

Company Name: Banorte
Company Ticker: GFNORTEO M
Date: 2024-07-24
Event Description: Q2 2024 Earnings Call

Market Cap: 417668.70524012233
Current PX: 144.85000610351562
YTD Change(\$): -23.23
YTD Change(%): -13.821

Bloomberg Estimates - EPS
Current Quarter: 5.104
Current Year: 19.785
Bloomberg Estimates - Sales
Current Quarter: 37752.333
Current Year: 151004.66700000002

Q2 2024 Earnings Call

Company Participants

- Tomas Lozano, Head of Corporate Development, Investor Relations and ESG
- Jose Marcos Ramirez Miguel, Chief Executive Officer
- Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer
- Gerardo C. Salazar Viezca, Chief Credit and Risk Officer
- Alejandro Padilla, Chief Economist and Managing Director of Research

Other Participants

- Yuri Fernandes
- Ernesto Gabilondo
- Natalia Corfield
- Brian Flores
- Renato Meloni
- Jorge Kuri
- Jorge Perez Araya
- Tito Labarta
- Carlos Gomez-Lopez
- Edson R. Murguia
- Diego Martinez
- Nicolas Riva

Presentation

Tomas Lozano, Head of Corporate Development, Investor Relations and ESG

Good morning, everyone. I'm Tomas Lozano, Head of Corporate Development, Investor Relations and ESG. I would like to welcome you to Grupo Financiero Banorte's Second Quarter Earnings Call. We will begin today's presentation with our CEO, Marco Ramirez, who will provide an update of the political and macroeconomic events that surrounded our second quarter's operation, followed by an overview of the group's main results, our quarterly update on sustainability, as well as details on our capital allocation strategy and buyback activity. Then Rafael Arana, our COO, will walk us through the evolution of the margin and balance sheet sensitivity, as well as details on asset quality and efficiency, among other relevant updates. Please note that today's presentation may include forward-looking statements that are subject to risk and uncertainties, which may cause actual results to defer materially. On Page 2 of our conference call deck, you will find our full disclaimer regarding.

Thank you. Marcos, please go ahead.

Jose Marcos Ramirez Miguel, Chief Executive Officer

Thank you, Tomas. Good morning, everyone. Thank you for joining us today. The second quarter of the year show a sound evolution, despite the volatility brought in by the Mexico's electoral period. In early June, Mexico held its largest ever election, including the state, municipal and Congress positions, with Claudia Sheinbaum resulting in becoming the next President, set to take office on October 1. The ruling party secured the qualified majority in the lower house, which

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was perceived by the market as uncertainty regarding the government's checks and balances. However, this concern has somewhat been addressed by the President-elect, emphasizing the importance of macroeconomic stability, fiscal discipline, rule of law and the independence of the Central Bank during her upcoming administration.

The new government has also expressed support for an economic model involving more public-private associations to drive infrastructure projects for the country and has also acknowledged the importance of nearshoring opportunities for Mexico. The cabinet appointments so far seem to support this expectation for the next administration. I would like to highlight that over time, Banorte has had respectful relationships with many different government administrations and we are confident this will continue to be the case as we execute on our strategic plan. For 2024, we expect the Mexican economy to continue to be resilient, despite the local and global volatility. Domestic demand will continue to be the main driver of growth, due to private consumptions and investment, driven in part by nearshoring.

Considering the uncertainty regarding the government transition period and the U.S. election at the end of the year, we adjusted our GDP growth expectation to 1.9%, slightly lower than the 2.4% we forecasted at the beginning of the year. Nevertheless, we maintain an optimistic outlook for our potential loan growth in the year, as we see a strong pipeline of projects and investments with our clients. Annual headline inflation continues to trend down compared to the extremely high levels of services at the end of 2022. However, it's still above the Central Bank's target of 3%. We are slightly revising our year-end forecast by 10 basis points to 4.4%. Regarding monetary policy, the reference rate remains at 11%. Today, since the end of March and with the leap the Central Bank will continue with a gradual easing strategy with cuts in August and December to end the year at 10.5%.

