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PRESENTATION

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

Good morning. I'm Tomas Lozano, Head of Corporate Development, Investor Relations and ESG. Welcome to Grupo Financiero Banorte's Second Quarter Earnings Call. Our CEO, Marcos Ramirez, will provide an overview of the evolution of the main macroeconomic indicators for the first half of the year as well as the main results for the group, including loan growth, asset quality and a more evident recovery of our insurance business. Regarding ESG, you will find our quarterly update in the earnings call deck and in our Investor Relations and Sustainability web page, you may also find our first report on Equator principles, which summarizes our environmental and social risk assessment practices during 2021.

After our CEO's presentation, Rafael Arana, our COO and CFO, will provide details of the main financial results of the group, including the impact of higher reference rate, continued cost control and capital ratios. We will then proceed with the Q&A session. Please note that today's presentation may include forward-looking statements that are subject to risks and uncertainties, which may cause actual results to differ materially. On Page 2 of our conference call deck, you will find our full disclaimer regarding forward-looking statements. Thank you. Marcos. Please go ahead.

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

Thank you, Tomas. Good morning, everyone. Thank you for joining our call today. The second quarter of the year presented encouraging results for the financial group despite some evident headwinds in the macroeconomic environment. Mexico and most of the countries have seen a rebound in commitment in cases. However, hospitalization and fatality rates are not new, what we experienced during the (inaudible). Nevertheless, this is still presenting a potential disruption in supply chains. GDP is poised to extend its recovery throughout the year. Our economic analysis team is holding its annual growth estimate of 2.1% despite the deceleration in the U.S. economy, persistent inflationary pressures and further tightening of monetary policies. High-frequency data analysis for the quarter suggested higher-than-expected industrial growth in manufacturing and construction and additional recovery in services, considering better mobility conditions, strong remittances and good employment dynamics.

Inflation remains as one of the most important challenges for the Mexican economy and the rest of the world. Annual inflation reached 8% in June and it is expected to end the year in similar levels. Our economic analysis team has revised its forecast to 8.1% from 6.7% for

2022. Therefore, we anticipate interest rates to climb faster than previously expected, reaching 10% by year-end. Later on, Rafa Arana will comment on the implication of this for our margin.

A potential recession in the U.S. could translate into lower external demand for Mexico, lower investment and remittances, resulting in lower GDP growth, especially for the year 2024. However, this could be offset by the Mexico's potential gains for near-shoring strategies. With growth increase, the current export levels by approximately 10%, thanks to Mexico logistics advantages, geographical location and younger demographics.

On the political front, Congress is expected to focus on the project for the year 2023, which must be presented no later than September 8. On the legislative agenda, attention will be centered on the potential introduction of an electoral reform proposal by MORENA as well as a proposal to reorganize the national Guard under the Ministry of Defense. Moving on to the bank's operation. During this quarter, all of our teams have been fully working under the new hybrid working schemes with sanitary measures still in force in our different buildings to ensure the safety and wellbeing of all our teams and clients.

Diving into the financial results for the quarter on Slide #3. I would like to highlight that the solid performance is supported by present demand, the strong fee activity, contained expenses better-than-expected risk metrics and achieved balance sheet. Starting now with profitability, Slide #4, ROE improved more than 140 basis points in the quarter. On the back of solid performance across most of the businesses. Nevertheless, it continues to be pressured by insurance results, which are still below pre-pandemic levels, but already showing positive signs of recovery towards the second half of the year.

Slide #5, NII from the loan portfolio increased 4% quarter-over-quarter and it is not yet incorporating all of the effects of the reference rate increases during the first half of the year. Noninterest income decreased in the quarter as a result of lower trading income and the seasonal effect of insurance premiums during the first quarter of the year despite stronger activity.

Zooming in [topic], on Slide #6, very expanded during the quarter and the year, driven by strong electronic banking fees, higher advisory and structuring fees in commercial and government portfolios and more dynamic transactions in consumer products. As a result of the reactivation in the internal demand and higher mobility, hence, increasing notes of DOS and mobile transactions.

Moving now to Slide #7. We see a strong quarterly and annual expansion across the loan or corporate and commercial loans gaining traction. And this trend is expected to continue for the second half of the year. As we benefit from the near shore operation, especially from the manufacturing industry, the government book is also picking up, and we will continue to see an quality trends for the rest of the year.

The consumer portfolio, Slide #8, also had a relevant expansion during the quarter, driven by federal and credit cap loans. As previously mentioned, high-frequency data showed good consumption dynamics on the back of higher mobility and employment levels. As for auto loans, we saw better-than-expected performance despite the supply shortages that we continue to face in the sector. For mortgages, demand is expected to be resilient during the rising rate cycle as we shift our business approach to one that is centered in the customer lifetime value and increased personalized offerings.

On Slide #9, asset quality continues to perform better than expected. NPLs remain receiving during the quarter with improvements across most of the portfolios. Analyzing the results by subsidiary, Slide #10, the bank continues to expand on the back of solid NNI, asset quality, expense management and expanding loan book, showing historically high levels of ROE above 27%. On this regard, we are already working on the strategy to optimize the use of capital. I will provide more details on this in a few minutes. The insurance business results were impacted by a normalized premium origination after the seasonal peak in the previous quarter.

However, operating results show continued growth, especially in bancassurance. Regarding COVID-related claims, we continue to present a downward trend and are expected to gradually reach prepandemic levels during the second half of the year. The brokerage sector showed a quarter reduction impacted by lower inflation premiums. The annuities business remained relatively stable during the quarter, driven by higher reserves from inflationary adjustments.

As for pension funds, the business was still impacted during the quarter by a pick up imposed by the regulator, along with the valuation impact of higher rates in the Forex long-term investments.

Slide #11, we provide greater detail into the insurance business, showing seasonal part or the reduction of premium origination, but we grew annual expansion driven by an increase in business with lower claims, which are normalizing in auto and damages as mobility increases. But those related to health and life are still declining, as COVID-related claims continue to seize.

