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PRESENTATION

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

Good morning. I am Tomas Lozano Derbez, Head of Corporate Development, Investor Relations and ESG. Welcome to Grupo Financiero Banorte's Fourth Quarter Earnings Call.

We will begin our presentation from our CEO, Marcos Ramirez, who will walk us through the main financial indicators of the quarter and the year, including loan growth, our resilient asset quality, our main profitability indicators as well as an update on ESG. Then Rafael Arana, our COO and CFO, will provide details on the NIM, the evolution of the cost of funds and our progress in preparing our balance sheet for the lower rate cycle. He will also provide further details on expenses during the quarter, and will conclude with our 2024 guidance.

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, everybody. First of all, I wish you a very successful year. Thank you for joining us today. We are truly pleased with the results achieved both in the quarter and throughout 2023, delivering on the committed goals to the market a year ago. Another year passed by, we certainly made the most out of it. We said goodbye to 2023 and to our 1-2-3 Strategic Plan, through which we enhance the capabilities that we have placed us in a privileged position to compete in a hybrid digital and physical world with improvements on fintechs alike.

None of this would have been possible without the structural transformation that Banorte underwent in the last decade, from the technological architecture and infrastructure all the way to the self-organizational cultures, enabling us to be a fully customer-centric organization.

Furthermore, after successfully navigating through the digital revolution, we are already targeting the next challenge ahead. Yesterday, we presented our new strategic plan to the Board of Directors to be rolled out internally within the next few weeks. The foundations are there. We have developed the team, the best one in the Mexican banking industry, the culture and the technology that allows us to compete with the hybrid, digital and human capabilities to consolidate our vision.

Our midterm plan will focus on 3 pillars. First, to ensure the best customer experience. Second, to provide the best personalized value offering in both corporate and retail segments through the use of all our multi-channel capabilities. And third, to have the best business process operation in the market. This strategy will capitalize on all the initiatives we have carried out in the past, and we will take them to the next level of execution.

We will ensure that Banorte be the best digital and physical customer experience in the market. We will turn bineo into the best native digital bank and we will continue the development of long term and more profitable relationships with that unique value propositions for our customers through the hyper-personalization model, among other relevant projects.

It is worth mentioning that this new strategy is aligned to achieve the long-term financial targets presented at Banorte Investor Day held last March, if you remember. The key commitments presented were double-digit net income growth for the next 5 years, ROE between 19.5% and 21.5%, ROA between 2.2% to 2.6%. NIM of 6% to 6.3% and cost to income between 34% to 36%.

On the macro front, the Mexican economy maintained a favorable performance in the last quarter of 2023, still supported by private consumption, remittances and a strong investment dynamics, as well as near-shoring. We ended the year with a strong GDP performance of around 3.3%, reflected in the strong loan growth with a very disciplined risk appetite. We expect this inertia to have a positive spillover in the first half of 2024, with the economy further boosted by an increasing government spending. Thus, we anticipate GDP growth of 2.4%, despite potential headwinds for the global economy.

Annual headline inflation continues to decline, reaching 4.7% at year-end, supported mainly by the non-core component. For 2024, our economic analysis team expect inflation to remain close to 4.6%. Moreover, as widely expected, the reference rate ended 2023 at 11.25%, and we anticipate the start of the easing cycle by the beginning of the year, with a gradual approach at first but with a further easing later in the year, reaching 9.25% by year-end.

The Mexican currency ended 2023 at MXN 16.97 per dollar, the second strongest currency worldwide, supported by high interest rates, foreign direct investments, remittances, tourism and the continued materialization of nearshore investments in the country, which we expect to increase throughout 2024. For 2024, we expect the currency to remain strong in the first half of the year with an orderly adjustment towards MXN 19 per dollar by year-end as different factors such as the easing cycle, U.S. and Mexican elections volatility and global economy slowdown materialize.

Nearshoring materialization is evidenced by new investments, an expanding labor market and by increasing demand for credit, especially for corporate, commercial and SME loans, given the higher activity in supply chains experienced since the beginning of 2023. According to the Ministry of Finance, since 2022, there have been 174 plants for around $65 billion directly or indirectly associated with nearshoring. As we have reiterated to the market, we are preparing our human capital, our operating and business models and our infrastructure footprint to fully benefit from this opportunity in the upcoming years. We will keep you updated on this evolution as it continues to materialize.

Finally, before diving into the business operation, as you know, during the fourth quarter 2023, we were granted the final approval from the authorities to start operations of our new digital bank. This represents a milestone for the financial system in Mexico and position us as the first fully digital operator in Mexico to operate with a banking license. This will open the door to a wider array of financial products and services offering from the secure, comprehensive and user-friendly platform.

Digital banking is not new for Banorte. To this new venture, we are combining more than 120 years of banking experience of the Group together with a proven track record of 15 years in mobile banking operations with enhanced analytical and data intelligence capabilities. The launch of the digital bank is scheduled for the end of this month. I'll be sure that we will disclose its evolution and operating dynamics in a consistent, timely and transparent manner as we do with all our subsidiaries.

Regarding our JV with Rappi, we are happy to announce that since November, we acquired control in the JV. Therefore, from now, you will see the JV financial information reflected line by line consolidated with the financial groups. Additionally, as we advance in the operation, you will have full disclosure of its independent financial metrics.

Now moving on to the business operation. On the Slide #3, the quarter displayed a solid volume performance, supported by the balancing of a dynamic lending activity and a consistent focus on asset quality while managing cost of funds. These structural changes in the balance sheet and the business go far beyond the benefit of higher interest rates. We continue to reduce our margin sensitivity with an active asset liability management, already reaching MXN 582 million in NII for every 100 basis points change in rates, down from MXN 650 million in the third quarter and MXN 1.2 billion a year ago.

Fees, during the quarter were strong, driven by a sound private consumption and the year-end seasonal effect in transaction volumes. Moreover, as we have done in the past, we leveraged the sound income generation of the last quarter to advance different personnel and administrative expenses. Our internal capital generation continues to be strong, ending the year with a 20.7% capital adequacy ratio.