Despite the defensive behavior of the Mexican currency for most part of the year, the recent correction was driven by external and idiosyncratic factors. Therefore, we expect the currency to reach around MXN18.90 per dollar at the end of 2024. Moving now to Slide number 3. Financial results for the quarter continue to portray sound operating trends with expanding lending dynamics and fee activity, both driven by a strong internal demand. Asset quality is monitored with strict discipline, as reflected in our risk metrics, and structurally, we continue to reduce our balance sheet sensitivity, decreasing our dependence on rate cycles. NII sensitivity is currently at MXN364 million for every 100 basis points change in the reference rate. Our capital adequacy ratio stood at 20.2%, given our strong internal capital generation. In this regard, we are constantly analyzing our capital allocation strategy. I will provide more details on this in a moment.

Starting off with profitability on Slide number 4, net income had a slight 1% decline to MXN14 billion, mainly driven by the normalization of insurance businesses, after the seasonal peak in the first quarter. Net income for the first half of 2024 reached MXN28.2 billion, 8% higher versus the same period of last year, given strong operating trends, mostly at the bank level. ROE for the quarter stood at 23.3%, 125 basis points ahead quarter-over-quarter, despite the effect of the insurance business already mentioned. ROE for the first half of the year improved 155 basis points compared to the same period of last year to 22.6%, driven by sound operating dynamics across most of the business lines. Analyzing the quarterly results by subsidiary, Slide number 5, the bank presented a strong core banking operations, boosted by a more dynamic and higher-quality lending activity, larger net fees and an efficient expense management. Altogether, these results yielded a historically high ROE of 31.5% for the quarter, 539 basis points higher sequentially.

With accumulated figures, ROE stood at 28.7%. As I mentioned before, the insurance company results were impacted by a normalized premium origination after the seasonal renewal of a large proportion of the policies during the previous quarter. However, in accumulated basis, business generation continues to expand, driven by the bancassurance model. The annuities business had a sequential decline, given the inflation-related movements in the margin. With accumulated figures, the annuities business improved, thanks to higher business generation, given the reactivation of resolutions issued by the Social Security Institute. The broker sector quarterly and annual declines were mostly explained by securities valuation. As for the pension fund, the Afore, the sequential business performance was affected by lower yields on financial products.

Loan portfolio, Slide number 6, continues to expand, focusing on a diligent balance between asset quality and funding costs. Loan expansion continues to post double-digit growth across most of the portfolios. The corporate and commercial books growing 23% and 12%, respectively, led by the expansion mostly from a strong investment pipeline in the export sectors and continued business development with SMEs supported by the investments in personnel and

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infrastructure in 2023. During the quarter, FX variations had a positive impact in the dollar loan book, which currently represents 13% of our total portfolio. The government book grew 11% in the year, given short-term movements in the federal government portfolio. Overall, consumer lending on Slide number 7 maintains its double-digit growth driven by a strong consumption dynamics on the back of higher employment levels and better labor conditions.

Our focus on hyper-personalization is contributing to the growth in this portfolio by acceptably addressing our customers' demands with relevant offerings to retain and develop their lifetime value. The mortgage portfolio remains one of the main growth drivers, expanding MXN20 billion despite a more restrictive risk approach. We continue to prioritize customer lifetime value over short-term margin gains with a strategic preference for customers with low leverage and high credit quality profiles. The evolution of the credit card portfolio growing 24% year-over-year was primarily driven by the enhancement of our self-service capabilities, higher transaction volumes and the integration of the Rapid Card portfolio since December of last year.

Federal loans are performing ahead of expectations, growing 8% in the year with a high number of application despite our prudent approach to government entities with administration changes related to the elections. Lastly, car loans show a 23% yearly expansion, mainly driven by our commercial alliances with different dealerships and positive dynamics in the sector overall. This group is consistently gaining relevance in our consumer portfolio. Slide number 8, asset quality continues to perform ahead of our expectations with NPLs slightly increasing to 1% in the quarter, despite higher growth in our consumer and commercial books. This is the result of higher-quality vintages being incorporated into the different portfolios. The sequential increase of indicator responds to unrelated clients in the commercial portfolio, which do not represent sectorial or geographical risks.

