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CORPORATE PARTICIPANTS

Fernando Solís Soberón *Grupo Financiero Banorte, S.A.B. de C.V. - MD of Product & Segment Development*
Gerardo Cuitlahuac Salazar Viezca *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Risk Management & Credit Officer*
Jose Marcos Ramirez Miguel *Grupo Financiero Banorte, S.A.B. de C.V. - CEO & Proprietary Board Member*
Rafael Victorio Arana de la Garza *Grupo Financiero Banorte, S.A.B. de C.V. - Chief Financial & Operational Officer*
Tomas Lozano Derbez *Grupo Financiero Banorte, S.A.B. de C.V. - Head of Corporate Development, IR, Financial Intelligence, M&A and Sustainability*

CONFERENCE CALL PARTICIPANTS

Andres Soto *Santander Investment Securities Inc., Research Division - Head of Andean Research*
Carlos Gomez-Lopez *HSBC, Research Division - Senior Analyst, Latin America Financials*
Daer Labarta *Goldman Sachs Group, Inc., Research Division - VP*
Ernesto María Gabilondo Márquez *BofA Securities, Research Division - Associate*
Geoffrey Elliott
Gilberto Garcia *Barclays Bank PLC, Research Division - Assistant VP & Equity Research Analyst*
Nicolas Alejandro Riva *BofA Securities, Research Division - VP in Credit Research & Research Analyst*
Rafael Berger Frade *Citigroup Inc., Research Division - Research Analyst*
Thiago Bovolenta Batista *UBS Investment Bank, Research Division - LatAm Equity Research Analyst of Banks*

PRESENTATION

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

Good morning. I'm Tomas Lozano, Head of Corporate Development, Investor Relations and ESG. Welcome to Grupo Financiero Banorte's First Quarter Earnings Call. On behalf of Banorte's management team, I want to thank you for attending our Banorte Day in New York a few weeks ago. We hope we have met your expectations and answered your most pressing questions regarding the Group's strategy and the long-term profitability. Many of you received an email request to participate in a short survey over the phone regarding the clarity and content of the event. We really appreciate if you could accept the interview as it will provide us valuable feedback to improve our communication with all of you.

In today's call, our CEO, Marcos Ramirez, will provide a quick macroeconomic overview, including the positive impact of nearshoring for Mexico and Banorte followed by a review of the main results of the quarter. On our ESG slides, you will find highlights of our 2022 Integrated Annual Report as well as our TCFD report, which we were launched at the end of March. After our CEO's presentation, Rafael Arana, our COO and CFO, will walk you through our main financial results, including our NIM evolution, strong asset quality and capital levels.

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 us today. First, I would like to take a moment to thank you for the interest and participation in our recent Banorte. Your presence and engagement were key in making it a success. As discussed during the [event], we are committed to become the best financial group operating in a digital world. And in order to achieve that, we are optimizing our technological capabilities, along with hyper personalization business model to provide our competitive edge in the marketplace. We know how important is for you to have visibility in our strategy. Therefore, we have set an ambitious set of financial targets that we think to accomplish in the next 5 years. At the same time that we create value for our investors, customers and employees. We will work permanently to achieve them, and we'll keep you inform in our progress.

Moving on to the macroeconomic environment, we expect the Mexican economy to extend the positive performance of serving 2022 throughout most of 2023. Despite the risk of a global economic slowdown and a likely recession in several regions. Mexico could remain resilient even with 2 important drivers, private consumption and external demand. In this regard, we revised our 2023 GDP estimates of 1.5 towards 2%. Inflationary pressures in Mexico are starting to fade away, although we still see some indicators of tight monetary conditions for the remainder of the year, we expect annual inflation to rapidly normalize down, reaching around 5% at the end of the year. Therefore, we anticipate an additional interest rate hike from Banxico in May, taking the reference rate in a terminal level of 11.5%, which should remain stable until the start of the [important] cycle in early 2024.

Mexico will continue on the spotlight, driven by positive tailwinds. We expect the continued strength of the Mexican peso with a year-end estimate of MXN 11.7 per dollar, supported by high interest rates and strong macroeconomic fundamentals. Nearshoring activity will continue its momentum as we expect more companies will announce further investment projects in our country. We are convinced that the nearshoring is a reality as evidenced by incremental investments in industrial and commercial real estate along the border with the U.S. and in the center of the country.

Currently, established manufacturing operations in different sectors have the most to gain in the short term. However, we also foresee opportunities in warehouse construction as well as investments in logistics and transportation and so on. Not to mention the transactional banking opportunities that may come once the companies are fully operational in Mexico. We estimate nearshoring to generate an additional spillover of MXN 168 million over the next 5 years in non-oil exports, which will come on top of the initial trend that has been well established by the trade agreement with the U.S. and Canada.