Starting off with profitability on Slide #4, reported net income for the quarter was MXN 13,044 million, 13% higher versus the fourth quarter of last year. ROE was up 146 basis points year-over-year, reflecting an expanding performance across most businesses, which is also reflected in a solid return on assets. For the year, net income reached MXN 52,418 million, 18% higher versus 2022, delivering on the high-end of the guidance provided for the year.

Analyzing the quarter results by subsidiary in Slide #5, the bank had sound core banking operations, driven by a more dynamic and higher quality lending activity, controlled cost of funds, strong fee revenue and as every fourth quarter, we leveraged the sound revenue generation to advance expenses. Altogether, these results yielded a solid 26.5% return on equity for the bank. For the year, ROE stood at 27.4%. In the quarter, the insurance business was negatively impacted by a category 5 hurricane in Acapulco, Guerrero, as you know last October. However, most of the insurance liability was covered by reinsurance and the maximum loss amounted around $5 million. On a correlated basis, the insurance companies posted sound business generation despite being affected by the awkward adjustment in the intercompany fee scheme between the insurance company and the bank effective as of the first quarter of 2022.

The brokerage sector decline was mainly driven by the effect of inflationary premium during 2022. The annuities business yearly reduction was mainly the combination of lower inflation levels, a reduction in fatalities impacting reserves, along with a market-related business compression. As for the Afore, this was benefited by higher yield on financial products.

Loan portfolio in the Slide #6 continues to expand at our desired pace, focusing on asset quality and diligently balancing with the funding costs. Since last quarter, the loan book surpassed the MXN 1 trillion balance, expanding 12% versus 2022, driven by the strong corporate and commercial lending activity and the strategic focus on consumer loans, mainly in the fixed rate portfolios.

Nearshoring gradual materialization has driven loan demand for small and mid-sized enterprises, posting yearly increases of 21% and 10% for the corporate and commercial books, respectively. Corporate loans continue to benefit from the dollar loan market, which currently represents 12% of our loan book. The government portfolio presented seasonal prepayments performing as anticipated, given the regulatory lending limitations as we approach election period.

The consumer portfolio on the Slide #7 continued to display double-digit annual growth across all products. The evolution of payroll and credit cards loans has been driven by good consumption dynamics and the stability of the labor market.

This year, focus on expanding our fixed rate portion of the portfolio has arrived in an average growth of MXN 6.6 billion per quarter in the year, thus enabling us to consolidate a sound, low risk, high yield inventory of customers to develop higher lifetime value relationships while performing as a natural hedge once the easing cycle begins. Auto loans keep displaying increasing demand, and is expected to remain as one of the main growth drivers for the book. However, as we are anticipating a growth pace moderation through 2024 as we are facing a higher base effect versus 2022.

Slide #8, asset quality continues to perform ahead of our expectations. NPLs remain below historic average at 1%, as our lending decisions have been centered on prudent and selected goals, prioritizing risk-adjusted profitability and adjusting risk parameters depending on each channel's particular risk. NPLs came in a slightly higher quarter-over-quarter, driven mainly by the credit card portfolio as it now considers Rappi operations yet below the normal levels of this portfolio and the payroll group, given the higher level mobility brought by full employment. Apart from this, NPLs for the rest of the products and segments continue to be stable and the quarterly decline in cost of risk reflects our strategy to prioritize asset quality.

On the ESG front, the Slide #9. During the fourth quarter, we consolidated our progress towards different sustainability commitments. On the environmental side, we launched projects to reduce the carbon footprint of our own operations and we confirmed our intention to begin disclosure, nature related risk following the TNFD Taskforce on Nature-Related Financial Disclosures framework starting in fiscal year of 2025.

On the social front, we set targets to increase financial inclusion and financial health of our customers by 2026 based on the digital capabilities of our new digital bank. This and much more detail on our ESG progress will be available in our upcoming 2023 annual report which will be published in March.

Finally, as evidenced by the numbers, the internal capital generation has been consistently strong. Yes. Therefore, we expect to continue exploring the best possible alternatives to return value to our shareholders.

Now, I will leave you with Rafa Arana, who will walk you through the detail of the financial results of the quarter and will also comment on our financial targets for the year. Rafa, please go ahead.

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

Thank you, Marcos. Thank you everyone for attending the conference. I would like to go fast because Marcos mostly covered all the key financial indicators, so which we'd like to go deep in the ones that we know there were some concerns based upon some of the questions that we received yesterday. The balance sheet continues to be, as we have always promised to the market, to be shielded in any way by rates, by any type of risk that we see. We have tried to be very conservative about the balance sheet and we will continue to do so.

The return on equity for the Group, as Marcos mentioned, is really reaching the levels that we anticipate at the beginning of the year for the guidance, very close to the 22% for the Group and for the bank, I think remarkable 27.4%. That is close to 275 basis points ahead of last year. When you see the fourth quarter, 26.5% is based upon the expense numbers that we will discuss in a minute, a slight reduction on the return on equity for the bank, but a very strong 27.4% return on equity for the bank.

We continue to do all the transformation in technology, and also once that we have been following very closely now is to try to reach an agreement of what will be the best format for the evolution of the branch network. We will continue to open branches at a very moderate pace but with a completely different setup on the cost base. Based upon the nearshoring needs, we need to be present where those companies are being installed and the expansion that we see in many parts of the country on a very disciplined way with a completely different format, a lot more automation on the branch level and a different rate of cost base.

The margin, there has been some concerns about the margin. The Group after the evolution that we saw on the annuities business after the reduction based upon the inflation that happened in the second quarter, we will continue to see the Group tendering up on the numbers. In the fourth quarter, we end up around 6.4%. That I think is a very reasonable number for the Group taking into consideration all the behavior of the annuities and the lack of stability in many of the indicators of the inflation. Even if inflation is trending down, then you see pickups and ups and down because it is not stable as we would like to see that number.

On the bank level, it's a completely different number. I think the bank is doing on a pretty sound 6.6% net interest margin based upon all the numbers that we have been pushing on the demand deposits with no cost that we have a very strong inflow at the end of the year that allow us to reduce the funding cost in a way that we will try to continue to do so in '24.