Cost of risk remain stable in the quarter, despite our heavier needs in consumer lending. Our free revenue, Slide number 9, grew 3% in the quarter, given higher operation with digital-affiliated businesses derived from the up-sale event in May. With accumulated figures for the first half of the year, net fees grew 60%, led by a more dynamic transaction volumes in consumer products, driven by the increasing strength of private consumption and lower dependence from the external sales force for credit origination. Mobile transactions have had a positive momentum throughout the year, given the ongoing adoption of digital channels and the enhanced digital product offering.

On Slide number 10, our NPS metrics reflect our customer-centric business model. For more than a decade, Banorte has been investing around 13% of its revenues into developing the digital and technological capabilities that can allow us to better understand and predict our clients' behavior and place our customers at the center of our product design and process transformation. The results of this transformation journey that started, as I mentioned, more than a decade ago is reflected in our strong NPS, Net Promoter Score, particularly in our Banorte mobile app, which has been recognized by World Finance as the best consumer digital bank and the best mobile banking app in Mexico, positioning Banorte to compete with any fintech or incumbent player in the market.

There are important challenges ahead, but fortunately, Grupo Financiero Banorte has the strategy, the technology, the processes, and most importantly, the people and culture to address the market's changing demands. Shifting gears to our sustainability strategy, Slide number 11. We are working on different projects with our commercial and corporate teams to identify sustainable finance opportunities using the resources of our recently launched sustainable bond. To complement our sustainable finance offering, I am proud to share that a few days ago we launched our first green mortgage, which provides attractive conditions for customers who are purchasing a certified house or apartment. Last but not least, we published our first report on sustainable investing for our mutual funds companies, showing relevant progress in the amount of assets that we analyze following sustainability best practices.

Finally, I would like to give you more details regarding our capital allocation strategy. As you know, our capital generation remains strong and we are continuously evaluating different alternatives to return value to you, our investors and shareholders. In early June, we started the operation of our share buyback program, which as a reminder was approved in our last shareholders meeting in April for approximately MXN32.4 billion. This program this program represents around 8% of our current market capitalization and we will continue its operation as we see fit, considering the alignment of the valuation with the long-term fundamentals of the group. Our dividend policy remains unchanged. We distributed our ordinary dividend on June 28, at a 50% payout rate and we are still considering an extraordinary

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dividend during the fourth quarter.

Therefore, we expect an additional capital return in the upcoming months through different alternatives focusing on the total return to our shareholders. As we have communicated, our long-term CET targets ranges between 12% to 13%. However, given the current volatile operation environment, we prefer to hold this ratio between 13% and 13.5%, at least until the U.S. presidential election takes place.

Now I will leave you with Rafa Arana, who will go into the detail of the financial results of the quarter. Rafa, please go ahead.

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

Thank you, Marcos. Thank you all for attending the conference. First of all, I would like to thank many analyst and investors called us yesterday to let us align more the conference to you for the main questions that you basically derived to us yesterday, so I would like to address those as we go forward in the presentation. In the first part, I would like to remind you of the Banorte continues to have a very, very strong balance sheet. Everything that we have been doing on a capital basis on the profitability, on the book and everything is to set up the balance sheet in a perfect position to take advantage of the easing cycle. The easing cycle, as you know, has been delayed more than we expected, but based upon all the actions that we haven't taken in the past and that has cost us, but now we are pretty confident about the position of our balance sheet and how that balance sheet is going to play in a very good way for us in the coming months.

The return on equity of the group, I would like just to repeat what Marcos mentioned. We already reached the 23.3% above our commitment to the market that was more on the numbers close to the 22%. The bank, which as Marcos mentioned, a very important number around 31.5%. This has to do with the dividend flow that we sent up to the group, but also with a very important profitability that we are deriving in every single actions of the bank. The transformation is ongoing, and as you know since '18, we set up strategic venues for the growth of Banorte. One was Rapid, that I just want just to comment to you that is it will be the fourth month that on a monthly basis we continue to be on profitable numbers. So the evolution of the business finally is in the right track. Now we understand the market and how we can grow this market. To benefit for the investment that we put in place to understand and learn about this market.

