in the short term, but we do think that in the

long term, we're going to be the player that perhaps will benefit the most of this change. But and also it's something that we have to take into consideration is there that we have two very strong partners. We have, (inaudible) and, we have been -- that would also provide some the bank stores for instance, we will have a very productive sales force and then we have to see how taking into consideration the laws and regulations and so on and so forth, but I think that we can do these sales force also to help us into what is called the portability of the people the reason of payroll. So I think that there are some of the things that we can do to offset this impact. But definitely in the short term, it will hurt us as much as Marcos mentioned, but that's the considerations at this moment.

**Q - Ernesto Gabilondo** {BIO 16384492 <GO>}

Thank you very much Marcos and Fernando.

**Operator**

Thank you. Now we will take the next question from Thiago Batista from UBS. Thiago please go ahead.

**Q - Thiago Batista** {BIO 15398695 <GO>}

Hi guys, thanks for the opportunity. I have two questions, the first one about the profile of happy card holders. So when you look for the clients that you've got in happy in the partnership is happy I have a clients already or do you used to the kinds of Banorte. Are those guys they used to be an bank itself. So if you can give you to us some profile of the clients that you've got on happy cards.

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

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Thank you Thiago. I will start with the profile of the happy card holders it's not know business that's why we call it and other business. I mean, some other profile plus month that we've ---

**A - Fernando Solis Soberon** {BIO 15414779 <GO>}

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

**Q - Thiago Batista** {BIO 15398695 <GO>}

Thank you. But it's something about the ROE.

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**A - Fernando Solis Soberon** {BIO 15414779 <GO>}

We see ROE the high things next year yes, as soon as repay dividends. Remember that the bank we have already cover almost 20%, so is not difficult let's say that as soon as with pay dividends, we are we've done aiming to go through 2020 as soon as Jan of next year. Yes.

**Q - Thiago Batista** {BIO 15398695 <GO>}

Clear, very clear thanks.

**A - Rafael Arana de la Garza** {BIO 1982204 <GO>}

Yes, Just talking about this was Marcos mentioned on the bank. I think the bank that is already -- a lot of dividends. We already see as Marcos mention about 19% on that. On the Group as soon as we get the normalization of the insurance company you will see a strong pickup as soon as, and also with the dividend payout those numbers will normalize.

I think I'm totally agree with Marcos. We are in a very good trend on the key metrics. And if you look at the ROE for the bank is already close to the 2.1, 2.2. So I think the key metrics are already in the right track.

**Q - Thiago Batista** {BIO 15398695 <GO>}

Thank you.

**Operator**

Now, we will continue with Tito Labarta from Goldman Sachs. Tito. Please go ahead.

**Q - Tito Labarta** {BIO 20837559 <GO>}

Hi, good morning everyone thank you for the call. And taking my question. Two follow-up questions, I guess my end. First going back on the provisions and more thinking about it from asset quality NPLs have improved further raise your coverage ratio is 170%. So when you're thinking about potentially releasing provisions. I assume the trend for asset quality may play a role.

So, any color you can provide. Do you think. Asset quality has bottom here? What do you expect to see some deterioration to year-end and into next year. How do we think about the NPL evolution going forward?

And then the second -- go ahead. You can answer and then I'll ask my second question.

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Okay I will ask Rafael to answer.

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## **A - Rafael Arana de la Garza** {BIO 1982204 <GO>}

Yes, not I think everybody is looking at numbers that are extremely low. And I remember that when we have this numbers and then -- pickup because of the charge-off that we did on the credit card on the second quarter last year. Then some people know this is going to go the on a very aggressive upward trend because the deterioration. No, that's not the case.

As we mentioned before and I will set out the go inflating risk. The only things that we need to clean up on the Consumer group or the Mortgage group. And on the SME group at the levels that are pretty clearly low compared to the expectation but we have the beginning of the funding area. If you look at the NPLs that are running 1.1, 1.3 on the mortgage side. That numbers once we apply that the charge-off in the fourth quarter and remains on the third quarter will go down again to the 1.1.