So the margin continues to be quite strong, 6.6%, even though there has not been any more rate increases since the second quarter of the year. But the behavior of the portfolio and the way we have been accommodating the fixed rate and the variable rate allow us to have a very sensible margin around the 6.6%.

Expenses, I would like to go first to the cost income ratio continues to be around the number that we promised to the market, 36.2%. We will discuss in detail what was the expense growth and what we anticipate for '24 in the expense line. Capital, as Marcos mentioned, continues to be strong after paying 82% of dividends for our shareholders.

So if I go now to the net interest income, I would like just to highlight the issue that on the loans to deposit on the part of the NII, we continue to see a very strong 16% growth on a year-to-year basis. So we continue to see all the components on the NII growing in a very steady and strong base. Total NII for the year was growth around 10%. I already discussed the loan part, that is around 16%. So we continue to see a very healthy NII for the Group and also for the bank, as you can see in the slide.

If we go now to the fee that Marcos just mentioned, it continues to be very strong activity in the digital part of the bank and also in the physical part of the bank. On the consumer side, that is basically granting to the branches and to the digital. A lot of the fee base are coming from that. And also POS on the merchant business will continue to grow in a very steady and strong way. So banking fees, very sound number on a year-to-year basis, around 12%, on a quarter-to-quarter was 12% and 15% on a year-to-year basis based upon all this activity on the every single part of the bank in a profitable way.

If I go now to the bank and the profitability of the bank, the net income of the bank, as you can see on the graph, there was a slight decrease on the fourth quarter, mainly driven by the anticipation of the expense line that I will discuss in a minute. All the elements of the net income concerning the margin, the trading fees, everything went up in a very important way. But basically, the number that you will see that reduces the net income for the quarter was close to MXN 700 million that we anticipate on the expense line.

The ROA of the bank, 2.4% is slightly affected, I just mentioned, and the return on equity of the bank is the same 26.5% at the end of the quarter based upon what I just mentioned to you.

If I just move to the next slide, now we are presenting to you how the what we call the managerial NIM take into consideration the effect of the annuities for you to have a much more clear way of how the bank is moving.

So, this is the next one. That's the one. Okay. So this is just for your information, in order to really take into account the effects that we have on the annuities side.

If I move into the cost of funds. Cost of funds now, as we anticipate, we have been meeting with many of you in the past months and we were anticipating that by October, we were anticipating a turning point on the funding cost. We achieved that in November and December. So the funding cost now is becoming a number that we would like to continue to push down. As we discussed also with you during several meetings, we are in a much more equilibrium based on the lending side and the funding side, not because of any issues with liquidity, but because we like to keep the funding costs in line and also with a reasonable loan growth.

The asset quality that Marcos mentioned, basically, it's easy for you to see that what has been considered a very exceptional year, '23 and '22, continues to happen based upon a very selective way, on a very strong models and a very, very disciplined onboarding process that we got in every single part of the bank, on the consumer, on the corporate, on the commercial, on the government side.

So I think the cost of risk dropped to 1.4%. As we anticipate to you, there was an uptick on that part concerning just one loan that as we also told you, we have very strong guarantees on that loan and we have been finally getting into the final process of that. So that's the big drop that you see on the cost of risk. Most of the other portfolios continue to perform as expected. The write-off rate, as always, very disciplined, very steady, very stable.

If we now move on how we have been preparing the balance sheet on that part, you can now see that on the peso book, the sensitivity has gone down to 582. We think that we can continue to push that number down a bit on the first quarter, maybe to reach a number very close to the 500. So that put us on a very positive situation for the downward trend of the rates when they happen.

So, as you can see in the graph, Banorte always anticipate the hiking cycle or the downward trend on the rates in a very efficient way. So we are very well prepared for the downward trend on that because there have been some concerns about what would be the effect on the margin. And as you can see on the number for the quarter at 6.6% for the bank, that really show us to you how we have been managing the funding cost, the sensitivity on the balance sheet on that part.

Obviously, that anticipation on the balance sheet has some effect on the margin. But we already fully, I would say, loaded on the net income in the past year. So on the dollar book also, we like to keep pushing down the sensitivity on the dollar book, now sitting at 687. We would like to keep pushing that beyond a little bit more on that part. On the total effect on the NII, as you can see, on the peso book is 0.4% of the NII and on the dollar book is around 0.5% for the NII. So I would say, we are in a very good position for the cycle.

Now if I move to the expense line that there have been obviously questions about what happened on the expense line. We have seen that Banorte on the '23 basically anticipated many things and we finalized also very important milestones. We migrate to 2 new data centers in '23. We now finalized that process on that part. It was a big move for us because that allow us to increase the resiliency and the reliability of the operation. But I think to build up 2 new data centers, obviously, we have an effect on the expense side that will not be present as full in the '24.

The other thing that we did is that we put a lot of strength on our commercial team and corporate team and SMEs by increasing in a very important way the number of bankers that are really serving the impact of the nearshoring on the tourism side. And that shows in a very efficient way when you look at the growth that we had on the corporate book around 20% and SMEs 32% with very sound numbers on the risk metric. So all that investment is already paying for us because that is already putting on the books in a very efficient way. But obviously, that has an impact on the growth on the expense line.

If I go to the recurring, as you can see on the 5.4% and I start adding up the numbers, the IT and the strengthening on the commercial team and SME teams, now it's moved from 5.4% to 6.2%. And that when you add all those numbers too, you get 11.6%. That 11.6% is in line what we anticipated on the guidance. And based upon that, we really also based upon a lot of efficiencies that we achieved through the year that I will move in a minute to show you some of those.

We decide to anticipate expenses for '24 when we have to accommodate now the full operation of bineo and also the Rappi operation, the portion of the Rappi operation that we have consolidated. So I think we are in a prudent way anticipating the expense line, because we have a space to do so based upon efficiency. So net interest expenses are around 11.6% with very sound cost to income ratio of 36.2%. As you know, our goal is to go to 34% cost to income ratio. That will not happen in '24 and that will start to happen in '25.