Moving now to the business operation on Slide #3, we highlight the solid performance of the group, supported by improving margins and well-prepared asset and liability management strategy that should help us take advantage of the rate cycle and anticipate that timely change -- a strategy [not appears] to face the imminent easing cycle. Moreover, during the quarter, we saw a dynamic fee activity and an expanding loan portfolio, both underpinned by strong internal demand. Our stable asset quality has been supported by structural changes at the bank, including internal risk models and improved recoveries. Last but not least, we strive to optimize our capital and liquidity levels, which have been a paramount importance, particularly in recent turbulent times. Rafael will provide more details on this in a minute.

Starting off with profitability, Slide #4. Net income had a 12% increase quarter-over-quarter. ROE improved more than 200 basis points in the quarter, driven by an expanding performance across most businesses, which is also reflected in a solid return of assets. Our nonbanking subsidiaries continue to recover their contribution to these indicators as we will see in our wins.

Moving on to the top line results of the group on Slide #5. NII from the loan portfolio increased 4% on a quarterly basis on volume origination across all product lines and the positive effect of the rates hikes that have been gradually incorporated into our portfolio. Our strong deposit mix continues to strengthen our net interest income performance. Noninterest income in the quarter was supported by a seasonal effect of the insurance premiums renewals during the first quarter of the year, along with a better performance of other operating income. On a yearly basis, the result was impacted by lower trading results, despite the strong fee income from banking operations. Altogether, total revenues showed solid quarterly and annual increases.

Zooming into fees on Slide #6, we remain flat sequentially, despite the high seasonal activity during the fourth quarter. On an annual basis, this has double-digit growth, led by strong core banking fees, higher advisory and restructuring fees in commercial and borrowing portfolios, and higher domestic demand for consumer products. Digital transactions continue to evolve driven by the ongoing adoption of digital channels and a stronger digital product offering.

Loan growth on Slide #7, continues to exceed our initial expectations, even with the positive macroeconomic impacting. Loan expansion reached double-digit annual growth across most of our portfolio. During the quarter, the commercial portfolio continued to expand and further going loans is expected as nearshoring operations materialize in the country. Corporate loans had a relevant performance in the quarter, but we were affected by the prepayments, while the dollar loan market continues to add to this good performance, it currently represents close to 12% of our loan book. The government book had a strong quarter as well with solid demand from federal, state and municipal governments.

The consumer portfolio on Slide #8, displays a solid quarter of a record annual increase, reflecting the general demand dynamism in all consumer lending activity. The evolution of payroll loans and credit cards have been driven by good construction dynamics as well as by the adoption of our digital banking offerings. Auto loans had a strong recovery as the industry normalized the supply shortages and also improved, thanks to new commercial partnerships with the strategic initiatives. The mortgage group kept on the positive trend, reflecting the results of our strategic approach to optimize the customer lifetime value of high-value customers.

On Slide #9, asset quality continues to perform better than expected. The quarterly decline in NPLs was supported by higher loan origination, along with gradual changes over existing risk models, adapting also behavioral changes in our customers' approach to credit, particularly when using the companies of digital channels to higher riskier products such as digital payroll loans. The annual increase in cost of risk is well aligned with growth in the loan book and includes some isolated nonperforming basis, which do not represent any industry-wide or geographical trend and are expected to normalize in the upcoming months.

Analyzing the quarterly results by subsidiary, on Slide #10, the bank results displays a sum of core banking operations, boosted by a more dynamic lending activity and higher rate environment, together with a strong fee income. On that regard, it is worth mentioning that as of this quarter, the intercompany fee scheme between the insurance company and the bank had an upward adjustments for insurance products higher to bancassurance. Altogether, these results sustained a solid return on equity of 27.5% for the bank.

The insurance business is already operating at prepandemic levels in terms of claims with good premium expansion. This should normalize this business contribution to the group's overall performance. The brokerage sector reduction was mainly driven by the inflation premiums in assets valuation during 2022. The annuities business was impacted during the quarter by higher clinical results related to premium sales and inflation adjustments. As for the pension funds, the quarterly provision was affected by [devaluation effect] of higher rates in its long-term investments. Nevertheless, the yearly comparison displays a solid evolution with higher from financial products.

On Slide #11, we provide greater detailing to the insurance business performance, showing the seasonal effect is premium organization during the first quarter, together with the normalization of claims to prepandemic levels. On an annual basis, the reduction in premiums took response to temporary delay of a multi-annual premium renewals. Moreover, the acquisition of cost lining is affected by the bancassurance fee increase mentioned earlier.

Moving on to Slide #12, Rappi's operation continued to perform as expected. During the Banorte Day, we committed to achieve [5-year] targets for the business as well as for our digital bank, we will keep you posted on this progress.

Shifting gears to ESG, Slide #13. We have just completed the initial steps for our decarbonization strategy, which we started in October of last year. We now have fully quantified carbon emissions for the most intensive sectors in our portfolio, and we have also set carbon reduction targets for all of them, which you may find in our sustainability web page.