So, the overall numbers that you will continue to see as the beginning of next year, we also believe very strong on the cost of risk. Eventually, we will go back to the usual numbers of 1.8, just because we don't see any deterioration on the consumer book. On the commercial book we are managing, as you know, there was no relief programs like on the consumer and there are specific relief situations for each of the clients that could have some issues on the commercial.

So, maybe on the commercial you will eventually you will see a pickup but also from coming down from a very low numbers and the remainder of the SME that we still need to pass the fourth quarter to charge-off the numbers on the SMEs, but if you look at the NPLs of the SME are extremely low. So, we have a lot of room to expand the number before we going back to normal.

Now, I go to Fernando for the risk going to be on this.

## **A - Fernando Solis Soberon** {BIO 15414779 <GO>}

We are also surprised but positively surprised. We are convinced that from loan origination to loan recovery sooner or later, -- credit processed quality equals asset quality. We have seen that, remember, we were first to market in relief on forbearance programs. Internally, we use agile methodologies, we engage and organize sales in order to originate and also to recover loans.

We have had the quick and important work out efforts. We use internal modeling with a thorough cost benefit analysis, in order to propose restructuring schemes. We overall, have reasonably low loan to value or loan to cost parameters. We do lots of follow-up to restructure schemes. We have -- second sources of payment that's the importance of collateral, mainly in SME, in the SME loan book. We also have good timing with the payroll and credit cards, debtors in regards to income generation. We collect on -- there is income to be. And, we use a holistic active management of non-performing loans. We are continuously calculating probabilities of default, exposure of defaults, loss given defaults and so forth. We are custom internally to compare expected losses as the loan is currently in one state of nature versus the expected loss with the selected payment alternatives.

We calculate the expected benefits, we compare that to the cost of recovery. We expect positive net volumes and we will see and we continuously review those Schemes. So, we have been surprised about the behavior and performance of the loan book, this asset quality has been very good as you have seen.

And that of course, we do not believe this is going to be stable as Marcos and Rafael said, we are expecting because of risk to go higher and also the PDLs to go higher.

**Q - Tito Labarta** {BIO 20837559 <GO>}

Thank you. That's very helpful. And my second question was back on the insurance results and two part. I know, you said the clients coming down, but just to understand, because if I go back in July. You initially thought were also coming down, and it looks a bit picked up marginally. So I mean is that the main difference just vaccinations have increased.

So I guess the question is, do you have more confidence now that the clients should come down going into the fourth quarter and then the other part was the technical reserves picked up a lot because of inflation rate and inflation seems to be trending a bit up staying at that higher end for now at least. So is there a risk that those technical reserves remain high or go even higher, it's a 4Q just to think about I guess the insurance on those two issues?

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

I'm sorry, I must -- you did last question because I was answering one by charge. Could you repeat the one on the insurance please. Sorry, sorry.

**Q - Tito Labarta** {BIO 20837559 <GO>}

Yeah, no problem. Yeah, in just insurance, right, because if we go back in July, claims were also initially coming down, so I just want to understand that what gives you more confidence that claims will come down in 4Q, is it just vaccination levels have increased or is there any other risk the claims -- can go up again, because we did see them go up in 3Q, even though they had initially started to come down.

And the second part was on the technical reserves, they went up a lot this quarter and higher inflation, inflation seems to be remaining a bit high. Is there a risk that those technical reserves have to go up more?

**A - Fernando Solis Soberon** {BIO 15414779 <GO>}

Well, actually the first one I think that things are better, -- not going to be better, because as you mentioned vaccination is accelerating. And also the even though people will get six in the protocols in the medical experience are better. And so I think I'm confident that things are going to be better for the last quarter and Jose has mentioned the last observation that we have got the best of the previous month, it was much better than respected.