So when you see the graph on the lower right-hand side, you will continue to see that the revenue continue to grow at a very fast pace. And you see the upticks that you see every December, because we have the discipline that we have room to anticipate expenses, several expenses, because, as you know, every single year, the non-performing, we do the several deposits on the non-performing part of the organization.

So I think the expense line shows an increase on that. I think it's a very clear explanation for that. Investments putting a lot of people into the field to take advantage of the nearshoring and also, the transformation of our branches.

If I now move to a graph that really shows exactly what I was telling you, where the efficiency are, you can see that this graph that shows on the red line starting from 2016, what was being the increase on the net income 2.7 times since 2016. And you can see that the investment in technology has been above that 3 times compared to the 2016. But if you see what's happening on the human resources and operator and administrative and facilities, that has gone down in a very important way. No matter the fact that obviously the size of the bank has increased substantially, the operation of the bank has increased in a very important way. So, we are now much more efficient per transaction, per operation in the bank, continue to invest in technology, continue to put our commercial bankers and SME bankers where our customers need to do so, and also transforming the branch network in a much more efficient and, I would say, friendly type of branches for clients. So this is the story of the expense growth.

Now, if I move to the capital numbers in a more detailed way, basically, you see that the liquidity ratio hovers around 161 and the capital ratio is around 20.7. That capital number will continue to grow in the first quarter to reach numbers above the 21 again. And as Marcos mentioned, our policy for the dividends is the 50% policy that we have. But we anticipate that based upon the results and the capital adequacy ratio, we will continue to look for ways to join our investors in the best possible way.

If I move to the guidance, and let me be clear about this, there were some concerns because we didn't publish the guidance yesterday. I think this is a much more disciplined way to present the guidance when we have the time to really explain the lines of the guidance, instead of just sending information without the explanations that are needed for the guidance. That was the reason that we are publishing the guidance today.

If I go to the guidance and that we first promised on the '23, the loan growth we achieved above the guidance, 12.2. And as we mentioned through the many meetings that we have with you, because we are very selective on the loan growth. We have parts of the Group growing at 20%, others at 32%, where we see that we can really grow in a very sustainable and a very sound way, really increasing the relationship with our clients. The NIM we promised 6.2% to 6.4%. We stay at 6.3% for the Group and the NIM of the bank, 6.5% to 6.7%. We are at 6.6%. The recurring expense growth was 7% to 8%. We are at 5.4%, better than that. Total expense growth, we anticipate 11% to 13%. We are sitting at 11.6%, even when we anticipate all the things that I just mentioned to you.

Efficiency, 35% to 37%. We are sitting at 36.2%. As I mentioned to you, our goal is to achieve in '25, 34%. The cost of risk 1.6% to 1.8%. We stay at the low part of the guidance, 1.6%, with the sound numbers that we have been producing on the risk side. Tax rate at the middle 24% to 26%, 25.6%. Net income 5.1 to 5.3, 5.24, very closer to the high end. Return on equity 20.5% to 21.5%. We are at 21.4%. And we will try to continue to push that number up. Return on equity of the bank 27.4%. We anticipate 26% to 28.5%. ROA, 2.3% to 2.5%. We are sitting at 2.4%.

As you know, GDP moved from the estimation that we have at the beginning. But I think we deliver what we promised and we were able to anticipate investment when we need to anticipate investment, strengthening the commercial force, strengthening the SME force, evolving a lot in the technology side to allow us to compete with anyone that comes into the market.

I would like to now move into the guidance. On the loan growth for this year, we also are anticipating a 10% to 12%. The net interest margin for the Group to 6.1% to 6.4%. Net interest margin for the bank 6.3% to 6.5%. Recurring expense growth 6% to 7%. Total expense growth 13% to 14%. This includes the organic growth of bineo and also the JV of Rappi that really doesn't have any material impact on the net income on that part is basically on the expense line. And you will see that number start to decrease in a very important way to terms.

Cost of risk, 1.8% to 2.1%. Tax rate, 25% to 27%. Net income, 56.8 to 58.2. Return on equity, 21% to 22% for the Group and for the bank, 27.5% to 29%. ROA 2.3% to 2.4% with a GDP of around 2.1% to 2.7% that I think we will be much more closer to the 2.7% than the 2.1%. Inflation rate, 4% to 5%. And the reference rate that we have put in for the budget for the year is a 10.6% reference rate.

Based upon that, as you know, this is a peculiar year for Mexico and also for many parts of the world. As I mentioned before, the world is not quiet, but I think we can perform in the way that we have been performing, taking into account all these initiatives and also how we have been strengthening every single part of the Group, investing in every single part of the bank in order to be able to compete in a much more efficient way that we've seen.

So now we open for the questions. Marcos, if you...

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

Thank you, Rafa. Tomas, back to you.

QUESTIONS AND ANSWERS

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

(Operator Instructions) We are now ready to start the Q&A. The first question is from Tito Labarta from Goldman Sachs.

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

I guess the question on the expenses, in particular, to start, you said you anticipated some expenses, although your expense growth guidance is increasing a bit. I know you have all the digital initiatives in bineo coming this year. But just to help us think about why the increase, given the investments that you've already been doing? And do you think you already start to see the benefits in 2025 and the expense growth should slow down? Or do you think this will be a more recurring sort of type of growth for maybe just a couple more years given all the digital initiatives that you have?

And then just the second question on insurance. I know the quarter was impacted by the hurricane, overall profitability continues to be very strong. But any color on that just given some of the volatility we've seen throughout the year on the outlook for insurance for this year?

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

Regarding the expenses, I will call it the good expenses or the bad expenses, we have the technological part, which is the good part, and Rafa will go through these. And the second one, I will ask Fernando Solis about the insurance thing. First, Rafa will talk about.