On Slide #14, I am happy to communicate that in late March, we released our most recently integrated annual report, which underscores the importance of ESG as a fundamental part of our current strategy. I want to thank you for your constant feedback regarding ESG matters. We have incorporated many of your recommendations into the design and content of this report, including greater disclosure in our executive compensation structure, our gender equality agenda, and greater [disclosure] in our board position, and it's alignment with our corporate strategy. In addition to this, we also published our second TCFD report, which provides a deeper insight into our climate-related risks and opportunities.

Now I will leave you with Rafael Arana, who will walk you through the positive results for the first quarter of the year. Rafael, please go ahead.

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

Thank you very much, and thank you for your interest in Banorte. I will move to the next slide, basically what we're going to cover in the next minutes about the balance sheet, the return on equity, the transformation process and capital expenses, and the net interest margin. There has been some concerns about the evolution of the margin, so we will touch on that in a bit. Also, there were some concerns related to what's the operational effect that had on the capital because of the change in the regulation. We also will touch on that.

And so I will move to the next slide, please. You see that at the bank level, we will look at the numbers of the bank level. The ROE of the bank, as you can see, is moving to 2.6%, again, a strong 65 basis points from a year early. So we continue to see a very good trend on the ROA because as you have seen, the consumer book is really moving forward on that part. The net income of the bank jumped to 35% on a year-to-year basis. So that's a continuous positive trend on the net income of the bank. The return on equity of the bank is a very strong 665 basis points on a year-to-year basis, reaching the 27.5%. And I would like to also to remember that we are the least leverage bank in the market. So this has an additional benefit for the strength of the bank. So very positive results at the bank level.

On the next slide, as you can see, we will start to touch some of the concerns that you have. The net interest margin of the bank, you see that it was a reduction from 6.7% to 6.5%. There's a very clear explanation about this. Assets grew at a very fast pace in the last part of the month and during the end of the quarter. So you can see that the revenue grew 0.5%, but the assets grew 3%. So those assets will mature in the next quarters and will benefit against the expansion of the margin. We are very confident to see a continuous evolution and a very positive trend for the margin. What is very positive is that this loan growth will benefit in the coming months for the bank.

And I also would like to add to here another thing. On the net interest margin of the bank, especially on the loan book, you have seen a continuous evolution of the fixed rate part of the book. That, that fixed part of the book is the one that is now 42% fixed rate loan book around 58% variable rate growth. So the more we push the fixed rate part of the book, it will be a natural hedge against the reduction on the rates when the rates start to come down. So very -- so I think it was extraordinary what happened at the NIM because of the very, very strong growth on the loan book.

And another issue that is important to highlight is that in the month of February, and this is not usually the case, the liability side, the safety side creep above the TA, that is the asset side. So that will reverse in the -- it will immediately reverse so much, but that effect also is putting some pressure on the NIM, but it's nothing structural about the NIM. We are very positive about the NIM expansion.

If you return to that -- sorry, in the next -- what also is quite very important to notice is the net interest margin of the loan portfolio is exactly the same case. The net interest margin, the [NIM] from the loan portfolio is growing 2.5% and the assets, the loans are growing 2.7%. So it's exactly the same pace that I just mentioned before. It will eventually be coming back to us that benefit of the margin. So we see a very, very strong NIM from -- coming from the loan portfolio. The net fees of the bank also something very, very relevant, grew 24.2% on a year-to-year basis. That reflects all the activity that is happening at the bank in every single of the channels of the bank and every one of the products of the bank. So we are very positive about this net fee growth.

Again, if you move to the next one, please. And the NIM expansion that I just mentioned to you is nothing structural. It will be basically coming back to us in the next quarter. What we are very positive is that the quality of the book that we have, so the loans that we put on the book are very, very positive loans regarding the risk rating part. So we are very positive about the NIM expansion in the coming quarters.

As you can see and Gerardo explained that very well on the Banorte Day, we continue to have a pretty strong numbers on credit. We don't like to compare ourselves any more to the funding or prefunding, but the numbers continue to be quite strong. And you have to take into effect that we have been having a very strong growth on -- especially on the consumer book. The consumer book growing at 17.5% is really, really something that the bank has not experienced any impact. So the write-off rates continue to be very steady. Cost of risk at 1.6%. And as you can see, NPLs barely above 1%. So the credit quality continues to be a strong part for Banorte.

There was also a question, and thank you for that question, because I think allow us to clarify. And we were very, very clear about this at the Investor Day. Last year, we had an extraordinary mix based upon very strong growth of close to 14% on the demand deposit side, and only 3% growth on the time deposit side. So we were able to really manage the cost on a very efficient way. But remember that we experienced a very high loan growth, especially in the third -- in the fourth quarter last year on that part.

So we also advised at the Investor Day that our cost of funds will reach close to the 40%, 41% based upon they need to balance out the very high growth on the balance sheet that we have on the loan book. And remember that, basically, the first 3 months, and it usually goes through May, you have a dry season on the funding side, okay? So that will start to recover, but what's completely abnormal during this year is that, usually the deposits and the loans are basically at the same pace. But this year, the pace of the growth of the loan book was completely aggressive against the funding side.

