

3Q21 Earnings Call Transcript

Thursday 28th, 2021

11:00 AM CT

Operator: Good morning and welcome everyone to Crédito Real's third quarter 2021 earnings conference call. Crédito Real issued its quarterly report on Wednesday October 27, 2021. If you did not receive a copy via email, please do not hesitate to contact us in Mexico City at +525552289753. It is important to note that the presentation and mp3 recordings referred to this call will be available at www.creal.mx. Before we begin the call today, I would like to remind you that the information discussed in today's call may include forward looking statements on Crédito Real's future financial performance and prospects which are subject to risks and uncertainties. Actual results may differ materially and the Company cautions not to rely unduly on these forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statement. With us this morning from Crédito Real we have Mr. Carlos Ochoa, CEO, and Ms. Renata González, IRO. They will discuss on the more important strategic, financial and operating aspects of the third quarter 2021. I will now turn to call over to Mr. Ochoa.

Carlos Ochoa: Thank you, operator. Good afternoon everyone and thank you for joining us. Before we jump into this quarter's performance, I would like to take a moment and discuss a strategy that Crédito Real began to implement at the beginning of this year. A little over nine months ago, we made a two-fold commitment that involved implementing best international corporate governance practices and refocusing on our best performing business segments to maximize the Company's value to its investors

and to better manage our risk. This strategy started with the decision to refocus on the core aspects of our business, including prioritizing the value of our portfolio over its volume. Given the changing economic environment, we felt we needed to refocus on these unique value proposition, particularly by limiting risk in the non-fundamental aspects of our business. As previously communicated to the markets, the changes approved by our shareholders include changes in the composition of the board to facilitate a more streamlined decision making process in line with international best practices in terms of corporate governance. This transformation was led by the management team with the support of our board of directors. But Crédito Real has been able to take this vision one step further thanks to the leadership and support of our shareholders, as demonstrated by the changes recently approved during an ordinary shareholders meeting, which provide us with an ample mandate to continue this transformation in the coming months. As part of our strategy to unleash value and minimize risk, during Q3, we focused our endeavors on the more stable and lower risk adjusted return portfolios. This discipline shift in the origination throughout the year is already very improved. In this quarter, our financial margin increased by double digits compared to last year. Additionally, to optimize our best performing business segments our shareholders decided on the sale of the simple loans and lease portfolio of Crédito Real Arrendamiento as well as the same of the equity interests of Crédito Real USA finance. As such, management has started taking concrete steps to implement this shared vision. As recently announced to markets, we have reached an agreement to sell approximately 17% of our Mexico SMEs portfolio according to figures of this quarter, subject to specific conditions, including the corresponding regulatory approvals. The price of the sale was agreed for the outstanding balance of the assets plus the premium, which is equivalent to an amount of up to 1.5 billion pesos. As directed by our

shareholders, the proceeds of these sales will be destined to repurchasing our equity and debt securities to enable the Company to capitalize on market opportunities and increase value creation. Especially in the current context, buying back bonds will not only translate into earnings for the Company but will also be an important step towards bolstering our investors' confidence. In the same vein, Crédito Real continues to be committed to maximizing our Company's resources. This means that whenever reasonably and financially valuable, we will continue to take further steps towards strategically deleveraging the Company. In this regard, Crédito Real considers the optimal cash balance to be 1.5 billion pesos. During this quarter, we successfully refinanced approximately 2.2 billion, which adds up to approximately 74% of our debt maturity schedule for 2021. This was reflected in the significant decrease of our total debt, impacting positively our debt to equity ratio, which contracted 0.2 times quarter over quarter to 3.0 times, a downward trend that we expect to strengthen by the proceeds to be raised from the strategic actions approved by our shareholders meeting and which is in line with the strategy outlined at the beginning of the year. We have also started the natural refinancing process for the Swiss bond, which as you all know, is due in February 2022. The different market signals that we have received in this regard have been positive. Overall, our Company's financial position remains stable with a balance similar to that experienced prior to the pandemic, signifying the end of the negative carry recorded over the first half 21. We have also continued our efforts to advance transparency in our communications and we have received recognition from leading organizations. We were honored to be selected by Institutional Investor as one of the three best companies in LATAM in its 2021 executive team rankings. Finally, before I hand it over to Renata, I wanted to take a moment to comment on the recent developments related to the single outlying non-performing loan in our SMEs portfolio.

Ever since this loan was reclassified as non-performing for our auditor's request back in January 2021, besides providing thorough information on the loan during the last two earnings calls and through a couple of special reports, we immediately undertook efforts to resolve the issue as soon as possible, considering how long certain collection procedures can take in our geographical context. Although this event is not strictly part of Q3 as it happened a few days ago in mid-October, I am pleased to inform you that Crédito Real subsidiary, Crédito Real Arrendamiento entered into a settlement agreement with the Company Nuncio Accipients to obtain all Nuncio's right in the relation to certain equity interests of Sistema Radiópolis and Corporativo Coral. As well as the collection rights of the later in lieu of payment of the past-due loan of 695 million pesos. This event has an important positive impact on certain key Company indicators, including a decrease of approximately 120 basis points in the Company's NPL ratio. According to this quarter figures and eventually a significant improvement in our cost of risk and debt to equity ratio. A return to pre pandemic levels for NPLs now looks within reach. In the coming months, we will seek to monetize these assets. However, the provision funds for the loan up to 45% of its amount will remain untouched on the Company's books until we have effectively monetized them. This follows a conservative approach to reporting the Company's financial. More roughly speaking, the Company's NPL ratio stabilized on a sequential basis, even after Mexico faced more stringent social restriction measures in early August, thanks to close oversight and enhance collection procedures. Indeed, all business segments recorded high level of collections with payroll having its best quarters since Q4 2019. We continue to meet our prior commitments. With regards to the NIM, while we set the objective of ending 2021 between 13-14%, we are now close, we now closed this quarter above 12% but we expect to maintain this metric of our product mix. Furthermore, in regard to our SMEs portfolio concentration,