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

The expense line, as I mentioned, we think '24 is where we will be peaking on the expense line. There are many initiatives that are not by weakening any of the initiatives that we have on the commercial side on the technology side. But I think we will be very aggressive on the shared services and the economies of scale that we can produce by bringing most of the back office operations into the central part of the bank that I think that will reduce in a very important way the recurring expenses that allow us to really anticipate the incorporation of bineo and Rappi on that part. So I think '23-'24 is where we will be peaking on the expense line, then we will again trend to the usual numbers that we have on the expense line on a very disciplined way because the recurring expense lines continues to be very well under control. And I think we will continue to bring down the recurring expense line by the shared service initiatives that we are, as we mentioned, starting at the bank.

We have been doing that, but in a very, I would say, not as aggressive as we needed to do. I think we will be very aggressive this year on that part because we need to put that space to accommodate the bineo line on the expense line. And that will be based upon these economies of scale that we can get by really centralizing a lot of the back office operation plan. So '24 is the peak and we will start to see a very important downward trend in '25. Cost income ratio will continue to be reasonable around 36% as we mentioned, because the revenue line, we will continue to precise revenue line based upon all the investments that we have been doing in the past. But the expenses already reach an uptake on that front.

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

Solis, please walk through on the insurance part of the outlook.

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

Well, I should start perhaps saying that Otis has been one of the most important catastrophes that have been seen for the insurance sector. However, not for our book because as was mentioned by Marcos in his presentation, we had a catastrophic excess loss insurance. And therefore, our maximum probable loss was $5.4 million. So that was the impact in our books, all the other amounts of money that we would have to pay for the claims that we have been receiving will be paid by their insurers that they participate in this catastrophic reinsurance plan. And that is what has been reflected in the book rate. And we will not see any further impact in the book this year because of Otis.

And in terms of the outlook, both as you know, the insurance growth, the premiums, the growth of premiums are highly dependent on the loan portfolio because most of our products are cross-sell when we sell consumer loans. And therefore, we would expect that the growth of the premiums and therefore, even the margins, which will be sort of reducing to some extent because of the interest rates, but I don't think that we'll have a very much important impact next year. So we think that we will have also a very, and the guidance will be to grow similar to the net to the growth of the net earnings of the bank. That's what I would say for insurance.

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

Okay. That is very helpful color on both fronts. So just one quick follow-up on bineo, has that already launched? Or when specifically does that start? And any color on how quickly you can maybe ramp up clients, some profitability and I think more longer term, but just how that could contribute in the short and midterm?

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

We will have a special date on the 29th of this month, and we are inviting you.

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 next question from Yuri Fernandes from JPMorgan.

Yuri Rocha Fernandes ***JPMorgan Chase & Co, Research Division - Analyst***

I have a follow-up on this revenue growth. If I'm not mistaken, I understood in the call that you are calling for double-digit revenue growth. And looking to the guidance here on the NII at least, like loan growth 10% to 12% and some marginal margin pressure, we should see noninterest income accelerating, right? Like you were discussing insurance, you should see fees. So my question to you is how strong we need to see the noninterest income to offset a little bit of the topline pressure, so you can deliver this double-digit revenue growth. Like is this insurance? I don't know, [patient] business is likely at the bottom. What will drive this noninterest growth for Banorte in 2024?

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

Rafa, please go ahead.

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

Yes, I think as you mentioned, we go to the revenue line, I think as you can see that the margin, there will be some compression on the margin. But I think the fact that we are pushing down the funding cost that will allow us to have a very reasonable margin at the bank level around the 6.4%, 6.5%. I think we can achieve that.

If we move to the fee side, as you can see on the number that we present on that part, fees continue to be very, very active for the Group because our growth on the consumer side on the loan side and also on the corporate and the commercial and one important thing that you see when you see the number of the corporate growth that we are growing 20% on the commercial side and SME is because the transactional side of those businesses are also growing very fast. So the fee side on the commercial on the corporate and also on the SME are becoming also very rich. That will also compensate any pressure that we have on the margin. The activity on the branches continue to be very strong.

We used to have opening of accounts a year ago of 1.2 opening of new accounts, really, what we call value accounts per day. Now we are at above the 3.4 per day per branch. So you see a lot of activity running all across the bank. On the car loans, 32% of the car loans that pushes the insurance side of the business and also the fees that come in with that. And so I think we think we can compensate any issue that we have on the margin threshold by the full activity that the bank is having in all the parts of the business, starting on the corporate all the way down to every single basic consumer product and also the banking fees related to transaction merchant, POS, all that is growing at a very fast pace. If you see the numbers. So I think the good thing about Banorte is that we are very well balanced bank, we are not dependent on the fully on the margin, but we will really take good care of the margin. But every single part of the business is on a growth phase.

Yuri Rocha Fernandes ***JPMorgan Chase & Co, Research Division - Analyst***

No, super clear, Rafa. If I may, a second and final question, just cost of risk, like looking here, I think one of the things that called my attention was the increase in cost of risk. It was 1.6%. The midpoint is closer to 1.9%, 1.95%. So why has cost of risk accelerated as much? Is it just the pace of growth? Is a mix? Like what is driving the cost of risk increasing your 2024 guidance?

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

Let me start with the financial side, and I will pass to Gerardo with the risk side. When we set up a budget, Yuri, we basically do the pessimistic approach, the optimistic approach and the realistic approach. I think on the risk side, even if we are very confident that we have the best risk models and onboarding processes, I think we have seen very strong labor demand on Mexico. We have been a healthy consumer. Companies are becoming strong. But I think we are being prudent on this one. And I would like Gerardo to my accompany on this.

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

Sure. Yuri, I will complement what just you heard from Rafa that excluding COVID provisions, cost of risk is significantly below pre-pandemic levels still, behave the cost of risk is explained by outstanding results from controls implemented to preserve credit quality during a national COVID pandemic such as a more selective loan origination for retail portfolios, case-by-case reviews of commercial and corporate clients and debt destruction for specific loans, among others. The implementation of the general rate-based model has also allowed to improve origination, monitoring recovery and allocation versus regulatory and internal models.

I will also add that we have made a very good collateral management from our collections department. Legal counsel has been very active, participating in those assets that doesn't comply with the required credit quality. And we have provisioned and improved loan structure and covenants, risk-based pricing, effective workout strategies and early detection and intervention. We are very optimistic that cost of risk, although it is going to increase, is going to be very stable through time because of what I just told you.