Moving on to Slide #12. We continue to see good operating and profitability metrics by the joint venture with Rappi. The number of cards issued are steadily growing. During the quarter, we have affiliated more than 100,000 additional cardholders. Given that the main focus is profitability, we are now expanding the JV to reach breakeven in 2.7 years, improving our initial estimates. Regarding the launch of our new digital bank, the regulatory approvals have taken longer than anticipated. But we have taken advantage of these additional time to make significant progress in the internal simplification of our operating volumes. And we have also added new products and services that will further enhance our offering at the launch stage. We are now in the final stage of the regulatory approval process.

Shifting gears to ESG on Slide #13. On the environmental pillar, we are currently undergoing an internal process to measure our financial emissions and define the portfolio's decarbonization goals to accomplish the commitments made with the science-based targets initiative and the net-zero banking alliance. Additionally, I'm glad to inform you that in June, Banorte was included in the FTSE4Good emerging indexes due to the bank's strengths in implementing environmental, social and governance practices in line with the international standards.

As a final note, I would like to address a number of questions we have received regarding a potential M&A transaction involving Banorte. And in this regard, I want to highlight that at Banorte, we are committed to evaluate permanently the best means to add value to our shareholders, both through organic and inorganic alternatives. So on the one hand, as we speak, we are seeking presenting our commercial teams, focusing on the development of hyper-personalized customer solutions and enhancing our digital capabilities. On the other hand, we will be open to inorganic growth alternatives as long as any such presented alternative is EPS accretive to our shareholders, of course, after adjusting for execution risk. It is worth mentioning that when we estimate the potential uses of capital, we also consider dividend payments, and we also consider share buybacks increases.

Consumer, we take all (inaudible) offerings and need to maximize value to our shareholders. With this, I conclude my remarks. And now Rafa Arana will walk you through the financial results for the second quarter of the year. Rafa, please go ahead.

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

Yes. Thank you, Marcos. And just continue on the same path that Marcos just mentioned -- we continue to strengthen our balance sheet. As you know, Banorte has a very strong capability to keep on building capital. We see this as the best fit for the terrible times that we are living. We are strengthening our balance sheet, and we are bringing more and more value into the statements of the bank and the position of the bank. I would like to go on a piece by piece basis on what we've mentioned on the slide. We can move to the next one.

The first one is the bank continues to move in the right direction. And it's relevant to mention on the return on equity business. As you see, the 27.2% performance for the quarter -- that's an outstanding number, but it will normalize more around the 25% for the remaining of the year. So that was the result of many extraordinary items in the quarter, but we see a recurring number more 25.

On the -- as you can see, the net income of the bank continues to evolve in the right direction for all the things for the right things, services, the fee continues to expand. The margin continues to grow. The funding continues to go on a lower trend as we would see in a later slide. So everything is working along with the extraordinary performance of the risk and collections units on the bank. This aligned with a reasonable growth on the loan book.

As you remember, we changed the guidance more around the 7% for the year. And now we are looking at numbers around the 8%. This number that is now looking that could evolve in a positive way. We still see some positive growth on this, but we want to continue to be very prudent in the growth and really keep all the metrics that have been providing the net income and the net income growth for the bank and for all the key metrics in the right direction. That doesn't mean that we are not poised to grow. As you saw during Marco's

presentation, there are very good batches of growth. But -- we also keep growth and risk the same as important for us. If you look at the net interest margin of the bank. The net interest margin of the bank continue to expand.

And as you know, the margin for the banks mainly has a lag effect. When you see the hike in the interest rate, you need to wait at least 6 months for the full effect of the -- positive full effect of the -- I think the margin for the interest rate hikes. So that number will continue to expand as we see that number reaching the 6% to 6.2% by the end of the year.

Remember that we now are entering the second part of the year, when you start seeing around September, October, a very important inflow of demand deposits coming into the bank that I also will have in addition with the hiking interest rates to lower the cost of funds and increase the margin.

If we move to the next one, this is quite relevant in the way that shows exactly the lagging effect of the hike in the interest rates and how the margin moves along with it. So when the interest rates hike ends, we think it's going to end up by the end of the year, you will still have around 6 more months that you will be receiving the benefits of the latest hike in the interest rates on that part. So that's also a positive number. And it's not just the result of interest rate that has a very important piece of it, but also the good growth that we have in the funding side and the cost of funds that we continue to push those costs down. We will see in the numbers, and you can see in the numbers in the report that the demand deposits are -- continue to grow above 50% on that. Demand deposits 3% from that part. So we continue to raise the funding, the demand deposits from the part of the business at a very, very good pace.

And all the business are contributing to this day. The retail franchise, the government, commercial, corporate, SMEs, so everybody is pushing for the growth in the demand deposit fees. In the next slide, what you see is that what has been -- we have received several questions about this, and I would like to concentrate on this part. There has been some questions about that why our guidance is showing higher numbers and the cost of risk that we continue to see on a downward trend. That doesn't mean that we see any extraordinary disruption in our portfolios. But I think that we need to be prudent at the same time that we are starting the growth again especially on the consumer side. So I think we will stay with the guidance. And I would like to pass the word to the Carlos de la Isla Corry, the Chief Risk Officer to give us more additional information about this.

Carlos de la Isla Corry *Grupo Financiero Banorte, S.A.B. de C.V. - Proprietary Director*

Well, this part -- thank you, Rafa. This part of what Rafa is saying is that clearly, trade risk management is a mainstay of Banorte's internal control of the loan portfolio. We don't have a very specific case in which we could forecast a big problem regarding cost of risk. But we have been performing periodic objective reviews of credit risk levels and risk management processes, which are key to our effective portfolio management. So we consider the essential -- that an effective (inaudible) process must respond, not only to the obvious indicators of a problem such as delinquency, but also most recognized, more subtle warnings of conditions that may affect the ability of borrowers to repay on a timely basis. So we are always managing risk and maintaining strong credit administration practices and we firmly do reduce twice every month and obviously, we manage risk on a daily basis.