So we will manage that to balance out during the year, but this has put pressure on the funding cost, basically because we have to start moving. As you know, we are the leaders in the time deposit side, so we are now pushing more the time deposits also along with the demand deposits. So that's the explanation of the expansion of the funding costs. There was -- well, but the competition is not following exactly that, they will eventually do, believe me.

The sensitivity on the book, and we also touched this on the Banorte Day, we are around MXN 1 billion per 100 basis points on the peso group and MXN 977 on the dollar book. As we advise also, we think that these numbers will reach around MXN 800 million when we start see the downward trend on the phone -- on the interest rates. So that's basically what -- referring to what Marcos mentioned, that's why we are very preparing the balance sheet to support this. But the more we grow on the funds, on the fixed rate part of the group, the better we will be on this -- also in this [industry].

There's also -- as you know, we advanced some important expenses last year, and we are now starting to normalize the expense growth. Remember that if you split the expense growth, close to 6% goes to the personnel expenses and 3.2% of those -- and this would be also a once event for the expense growth. We are building 2 data centers in order to be able to run almost as online, real time, all the time. So we will have really best-in-class for our data centers, and that is putting around 3.2% cost for the expansion on the expense side.

So basically, we see expenses under control. We are investing when we need to invest. And the other thing that is quite important is that the cost-to-income ratio now is reaching the 34.2%, that is a record for Banorte. So we are investing where we need to invest and building up some of the high part of the expense line, but it will be really for support and continuous evolution of the transformation process of Banorte.

The capital ratio, as you can see, continues to be very strong. Now you are looking at the change that happened in TLAC. Now the minimum TLAC is 13.025%. Banorte is well above that on that part. So liquidity also very on line where we want to be around 150%, 156%. So the liquidity in the right place, the capital really in the right place and the leverage ratio, as I mentioned before, the least leverage in the market. I will refer to this slide because there were some concerns that we address on the -- at the Banorte Day. And Gerardo was very clear about our capacity and stability on the funding side.

So I will ask Gerardo, if you can really go through the slide, please.

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

Sure, Rafael. Thank you. As Rafael was telling you in Banorte Day, we stress that the maturity transformation gain is nonexistent in the fixed interest rate part of the book and very modest in the variable interest rate part of the book. I will explain myself with some arguments here. The first one being that, if we play a material transformation gain, that means that we borrow short term to lend long term, that doesn't happen in the fixed interest rate part of the book. As you can see, asset duration is 4 years and liabilities duration is 5.5 years. So liabilities duration exceeds asset duration, if you measure that by outstanding balances by 103%. But if you measure that by duration, it is 138%. That's very important. If you buy 5.5 years by 4 years, that is liability duration divided by asset duration, you will get to 137.5%, that's in rounded numbers, 138%.

So you can see that in that part of the book, we are depending on deposit stickiness, which it is happening because 62% of that deposits are -- of the fixed rate deposits are retail deposits and 34% are nonretail but transactional banking-related deposits, which is very, very important for us. 59% of those deposits are insured by IPAB. So we can be very comfortable in that part of the book. Although, this slide doesn't depict what we told you at the Banorte Day, regarding the variable interest rate. I will remind you by March with some latest figures that liability duration in our variable interest rate part of the book is 2.8 years. It was 2.4 years by December of last year, but asset duration remains at 3.2 years. So we play a material transformation gain continues very modest in the variable interest rate part of the book. So I will tell you that by now, the difference between liabilities and asset duration in this part of the book is just 0.4 years, which is less than 0.8 years that we've had by the end of 2022. So we remain very conservative and prudent managing the balance sheet risk.

Regarding point C, AT1's hedge to call, you remember that Rafael stressed the fact that held-to-maturity government USD fixed rate bonds are a budgeted inflow that the treasury just made in order to hedge against the outgrowth of the AT1's U.S. dollars fixed rate. So we have a 100% economic hedged by outstanding balances. So AT1's are just budgeted to be paid, and a 102% economic hedge by duration to call. So we remain very prudent in that regard. So everything is automated within our balance sheet regarding that AT1's within our capital structure.

On measuring -- point D, the Basel III leverage Marcos and Rafael were telling us that we are the least leveraged bank with comparable banks. And you can see by Basel III, I just remind you that what you do trying to make this calculation possible is to have our capital measure divided by risk-weighted assets. The less it is, the less leverage we are. So we have more capital in proportion to risk-weighted assets. So Banorte is the less leveraged bank among peers.

And at the right-hand side of this slide, we will remind you that theoretically, what we have -- if we were to mark-to-market held-to-maturity realized losses, we will have an impact of just 47 basis points on capital, that remains a very low probability event regarding the bank. So we remain very, very prudent and conservative in that regard. But we already have accounted for realized losses in the available-for-sale part of our bond book. We have 23 basis points impact on our capital. So liquidity remains very, very good. But if we were to realize those losses, we can withstand that.