Bineo, there have been many questions about Bineo and I would like to address those right now. The main issue about Bineo when we launched the nail at the beginning of the year in January, what's the response of strategic decision that we did in 2018, but what is relevant to us is that since 2018 to now, many actions have been happen in the market. Many incumbents have come into the market. As you know, many names are now playing in the market. So now we see and we have been adjusting the strategy in Bineo and what we can really tell to you is that we are very confident now that we understand the dynamics of the market. I was moving from the new entrants under the fintechs and all that, that Bineo will be a very strategic position for Banorte in the coming months and years. We are really driving the bank to be ready to have a value proposition in place by the end of the year at the beginning of the next year. But the most important thing is that now we see clear how Bineo could compete in the market and make Banorte a sustainable position for any incumbent that comes into the market.

The net interest margin now for the group is a 5.7%. As you know, there has been the effect on the annuities company that is based upon their inflation related instruments. I will go in a minute when we talk about the NII and expand this explanation, but basically is the result of the inflation -- inflationary effect on the instruments that we hold. And the other thing is a good one that we do grew business 6% on the pensioners, so that's why more technical reserves to put in place. But those are good reserves because of the buildup and growth of the business. The bank is holding a very strong 6.4% net interest margins, 10 basis points compared to the first quarter. And that is the result of two things how we have been preparing the balance sheet, but also the dynamic of the lending side. The loan book, as Marcos mentioned, continued to grow in a very important way, right on track with regard to market to be. But the most important piece of this is also that the funding costs on a marginal basis is also trending down finally.

So we have a good combination of very good loan growth and marginal reduction on the funding costs that is really showing us where the trend is going to be in the next months. Expenses continue to be under control. As you know, we

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have been in a heavy investment process in the last year and continue in this year, but we are holding the cost based upon a lot of shared services initiatives that are reducing the overall cost of the group. Cost to income came to 35.5%. I think we are below what we guide the market and we like to keep the numbers around these rounds, 35% to 36%. Capital adequacy ratio continued to be very positive, 20.2%, and Core Tier 1, 14.1% after paying the dividend of the group and also acting the buyback growth.

If I now move to the net interest of the group and I would like to highlight two things. The first one is that NII for loans and deposits on a quarter-to-quarter basis grew 4%. This is the result of what I mentioned before, very good expansion on the loan book, but also a marginal reduction on the funding side. So very positive 4% quarter-to-quarter growth on this part. The fact that is causing some attention because we received many calls from investors and analysts yesterday about what happened with the annuities business. And I would like to highlight that in a very short information to give it to you. Basically what happened is that technical research in the quarter grew MXN3.5 billion due to increasing premium income as a result of the reactivation of the business. The business is growing in a nice way again.

So when you see also the instruments that are related to inflation, you see an effect on that. And that effect is also augmented by the pace of the buildup of the business that grew on a 6% basis. That what you don't see on much on the net income basis concern the technical research and what happened with the margin on the business. But it's a good research. It's a good growth of the business. It's a good reactivation of the business. And just to give you an idea, on a net income basis, the annuities business grew 22% for the first half of last year compared to the first half of this year. So there were some questions about that. And just to remind you that annuities is 4.3% of the overall net income of the group. So I think NII continues to hold pretty nicely for us. And now that we clarified the annuities fees, everything is moving in the right direction in the NII. The most important thing is what is going on with the loans and deposits.

If I go now on the net fees, you continue to see very good growth on the net fees of the bank, 60% of year-on-year basis. So the activity of the bank in every single part of the business, in the retail side, commercial side, corporate side, asset management, all the bank is moving at a very fast pace and with the clients that we like to have at the bank. That is the -- you see this reflection on the net fee side, the activity that is reflecting there and also on the lending side, how the lending side is growing at a very fast pace. Marcos showed you that, but just to give you two examples. The corporate business '22, '24 year-on-year after a very strong year last year. Car loans above the 20% are the same on the credit card business. The mortgage business is taking its fee on the market growing nicely with the clients that we like to have. Also the payroll business, once you set up the elections year that basically could affect some of the business that we have with the government and this now has been fully reactivated and will be on double digit by the end of the year.