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So it's very hard, and it is to forecast things that happened several hundred dealers and so on so forth but then very confident that things are going to be much better in this quarter. But, you know I have to put the disclaimer that we cannot foresee that in the future. (Multiple Speakers) And how about the clinical research quite happy to Research is explained mainly because do know the are from has been growing very fast. So, that's mainly what is explaining the and also because of inflation, but mainly because we are doing so well in terms of how much we're selling premiums. The, actually the size of the market was much higher than expected.

And even though we have a market share more or less, of 46% but it mainly quite explains because last year at this point we were having perhaps the same or perhaps 43% both the size of the market was much more higher and therefore maintaining this market share. That explains and remember that in the annuity business when we sell the annuities and most of it goes the first one to reserves, which eventually reduced pay to the pensioners over time and of course these reserves also, we will have to actualize them by inflation.

I mean we would have to because remember that the pensions are paying in real terms and therefore will never inflation goes up the technical reserves have to go up, but only because of the growth of the market. And remember also that, of course, we do not have a problem in terms of the asset management, the asset liability management, because even if liability goes up due to inflation, we were investing in securities, which are linked to inflation.

So there is a hedge there so it's no problem for us. So that's what you will see the technical reserves because we have been growing so much. That's the explanation, actually in the insurance business is actually in the loss ratio where you will see, we have two things there we have the claims that have been paid, but also we have what we call the incurred, but not reported. We serve and that's according to the previous behavior of the claims, we forecast how much has not been reported, but has already occurred. And since the experience with these pandemia is that we have seen a lag as far as 45 days to get you know the documents that show that the benefit that they never shows have that it's right to clean.

So the incurred, but not reported reserve. We also using loss ratio is not in the other technical reserves. I hope I have been clear with the answer is not been now.

**Q - Tito Labarta** {BIO 20837559 <GO>}

Yes, no, no very clear. Thank you that is very helpful.

If I could ask one last quick question just back on the guidance on the net income guidance 34 to 35.5 you're on track to deliver that. So and you're not changing it. So given the low cost of risk but is the right way to think of it that that net income guidance is still pretty much reasonable because of low cost of risk potentially offset by the weakness of the insurance?

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Is that right. Yes.

**Q - Tito Labarta** {BIO 20837559 <GO>}

Okay, Perfect. Thank you.

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Thank you Tito.

**Operator**

Thank you. We will take the next question from Ricardo (inaudible) from BTG. Go ahead Ricardo.

**Q - Unidentified Participant**

So good morning, everyone and congrats on the good results. I have two questions in my side. So first, we know that the bank is doing an IPO process and naturally one of their target markets. Brazil is saw that evaluation of banks have been very much impacted by this competition with bank. So our first, I wanted to understand a little bit and how do you understand the competition we think tax impact our business. And how Banorte is preparing for that. You mentioned the partnership is Rappi as some initiatives in the digital as well. Right.

And for my second question I want to understand little bit, if you could give us an update on Gonzalez in Mexico. The Eastern Payment initiatives. I understand it hasn't picked up as much as we saw in Brazil with peaks. So can you help us understand why is that and why is expectation that had for Gonzalez. Thank you.

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Start with the first one with Rafael.

**A - Fernando Solis Soberon** {BIO 15414779 <GO>}

Thank you, Ricardo. Well, we have the different layers for the strategy and to prepare ourselves to compete with the FinTechs. One is the as Rafael mentioned in his FinTechs position the accelerate the digital transformation of Banorte that you can open almost every product in less than 10 minutes in mainly digitally. If you have to go to the brands, the processor are completely lean. So that's on one hand the other hand, is the new digital bank, brand new that we are working on. And the third one is the strategy with Rappi that we already mentioned. So the key point here is, as they are not being as regulated as we are because they're not the bank, we have to move forward towards the digital on boarding where we are working on and we will be ready to launch before the end of the year.

So, and as I mentioned, the last quarter and I will insist on that not all the Fintechs are the they need a neither the banks are the here now there are plenty of room in the middle,

and we have to work on that. And if you want me to answer the second one to the COVID one.

### Q - Unidentified Participant

Yes, please.