You will recall that when this market volatility started with this bankruptcy events on some U.S. banks, we told you that the impact that we were expecting was 70 basis points. After that, we just make a calculation of 59% basis points against capital, which was delivered to you as our metric in the Investor Day. But by the end of March, due to market volatility being lower, that same impact accounts for just 47 basis points against our capital. So those are the metrics, and we are just very, very satisfied with the way that we have been managing the balance sheet risk in our books.

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

Thank you, Gerardo. And along with that, there was some concerns about the annuities, what would be the case for the annuities in case that we do some of the calculation that Gerardo mentioned. Remember that the annuities by law, the money of the person has to stay there. They cannot be around of greater risk on the annuity side, by law, by contract, that's the way it goes. So there's no case to even measure those.

QUESTIONS AND ANSWERS

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

Thank you, Marcos, Rafael and Gerardo. Now we will continue with our Q&A session. As always, we kindly ask you to present only your most relevant questions, and we will be happy to take any other questions any time after the call. Questions will be ordered on a first come first serve basis. Please raise your hand on the platform, and we will unmute you when your turn comes. [Jose Luis] and myself will be calling the name of the person that is next on the line. If there are any technical difficulties, please let us know by using the chat. Thank you. We are now ready to start the Q&A session.

We will start with Tito Labarta from Goldman.

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

My question, I guess, is on the margin. Just to understand a little bit, as you reduce your sensitivity to interest rates, what does that mean, I guess, both on a short-term and longer-term basis, I kind of understand. But you mentioned, Marcos, you expect another increase in rates in May. So -- but as you're reducing sort of some of that exposure, is there any more upside to your margin from here? Do you think that's now capped? And then thinking longer term, at the Investor Day, I think you gave guidance for your long-term margins between 6% to 6.3%. Is that -- will that primarily be a function of you reducing that sensitivity? And how long will it take so that when rates start to come down, your margin doesn't come down immediately. Just to understand a little bit that sensitivity and the movements in rates over the next year or so.

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

Tough question. I will ask Rafael to answer it.

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

Yes, Tito. This is -- remember, we preferred -- Banorte has always been very, I would say, very efficient in running the bank on the upward trend and on the downward trend. If you see the stability that we have on the yield of the balance sheet, you will see that it ranges from [10.2 to 11.2]. That's the whole piece. What we are talking about this now is that we have to start repairing the balance sheet, in order to be prepared for the downward trend of the rates. Obviously, that will put some -- I would say, pressure on the sensitivity part that will reduce to [MXN 12 billion] that is currently the [1 to 800. So MXN 200 million] would be on that part.

But remember that we are building also the fixed rate portfolio. So the fixed rate portfolio, we also balance that out in a continuous way going forward. The NIM compression that eventually will happen on the variable rate part of the book will be not fully but in a very important way compensated by fixed rate part of the book. Also remember that the liabilities immediately get updated. On the asset side, it usually takes around 6 months to fully reprice the effect on the upward trend of the rates. So you see that there is a buffer on this time frame about going down on the rates and how the balance sheet is positioned.

So when we say that [6% to 6.3%] is the running rate of the normal stage of the margin, we are looking at rates around 5.5% interest rates. So that can give you a very good understanding of how we are building up more and more a much more profitable portfolio and not to be fully dependent on the upward trend of the rates or the downward trend of the rates. We have very balanced portfolio, a very balanced portfolio. Obviously, when you see the potential downward trend, you start releasing some of the hedges that you put in place, and that is the one that is reducing the sensitivity. But you will see that the fixed rate part of the book will start balancing that out in a very important way in the coming months.

So I would say that we are talking that we can manage the downward trend in the same way that we manage the upward trend. A very important thing that you have to -- and you can check that out on -- based upon the data that you have is that the spread that you have on the liability side and on the asset side continues to expand for minority. That is giving you this buffer about the 6 months that I'm taking once the interest rates start to going down. So that will allow you to have also some time -- additional time to balance out exactly how you want to position the balance sheet.

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

That's very helpful. So just maybe to simplify a little bit from my perspective. Does that mean that your margin probably in the short term, you're kind of at these peak levels, but -- and you're now beginning to focus on making sure it doesn't go down much more as -- and I mean rates, I think, you said 2024 is when you expect rates to come down. Just to get that shorter-term sort of evolution? Any color that you can give there would be helpful.

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

Yes. You will continue to see expansion on the margin through the year. The margin will continue to expand. And even when the interest rates start to going down, you see an increase on the margin, a momentum will continue on that part of the margin, Tito. So we are very positive about how we are managing the balance sheet and how we're managing the margin. We will have the exact date of the interest rates, but we position ourselves from that. I think the treasury, those have extremely good work on that.