the announced sale lowered the concentration to 17% of our total portfolio, positioning us one step further towards meeting our objective of closing 2021 around 15%. In some, these positive developments point a strong position of the Company as we close out the third quarter, while there is much work to be done with our disciplined efforts already bearing fruit, the final stretch of 2021 for Crédito Real looks fundamentally different than the beginning of the year and definitely 2022 looks promising despite all the challenges the sector faced during this year. We thank you for your continued trust in the long-term vision of the Company. With that, I will conclude my remarks and turn it over to Renata.

Renata González: Thank you, Carlos. Good morning and thank you all for be part of this quarterly earnings conference call. As a reminder, please note that figures used in this analysis are still comparable on a year-over-year basis and a sequential basis, as the sale of our stake in the businesses mentioned by Carlos has yet to be formalized. In the third quarter, interest income increased 26% year-over-year, from roughly 2.5 billion pesos to 3.2 billion pesos, reflecting a more favorable economic environment compared to that of the same period last year and a higher traction of the origination throughout the year, particularly largely within payroll. Interest expense totaled 1.6 billion pesos, up 42% when compared to 1.1 billion pesos recorded in the same period last year, derived from the issuance of the senior notes 2028 and upwards adjustments in credit spreads and interest rates carried out by the major central banks in the last months. As a result, the financial margin posted an annual increase of 15%, amounting to 1.6 billion pesos, following the capital redeployment strategy focused on most profitable businesses, the yield recovery in United States businesses, and the contribution from the portfolio acquired from Banco Ahorro Famsa. Net provision for loan losses increased 9.1% year-over-year, totaling 550 million pesos. This variation is essentially result of the normalization of Payroll and Used Cars. The coverage ratio contracted 85 percentage points, standing at 132%. It is relevant

to note that this figure still includes the temporary effect of the defaulting customer recorded in the SMEs portfolio, from whom we recently received the corresponding settlement in kind. We expect to monetize the transferred assets in the following quarters, and then see a further normalization level for this metric. Administrative and promotion expenses, excluding CREAL Arrendamiento's depreciation expenses, totaled 902 million pesos, up 14% when compared to a 795 million pesos recorded in the same period last year. This variation is largely linked to the portfolio size, especially when looking at the faster origination pace in key business segments, particularly Payroll, for which we introduced more attractive incentive schemes to boost growth. Net income totaled 204 million pesos, representing an annual increase of 2.4%, and expecting to see a higher traction from the best risk-adjusted products. As of September 30, 2021, return on average equity remained unchanged when compared the same period last year, at 4.5%. Excluding the perpetual notes effect, this metric stood at 5.9%. While return on average assets was 1.1%, in line with what was recorded at the end of the third quarter 2020. The capitalization ratio contracted 140 basis points on an annual basis, attaining a 32% rate as of September 30, 2021. The funding cost was 11.3% at the end of the quarter, 290 basis points above the 8.4% recorded in the same period last year, reflecting the end the pandemic-induced easy monetary policy in major economies, including Mexico, on the one hand, and the company's largest debt that follows the issue of senior notes due 2028 on the other. Moving in broader detail to the analysis of the portfolio dynamics. Consolidated total portfolio amounted to 57 billion pesos at the end of the third quarter 2021, growing almost 9% year-over-year and 3.3% quarter over quarter, largely supported by the origination achieved at payroll and used cars, thanks to the more favorable business environment at all countries where we operate. Consolidated non-performing loan ratio was 3.8% at the end of this quarter, 200 basis points above the 1.8% recorded in the same period last year, but in line with the previous quarter. It is relevant to remember that this figure includes the impact from a major defaulting client

in the SMEs segment. Adjusting for this loan, the NPL ratio was 2.6%. As we mentioned in our latest special report, delinquency has been improving across the board and is expected to accomplish our estimate range of 3.2% to 3.8% towards year-end. Payroll portfolio totaled 33 billion pesos, up 11% over the same period last year. This performance reflects our origination focus, as it features better risk-adjusted returns under the current macroeconomic environment, coupled with the contribution of our partnership with Famsa. Delinquency in this portfolio was 1.7%, remaining below the 2% mark, aligned to that of the same quarter last year and with a slight improvement on a sequential basis. Used Cars portfolio reached 4.5 billion pesos, growing 12% on an annual basis, driven by the high demand for used cars in Mexico and the United States. The non-performing loan ratio of this segment was 1.2%, remaining at a sound level, even for pre-pandemic standards. SMEs loan portfolio marginally decreased 0.1% year-over-year, totaling 13 billion pesos, as origination was focused on best performing portfolios, as factoring. Instacredit's loan portfolio grew 3% year-over-year, to reach 5.5 billion pesos, supported by the economic reactivation and initiatives deployed to incorporate additional unbanked clients of solid credit profiles. With delinquency reaching 5.1%. Turning to the balance sheet, as of the third quarter of 2021, total assets increased 4.2% over the same period in 2020, amounting to 77 billion pesos, following the consolidated loan portfolio growth. Cash and investments in securities amounted to 1.7 billion pesos, decreasing 31% against last year. These variations follow the intensive deployment of proceeds from the senior notes issued in January, to support the portfolio growth, as business conditions have improved in the past months, and strategically deleveraging the Company. Our intention is to hold a cash balance better aligned to our pre-pandemic levels that would be suitable for the Company's operations and growth plans. Our cash balance is aligned with the levels recorded in the last six years. The outstanding debt totaled 55 billion pesos, up almost 5% on an annual basis, largely explained by the placement of senior notes 2028 and credit lines draw down over the last