### A - Fernando Solis Soberon {BIO 15414779 <GO>}

It's a big challenge Ricardo because COVID. We have been tracking peaks and the challenge here in Mexico is the you need an account to open, to operate COVID.

So it's not have been signed based on financial inclusion because you need to open the account. So we are working with the authorities to see if we can leverage COVID in a different way we can in some way let the people use some kind of payments has happened in India below some amount that can be under the fiscal or the taxes review, so we can improve and we can foster the use of COVID, but mainly the main challenges that one you need the account and the financial inclusion. As you know, in Mexico, the financial penetration is less than 50%.

### Q - Unidentified Participant

Thank you.

### Operator

Thank you. Now we will take our next question from Alonso Garcia from Credit Suisse. Alonso please go ahead. Alonso, please unmute yourself.

### Q - Alonso Garcia {BIO 2507089 <GO>}

Hello, everyone. Can you hear me

### A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

Yes perfect.

### Q - Alonso Garcia {BIO 2507089 <GO>}

Thanks for taking my question. And good morning to everyone. My first question is on the insurance I mean you mentioned an impact of 3.1 billion in claims from COVID for the first nine months of the year based on that, I estimate that it's 400 for the third quarter, which is less than half in the second quarter, but I was wondering if there was something else any other line of your insurance business that was impacted by COVID in this third quarter. I think you mentioned in a previous question about the incurred, but not a reserved include but not reported reserves. So I don't know. If you can possibly quantify the impact on that line during the third quarter.

And my second question is on Rappi and I know if you could provide a bit more color on that initiative. For instance, how do you define active rates for your clients, if you have

already set a target in terms of guidance for next year.

And finally, there is you could provide color on the average ticket. So far in those cards. Thank you.

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Thanks a lot. So I will start with the insurance business, we don't see any remember that as I said in 70% of the insurance business is the life insurance or everything is there. So we don't see anything more now talking about the Rappi, Rafael is going.

**A - Rafael Arana de la Garza** {BIO 1982204 <GO>}

See thank you Alonso. And also we prefer to give you all the information in the Investor Day. As you know the, as you can imagine, all the numbers are very volatile, so we are working on them for giving you some forecasts and definitive numbers.

**A - Fernando Solis Soberon** {BIO 15414779 <GO>}

And the loans, I guess, on your first question about Insurance, The number you have 400 is almost 1,000 once you adjust by the reserve. So in total for the year. The impact has been MXN3.1 billion. So the third quarter account for one. if you net this.

**Q - Alonso Garcia** {BIO 2507089 <GO>}

So it's 400 impact in claims and 600 in technical results from COVID?

**A - Fernando Solis Soberon** {BIO 15414779 <GO>}

That's correct. The impact all within the third quarter is MXN1 billion.

**Q - Alonso Garcia** {BIO 2507089 <GO>}

Okay. Perfect thank you very much. Thank you, everyone.

**Operator**

Thank you. We will take the next question from Jorge Henderson from Santander. Go ahead Jorge.

**Q - Jorge Henderson** {BIO 22039254 <GO>}

Hi. Thank you very much for the opportunity to ask questions. So I have a follow-up question is on your loan growth expectations. I mean you already spoke about Government, Corporate and Consumer Segments. But regarding SMEs your growth was flat on a quarter-to-quarter basis.

So my question is what do you expect or when do you expect SMEs to pick up and re-activate and how do you see the asset quality trends in this segment and also have our question. I mean this is not Rappi. I know you're saying that you where you want to

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provide more detail on your Investor Day. But I was wondering if you have any asset quality data such as NPL rate or something like that.

Thank you.

**A - Rafael Arana de la Garza** {BIO 1982204 <GO>}

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

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

So we are concentrating a lot more on the service side on the SME and we are not least regarding their the lending side at all, but with the service side. We understand the behavior of the client and then we're moving into the lending side. So you will start to see pretty good moment on the SME a study on the first quarter of next year.