And what we try to do is staying ahead of the ever-changing financial landscape and addressing potential problems as early as possible with a highly prudent or prudent approach. That's the thing. We are not hiding anything. We are not forecasting a really large case of pass-through loans. And what we are just trying to implement here is a very prudent approach to credit risk.

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

Thank you, [Carlos]. And it is fine exactly. I'm sure you will see a better performance for the risk numbers and the guidance. But we like to be prudent and we will like to be assured that the numbers that we put or if we change the guidance that we are completely sure of those numbers. The risk units outperformed extremely well. The recovery units are performing extremely well.

But as you know, these are not especially easy times for projections. So if we now move to the funding cost, as you see one of our competitors continue to lower refunding cost. We continue to push that number down. And we continue to be committed to reach the 35 by the end of the year. The trend has been very positive on this part. And we think because of the lagging effect that we see on some of the interest effects in the funding part, we really see that this number should reach the 35 by the end of the year. So we are continued to be committed to this number.

So there's another -- in the next one, there has been some questions about sensitivity. And they say, well, sensitivity why is not growing, if the interest rates are growing faster than we expected. The fact is it is a function of the variable rate portfolio and also the demand deposits for us. So this not move -- the total number of the funding numbers doesn't move with the interest rates, the margin does, but not the total numbers for the demand deposit base and the variable rate of the portfolio also even if it is growing, obviously, doesn't grow at the same pace of the highs. So that's the reason I think it's very reasonable for us to have sensitivity, and we continually on a permanent basis, reducing the hedging cost of the balance sheet.

Expenses is a key element of -- and here, you can see that even the cost income ratios are 37.8. We are facing increased pressures on the expense side because of the inflation. As you can see, we have been able to contain that number well below inflation. We think that this number could reach at the end of the year, more around the 7.6, 7.8. Even though the cost-to-income ratio will continue to drop. This is an asymmetrical piece on that part. But what you can see is that based upon the revenue growth that we think that will continue to be -- that will continue to push the cost income ratio down. But the inflation effect on the cost side will take a lagging time around 6 to 8 months to really reach again the normal levels once the inflation start to [recite].

If you go to the next one, please. Capital that has been always a concern, and I want to relate here to what Marcos says. We have a very strong balance sheet. We have a strong liquidity. We have the ability to keep on building capital at a very fast pace. And at the same time, not by leveraging the bank at an east because if you see the leverage ratio that we are facing, we are one of the least leverage, not the least leverage bank in the market. And the returns of equity that we are providing for the bank and for the group are under a very strong capital base. We are not playing the game of leveraging the bank or the group in order to have an advantage on the return on equity. The return on equity is a solid return on equity based on a strong balance sheet, strong performance on the loan book, strong performance on the risk metrics, good growth on the margin base, good control of expenses. So this is what allow us to feel confident and comfortable that we could bypass this terrible times basically in the same trend that you see on these numbers, not by taking more risk, but taking the right risk on this one.

So the other thing that I would like to see is that you will see a drop in the liquidity coverage ratio because it was too expensive for us to keep on those level of liquidity. We are -- we do see the levels of liquidity because of the availability and the liquidity in the market and also it's giving us enough room to continue to drop the cost of funds and improve the margin base. I would also like to see because it was at the beginning of the -- and Marcos related to that because we are receiving a lot of questions regarding this.

The digital bank, as Marcos mentioned, is ongoing, and we are waiting for the approval. But we have not been sitting idle on that part. The digital bank instead of when the digital bank is going to be born. It will be [born] with a lot more products and services than original was planned. So that will accelerate also the breakeven point for the digital bank and will be almost a full offers digital bank for our clients.

The other thing that has been concerned and some people are very, very concentrated on this number is that -- and (inaudible) that in a minute is that we continue to improve the growth on the credit cards under a very, very strong profitability metrics, but also the acquisition cost continues to go down.

I don't know (inaudible) if you want to add on that.

Unidentified Company Representative

Yes, of course. Thank you, Rafa. As Rafa was saying, the key piece here is to be prudent and measuring between growth and risk. So in Banorte, we are growing, as you saw year-over-year, above 11% on the portfolio and the number of credit cards that we are selling month by month is growing and the attrition is getting low. So we are confident on that numbers. And talking about Rappi, as Marcos mentioned, we are above 100,000 cards in the last quarter, but also being very prudent and focusing on the revenue and the Net Promoter Score of the customers because we want them to be extremely happy, and we want to be able to gain the principality of the cards.

So with this, I conclude my remarks. Thank you.

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. Thank you, Marcos and Rafael. Now we will continue with our Q&A session. We appreciate your understanding during this call as we will not be taking any questions regarding any potential M&A transaction due to confidentiality matters. I also want to thank you for your valuable feedback. I want to express that regarding the duration of the call, if you need to disconnect and still have questions, please send us an email and we will contact you afterwards. (Operator Instructions)

We are now ready to start the Q&A session.

QUESTIONS AND ANSWERS

Unidentified Company Representative

Thank you. We will take the first question from Geoffrey Elliott from Autonomous.

Geoffrey Elliott *Autonomous Research LLP - Partner of Regional and Trust Banks*

It relates to the net interest margin and rates. Firstly, could you explain to us the negative development of NII outside of the bank. The bank NIM was up, but the non-bank NIM was down. Can you explain the mechanics behind that? What are the moving pieces that drive it? And then secondly, the sensitivity analysis that you show us on Page 20. -- the slides. Could you confirm, does that relate to the bank? Or does that relate to the consolidated group.

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

Thank you, Geoffrey. Rafa, please...

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

Yes. Geoffrey, as you mentioned, the net interest margin of the bank continues to expand for the net interest margin of the group when you add everything to the group has to do basically with the performance of the insurance business and the performance of the (inaudible) business.

As you know, the (inaudible) business, we have a portfolio that is driven basically by inflation-related instruments that have a strong peak in the first quarter, on that part. So that's the difference that you see on that. And on the side of the insurance business, even if we see already a recovery on the net interest margin. basically, we still are below pre-pandemic level. So I think you will continue to see a slow trend -- upward trend on the net interest margin of the group. But not at the same fast pace that happened at the beginning of the year for the first quarter because we are accelerating pace of the inflation that happened in that part. Inflation will continue to (inaudible), but not at the same pace that happened on the first quarter. So that's the reason for that about the sensitivity is basically for...