twelve months. On a sequential basis, the debt decreased 2.4% in line with our efforts of decreasing the leverage. To conclude, as of quarter-end, stockholders' equity totaled 18.5 billion pesos, an annual increase of 4%, as a result of the already discussed factors. With this, I conclude my remarks. Now let me turn back the call to the Operator to open the line for Q&A.

Operator: Certainly. Ladies and gentlemen to ask a question please press *1 on your telephone keypad at this time. If you are using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. Your first question is coming from Ernesto Gabilondo. Your line is live.

Ernesto Gabilondo: Thank you. Hi, good morning, Carlos and Renata. Thanks for your presentation, I have a couple of questions from my side. The first one is a concern we have been getting among investors related to the cash reduction. Looking into the quarter, cash and investment securities were reduced by around 50% quarter over quarter, while, total borrowings declined only 3% quarter over quarter. So, I believe the rest was used for loan growth. On the other hand, you mentioned you have reached an agreement to obtain around 1.5 billion pesos from the sale of the Mexico's SME portfolio. However, I think it is subject to the regulator's approval, I am considering that the regulator is understaffed. You think it could be approved before December 5? In which they will enter the holidays. And what do you think will be the month in which you think you can be receiving that cash? And also related to this and another concern again from investors, can you share with us if banks are still willing to increase the credit lines to Crédito Real?. I think any clarification on this will be very helpful. Thank you.

Renata González: Yes. Hi Ernesto, I will address the first two questions. Regarding the liquidity, I think it is important to note that the last two quarters we have an excess of cash given that we have the unused proceeds of the senior notes 2028. However, you can see that also, we were having a significant impact on the financial margin regarding negative carry. So at this point, the management strategy is to make the most efficient use of our cash which means to grow our operations and also to prepaying debt. So how we feel comfortable for the next month and next quarter is that we need to have a cash balance around 1.5 billion pesos in line with the cash that we ended this quarter. Regarding the second question about the SMEs sale, as you mentioned, we still need regulatory approvals and we think that given the geographical context it could be taking something around 2-3 months in order to have all the approvals.

Carlos Ochoa: Yes. And finally Ernesto, you know, addressing your last question regarding the banks. What I can tell you at this point is that we continue to see the support from most of the banks and we are looking to the best options for the Company, right? Not only in terms of you know, secured versus unsecured lending and things like that, but what makes us, you know, feel confident about this is that they continue to support that they have done throughout, not all the pandemic, but in the, in the past years. And with the figures that we are showing, the improvements not only in the NIM but in the performance of the book altogether, we believe that that is not going to become an issue in the coming months.

Ernesto Gabilondo: Perfect. Thank you very much Renata and Carlos. Just let me make another last question. This is from an eventual competition from Banco del Bienestar. We have seen that in the past when it was Bansefi, they offered interest rate at around 15% and I remember that that implied a pre-payment of only 1% of Crédito Real's loan portfolio. On that time and Bansefi lacked of infrastructure and funding. However, now it seems that

Bienestar is building an attractive deposit base, as they will be the ones responsible to distribute the government social programs. They are also developing a remittances product and they also pretend to distribute all the payroll of the government employees. We are aware that Bienestar is not lending for the moment, however, considering that they will get access to cheaper funding and that they pretend to have the largest number of branches attending the low-income segment. How is Crédito Real preparing to offer competitive interest rates against Bienestar at some point? Thank you.

Carlos Ochoa: Yeah, well Ernesto, that is an interesting question and the best way to address that, and based on our experience as you mentioned with Bansefi in the previous years and in similar circumstances, what we know at this point is that our customer base what they value the most is service. I mean, if you think about, specifically do you think about the payroll business, you do not compete in that business, you know, with lower interest rates because you know, a major change in the interest rates it does not represent, on a monthly basis, does not represent much for the customer. So that is definitely one key aspect, and if you continue to think about our competitive strength, you know, having the largest salesforce, specifically speaking for the payroll business, the largest salesforce in the country, that definitely puts us on a good position to compete with them, if that is the case. On the other hand, I mean, let us bear in mind as well that setting up such a huge branch network that does not happen overnight and definitely that is going to, you know, have definitely, that implies that they will face, you know, operational restrictions and so on, and in some what I can tell you is that we feel confident that we are able to compete with them, you know, mostly by the service that we provide to our customers as we have done in the past.

Ernesto Gabilondo: Thank you Carlos, and are you evaluating any digital transformation to compare against that they are doing more physical branches infrastructure or eventually to other fintechs that are also approaching the low income segment?