**Q - Jorge Henderson** {BIO 22039254 <GO>}

Okay, thanks. Just a follow-up on the Rappi card. So, and I was wondering if you I mean, I think you already asked this, would you have any target for next year and I mean you talk a lot about these not you see a lot of competition coming from new bank and coming from -- another credit cards also.

So I don't know if you, if you think you're going to, you're going to be able to compete with this like being at the leader on this segment or are they expect like to, I don't know more deeper on the competition like on European Union and that's. Thanks.

**A - Rafael Arana de la Garza** {BIO 1982204 <GO>}

Well, look, I think what Marco mentioned is key strategies by decided in '19 complete the evolution of Banorte in the digital space, you can open our digital card on Banorte in now in less than five minutes we are extremely good customer experience. So that's not the lack of competitive advantage of Banorte.

I think that get that the new is the cost because they don't have any branches at all. That's why the launch of the digital bank That Marco mentioned is key because that bank will operate even a less cost to income ratio that the new banks because of the sheer services

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that we will provide from Banorte there. So we don't lose with regard to the competitions alone. And in order to compete with initiatives like the new bank, you have Rappi on one side and the digital bank on the other side that will not only provide the lending side, but also the wealth management side, and all the services of a full bank with the digital costs. I think that's the way we are preparing for the competition.

**Q - Jorge Henderson** {BIO 22039254 <GO>}

Okay, thank you. Just one last question, do you have data of net promoting score on the Rappi and joint venture?

**A - Unidentified Speaker**

At this point in time, what we have is we are testing the market on that part, and we will start getting the NPS once we normalize all the processes and products that we are launching in the market. Because right now to launch the NPS -- as you know, in Banorte, we have an NPS online real time every single moment of the client relationship. And Rappi will have been the same. We are building of that feedback in order to have that metrics for you -- not our convention. Pretty soon, you will get those numbers.

**Q - Jorge Henderson** {BIO 22039254 <GO>}

Thank you very much for the detail.

**A - Tomas Lozano** {BIO 20398814 <GO>}

Thank you. We have received two questions in the chat, so one is from Inigo Vega about Rappi. I think that with this, your question was already answered. The other one from Jeff Monde regarding the variation in the CETI. Yes, it was basically the dividend that the bank paid to the group that is MXN10 billion plus. That basically explain the difference.

So with that, now we will take the next question from Edson Moria. Edson, please go ahead.

**Q - Edson Moria**

Hi, good morning. Do you hear me.

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Yes.

**Q - Edson Moria**

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

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

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**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

I will start second one. I think the regulators are waiting a little bit to have more clarity on what's going on, but they definitely want to release the dividend. They need us to release them but we expect that to happen before then end of the year. We still don't know (inaudible) and we are talking with them, but that's my view.

And the first one is, you're right. We don't want to be a digital bank. We want to be a group that working in a digital world and that's the whole difference. So we want to be digital everywhere. So in the pension funds, in the brokerage. You will see that we are taking some steps going there. So it's our decision to move in a digital world and be there everywhere and you will see that we are working all the fronts. And that's our main target for the 1, 2, 3, which we will (inaudible).

**Q - Edson Moria**

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

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Yes. We want to learn something about all these. So we released like -- I don't remember - a lot of meters of rents. Here in Mexico, it's like MXN200 million per year. So we will go hybrid and everybody is happy to do it. So, I hope we learn something. And in the future, we will work hard but a little bit flexible. It depends on the areas obviously. If you work with our branches, you need to be there. But a lot of people is preferring work hybrid and we will respect that.

And then we will make some accountability in teams that's working and my bet is it's going to work perfectly. And so we want to be a modern bank and the people is going to be happy and if they are happy, they will produce more and it's a win-win situation. We will go through that.

**Q - Edson Moria**

Okay, thank you so much, Marcos.

**A - Tomas Lozano** {BIO 20398814 <GO>}

Thank you. We will take the next question from Gilberto Garcia from Barclays. Please go ahead.