Geoffrey Elliott *Autonomous Research LLP - Partner of Regional and Trust Banks*

For the bank.

Unidentified Company Representative

Now we will continue with Tito Labarta from Goldman.

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

A couple of questions. One, just on the insurance business, continues to weigh on results a little bit. Can you maybe just give some color there on the outlook. I know this quarter impacted by lower premiums, but when do you think that the results there can normalize and begin to much results a bit? And then I have a second question after that, if I can.

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

We will start with Rafa and then we will get to Fernando SolÃ-s.

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

Yes, Tito, as you can see on the numbers, you see already an improvement on the insurance company. And Fernando will add a lot more information about this. So obviously, as you see, there's a continuous coming and going from this COVID piece. And in addition, for the COVID piece, there's also a lot more mobility on the card issue. So claims are now coming through. We are confident that even it's not the pace that we anticipate that we will be releasing provisions. Provisions are on a continuous evolution to be released. But what is more important is if you look at the sales part of the business, the sales part of the business continues to be very strong. And that will continue to happen in the coming months with an increased evolution on the right trend. With this, I just -- I would like to pass the word to Fernando to add whatever he considers is made in addition to whatever is said.

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

Yes, of course, perhaps to give a view or a feeling of how the performance will be going forward for the insurance net income I would let you know that -- remember, perhaps a few quarters back, if not 1 or 2. We were (inaudible) an indicator in which the loss ratio it depends on the frequency and the severity of the -- I mean how large are the losses with respect to the portfolios. And mainly our exposure to COVID, we were hurt and we are still hurting a little bit in health insurance, but mainly due to the characteristics of our portfolio in life insurance. So let me give you a view in respect to the Life portfolio.

We were looking at what happened with COVID. I mean, what we did is -- how much are we seeing more frequency or more severity with respect to what we have previously -- or previously to the pandemic. And for instance, for what we were expecting this year, we were expecting for the first quarter, for instance, to have 24 more cases more deaths than normal, but actually reported and in current pay did not recur.

But pay, it was also -- it was close to [0.2]. So the frequency was very low to what was expected. In the second quarter, we were expecting 16% above the previous COVID levels, and we were also very persistent and it's also 0.2%. Now if we look at the average cost or the severity, we're expecting 28% above pre-pandemic levels, and we experienced 16.5%. So in this indicator, which is not the frequency of how severe the losses are, we're still above the pandemic levels, 16%. And in the second quarter, we were expecting 20% and is reduced to 13%. So things are behaving much better than what we expected. And of course, the expectations were even lower than what we experienced in the previous year, which was the most costly part of the pandemic for the insurance portfolio. Going forward, we have to wait and see, of course, what's going to happen with this 5 waves of COVID, mainly perhaps we will be more above the loss ratio in health insurance, but we are not expecting as much as much problems with respect to the Life portfolio.

Unidentified Company Representative

So it's hard to tell how much it's going to be. But according to these numbers, of course, this year will not be recovering from previous COVID because we are still seeing recent COVID. We have been paying in the first 2 quarters, more than the previous levels of the loss ratio. But I think it's normalizing quite well, even with this 5 -- sorry, COVID wave.

Now as Rafael was saying, on the other hand, we were benefited in the COVID in the previous periods because people who are not mobilizing as much as they used to. So they were not using cars as much. And therefore, we experienced an interesting reduction in the loss ratio in the car sector. Now it's tending to normalize. Actually, the loss ratio to give you an idea, in 2020 was 47%. But previously COVID, the loss ratio for the car insurance. It was somewhere between the previous 3 years, it was somewhere between 64% and 74%. Then in 2020, the loss ratio was 47% and in 2020, it was 46%. And as of today, it's tending to normalize, and we have a loss ratio of 62%. So in this sense, it's going back to normal as well, and we will not have that benefit due to mobility in this line of business.

And to finalize, I think -- that I think is very important to notice is that we are experiencing interesting growth in the lines that are more profitable for the insurance company. That is in all those insurance that is provided through loans, given the behavior of the loan portfolio, we had a better-than-expected sales in that sense. But also in what we call alternative channels of distribution, which are mainly call centers, but this time, although increasingly -- well, ATMs, but not -- it's not so significant, and it's also not significant yet the digital channel. But that's -- in those channels, we are also experiencing a very healthy growth and also with the products that we distribute through the branches, and the call centers -- sorry, under branches.

So they are also growing and those are the most profitable portfolios of the insurance business. So to finish, I would say that the outlook is good. We're not going to finish this year with pre-pandemic levels of net income, but it's tending to normalize. And structurally, we're going into the right direction.

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

That's very helpful, very detailed answer there. And my second question, if I may, and I know you're not taking questions on any M&A transactions. So I appreciate you probably limited on what you can say here. But Santander Spain released a press release last night saying that (inaudible) doesn't seem to have been accepted and they're no longer considered in the process. So one, can you just confirm that you are still in that process?

And then two, I mean, when you think about potential accretion in an M&A transaction, so you don't have to get specific here, but what would have been accretive with your stock at [135] is different than what's accretive with your stock at [118], maybe the stock is getting way down by potential M&A risk as we see very good quarter, your stock is down a little bit today, Santander Mexico is up a little bit. Just to think about -- or anything you can say on what you're considering in terms of what's potential accretive and the best use of capital in terms of maybe dividends are easier to do when you consider execution risk. Just any color that you can give on that would really appreciate it.

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

Thank you, Tito. I'm really sorry, but we have -- we're hands and mouth tied. So we cannot say anything about that. And again, we consider also dividend payments, yes, yes. We also consider share buybacks increases, yes. And -- as I said in the beginning, we want to maintain all our options open. And then we will decide regarding all the metrics that you have, not the price everything is going to be in the -- in all -- in the blender, and we decide that this spirit, and we will do it.