Carlos Ochoa: Yes, definitely, that is something that we are considering. And look, one of the good things about the pandemic, one of the good things that the pandemic left to us was, you know, the digital transformation of all our operational procedures, as you know, we have been working, you know, we have been home officing for the past year and a half or more than that and I do not see that our operation, you know, our operations staff is going to be back at the office. What I am trying to say is that we are halfway, I mean that the fintech aspect of our operation is already in play and we are definitely building it up. So I mean that is one of the positive aspects that the pandemic left us. So I think that we will be able to, you know, to meet all the competition that we might face at some point by the fintechs.

Ernesto Gabilondo: Perfect, thank you Carlos.

Carlos Ochoa: Thank you Ernesto.

Operator: Thank you. Your next question is coming from Nicolas Riva, your line is live.

Nicolas Riva: Thanks Carlos and Renata for the chance to ask questions. There are four topics I wanted to ask you about, the first one on the sale of the, of the SME loans. I think the press release said that you are selling for up to 1.5 billion pesos. I wanted to confirm is actually the agreement is for 1.5 billion pesos or for a lower amount and also the use of proceeds, you said that the idea was with these divestments to use the money to buy back bonds and shares. I wanted to ask you if the priority of this 1.5 or up to 1.5 billion pesos would be to use them for the maturity of the Swiss bond in February and also if you are done

with the sale of SME loans in Mexico with this and then what will be pending would be used car loans in the US. Second question on collection. So you reported cash collections of 9.2 billion pesos higher from prior quarters. Originations of 7.2, so I was thinking well then there should be a decline in the loan book, but it actually grew. I wanted to confirm that the 9.2 billion pesos in collections is including both principal and interest payments, and if that is the case, if you can give us a rough idea of the breakdown of the 9.2 million pesos in collections between principal and interest payments. Third on the Radiópolis....

Carlos Ochoa: You know Nicolas, before we forget the first two let me, let us address those two.

Nicolas Riva: Absolutely.

Carlos Ochoa: Yeah, well, let me start by the, you know how, why we said that the sale is going to be up to 1.5 billion pesos, and this is basically related to the, you know to the... that we need the approvals from the authorities, right? So, at this point they are worth 1.5 billion, but in the meantime, I do not know how much it is going to take, whether it is going to take one more or longer or less than that. But in the meantime, if we receive payments clearly is going to be less than the 1.5 billion. So that is basically how, why we stated it that way. I do not know if that answers your question.

Nicolas Riva: Yes. Okay, it does. Thanks Carlos.

Carlos Ochoa: And regarding the second part, the collection part, can you help me Renata?

Renata González: Yeah, regarding the collections, basically we include principal and interest. Of course we can send you the breakdown of how we integrate these figures.

Carlos Ochoa: Yeah, and this is clearly related, I mean if you think in terms of the collections, especially for the payroll business, as a rule of thumb it would be I do not know 50/50 or something like that, or a little bit higher than that. That is as for the payroll business. Regarding the other lines of business, it is going to be I do not know it is not as easy, it is not as a straightforward because it depends on the duration of the loans and also on the yield. But as Renata mentioned, we will provide you with further details of that.

Nicolas Riva: Okay, so basically the principal payments were much lower than the origination than the 7.2 billion pesos and that explains why the loan books still grew. I was just trying to reconcile the growth of the loan book with this high amount of collections, but I think that that explains it. Carlos, one thing on the sale of the SME business, I think what was pending was use of proceeds, if the priority would be if you get approval from the regulators before February to use that money to pay the Swiss bond.

Carlos Ochoa: If you look at what the shareholders' meeting approved was to use the proceeds of those things to buyback bonds. And that is how we are considering at this point.

Nicolas Riva: Okay. And one more thing, SME loans in Mexico you are done with those divestments, right? Only pending would be the US business, used car loans in the US.

Carlos Ochoa: I mean, no, that is not necessarily the case, I mean what is definitely going to happen is that the unwinding of that book will continue in the following months, as you might remember, you know, at the beginning of the year we made the compromise of, you know, reducing the exposure of that, of that particular business, the concentration of that particular business to something around the 15%. And now, I can tell

you that I am quite confident that we will make it, and this, is definitely going to help us in terms of the NIM not only in terms of the leverage but also in terms of the NIM. So that is how we are seeing things at this point.

Nicolas Riva: Perfect Carlos, thanks. Last two questions, Radiópolis loan. Can you confirm that before you are able to sell the asset that you (inaudible) those shares in Radiópolis that you are not going to release the 45% coverage of the 695 million pesos loan, you are going to keep that as cushion in case you have losses when monetizing that asset.

Carlos Ochoa: Correct. That is exactly what we are going to do, I mean, this is all related to monetizing the assets.

Nicolas Riva: Okay, perfect. And last question, provision for loan losses, you give a breakout of provisions per business segment. There was a big jump in provisions for loan losses for payroll loans more than 250 million pesos in this quarter, even though the NPL ratio actually did not move, actually it even declined a bit. What was the reason for that big jump? Are you seeing anything in the outlook which worries you about payroll loans and that is what explains the jump in provisions?

Renata González: No, actually, if you compare the figures to... (technical issues). Nicolas, what I was mentioning, I will start all over again, It was regarding the provisions of the payroll line. You could see that quarter over quarter, they were pretty stable, the only situation was that in last quarter we have extraordinary recoveries on the payroll side. So at this point if you see the recoveries last quarter, it were around 300 million pesos and right now we have them on a normalized basis of around 150 and 200 million pesos. But this is a level where we feel comfortable on the payroll side and you can see that on the non-performing loan we have a slight improvement quarter over

quarter and this is in line with the collections that we got from payroll. Actually, the collections of this quarter on the payroll business, there were the highest collections that we have since the end of 2019. So, we are not foreseeing any deterioration of the portfolio payroll.