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

And remember, Yuri, when you started growing the consumer book, on day 1, you have to put provisions on the book. So that's part of the uplift that you see not because of deterioration because one thing that is mandatory for Banorte is that if we don't like the risk, we don't like the client. And if we have to sacrifice some margin because we like the risk we will do so. That has been the strategy for the last 2 years and that we'll continue to see.

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

Then over that you see on the risk side are much more in a conservative way based upon the potential growth that we see on the consumers.

Yuri Rocha Fernandes ***JPMorgan Chase & Co, Research Division - Analyst***

No, super clear, guys. And in the end, this is still below like historical levels. And I think the delta '24 versus '23 is a little bit higher because of the reversals you did on COVID and others. But super clear.

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. Before we move to the next question, we have been receiving e-mails asking for the guidance. Just wanted to let you know, it has already been updated in the conference call in the investor web page. Now we'll move with Jorge Kuri from Morgan Stanley.

Jorge Kuri ***Morgan Stanley, Research Division - MD***

Congrats on the numbers. I wanted to ask you about your guidance for loan growth, 10% to 12%. You did 12.2%, I believe, last year. So especially at the low end of the guidance, the 10%, that's a deceleration vis-a-vis last year and even at the high end of the guidance of 12%. Given what you're seeing on nearshoring, given that you're talking about accelerating the investments because growth is accelerating and you're hiring a bunch of people, Rafa just talked about strong consumer and strong employment. And I guess I'm not getting why you wouldn't be able to grow more than in 2023. And again, you're making a lot of investments for that. So those things, I'm not sure I'm understanding, maybe the guidance is just too conservative, but we would appreciate sort of like your fair assessment of what could potentially happen in 2024, seems to me that it's more likely than not that you're going to see an acceleration of growth this year vis-a-vis last year. So that's my first question.

And then my second question is trying to understand the low and high end of the guidance for net interest margin. Is it just basically related to wherever Banxico rates end the year and each of the low and high end has different rate assumptions. And I'm asking because it's not a small gap, right? I mean, it will be a very different P&L if you end up at 6.4% versus 6.1%. I actually don't know that, that even would get you sort of like consistency to your net income, like 6.1% would seem a pretty dire scenario. So I just wanted to understand that range.

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

The first one is yes, it's done. We're looking for a realistic number. And remember, the GDP is going to be less. We have the electoral year that basically different, the auto loans were growing a lot and now it is impossible to grow 35% again. So the combination of all this is giving us this number between 10% and 12%. We can run the numbers, but you are right, maybe it's too low, maybe it's too high, we don't know. But the way we see this is that we will make adjustments in a few months and discuss with you openly what's going on and how we can manage to grow more or less depending on what's going on. This is a realistic number because we think it involves everything that we see right now in the 2, but we don't know what's going on. And I don't know what to say more on that. And the second one, the NIM guidance please, Rafael, walk us through.

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

Yes. And the question that you mentioned, Jorge, I think the number you should be looking at the bank level is a number that should be around the 6.5%. That's the number that we really think that we could achieve on the margin of the bank. Based upon the equilibrium that we now see on the funding cost and also how we are really developing the fixed rate part of the book. So if I tell your second question with the first one, and it has to do with what Marcos mentioned about updating the guidance as we see the evolution of the market. Remember that last year, when we set up the guidance at the beginning of the year, we said 5% to 7% loan growth, and we end up very close to the 13%.

The 10% to 12% that you see is heavily affected by the government book. If I treat the government book, what you will see is a number very close to the 14% for the consumer. That is the one who will be pushing up the margin. Remember that the government book is very thin on the margin, very strong return on equity, very rich on the fee side. But I would say that if you really strip how the mean is being built up, it will be basically the consumer will be pushing up the number. The fixed rate part of the book will be holding off the rates on the upward trend. You will see a reduction on the margin on the variable rate part of the book that is the corporate and the consumer. But it will not be so severe because the number will be dropped on rates from 11.2% to 10.8% for the whole year. So I think the number that you should be looking for the bank, Jorge, you should see the 6.4%.

And the other one about the growth, as I mentioned, if we see as last year, when we changed the guidance from 5% to 7%, then we move to 10%, then we moved to 12%. But I think the number that you are looking at 10% to 12% is basically that we are taking away the federal part of the book and the states and municipalities. So I think you will see a very reasonable growth on the SME, on the commercial, on the corporate and the consumer that will bring us maybe above the 12%. It will see that the evolution or the evolution of actions and everything is in the way that we think we will go. But right now, we'd rather be prudent, but please keep in mind that, that 12% really more portion to strip the federal and the state municipalities book.

Jorge Kuri ***Morgan Stanley, Research Division - MD***

No, no, go ahead. Marcos, go ahead.

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

I don't know, each for 3 months, we posted what's going on, and we would move (inaudible).

Jorge Kuri ***Morgan Stanley, Research Division - MD***

Yes. No, thank you. I actually think that, that explanation of looking at the book without the government gives you much higher growth, then that makes sense relative to last year relative to the underlying macro conditions and to the fact that you're making those investments.

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

We'll now go with Olavo Arthuzo from UBS.

Olavo Arthuzo Duarte ***UBS Investment Bank, Research Division - Research Analyst***

I have 2, but my first one is related to the NII sensitivity to policy rates. I mean you guided a reduction to something around MXN 500 on Slide 19. But do you think along this year, that it's possible to reduce even further because my point here is just understanding, but on your NII, you think of the possibility of changes in expectations for the policy rate cuts this year? And also trying to understand a little bit more on the impact for 2025 when we should see the average policy rate at single digits. So the floor should be that 500 up or do you think you can like reduce even further at that level of sensitivity?

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

Remember, we started with MXN 1.2 billion, and now we're at MXN 500 and yes, we can do it even further. Rafa, please update.