Unidentified Company Representative

We'll now take the next question from Ernesto Gabilondo from Bank of America. Nestor, go ahead.

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

Congratulations on the results. I have a couple of questions from my side. The first one is on your loan growth. I just wanted to hear your expectations considering the higher rates and this potential economic recession in Mexico likely next year. So just wondering if considering a GDP contraction of around 1% next year, how should we think about loan growth? Do you think it will maintain the same levels of this year or it should be lower. I would like to hear like your first impressions. And also related to this, can you remind us what is the percentage of the loan book that has direct exposure to the U.S. So that's my first question.

And my second question is related to asset quality. So again, considering this scenario of a potential economic recession. How should we think about the asset quality? Which do you see as riskier products? I want to hear from you -- what would be different when compared to previous recessions or crisis?

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

Interesting, all of them. Let me start with the second and the third one. And Dr. Salazar is going to answer.

Ricardo Emiliano Salazar Torres

Ernesto, regarding the direct exposure to the U.S., I will tell you that currently, we have 3% of the loan book related to exporting economic activity. Although we have some other economic sectors like industrial parts, maquiladoras and tourism which is a relative significant size of the loan portfolio, which are indirect exports to the U.S. So if you take that into consideration, you will see that overall, our currency exposure in dollar terms is 13% of the total loan book.

So we are -- as you can see, as you have analyzed, every economic activity, which has been backed by Banorte comes to internal economy activity and some other economic and geographies that we cover within the financial group.

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

Another thing I will say (inaudible) I will start and Fernando will continue. It's a very important question. And I think we have to understand what has been happening in Mexico and why we are confident about the asset quality. When the [relief] programs came into action. As you know, the banks in Mexico, they never received any monetary surplus or relief coming from any entity. So the banks really need to bear all the burden on themselves. So that was us to really evolve a lot in the risk metrics, in the risk origination piece and also a very important part is in the recovery units.

And we put a lot of analytics in place to really follow the client on a day-to-day basis, where we see any chance of deterioration of the client and immediately address the client to really work with them in order to help them go through the process. So when recession comes, and you mentioned the 1, the [1.2 million] that it has been also validated by our Chief Economist. Remember that we are also positioned in the north and in the center and in the most important tools in parts of the country. So when you look at the [1.2 or 1], you have to also take into consideration where basically the key activity of the country will come is where Banorte is positioned in that part. So those parts will not be growing at 1 or 1.2.

You will see growth of around 2% or 3% or 4% on that part because of near-shoring because of many other things. So I think we need to understand this that Mexico is a mosaic of growth. And fortunately for us and because we have been positioned like that, we are in the right places to take advantage of the growth and to be very, very resilient on the downturns because activity will continue to be in those places. Tourism will continue to be there, manufacturing will continue to be there. Supply chains will continue to be there on that part. And that's where Banorte is positioned.

And you can show that because people said, "Well, recession will come in the U.S." But recession was in Mexico when the U.S. was growing at 5%. Mexico was well below growth of 1%. We were negative for that part, and Banorte continues to be resilient because of the way we have a structure and position ourselves with the client base. That's what I can say.

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

And I could add to that, that the front office, the risk team and also the analytics team have modeled inflation and GDP growth in order to have an expectation as close as possible of what could happen. And I will tell you that duration of inflation is key, duration of a recession is key. And we have considered 2 transmission channels which could account for purchasing power of families and also sales from companies and savings available to offset that adverse impact.

And also a second transmission channel could be unemployment, which is a very important variable for our retail bank. So we have modeled and forecast those, and we are confident that perhaps recession will occur within 2023, but not for the whole year of 2023. Our forecast is not a negative GDP growth for 2023. But we are expecting a possible scenario as you just said earnestly.

Unidentified Company Representative

And if I just made that because I think I say that very important is, it's quite important to notice that the world now is facing what Mexico face and the banks in Mexico face during the pandemia because now that all the relief programs have been withdrawn in Europe and in the U.S. Now the banks are taking all the provisions and things that the banks in Mexico took during the pandemia believe me, what happened in the pandemia is worse than any recession that [you have]. And Banorte was extremely, extremely resilient number. We are -- we know as (inaudible) the meaning of recession. And we know how inflation works in Mexico because Mexico has been -- had a very many cycles of high inflation on that part. This a different inflation phase because what the (inaudible) is duration is going to be the key on that part. So with that, I stop.

Alejandro Padilla

This is Alejandro Padilla. I would like to add something there. Well, our base case scenario is that the U.S. will face a mild recession. Indeed, it's going to be maybe a couple of quarters with negative rates. However, in the whole year, we're expecting something around 1.3% positive. And given Mexico, we are expecting 1% for next year, even market consensus is slightly above, which is 1.5%. So we don't expect a big decline of GDP next year. And what Rafael was mentioning before, it's true.

I mean, Mexico has been lagging vis-a-vis other countries during this recovery of the pandemic. Indeed, our 2.1% forecast for this year is contemplating that 1/3 of economic activity remains lag between 5% to 15% from pre-pandemic levels, and we think that external demand and private consumption will continue being a very important engine of growth throughout this year and maybe at the beginning of the next one. So I think that in this regard, at least some of these risks are well balanced as just Rafael and [Carlos] mentioned before.

Unidentified Company Representative

Now we will continue with Gustavo Schroden from Bradesco.

Gustavo Schroden Banco Bradesco BBI S.A., Research Division - Research Analyst

Congrats on the results. Sorry to insist in this asset quality issue. My question here is NPLs and the cost of risk, I mean, in the historical lows. And -- but on the other hand, if you analyze the recent loan growth of Banorte and also Mexican banks, but specifically Banorte, it has been very low loan growth, right? So it's around 2%, 5% in the last 2 years. So my question is, if you analyze your guidance of cost of risk, the guidance is estimated an increase in the cost of risk. So my question is, when should we start to see some deterioration in NPLs considering that the bank is recovering the loan growth, especially in the more riskier lines such as the credit cards, personal loans, I'm just trying to understand how should we consider or how should we model the NPLs and cost of risk?