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

(inaudible) we can still get to the guidance on the NIM that remains unchanged. And just to complement with everything that Rafael mentioned, that the full movement of the change in sensitivity can take up to 9 months, now between 6 and 9 months.

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

Okay. No, that's very helpful. And sorry, just one last point on the margins, specifically. And I think this quarter, as you mentioned, it was down a little bit, particularly for the bank, but those seem to be more like onetime things that as you kind of get through that, that's probably where the outside would come from in the short term.

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

Yes, because -- as we mentioned, they have very, very strong growth on the asset side. The NII grew the revenue 0.5%, but the asset side grew 3%. So it's 1% to 6%. So you can see that really, we have an extraordinary month on the loan growth. And that obviously will benefit us through time in a very short time.

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

We'll now take the next question from Ernesto Gabilondo from Bank of America.

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

My question will be on your net income guidance. We were positively surprised by the double-digit loan growth, which is above your 6%, 8% guidance and also about the solid asset quality with the cost of risk growing at the low end of your guidance. So how should we think about your net income guidance for the year, again, given the solid loan growth, good asset quality, subsidiaries, earnings bouncing back. So can we expect now the high end of the range? And if we can expect some upside risks?

And then my second question is on your dividend payment and the buyback program. We have been hearing most of the Mexican banks are evaluating to pay the dividend in 2 exhibitions this year. So is this something that you're also considering given the higher-than-expected credit demand and also to be cautious given the global volatility on banks. And on the other hand, how much of your buyback announced last year has been used? And what are your expectations to use it this year?

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

I'm going to start for the end. We are not using the buyback so far. Yes, you are right, Ernesto and thank you for your question. Maybe we will move to the high end of the guidance, but we are not moving it now. And that means that maybe in the future, we can change it, but not now. But yes, we are moving to the high end. And talking about the dividend, Rafael?

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

It would be the 50%, we will be paying the dividend in May or June. We will be paying the 50% of the net income of '22 to balance that out in one exhibition.

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

Okay. And just a follow-up on the first question about the guidance. So again, in terms of loan growth, you guided [6%, 8%] given from what you're seeing in the nearshoring, should we be thinking that the double-digit loan growth is sustainable? Or do you still need another quarter to think about it could be at those levels?

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

In order to say it, we want to wait another quarter officially let's say, but it seems that it's going to happen.

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

Now we will go with Geoffrey Elliott from Autonomous.

Geoffrey Elliott

Can you hear me okay?

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

Yes, perfectly.

Geoffrey Elliott

Great. I wanted to drill down a bit more into the deposit side, about a 5% decline in noninterest-bearing deposits this quarter. How much of that is seasonal? I know you do get a bit of a seasonal impact there in Q1? And how much of that is simply clients looking at the opportunity cost of leaving noninterest-bearing money and moving it into somewhere they can earn some interest? And then how should we think about that share of noninterest-bearing deposits evolving as it goes forward?

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

Yes. We have a seasonal effect because [the demand on this], and it's fair to say that each year, we expect a little down. [And in that note], Rafael, do you know how to distinguish one and the other, I don't know.

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

Yes. I think, Geoffrey, this year -- last year has been something that was not usual on that part. We have the normal inflow of very high number of demand deposits coming to the bank in November or December. But usually, those deposits stay up to the end of January. This year, because of inflation and people were more and more active on buying an economy recovery, that number really stayed for a few weeks, less than a week in January. So that is also the case on the demand deposit side.

What we have seen now is that what you mentioned about people moving more to the interest-bearing deposits is happening. We are the leaders in that part of the market, and we were able to -- because of market power to really control that. But now we see that we need to pay a little bit more on the interest-bearing side. But we are very confident because of what we do in the transactional banking payroll, the opening of accounts at the branches and on digital is really, really active. So we think that we will start to balance it out by the end -- by the month of May, we will start to balance this out and start to trending down the cost of funds again or leveling out the cost of funds again.

So it's a combination of what you mentioned, people looking for more returns. Inflation obviously accelerates the speed of the money in the market. So that's also an issue. But now we see a much more stable -- the month of March was starting to be on the positive side on the demand deposits growth and also on the time deposits grow. And the transactional banking piece also is becoming extremely active also in the managing of funds. And remember that we are growing very nicely in the acquiring business, on the merchant business. And the merchant business is also a very strong source of funds for us on the funding side. And the 300 more bankers that we put on SMEs at the end of last year is also basically [awarded] to bring more funding on to the bank. So we experienced an extraordinary event last year. I think we are balancing that out not as fast as we like, but we are balancing that out.

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

We will now take the question from Rafael Frade from Citi.

Rafael Berger Frade ***Citigroup Inc., Research Division - Research Analyst***

I have 2 questions here. The first one is related to -- you mentioned that there were some delay in the renewal of premiums. Just to understand what was that and how we should expect the impact for the -- maybe for the coming quarters? And the second question relate to fees, very strong fees -- growth in fees. If you could elaborate a little bit on the breakdown here is mostly across the board? Or is there any particular line that is helping the strong performance in fees? That would be helpful.