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**Q - Gilberto Garcia** {BIO 17390216 <GO>}

Hello, good morning and thank you for the call. Several state governments, particularly those where there were elections this year, have been in the news lately due to having fairly severe liquidity situations. Have you seen any impact from this? Are you comfortable with your exposures to state governments? Thank you.

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Yes, the answer is yes. We don't see any problem there and we will love to go to work with them. Remember, when we made these, everybody was concerned, but all the competitors, all of them they went after the governments and the rates went down drastically and now, everybody is there. So, we were the first ones, we know how to do it and we are very happy with them.

**Q - Gilberto Garcia** {BIO 17390216 <GO>}

Thank you very much.

**A - Tomas Lozano** {BIO 20398814 <GO>}

Thank you, Hill. Now, we will continue with Jason Mollin from Scotia. Jason, please go ahead.

**Q - Jason Mollin** {BIO 1888181 <GO>}

Hello, can you hear me? Good morning.

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Yes, Jason.

**Q - Jason Mollin** {BIO 1888181 <GO>}

Thank you for the presentation, Marcos, Raf, and team. I have two questions. One on potential risks and one on the Group's digital strategy objectives. I mean you've made comments on insurance normalizing next year in 2022, loan growth picking up, NII and then recovering. What are GF Banorte management's greatest concerns related to generating the kind of pre-COVID ROE levels of 20% that you mentioned?

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

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

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Around April. We still don't know. As soon as we know, we will say that invitation to you and but let me give you some light on that. We call it 1,2, 3, a new step for the bank and the first one in the year 2022. We've move there and you will see a lot of stuff that we are working on and in April, we will see. And the potential risk -- yes they are (inaudible). Remember that the -- is like 6% of our business, not around that and it's going to be hurt maybe, we still don't know. We will fight for that. But you wouldn't see some would use in the future. So I'm concerned, obviously, but not so concerned. We need to work and the potential risk, all of them.

So it's -- we have a lot of business in Mexico and whatever happens to Mexico, happens to us and my immediate concern is the proxy of Mexico. So whether happens to political issue, immediately their reaction comes to us. So, but it is what it is and that's (Inaudible). In another hand, if you want to buy Mexico.

**A - Rafael Arana de la Garza** {BIO 1982204 <GO>}

Jason, in the budgetary section, you asked about the impact on the following that Fernando discussed. He stated MXN700 million assuming we don't do anything. But of course we will take actions to reduce that number.

**Q - Jason Mollin** {BIO 1888181 <GO>}

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

**A - Rafael Arana de la Garza** {BIO 1982204 <GO>}

I would say, Jason, that it's not external. It's internal. It's our ability to adapt to these new Mexico and (inaudible). So, we better be prepared to work. We need to work a lot but my concerns are internal to work as a team to make understand everything and to move faster than the others because we are in Mexico, we know the situation. And if we do that, I'm sure that we will go faster than our good competitors because we're very good and we come provide good results for you and that's when main concern; internally to work as a team and to understand perfectly what's going on and to be faster than the rest.

**Q - Gilberto Garcia** {BIO 17390216 <GO>}

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

**A - Rafael Arana de la Garza** {BIO 1982204 <GO>}

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

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**Q - Gilberto Garcia** {BIO 17390216 <GO>}

Thank you.

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Jason, just one thing. The digital revolution of Banorte and you will see that on Investor Day, but we can also show to the investors whenever they want, because you can do that on our mobile application. I think we have achieved a very -- a really big advantage from that digital process on the consumer and also moving aggressively into the transactional phase of the plan.

When you see -- and Marcos mentioned the culture of Banorte has evolved a lot in the last five years. So I think culture is also a key factor for Banorte and it's what is helping us to attract the talent that we need. And another thing that we want all to tell the market is that we are joining forces with the most prestigious institution in Mexico University on graduate programs that is Mexico Tecnologico de Monterrey in order to keep providing all the services to the high talented individuals on that alliance. So we are really in every single part that we need to put the brand of Banorte.