Because on 1 side, we've seen these very positive trends, running below the guidance and running below the historical levels. But on the other hand, the bank is growing fast in this riskier lines. So I'm just trying to understand how should we think in terms of NPLs and the cost of risk by the end of the year.

And then my second question is related to loan growth. And it is related to the question about the Mexican economy and the U.S. economy because Again, loan growth was above the guidance, 8%. But you didn't change the guidance. So should we expect some deceleration in loan growth in the coming quarters? Or should we work with a potential upside in the loan growth as well?

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

So regarding the cost of risk, yes, we are in very good shape. I would say that. And -- but this is not the only data that we should take care of. It's I call it the vision from here. Now where we put our money and it doesn't matter that has also, but we're making a good business. So we expected, yes, that this is at the bottom, and it will increase because we will start to increase our loan in some sectors that we want to be because the vision from there is not there (inaudible) nonsensitive equation, we can manage to grow better sales that we will -- so the idea is to see the opportunities and maybe would be a good -- I don't want to say a number, but if we get to 2% or 2.5% is a very good number, but because we are doing business.

And the way to do it is because we have here the tools to go in that direction. It's not because we don't want it, it's because we wanted to do it. So yes, you can expect that we will start to go to consumer and to other products. But taking care of what we are going to do. So I would like to see that as an opportunity because we're in good shape, and we can manage the maneuver the risk and see where we want to go. And yes, it will go up. We don't want it to 0, because this is not a [bank]. It should be something -- again, the name of the Board is efficient from. And regarding the we are not moving the loan growth. Maybe we can move it a little bit.

Let's say, it's going to be close to double digit now. Everybody loves to say that double digit close to. So we will move it around that for the rest of the year. As we said, we have this high frequency data. I would like Alex to say a little bit about these 2 that we have. Alejandro (inaudible) high-frequency data analysis that we have.

Alejandro Padilla

Yes, for sure, Marcos, thank you. Well, what we have analyzed is big data from the bank and other big data that suggests that at least in the first half of this year, the Mexican economy has performed quite well. Indeed, that's why we are holding our GDP forecast for this year at 2.1%, acknowledging obviously that -- there is part of the economic activity that remains below pre-pandemic levels, but they are portraying an important positive trend in the last months. So far in the year, we have been observing a big recovery in external demand, especially in the manufacturing sector and also the private consumption.

So given this data that Marcos was mentioning before, what we have been observing is that product consumption, which is nearly 2/3 of total GDP having observing a very good performance, benefited by better mobility, remittances at historical highs, a better employment conditions. And obviously, these are offsetting part of the negative effects of inflation and interest rates on disposable income. So given this, we think that services like restaurants, hotels, transportation, entertainment, just to put some examples, will continue performing quite well throughout this year.

So at least the high-frequency data that we analyze, this is what is suggesting, and that's why we are maintaining our 2.1% GDP growth for this year.

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

Gustavo, just the last one. Remember that we still have MXN 1.2 billion of nonuse reserves ready to have any extraordinary issues as needed.

Gustavo Schroden *Banco Bradesco BBI S.A., Research Division - Research Analyst*

Yes, sure, sure.

Unidentified Company Representative

(Operator Instructions) So we will go with Thiago Batista from UBS.

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

Yes. I will continue on the guidance? And my question is about the earnings guidance. The top of the range, if I'm not wrong, is MXN 42 billion of earnings. In the first half of the year, the bank already delivered [22]. So this implies a decline in earnings in the second half of the year. So my question is, this is really the bank's expectations. These earnings decline in the second half or the bank decided to take a more conservative approach in the guidance and not change the guidance every quarter, we are maintaining the guidance, but a decline in earnings is not the base case scenario.

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

Okay. Thank you. No, we are not changing the path we will continue growing. So you will see a better number there, we think it's going to be better. We are not changing because we want to be conservative, but you are right. We'll continue in the same track and the same track leaves you to another number, and it's going to be a number figure. Yes, you are right.

Unidentified Company Representative

We will now move with Ricardo Buchpiguél from BTG. Ricardo?

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

I have a quick one on my side. I just wanted to understand a little bit more what you expect in terms of dynamics for fee income in the following quarters? I saw that Q2 was a very strong quarter. I want to understand as well if there was any extraordinary events that helped this line in the results?

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

No, there's no extraordinary events on that. I think it's the dynamics of the bank moving in all the channels. The physical part of the bank is fully in place. All the digital channels are extremely active. And remember that all the transformation that Banorte has been going, now you can onboard most of the consumer products in less than 5, 6 minutes and get a credit card or mutual funds or whatever. So that is giving us everything that is related to activity and the fees will continue to grow. There's no extraordinary items here. There has been a special parts about the special events regarding the credit cards. But I will say the core is exactly where it is going. It will continue to grow.

Unidentified Company Representative

Now we will continue with Luis Yance.

Luis Yance *Compass Group PLC - CIO of Compass Mexico & Portfolio Manager of The Local Equity Strategies*

Just 1 question, I guess. I mean your expectation that rates (inaudible) recession. And I understand the lag effects of in terms of (inaudible).

Unidentified Company Representative

We are losing you, Luis.

Luis Yance *Compass Group PLC - CIO of Compass Mexico & Portfolio Manager of The Local Equity Strategies*

Can you hear me now?

Unidentified Company Representative

Yes. Perfect.

Luis Yance *Compass Group PLC - CIO of Compass Mexico & Portfolio Manager of The Local Equity Strategies*

Yes. I was saying like, on your expectations that rates go to 10%, and I understand the lag effects of that in terms of the benefit you see at the bank. Just wondering, at that level once you get the lag effect going away, and you already have the full positive impact, what would be or what could be the NIMs for the group. And what would that mean in terms of the ROE for the group, let's say, at peak profitability, if you will. What is the assumption within the ROE in terms of dividends once we get there perhaps without dividends or with dividends just to get a sense on that one.