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

No, yes. What Marcos says, the 582 that you see now, we are trying to push that number the 500 and below the 500 on the peso book. And now that we have more clarity on the dollar book also, that will be trending down. The NII, as you mentioned, is 0.5% on the peso book and 0.4% on the dollar book. I think the key question that you are asking is what's going to happen when you go to interest rates, 10.8% that we see the rates for this year and what will happen for next year, if we go to single digit. But will it happen in single digit. This would be in a way beneficial for us because we already, in a way, put away the sensitivity on the balance sheet today. So we already play for that.

And as you know, now if you look at the fixed rate part of the book, and you put everything together, the fixed rate part of the book, including the hedges, is 58% now of the total book. So the more the interest rates go down, the fixed rate part of the book will really start to build up the margin in a very important way, in the same way that the variable rate part of the book helped us on the way of that was basically the commercial, the government and the SME and the corporate book. So I think when we say that we are well positioned for that is that the sensitivities there, the fixed rate part of the book has been growing in a very important way in order to really shield the balance sheet for the downward trend, in the same way that we anticipate the upward trend, and we take full advantage of the upward trend sensitivity on the variable rate part of the book. What I think is remarkable for the bank is that we really build up the fixed rate part of the portfolio in a very fast way and in a very secure way.

Olavo Arthuzo Duarte ***UBS Investment Bank, Research Division - Research Analyst***

Yes, I think that was my follow-up. That was my follow-up on 2024, but you give a great color on this. And my second question, just really a broad question to understand your views on DiMo so far, Dinero Movil because we know that this is a recent initiative on payments in the country and still have a few weeks about it. But just to know your view on this, can you just elaborate a little bit about this platform and also considering in this context the performance of CoDi so far? So few words. Do you guys see DiMo as a good and important tool to gain relevance over the means of payment in Mexico or the performance could be similar to CoDi, the adoption similar to CoDi?

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

Paco Martha will elaborate on this, please.

Jose Francisco Martha Gonzalez ***Grupo Financiero Banorte, S.A.B. de C.V. - MD of Digital Businesses***

Well, we are working with the Central Bank trying to push DiMo and CoDi both with the differences between them. We perfectly understand that everybody is trying to compare these with Pix in Brazil. There are many contextual differences between the payment systems in Mexico and Brazil when Pix was launched. From our perspective, all is that the big challenge of the account opening in the financial system will remain although you have the payments way. So we are still working with the government to see how we can push the aim to the lower income accounts that can go more deep in the market, so people can use them instead of keep using cash. Bottom line, we don't see that it's going to happen until we have this fiscal challenge in the government.

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 continue with Rafael Frade from Citi.

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

I have a question related to the credit growth in the quarter. You mentioned that there were some operational issues in the commercial side, if you could give a little more color on that?

And second, on payroll. Also, you mentioned that you have been more sensible to competition to risk. So you feel also you could give more color on what's going on there.

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

There was no issues on the conversion side at all No, no, no, no. key corporate growing 20%, the commercial book growing 12%. So there were no issues at all on the commercial side. I think what you see more and more in the bank is that we go with clients that we have a deep relationship on that, and that's the way we grow on that front. On the payroll, remember that we discussed in many meetings when you see the numbers coming from the CNBV, what is happening in Mexico on the payroll, and we anticipate that and we took the actions is that the labor demand is so high in Mexico and wages start being increased in a very important way, demand for labor is very strong.

So people move from one side to the other, from one company to the other at a fast pace. And sometimes what happens on the table is that you kept the loan, but the table goes to another bank. So what used to be a very easy way to collect from the payroll now becomes a personal loan. And that takes around 3 months to balance out that operation. So that's what we are being more conservative on the payroll because we now need to understand what the stability of the labor force of the company that we see. We are working with any single company, but we like to understand more what's the behavior of the clients that have been applying for the payroll loan.

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

If I might add from the payroll loan book providing you some additional color, in the third quarter of 2023, the portfolio registered a contraction quarter-over-quarter of 1.3% as we favor selective growth as Rafa was saying. We focused on the lower-risk segments. However, year-over-year payroll portfolio rose 10.5% as inflation has proven more persistent than originally expected, boosting demand for such loans. In terms of asset quality or NPLs, we saw an increase quarter-over-quarter of 20 basis points to 3.3%. However, early default metrics have significantly improved in December, such deterioration is explained by the slowdown of the denominator. Year-to-date, growth rate in loans regarding nongovernment have outpaced government like that's evidence of what Rafa just said and changes to our strategy, which have been executed in the past couple of months have been showing positive results in terms of NPLs and also on transition risk.

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

Okay. We'll now go with Mario Pierry from Bank of America. Mario, we can't hear you. We can come later for him. We can go with Nicolas Riva also from Bank of America.

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

Some questions on your AT1 and Tier 2 capital. If you can discuss a bit the kind of the optimal level of AT1 capital you would like to have. As of now, you have about 570 basis points of AT1 capital. You already have the call option on the 6.75 in September. If you can discuss if the expectation will be perhaps to retire some of these from dated AT1s and to replace them with Tier 2 capital, which you mentioned in past earnings calls. And also besides the AT1 and the Tier 2, if you can discuss if you have any senior funding needs in dollars for this year.

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

Good question. Rafa, please update.

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

No. I think, Nicolas, as we have been mentioning, the way we approach the market is in a very selective and opportunistic way. The AT1s have been very useful for us. If we see that there's room for us to go to Tier 2 or we will do whatever is best for the balance sheet. We are not close to any initiative at all. Usually, the average that we have been having on this type of instrument of capital instruments is around 30% of the total capital number historically. Now we are below that. We are around 26% on that part. So I would say that we like the

AT1s. It depends on how the market is being presented for us. So we are as always opportunistic on that, going on to the funding side on the dollars, what we have been experiencing in the past year.

And I think we are also very, very happy with that is that the funding side in dollars has been growing at a very important base for us. So they need to go into the market as we needed in the past to in order to compete in the dollar group because we were in a way, seen on the dollar group on the dollar funding side, now the funding side on dollars have been growing in a very important way for them. So that also takes away any pressure that we need to go into the market and issue any more capital notes that can really build up the dollar book. So I think we are in a very good position to be very selective about how we would like to keep on building capital not into the balance sheet. But I think if you look at the history of Banorte, it's around from 26% to 32% of the total cap numbers that we have seen. So we are, as always, by law, we cannot say that we will follow the calls, but we will always follow the calls.