And the digitalization process is going extremely well. And the culture evolution of Banorte is also something to be proud of.

**Q - Gilberto Garcia** {BIO 17390216 <GO>}

Super helpful, gentlemen. Thank you.

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Thank you.

**A - Tomas Lozano** {BIO 20398814 <GO>}

Thank you. Now, we'll continue with Yuri Fernandes. Yuri, please go ahead.

**Q - Unidentified Participant**

Hi, all. Can you hear me?

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Yes, Yuri.

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## Q - Unidentified Participant

Hi Rafa, Marcos, everyone. Thank you for the opportunity. I'll be brief here. I have just one question, actually a follow-up regarding asset quality. This quarter, your settlement gains on the new formation, the cash collection, was a bit higher to normal like 3-4 times the usual run rate and again, I got your NPLs are very good, asset quality trends are very good this quarter, but we don't know what drove the settlements to be much higher. So my question is, what is explaining this MXN2.2 billion like reversal this quarter regarding settlements? That's my question. Thank you.

## A - Rafael Arana de la Garza {BIO 1982204 <GO>}

I don't think that nothing extraordinary Yuri. As you can compare to that other years, you see that there is kind of seasonality in that part, but I can tell you about also is that the cash recovery in the collection, sure, has been going and not we expect to have compared to last year close to 40% more cash collections than the year before. So nothing extraordinary. I think this part of the seasonality if you compare on year-to-year part. So, that's what I can say, nothing really out of the ordinary, The only thing that we have improved a lot is the cash collection process in this funding.

## Q - Unidentified Participant

Perfect, Thank you Rafae.

## Operator

And we will take the next question from Carlos Gomez Lopez from HSBC. Carlos, go ahead. Carlos, please unmute yourself.

## Q - Carlos Gomez Lopez {BIO 18817238 <GO>}

Yes. Sorry about that. Thank you. Thanks again for your patience. Two very new your questions. The first one, I kind of know the answer, if you already have the name and the date of launch of your new digital bank. I suspect that is going to come in the Investor Day.

And second, regarding competition, we have seen asset quality being very good across the board and I wonder how come that is not reflected in some of the bases having to be more aggressive and seeing narrower spread. Are you considering that for yourself or are you seeing that in any other player that competition is started to pull out especially because there is a quality performance has been so good. Thank you.

## A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

The first one yes, we have the name of the bank but yes, we will release (Multiple Speakers) sorry and it's fresh and different. And competition is there and this will start the pressure again, but we have been working with this competition. We're in Mexico. So for us, it's not new and we know that everything that is happen and everyone is going to be there. We need to be prepared. And it's good for the country at the end. So welcome. We

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know how to work with that. We prefer to work internally and not to worry too much about that type of competition.

**A - Rafael Arana de la Garza** {BIO 1982204 <GO>}

And tell us finally to what government Marcos mentioned. Banorte has the balance sheet, has the liquidity, has the capital to compete in the market at a very strong position and also the best risk numbers in the market. So our risk-adjusted margin is the best in the market, second to only one bank because of the mix of the portfolio, but the risk-adjusted margin and the risk numbers are extremely strong. So whenever we see that the risk is right, Banorte will be there.

**Q - Carlos Gomez Lopez** {BIO 18817238 <GO>}

Okay. But again, you have not seen a significant increase in competition, you have not seen somebody come in significantly more aggressive after the pandemic or before.

**A - Rafael Arana de la Garza** {BIO 1982204 <GO>}

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

**Q - Carlos Gomez Lopez** {BIO 18817238 <GO>}

Thank you so much.

**A - Tomas Lozano** {BIO 20398814 <GO>}

Thank you will take our next question from Federico, Federico (inaudible). Thank you. Thank you, everyone. Thank you for joining Banorte. With this, we conclude our presentation. Thank you very much.

**A - Jose Marcos Ramirez Miguel** {BIO 4413879 <GO>}

Thank you.

**Operator**

Good bye.

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