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

Yes. as you say, all the lagging effect on that part, I think you will continue to see a big push on the bank NIM. The bank name is basically the key driver for the group. But still, we will have the effect of not a fully benefit of the insurance business. And I think the insurance business will start to and continue to grow and balance that out. So a return on equity for the group at the full pace after the full effect after the lagging 6 months that we usually have. You will see from 21 to 22 at the group level and close to 24 on a -- or above the 24 for the bank.

Luis Yance *Compass Group PLC - CIO of Compass Mexico & Portfolio Manager of The Local Equity Strategies*

Great. And then that would -- would that assume an additional dividend that you would pay until, let's say, the peak is you get the full effect in June next year with the 6-month lag. Would that assume any additional dividends? Or that's just the way it is with others.

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

No. I think as you have seen in the past, we have a policy from 18 to 50. And when there's the opportunity to go for exploring the dividends, we have also paid that. But that will relate to what Marcos mentioned maybe buybacks will be in place on that part and in addition to the dividend, so many options for the bank based upon the buildup of capital, but also we -- you have to take into account that at this point in time, it's prudent for us to be in our way, being inefficient by holding capital because we need to have always a very, very strong balance sheet. And I think times ask for you to be proven.

Luis Yance *Compass Group PLC - CIO of Compass Mexico & Portfolio Manager of The Local Equity Strategies*

Congrats on the results.

Unidentified Company Representative

Now we will go with Alonso Garcia from Credit Suisse.

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

My question is a follow-up on margins. So your guidance of 25 to 35 basis points expansion represents basically a NIM for the year of around 5.8%. In the first half of the year, you have already reported, I mean, for a group of 6%. So I just want to confirm if you believe your guidance for the year is conservative in this segment as well? Or if you are seeing elements for the second half of the year that makes you more cautious on the NIM despite the continued positive impact from higher rates, especially at the bank in the coming months?

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

Yes, Alonso, you will continue to see, especially by the end of the year, an acceleration of the net interest margin for the bank is conservative. And maybe you will see that in the third quarter adjustment to the guidance.

Unidentified Company Representative

Now we'll continue with Jorge Henderson from Santander.

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

My question is regarding asset quality. I understand that credit (inaudible) had a credit line of MXN 2 billion. And with all the problems they had in their debt restructuring and the consequent liquidation of the company.

My question is if -- do you see any great risk on that tranche of your loan book?

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

Thank you. (inaudible). We are in that sector, yes, but we don't have any risk exposure in that sector. That's all I can tell you because we have this confidentiality of the specific clients. But we are not -- we don't have any risk exposure in that sector.

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

Okay. Okay. So you don't have any (inaudible) and have any debt outstanding with you?

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

I'm talking about the sector.

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

The sector, okay, in general. Okay. Well, I mean, if I can add just 1 question very quick. You mentioned about the new sharing expectations that you see in the Mexican economy. Have you seen any great demand materializing due to new sharing on your loan book already?

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

Actually, yes, it's very pleasure, Mr. Armando Rodal, and I will ask you to put off this mask.

Jose Armando Rodal Espinosa *Grupo Financiero Banorte, S.A.B. de C.V. - MD of Wholesale Banking*

Yes. Thank you. Well, we have a strong pipeline in this sector. We see on the north of the country very, very, very hard in this sector. There is a lot of companies from outside China states and Europe asking from the Mexican to supply the old North American market right now. Then we're very positive about this sector.

Unidentified Company Representative

Now we will continue with Carlos Gomez from HSBC.

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

Sorry, my apologies for the background noise. I would like to know if you could elaborate on your personnel expenses. It seems quite extraordinary that the increase only 2% year-on-year with inflation at 8%. Could you explain us why there is this declining whether we should expect it to continue? And additionally, could you give us the full economic expectations for 2023, meaning interest rates and inflation as well as GDP growth?

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

I will start for the second one, please. (inaudible).

Unidentified Company Representative

For 2023, we are expecting GDP to grow 1%. The inflation, we have it at 4.1%. Interest rates during a big part of the year, we are holding the 10%, both at the end of the year in the fourth quarter of 2023, we think that the Central Bank will start cutting rates, and we have a year-end forecast of 8.5%. And then in terms of the Mexican peso, we have 21.80.

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

Rafa, please go ahead.

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

Yes. Carlos, remember that 2 things that are in a way affecting this, remember that we front-load a lot of personnel expenses at the end of the year. To anticipate that and to balance all the evolution, we already had the agreement with the union. So there will be no surprises on that. But when you look at the noninterest expenses on the report, when you look at the personnel expenses, that is really growing 1%, but you have to add also the BTU that is on that. When you have all that, if you are more in the range of 6%.

Unidentified Company Representative

We'll now go with Jose Cuenca from Citi.

Jose Luis Cuenca Gonzalez *Citigroup Inc., Research Division - Assistant VP & Senior Associate*

Just a very quick one on the Afore business. I just wanted to hear from you, do you think that the levels of net income that we saw during the first and second quarters. Would that be something a representative for the -- for a more normalized net income in the future? Or what are your expectations there given the cap in Afore fees?

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

Remember that we are affected because of 2 factors. One that is forever have the cap fees, and we don't have too much to move there. And the second one is the valuation that will go up in the future. So it's not bad. But I think we'll ask David Razú to give us more color on that, please. David?

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

Marcos, I don't think he is in the call, if you want, I can give you some color.

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

Okay. Thank you.

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

Okay. Well, I think that you just said it, but let me just put some figures on it. If you look year-to-year on the results, the cumulative results as of June '22 with respect to June '21. The effect of the reduction in the commissions, which was very large for us. It was 23 basis points. Remember that we were able to charge 0.8% on the assets under administration there was the fee. And now all the Afores, except one, the public one, which is Pensiones, but all the Afores due to the cap we are charging 0.75 -- sorry, 0.57%. That is a reduction of 23 basis points.

Now if you take that into consideration to the numbers, that means that with respect to the previous year, we have a very, very large impact. For instance, if the assets under management were what we expected -- because I will talk about what also happened, we have here a very important effect, which is the 23% reduction in income.