Nicolas Riva: Thanks Renata. One quick follow up there. If you are saying then if I understood correctly, the recoveries in payroll loans who are very high in the prior quarter. Therefore, so the normal number is the 252 million pesos from this quarter or the 76 from? It sounds like this quarter's figures of provisions for payroll loan specifically is more like a normalized number then.

Carlos Ochoa: It is this quarter. The normalized number, it is this quarter. If I recall correctly what happened last quarter is that we, we collected from charged off accounts something around 80 or 90 million pesos that were, you know, basically that charged off accounts.

Nicolas Riva: Okay, thanks very much Carlos and Renata.

Carlos Ochoa: Thank you Nicolas.

Operator: Thank you. Your next question is coming from Carlos Alcaraz, from Apalache, your line is live.

Carlos Alcaraz: Well, good morning, Carlos and Renata, thank you very much for the call. I have two questions, the first one is, what will be the revenue composition we will be looking for during 2022? Given the sale of assets in the SME segment. And the second question is, derivate from the lower rate financing obtained by Instacredit. will you consider lowering the internal rate of financing?

Renata González: Sorry, Carlos, we could not get the questions. Can you repeat it?

Carlos Alcaraz: Okay, what will be the revenue composition you will be looking for during 2022 given the sale of assets in the SME segment? And a second question, derivate from the rate from the lower rate financing obtained by Instacredit, will you consider lowering the internal rate of financing?

Carlos Ochoa: Yes, I mean if you recall Carlos at the beginning of the year, one of the things that we aim for was to have a concentration in the payroll business above 60%. And I think, and that continues to be the case. I mean, what we are seeing is that the business will continue, you know, to ramp up, as you might know, the normalization of the economy here in Mexico is already taking place. So, we feel optimistic that at some point, I do not know, probably the payroll book should amount something around 65% or something like that and definitely on the SMEs front is going to be under 10%. As for the rest of the products, they should remain rather stable as you see them now. I think that the major shift that you are going to see is, speaking about the composition, is going to come from the side of the, you know, the payroll and increasing the concentration in the payroll and decreasing, at the same token, with decreasing the concentration in the, in the SMEs front. And finally, you were mentioning something about interest rates in Instacredit?

Carlos Alcaraz: Yeah.

Carlos Ochoa: Okay. Yes. What was the question? We just heard the two points, interest rates in Instacredit.

Carlos Alcaraz: Will you consider lowering the internal rate of financing?

Renata González: Yes. Actually, Instacredit had a program this quarter where they are getting local resources in order to get cheaper funding and so they can be whole own-funded on the market. So what we are seeing right now with this placement that they made that were something around 19 million dollars, is that they are also having an improvement on the cost of funds given that achieved an interest rate of something around the 6% compared with the 12% or 14% that they used to have.

Carlos Alcaraz: Okay, thank you.

Operator: Thank you. Your next question is coming from Gilberto Garcia from Barclays. Your line is live.

Gilberto García: Hi, good morning and thank you for the call. My first question is on the payroll business. There was a fairly marked improvement in the yield even though the stated interest rate that you have in the press release, actually declined a bit quarter on quarter. So, I was wondering if you could give us some color as to what drove this improvement in here?

Carlos Ochoa: Yeah, hi Gilberto, the main driver came from the, you know, from the Banco Famsa's portfolio acquisition, that definitely explains a good portion of improvement in the yield as for the payroll businesses this regard. Also, it is worth to mention that if you recall the relief programs specifically for the IMSS that lasted until almost last year. So now that the all the relief programs, not only the IMSS, but all the relief programs have come to an end, definitely, you can see the effect of that over the yield.

Gilberto García: Okay. But just to better understand the change in the composition because looking at the breakdown that you give, it does not seem like the

numbers, the composition changed all that drastically from the second quarter to the third quarter, but the yield went up by almost 500 basis points. What, like did you have any, did you recognize any extraordinary income that helped the stated financial income for that business?

Carlos Ochoa: No, it is basically what I mentioned you, is basically what I mentioned. But definitely we can take this question further offline. I mean with Renata, she will provide you more color.

Gilberto García: Okay, good thank you. And then on the SME sale, just to, I understand that the 1.5 billion figure includes both the principal and the premium, but looking at the percentage of the portfolio that you are saying you are selling, feels that the premium is a marginal number. Can you comment specifically on what the premium is?

Renata González: Yes, Gilberto. Basically the number that we are providing, it is the outstanding balance plus the premium.

Carlos Ochoa: Probably, to put it differently what we expect is that we are selling that portfolio over-par meaning the standing balance plus the premium and that is what we would expect..

Gilberto García: Can you comment on the specific amount of premium that you expect to receive?

Carlos Ochoa: It can be a 6% of their over par value.

Gilberto García: Okay. A last question, there was a very significant increase in your other, again, payable over a billion pesos from 50 million dollars on a sequential basis. Can you comment what was this increase driven by?

Renata González: The increase in what Gilberto? Can you reformulate your question, please.

Gilberto García: Yes, accounts payable, other accounts payable in the quarter went up...

Carlos Ochoa: Yeah. I know what I know what you mean. You know, traditionally what we, you know, the payments that we make to the, to the distributors in particular, for example the rebase that we paid and so on and so forth. They normally happen at the second week of every month, so that is something natural, right? So that is basically... that increase was settled, you know, in the first couple of weeks in September. That is basically the case, but that is normally how it works.