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

The first one, please, Tomas?

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

Yes. Rafael, it was a premium that, as you know, seasonally typically happens, most of them in the first quarter, and it was a large premium government related that will be happening in the second quarter. So that was the effect.

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

And actually, we have already closed the business with them. We obtained the policy again. We have been having this policy for the last almost 6 years. And is the largest life insurance policy in the Mexican market is for the federal employees. And yes, we already closed a deal with them, and it's going to be paid this month. So that was the explanation. Although, of course, in terms of -- of course, we expect it in the budget, in the guidance, for instance, we didn't even plan to have it, because it's a very difficult and very competitive process. Fortunately, we will have it again.

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

Yes, Rafael. So, what is -- you will get in the second quarter, so that's the [package].

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

And the second one is the breakdown down the [profit].

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

Yes. On the breakdown piece, that explains -- I think you will have a combination that is explained. I think the electronic banking piece is growing extremely strong. Everything related to merchant business is also pretty strong. All the loan growth that we have during this quarter also adds to this. But I would see that is all over the place. I think it's not just one specific part.

Another thing that you see is that on the insurance side, since we have an arm's length negotiation with our company because that's the way it has to happen as we benchmark against the market, the fees that we paid to the bank from the insurance company. That also is adding a bit on that part. But I will say it's all over. It's not just one the activity that we have seen on the transactional banking is on the branches, on the digital world, I think everything is adding to that.

We have seen a lot of activity at the bank. I can give you some 3 events that happened during the month of February and March. The number of transactions that we usually run at the bank, and they peak usually around December. Well, in March, we have more transactions than what happened in December. So the bank is extremely active in every single part of the business.

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

And now we will continue with Thiago Batista from UBS.

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

Congratulations for the results. I have a question on the bank's capital position. Banorte [is not of capital], and discrimination of ROE over 20%, plus a loan growth of high single, if it was a guidance or even in the first Q with low things. Clearly, the banking rate is not of capital. I remember in the past that you had a target of -- for capital of 12%, 12.5%. Now we'll have around 15% of core capital. When I look to the medium term, how can we feel about the capital. The bank will deploy this capital only with the traditional payout ratio or we can see other ways to really try to improve, not sure if improve is the right word, but to reduce your excess capital.

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

Rafael, please go ahead.

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

Thiago, I think as we have mentioned before, we will start to converge to the numbers that we -- I think it's more prudent now to move to the 12.5% -- 12% to 12.5% to 13%, but we have to converge to that number. And it's not going to be dividends. We are always looking for opportunities in the market. If we see an opportunity in the market [that we can present] to the shareholders and the shareholders say, yes, we will start using some of that capital also to a specific, I would say, acquisitions or a specific way to increase the profitability of the bank. But I think I agree with you. Sometimes, we see that we have more capital than we need. But remember, as we said at the Investor Day, the world is not quiet at all. So at this point in time, I think it's prudent to have capital in the way we have been managing the capital, stay with the dividend policy. And if we see an opportunity in the market, believe we will take it.

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

And now we'll go with Nicolas Riva from Bank of America.

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

I also have a question on capital. So, if I think about your capital structure, capital stack, and going back to Thiago's point, just now that you are guiding for that 12.5% to 13% CET1, it's going to take some time to get there. But when you think of that kind of terminal or target CET1, if I look at the rest of the capital structure, at this point, you essentially have no Tier 2 capital and the strategy has been taking out some of that old Tier 2, replacing that with the additional Tier 1. And right now, you have about 630 basis points of AT1's. The number does fluctuate every quarter also because of FX volatility.

So if I look into the minimum capital requirements you're going to have with TLAC, fully loaded by 2025, that minimum total capital requirement is going to be for you, I believe, 17.9%. So if I take your target of, let's say, 12.5% CET1, and then I add what you currently have of AT1, which is 630 basis points. Then I get to a number of about 19% total capital, assuming no Tier 2, which would be about 100 basis points above your minimum requirement by 2025. So which means that in this case, you would be looking to replace the AT1's that you have outstanding. If you call them, you would replace them with new AT1's. Is that kind of you -- how you think about that target or terminal capital structure?

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

We are following you, and everything, you're okay. So yes, Rafael please go ahead.

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

Nicolas, as always you did the math perfectly. I mean, no, I think the AT1's, as you mentioned, we will be replacing those AT1's. By the way, yesterday, we went to the board, and we asked the Board that allow us to start building up what we call a continuous emission program for the market. And we also ask for the Board, that allow us to replace the next AT1's that are coming to the market. I think this time also, we will be looking also potential Tier 2 to be on the balance sheet. But the number that you reached the [19.9] is exactly the number that we see. And we will be going in a merry-go-round with the AT1's on a replacement basis, maybe less amount or a little more in some cases. But I think we are very comfortable with the way we manage the AT1's, but maybe this time, also Tier 2 will be present on the balance sheet.