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

One follow-up question. When you say usually about 30% of our capital structure is in these instruments, you're talking about the combined AT1 plus Tier 2, meaning you could potentially, again, retire some of the AT1s and replace them with Tier 2, depending on the coupon differential between the AT1s and the Tier 2s?

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

Exactly right, Nicolas.

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

Mario Pierre sends his question, he has some answers with the audio. His question is about capital distribution. He says he would expect a return on equity of more than 20% and loans growing around 10%. The bank should be generating excess capital. In addition to the high levels that you already have, what level of payout ratio can we expect in 2024? And what about buybacks?

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

As I said as evidenced by the numbers, the internal capital generation has been consistently strong. Therefore, we expect to continue storing all the possible alternatives to record value to our shareholders. And that's all we can say so far. We don't have any other number in mind, no, Rafa?

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

No, no. I agree with Marcos. What you can be sure is what Marcos says, we are looking at every single way to compensate our shareholders in the best possible way. Last year was 82% of dividends of net income. And I think the capital generation allows us to have a lot of possibilities as Marcos says to really reward our shareholders.

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

Okay. We'll go with Edson Murguia from SummaCap.

Edson Murguia

I have 2 of them. The first one is related to the JV. You mentioned Marcos or Rafa, that during the fourth quarter, you fully controlled the JV and Rappicard is part of the (inaudible). So my question is, it means that the joint venture with Rappi it's no longer undergoing. And the second one is regarding on the nonperforming loan specifically about (inaudible). In the report, you mentioned that the nonperforming loan is 3.3%. But in some remark, you mentioned that it's 2%, 3%, I think, perhaps is a target.

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

Regarding our JV with Rappi, yes, we announced that since November, we acquired controlling in the JV. We are still partners, but we have more control than they do now. So that's why for now, you will see the JV financial information reflected line-by-line consolidated in the financial group now. And now you will have a disclosure in independent financial metrics. And we are happy with the numbers in the sector that they are located, the NPL is not bad. You're going to have...

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

No, the impact is around 30 basis points in the NPL for credit cards. And Marcos mentioned, we will be providing more information on this in the upcoming quarters.

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 go now with Andres Soto from Santander.

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

My question is regarding the guidance for 2024, more in the context of your long-term or your 5-year plan. When I look at your ROE expectation for next year is not different from that over the medium term. And then over the medium term, I assume you are expecting lower interest rates in Mexico and that to produce a significant NIM compression. So I would like to understand what can investors expect to be the levers that are going to drive to offset the NIM compression at the ROE level? Is it efficiency or looking at your cost of risk guidance, it looks a little bit high to me. And particularly when we discussed this before, I understood that you guys were feeling more comfortable with lower levels of cost of risk going forward, closer to 1.7%. So I would like to better understand what are the drivers for first, cost of risk guidance in 2024. And sorry for asking this again. And over the medium term, what are going to be the levers for keeping your ROE at these high levels?

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

First, let me highlight again the commitments that were presented in Banorte Day, and then I will ask Rafa to answer. The key commitments were double-digit net income growth for the next 5 years, ROE between 19.5% and 21.5%, ROA be 2.2% and 2.6%, NIM between 6% to 6.3%, and cost of income (inaudible). Rafa, please...

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

Yes. I think when you look at the structure that the balance sheet of Banorte shows is that more and more of the consumer book is gaining share on that part. So that gives us a better yield. The number that you see on the cost of risk is when we start up the budgeting process and we set up the guidance at the beginning, we look at all the elements that are surrounding the numbers, the economy, the potential elections and things. But I think the numbers on the cost of risk will start to go trending down as we have been always doing that. So if you ask me what are the levers is very strong loan growth on the consumer.

And when I say strong loan growth is very safe loan growth on the consumer with very reasonable returns on the margin. And even if interest rates go down, remember that the funding cost also goes down. So when you have the balance sheet on a 58% fixed rate and 44% variable rate. Both of them benefit much more the fixed rate part of the book, but also the variable rate part of the book. I can give you a very simple number that will give you some idea of the levers when you balance out the funding costs against the growth on the asset side. If you grow the asset side by 1% more, the total book. But if you reduce the funding cost by 1%, the funding cost reduction by 1% gives you around MXN 1.4 million. The asset growth around 1% gives you MXN 200 million. So MXN 1.2 billion against MXN 200 million.

So you see that sensitivity on the balance and how the margin has been affected by the funding cost because the structure that we have on the asset side gives you that where the levers are. The levers are really on the funding side, very sound cost of risk on that part because what we now also prove to the market is that we can grow the Group at a very fast pace in a very secure world. So all those are the levers that will allow us to have very reasonable margins even though the interest rates go down, I think the terminal interest rates will be around 5.5% for Mexico, maybe in '26 on that part. So I think maybe (inaudible). So I think we are very well positioned for that. And on the cost of risk, we assure that it will go down.

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

That is very helpful. And then a follow-up on the dividend question. When I put your guidance in my numbers, I closed the year well above 14% core equity Tier 1. So you have mentioned before your target or the level you feel comfortable with is in between 12% to 13%. So it will be reasonable for investors to expect the initial payout of 50%, as you just mentioned, but later on the year, another 32% as you did in 2023?

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

Yes, that's one of the avenues that we are exploring, yes.

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

We'll now go with Jitendra Singh from HSBC.

Jitendra Singh ***HSBC, Research Division - Analyst***

So my question is on any potential regulatory risk, especially given it will be an election year. So do you see any kind of regulatory risks like maybe potential fee limitation or regulation on any other line of business which could impact your business? So I just wanted to get your quick thoughts on that.

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

We don't have the crystal ball that as far as we can see, we can say that we don't see any regulation that would affect us. So if we see something we would say to the market immediately. But the way we see teams, we are not seeing any impact because of new regulations. But thank you for asking that.

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. 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***

Have a good day. Thank you.