Gilberto García: Okay. And then a last one on the Radiópolis loan, do you have an estimate of how long it could take to monetize the shares and I guess also the rest of the foreclosed assets that you have had in your balance sheet for some quarters. Do you have any timeframe or deadline from your external auditory before you have to impair these assets?

Carlos Ochoa: Yeah, I mean the, you know, basically the first part of your question, the best way to address your question is that all those assets are tested for impairment, right? So as long as that continues to be their value you will see it that way. However, I mean, it is important to say and I mentioned this in the previous call, is that definitely monetizing those assets, whatever is not productive, is one of the priorities

that we have in the Company. So definitely we are looking for all the alternatives, but you know, the economic landscape in the past months it has not been so helpful and we will expect to, you know, to see some progress in that regard in the next couple of months or something like that. As for the Radiópolis deal, I mean what I can tell you is that we see, you know, for starters, I mean you have to bear in mind that is the largest radio station in the country. So, we have received interest from several parties already and we are working on that. I mean it is also worth mentioning that this happened a couple of weeks and less than a couple of weeks ago. So, we feel confident that we will monetize those assets rather soon, you know, in light of the of all the interest that has been shown right now, but hard to say. I mean I am confident that we will monetize them soon. That is my take on that.

Gilberto García: Okay, a very quick follow just to confirm, following up on, I think what Nicolas asked about the extraordinary recovery, these recoveries go to the P&L in the provisions line, right?

Renata González: Yes. The recoveries are included within the provision for loan losses line. Actually, you have the disclose in that paragraph where you can find the amount of recoveries that we have on the quarter. This quarter it was something around 200 million pesos.

Gilberto García: Thank you very much.

Operator: Thank you. Your next question is coming from Nick Dimitrov. Your line is live from Morgan Stanley.

Nick Dimitrov: Hi there, good afternoon. Many of my questions have been asked, but I still have a couple left. The first one is on your revenues, so, we are seeing

an increase in revenues which is obviously a welcomed thing. But, in your case there was a 16% jump in the interest income quarter over quarter, and when I calculate the net interest margin, the net interest margin expanded by 250 basis points quarter over quarter. And in the earnings release you gave a couple of reasons, right? The removal of negative carry, improved portfolio, the high yield in the US used car business. I guess my question is first, you know, this increase in the margin is very dramatic, 250 basis points quarter over quarter. And how sustainable is that, right? When I look at your margins historically, right? In early 2019, your net interest margin was north of 18%, so, you still have a lot more room to go if you want to help you improve your margins based on the mix. But in the coming couple of quarters where you see NIM going? And how do you explain that very strong increase in the margin of 250 basis points quarter over quarter?

Carlos Ochoa: Yeah, Nick I mean, as we were mentioning, you know mostly it was driven by the Famsa deal, right?. And especially if you in terms of year over year and also in terms of quarter over quarter, it is mostly explained by the Famsa deal. On the other hand, I mean, what happens is the normalization of the, you know, the economy in Mexico is definitely helping, that is definitely also helping when it comes to that, right? So I will assume that those are the key aspects of that recovery that you are seeing in this quarter. And thinking about what we would expect for the future to happen, I mean, on the first hand, we, if you look at the origination, the breakdown of the origination, specifically speaking about the payroll business, there is going to be an improvement in the following months with the teachers, we have not been originating with the teachers in the past few months and we are about to start originating with the teachers again in the future. So definitely if you think about the teachers, I mean, there

are one of the, that is one of the products with the highest yield. So definitely that is going to have an improvement, you know, overall, it is going to lead to an improvement in the yield of the payroll business, right? And that is how we see things. If you asked me about the consolidated NIM or the consolidated yield, I think it is going to be positively affected by the change of mix that we will show in the next couple of quarters I assume, you know, due to the, you know, to do the sale of assets and the unwinding of the SMEs portfolio definitely will need to an improvement the NIM. So all in, what I can tell you at this point is that if you think, if you remember what I told you guys at the beginning of the year that we were aiming for something around 13-14%, now that we do not have the negative carry and with these changes in mix and the improvement in the origination with sectors more, you know, with government agencies more profitable, I would see that it is going to be something around the 14% range by the end of this year. That is how I see things.

Nick Dimitrov: Okay, got it. And then you mentioned that you want to keep a rough liquidity in terms of cash and cash equivalents at roughly around 1.5 billion. Is that the critical, the critically low or the normal amount? Because understand that that was the balance prior to COVID-19, but the reality is that the balance sheet is larger, right? So, one can argue that, you know, in relative terms the liquidity might be on the low side, so I was wondering whether that is more like the critical minimum or you think it is kind of the normal going forward?

Carlos Ochoa: I would say it is more on the normal side and especially if you think it is way, I mean if you look at all pressure that we have this year, on the profitability of the business due to the negative carry, it amounts to roughly 400 million or something within that range. So, I mean and if you think on the other hand, if you think

that the cost of funds right now stands above the 11%, we need to be very efficient you know with regards to the cash balances. So I would say and if you look in the history of the Company, normally we have liquidity, normally we have outstanding balances in cash and cash equivalents around this 1.5 billion.

Nick Dimitrov: Okay, okay. And then I guess. Well it is not my last question but Instacredit the 19 million that were issued out of Instacredit, that is secured, right?