Now given that the hike of the rates and given the exposure of our portfolios, mainly on the fixed income securities, we observe a reduction -- a very drastic reduction on the expected assets under management of 7%. So if you combine those effects, we are observing MXN 1,044 million less of operative income. Of course, one as mentioned, as mentioned by Marcos, is a permanent one, and the other will depend on how markets will behave in the future.

But of course, they are 2 offsetting effects eventually. I mean, higher rates and the new money coming, it will also mean higher returns in

the future; and also starting 2023, we start observing a gradual increment in the contributions of the payroll, contributions by employers, 1% each year for 10 years.

Now if you look also at the exposure that we are obliged to have on the assets under management, where it's called a special reserve, the board has to expose the part of its capital there as I serve. We (inaudible) there in MXN 609 million. All of these numbers, of course, are before taxes. So that's a very important effect. So if you combine these 2 things, our net income is lower than what we expected at this date when we made the budgets. We have less income of MXN 1.2 million lower. And certainly, I would say that at least 800-or-so are more explained by the markets than by the structural factors. So what will well happen from now on will depend on how the markets will behave. But let me also point something out that is also -- there's also some pressure on the cost expense because we are also seeing an increase in the sales activity, something that is actually kind of curious because of the reduction in commissions.

I don't know whether this will be forward the same or it will start going down eventually. And also perhaps something that is interesting, just to give you some numbers, even though our Afore has been the most resilient in the market, if you look -- this is public information, if you look at the numbers of net income as for the second semester of this year, the whole industry had earned MXN 1,410 million, and our Afore, we had a net income of -- this is a 100% asset.

Remember that the numbers that you see in the presentation is only 50% ownership of Banorte. This is taken as a whole, the net income of our Afore was MXN 518 million. That is to say, 30% of the industry earned as of today was earned by our Afore.

Unidentified Company Representative

Now we will continue with Yuri Fernandes from JPMorgan.

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

Congrats on the quarter. I'll ask about competition outlook in Mexico. We are seeing loan growth rebounding, right? In May, we saw the industry growing about (inaudible) and some of your peers growing slightly faster than you like (inaudible), Santander, Bancomer and Banamex growing much less, right? So my question is, how are you seeing, and you are growing kind of industry level. But my question is, how are you seeing competition? How rates are behaving? I remember in the cycle of '17-'18 banks, they were very aggressive on mortgage. They were not repricing. So how do you see this competition in Mexico nowadays? Is there any kind of product that we see more competition? What should we be aware here?

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

Yuri, the completion is here. It's going to be here, and they are great competitors and as we decide to grow and maybe they will not trust pass all the interest rate that Banco (inaudible) which is good for a country, which is good for competition. We are not behind them. Now we will do some things also to increase our market share.

And you are right, in this quarter, it seems that they were a little bit faster than we did. But the data that you have from the CNBV, and it's only 2 months. The third month was another historic here. You would see (inaudible) in the few days. And Rafael, do you want to add something to that?

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

Yes. The fact Yuri, is you have to remember this. Banorte has the lowest NPLs in the market and one of the best risk-adjusted margin. So when you talk about growth, you have to also normalize by the risk-adjusted margin. And when you normalize that by the risk-adjusted margin, Banorte is growing at the same pace, but with better results. We know we have an opportunity in the mortgage book. I mean the car loan book because we are improving our processes, and they're going to be fixed in the next 2 months. But I don't see that we have any obstacle to compete where we want to compete, but we don't want to compete in every single space. We like to compete where we see that the growth potential, aligned with the risk is the right one.

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

Super clear half. So just to be clear, like if you see signals of irrational competition, maybe you will be more comfortable not growing as quickly as some peers, right? Like you should grow industry levels. but looking for profitability. Do you agree with this statement?

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

Exactly right. And that has always been the mantra in Banorte. If you look at some of our competitors growing at a very fast pace, but look at the NPLs.

Unidentified Company Representative

We'll now go with Carlos Legarreta from (inaudible).

Carlos Antonio de Legarreta Diaz *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Senior Analyst*

My question is, have you seen any impact from the current drought, the (inaudible) at the industrial level in Northern Mexico? And do you think it will have an impact on loan growth or asset quality for your business? Or its effect is limited to inflation?

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

So far, Carlos, being honest, we don't have any damage that hold that way. Obviously, maybe if that continues in the future, we'll tell you something. But so far, it's not moving anywhere.

Carlos Antonio de Legarreta Diaz *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Senior Analyst*

Okay. And if I may, a quick follow-up, within your total loan portfolio, what is the mix of fixed and variable rates?

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

60-40. 60 is variable and 40 is fixed.

Unidentified Company Representative

And now we will take our last question from (inaudible).

Unidentified Analyst

The first one is related to the dividend payment that you mentioned in the earnings release, which is MXN 6.8. So I was wondering if this dividend payment consider the 2020 amount that the regulator needs to approve to you in order to pay that will be the (inaudible).

And the second one is regarding on the strategic alliance (inaudible). Would you give us a little bit more color you have specific goals with this alliance or it's something that you want to explore because of the dynamics of (inaudible)?

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

So I will start for the second one with (inaudible).

Unidentified Company Representative

Thank you, [Edson]. We are moving forward with the different streamlines with (inaudible). And we're expecting to start booking mortgages, maybe in a couple of weeks, no later than a couple of weeks using the Banorte book. And as Rafa mentioned at the beginning in the initial speech, we will move forward later with the digital bank, with a digital mortgage in a completely different way of processing the loans. But also, we are advancing with some other products that (inaudible) is using themselves, how they are going to promote the Banorte products and some interchange of information and some other business lines that we are analyzing.

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

Great. And about the other part of your question about the MXN 6, that was paid during the quarter. If you want later offline, we can walk you through how this was presented in the assembly and the capital numbers. Happy to do that afterwards. Thank you.

Unidentified Company Representative

Thank you, everyone. With this, we conclude our presentation. Thank you again for your interest in Banorte. Have a good day.

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