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

Rafael, and then just a follow-up. I think in the past, the strategy was to replace the old style Tier 2s from past acquisitions with the new AT1's. Going forward, your saying is that there is an option to issue some of the Basel III Tier 2s as well. You wouldn't have a necessary preference for AT1 versus Basel III Tier 2s or would you?

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

Yes. We would love to have the current structure of the -- maybe we lose a bit on the AT1's and start building up some on the Tier 2, because of efficiency. But I think the main contributors will still be the AT1's.

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

Now we will continue with Carlos Gomez from HSBC.

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

The first one is going back to the beginning to the loan growth, which has been quite strong in the first quarter. How do you see that continuing, again, now that we are well into the second quarter? And as you mentioned earlier, you may eventually exceed the 6% to 8% guidance that you have given. By how much, means how far do you think you can actually go?

The second is, if you could comment on your asset quality. I remember in the previous cycle, you mentioned that if rates went above 8%, we could see [asset quality trouble], but we are now at 11%, and we don't seem to see any. When should we expect to start to see NPLs?

And the last one, just to verify, you have given us new economic assumptions, but your guidance is not based on these new economic assumptions. I look at the table that you have at the end, you're still using the previous set of assumptions. Is that correct?

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

The third one is, yes, you're correct. The first one, we don't know. That's why we are not changing the guidance. So it has to wait, and we can discuss that in the next quarter. And the second one, it [hasn't incurred]. I don't know, if it comes in, as it's the core works. But we have seen (inaudible) an expected cost of risk, which is for the time being, lower that we provided as an assumption to run some of our return models. So we keep -- we still think that NPLs and cost of risk, although they are improving in some market segments and some loan types up to now, it's too early to tell, if we will see these make a trend for the rest of the year. So it is almost impossible to lower our sense of prudence regarding this issue. So, it is too early in the year to go to a more optimistic move.

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

And remember that we still have MXN 560 million of extraordinary provisions that we have not used. But I agree with Gerardo, it will be not prudent, and it will not be wise to start moving numbers right now.

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

No, we understand that. But on the provisions, where is the surprise? Is it mostly in the SMEs or in the consumer or everything together? And going back once more for the loan growth. I mean as we enter the second quarter, have you seen any type of a slowdown so far? Or you are still maintaining the same trends you had as of the end of March?

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

Nothing new so far, either way. So there is no new so far. And the other one, please Rafael.

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

Yes. The positive surprise is, we can locate them in mortgages and our commercial portfolio, the corporate portfolio, government. So that SMEs, which have been performing extremely well. Mortgages, SME and auto are very positive surprises. The other ones are not bad either, but there is not as good as them.

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

We can continue with Gilberto Garcia from Barclays.

Gilberto Garcia ***Barclays Bank PLC, Research Division - Assistant VP & Equity Research Analyst***

I had a question on your very strong growth in the auto segment. You mentioned that, that was partly driven by new partnerships. Can you give us some color on what the breakdown of the growth was between building partnerships and the overall recovery of the industry and whether that -- those new partnerships are for new cars or concentrated in new -- I'm sorry, used cars.

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

You are right. We have some new partnerships with Honda and Hyundai. Please, Tomas.

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

Yes. It's a mix of the 2 partnerships. I think it's a combination of the 2, these new alliances that Marcos just mentioned. And also the recovery of Mexico is receiving more cars that are available for sale.

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

And let me add, I mean we also closed our new deal with Kia, and that's bringing also a lot of business, and that's mainly for the new cars. But we are also -- we were not very strong competitors in the used car market. Now we are also being more active in that market -- in that market, for instance, which I will not mention this bank is the leader, but we're closing there also the gaps. So I think I'm optimistic about the growth in the future because of these and some of the things that we're working on.

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

Now we'll go with Andres Soto from Santander.

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

I have 2 questions. The first one is regarding the cost of risk. But this more looking into the medium term. In your Investor Day, you mentioned you are now targeting for a higher level of ROE between 19.5% and 21.5%. I would like to understand what is the implicit cost of risk that is on this assumption?

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

Yes. What we -- what we're considering overall is 1.7%. That's the short answer, because we have seen that mortgage is commercial part of it. PMS or SMEs keep improving. So the last time that we reviewed this same number, it was 1.8%. Now we're moving to 1.7%.

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

Perfect. That's very clear. And my second question is regarding the Citi Banamex deal. We were expecting to get news about this. And I guess, in this case, no news is not good news for Citi, at least. I would like to understand from your perspective, that the reason why you drop off from the deal, it was just a matter of pricing expectations? Or there is something more fundamental that make you decide that this was not the right asset for Banorte?

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

Andres, we believe, also -- we cannot say anything by contractor. So sorry, I'm really sorry, we cannot say anything.

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. This was the last question. With this, we conclude our presentation. Thank you very much for the interest in Banorte. Thank you.

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

Thank you.