Carlos Ochoa: Yeah. Most of the local lending for Instacredit is secured. It is secured, another secured transaction.

Nick Dimitrov: Understood. And in terms of capacity, how much more do you think that you can issue out of that, right? Mindful of the fact that you know we are obviously subordinated to secured creditors.

Renata González: They still have an aggressive plan of continue growing the operation in Central America, so we think that they could be achieving more placements in the following month.

Carlos Ochoa: Yeah, and the program is, if I recall correctly something around 100-110 million, you know, the program is worth 100-110 million. And this issuance was something around the 18 million. But something to bear in mind is that this is not new, I mean secured lending, is not new for the Company because as I was telling you, most of the lending over there is secured.

Nick Dimitrov: Okay. And then I guess my last question is going to be, so one of the businesses that you have highlighted as being a non-core potentially for divestment is the US auto business and you did talk about kind of the positive

momentum in that business in your earnings statement. Can you give us an update in terms of where you are in selling that business?

Carlos Ochoa: Look, I mean as it was approved by the shareholders meeting, I mean the position that they made what to sell that particular business, I mean if you look at that, it took us five years, you know, to be where we are, you know, speaking about CRUSAFIN and well that is a decision that the shareholders made, so we have to comply with that. I think in that regard, what we are seeing is that businesses as it its peak at this point, meaning that if you look at the, you know the used car prices, have skyrocketed, you know, due to the, you know, all the, all the problems with the supply chains and the semiconductors and things like that. So I do not know, I think it would seem, you know, and the rationale behind the decision of approving the sale of that business is that it would seem like the right time to do it. But that, I mean probably the you know, in short, I would say that that was a decision made by the shareholders and we have to fulfill it.

Nick Dimitrov: Okay, understood, thank you. I appreciate it, thank you.

Carlos Ochoa: Thank you Nick.

Operator: Thank you. Your next question is coming from Natalia Corfield from JP Morgan. Your line is live.

Natalia Corfield: Hi Carlos and Renata, thank you for taking me. I think I have a few quick questions. My first one is just to follow up on Nick's questions on NIM and the growth in top line, you are saying that the Famsa portfolio is one of the main drivers of that and I am wondering where... is like the Famsa portfolio, is it classified in others. And I am asking that because I am looking at your origination and I

see increasing in origination of payroll lending, but it is not, it is not like significant. So I am wondering where, where this portfolio is, is it there or is in others? That is my first question.

Renata González: Yeah. The origination of payroll, it is completely recorded on the payroll line, what you see on the other line, it is basically the other part of the agreement that we have a Grupo Famsa which is related to financing durable goods.

Natalia Corfield: Right. But then it is a fact origination is increasing but it is not significantly. So does this portfolio have higher yield?

Carlos Ochoa: A higher yield? Yes, it does have a much higher yield. I mean, just remember that we bought that portfolio last January and the price we paid for that portfolio was something around 40%. So it definitely has a much higher yield as you can see it on the on the (inaudible) on the yield on the NIM side.

Natalia Corfield: All right. And on the sale of SMEs loans, are you guys done with that or do you have more to do this year or like next year?

Carlos Ochoa: Yes. We will continue to see opportunity to unwind that portfolio or to sell portions of that book.

Natalia Corfield: All right. So, there is more to like, do you have an idea of how much more you are planning? Because initially you said like 100 million dollars, this time was around like 75 million dollars. How much more do you think you can do?

Carlos Ochoa: This was the first trench. I mean definitely this was the first trench and as for the rest, it is hard to say at this moment, I mean, we still have to complete this transaction, but I would say that we could get you know as I mentioned at

the beginning, 100 million, but definitely we could go up and high 150 altogether, you know including this 75 plus the other I do not know an additional 75 million. That is my view at this point, but we will still have to run the whole process.

Natalia Corfield: All right. So, you're still in conversations for future sales?

Carlos Ochoa: That is correct. That is correct.

Natalia Cofield: And then lastly on the foreclosed assets. Do you have any updates on how things are moving? I think you have said that a portion of it could materialize before year ends. Do you have any news?

Carlos Ochoa: No, I mean what we are saying is that those things are entirely related to the performance of the economy and as you might know, the economy over here has been performed as good as the US has. So, I mean we are still working, I mean as I mentioned this continues to be one of our top priorities, for the business to monetize those assets and that is what we are. You know, in the meantime we continue to, you know, to look for opportunities and to find the best solution for those cases.

Natalia Corfield: Okay, and like just the last thing that just crossed my mind on the drop of your cash balance. I was trying to reconcile looking at your cash balance at the end of last quarter plus your collections, less your origination, the reduction on that. I think it would be very useful if you could provide a reconciliation, I do not know if that is possible but it would be very useful.

Carlos Ochoa: We definitely can do that. We definitely can do that, I mean we will provide you those figures offline but then and we will consider to issue some type of reconciliation in the next couple of days. I mean that is transparent as cash.

Natalia Corfield: Sounds very good. Thank you very much Carlos and Renata.

Carlos Ochoa: Thank you Natalia.

Operator: Thank you. Your next question is coming from Jamie Nicholson from Credit Suisse. Your line is live.

Jamie Nicholson: Hi thanks for the call. I am wondering if you have repurchased any bonds in the third quarter and if so, what amounts and what tenure? And then you also mentioned that you repurchase 10.8 million shares of your equity during 2021, I am wondering if any of that was repurchased in the third quarter. That is my first question. And then, my second question is just given that it potentially takes 2-3 months to collect on this announced portfolio sale and where your cash position is now. What are your strategies for refinancing the 2022 Swiss bond? Just given that it is about three months away, so it seems like it is quite tight if you are waiting for proceeds from the portfolio sale. Thank you.

Carlos Ochoa: Hi Jaime, yes, I mean no as regard the shares that we bought back those, you know, all those shares were made in the prior quarter's, we did not buyback any shares during 3Q and this is similar to the, you know, with regard to the bonds we have not bought by anything this quarter in terms of the bonds, we will start in the following weeks, I assume. And definitely the ones that looks more, you know, attractive at this point given its valuation is the, you know, it is the 28, but we will see, we still are working on that one. And you know, when it comes to the, you know, to the Swiss bond, as it (inaudible), our best case scenario continues to be to refinance it in the Swiss market. At the same time, we have developed abroad tool kits, I mean which

would allow us to address any contingency, you know. What I am talking about at this point is this includes, I do not know, syndicated facilities such as the one that we could issue with you guys in the past or the MTN program or the cash and also the cash generated by our operations altogether as you saw this quarter. So, we are still working on that we need to, you know, to get feedback from the figures this quarter, but we feel optimistic and as I was telling at the beginning, our best case scenario continues to be to refinance it on the Swiss market.

Jamie Nicholson: Okay. Thanks. And then, just another question relating to the sale of the, a portion of the SMEs, given that you are selling that at a premium, I assume those are all performing loans, so I am just wondering that whether following the sale, your remaining portfolio would have an increase in NPL as a percentage of your portfolio, and whether if that is the case, do you still expect to meet your 3.2-3.8% NPL target by the end of the year. Thanks.

Carlos Ochoa: Yeah, no, it would not have a material effect, it would have any material effect on the NPL ratio. It has to be something around, I do not know, it is probably going to be something at the maximum, you know, 0.2-0.3%. However, I mean, let us bear in mind that along with, you know, with the progresses that we made with Radiópolis case, with the Nucio Accipiens, that is going to lead to a major improvement in the NPL ratio. You know, so that is why at some point we mentioned that we would expect to have pre pandemic levels of NPLs, you know, once that we are able to monetize, you know, the, you know, once that we have finished with all the things that we are making for collecting that particular loan.

Jamie Nicholson: Okay. All right, thank you. And thanks for taking my questions.

Carlos Ochoa: No, thank you. Thank you, Jamie.

Operator: Thank you. Your next question is coming from Miguel Garcia from Citibank. Your line is live.

Miguel Garcia: Yes, good morning. Can you specify what the committed undrawn borrowing capacity that you have as of the third quarter? And just another quick follow up foreclosed assets, can you also specify what is the attrition, how many assets are basically forming up the line item and why has it being so slow the actual monetization if it is mostly real estate? Thank you.

Carlos Ochoa: Yeah, hi Miguel. You know, with regard that to the undrawn backlines, they are in the range of 15-20% something like that, within that range 15- 20%. However, we are in discussions with several banks and that will increase that capacity. But at this point, as of the end of the 3Q, that is still at something in the, within the range I mentioned in the 15-20% of undrawn lines. On the other hand, if you look at the foreclosed assets, believe me, I am the one which is most interested in selling those, in monetizing those assets. Yeah, they are mostly real estate, they are something around 9 or 10, you know, different 9 or 10 different pieces of land of real estate. But as you might know here in Mexico the situation, the economy is not performing just as good and that is basically what I believe that is stopping us. However, I would expect to have some more color to see some progress with this regard in the next couple of quarters or something.

Operator: Thank you. Your next question is coming from Jonathan Swartz your line is live from Detb Wire.

Jonathan Swartz: Hi Carlos and Renata, how are you? A few questions, one is an accounting on the Radiópolis loan. Now that you recovered the shares, will that be moved from the normal loan book to the foreclosed assets?

Carlos Ochoa: That could be a decision, we have to discuss that decision with the auditors, at some point is going to be either on the foreclosed assets or investment, I do not know, it depends on how the whole deal is structured at the end of the day, but definitely it is going to be in somewhere in foreclosed assets or investment in shares, if we get, you know, the stock of this radio station or something in between. But you know, it is too soon to say, as I was mentioning this was, this just happened a couple of weeks ago. What we know for sure is that going to lead to a major improvement in the NPL, in the consolidated NPL ratio of the Company.

Jonathan Swartz: But either way, if it shares or foreclosed assets it will be moved out of the loan portfolio?

Carlos Ochoa: Correct, correct. But that is going to depend, that is something that we need to work out with the auditors.

Jonathan Swartz: Okay. And the second question is, if I listened correctly, you said that today, the SME portfolio is 17% of the total before the 1.5 sale and slide five says it is 22.8% and even if you subtract 1.5 billion, It is still around 20%.

Carlos Ochoa: No, what we are saying is that once that we complete this 1.5 billion sale, it would reduce the exposure to the SMEs book to 17% something in the 17%, but as of the end of the 3Q the concentration for the SMEs portfolio stood at 22 plus percent.

Renata González: Yeah Jonathan, just to highlight, Carlos is talking about the SMEs Mexico, something on the 21% this quarter.

Jonathan Swartz: Okay, okay. That is it, thank you.

Carlos Ochoa: Thank you Jonathan, thank you.

Operator: Thank you. There are no further questions in the queue. I will now return the call to management.

Carlos Ochoa: Thank you very much you all for your participation.