So I would say that the bank, the activity of the bank continues to be very, very strong and very positive on a net income basis. If I now move what is going on with the sensitivity of the group, the sensitivity of the group now is staying at MXN364 million. Obviously to have the balance sheet prepared for the easing cycle as a cost, we already paid for that cost last year. It was not a small cost around MXN2 billion that will be returned to us based upon the mix that we currently have on the portfolio, that 57% is fixed rate now and 43% is a variable rate. So now the variable rate is decreasing the effect on the net interest margin. The fixed rate part of the group, since the rates doesn't go down as fast as we are, we are holding that. So the increase in the margin that you see is the result basically on the volume that we are achieving on every single part of the group. The local sensitivity on the NII on the group, as you can see, at the group level is around 0.2%, at the bank level 0.3%. So I think the balance sheet of the bank is very well prepared for the easing cycle.

If I go -- and the numbers basically devoted to the bank, you see that the bank continues to move into a very important base. The ROA of the bank increased 7 basis points on a year-to-year basis. So now we are reaching the 2.6 percentage points on return on assets, that I think is a very strong number ahead of what we guide the market to be. And on net income for the bank is growing about 13% also year-on-year, that is on a double-digit basis. The return on equity of the bank already has been explained by Marcos, 31.5%, 440 basis points on a year-to-year basis. So that is showing clearly all the action that we have been doing at the bank to increase the profitability, be an efficient operation and also taking extremely good care of the risk.

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If I move just to a graph that shows the effect on the annuities and the effect on the group, if we basically normalize the effect is what the number that you see, the NIM ex-insurance, it would be around 5.8% instead of the 5.7% that we currently have. Another important thing that we achieved on the quarter is in the next part is that the cost of funds on a marginal basis now is trending in the right direction and that has continued as we speak. This is the result of many actions that have been taking place in every single part of the business, the commercial, the corporate, the retail banking, the preferred banking. All that has been aligned in a very, I would say, defined position, how to manage the funding benefits for the clients in a way that we keep the clients, but we deliver the right products to them.

So funding continues to be there. There's no issues on liquidity. Non-interest bearing deposits grew 9%. That I think is a very, very strong number considering that interest rates are still pretty high. So be able to grow 9% non-interest bearing deposit shows the strength and the capacity that we have to gather retail funding on this part. Time deposits continue to evolve at a fast pace, 26%, but these time deposits are now in a much more aligned, I would say, way to the funding costs that we would like to achieve. So good growth on the funding side, very important numbers on the non-interest bearing deposits that is almost matching the growth on the lending side. Asset quality continues to be prime for the bank. As you know, we have been basically following this trend for the last years and we will continue to do so. Good loan growth, but with the risk that we like to have on the books. Sometimes we are kind of shy on the margin, but never shy on the risk.

We are always looking for the risks that we'd like to put on the book. You continue to see cost of risk, ex-RAPI, below the 1.8%, with RAPI around 1.8% and the write-off ratio continues to be very, very steady as Banorte has been doing in the past. So the numbers on the credit side continue to be where we like them to be. Expenses also continue to be under control. If you see the recurring part on the expense line continue to be very close to the 6%. And when you add up all the Bineo and the RAPI and the extraordinary investment that we did, that put us on number, I would say, a little shy below of the 13%. We will continue to try to push this number below that and below the guidance that we gave to you. Cost-income ratio is around 35.5%. I think that's the number that we would like to achieve from the 35% to the 36% by the end of the year.

The next part shows the bank and liquidity. Liquidity continues to hold pretty well, as I mentioned to you on the past numbers that refer to the funding side and the ability of the bank to gather the funding side and present itself in the market as needed. And the capital numbers continue to be well above any requirement that the authorities have with a 14.1% on core Tier 1 and 20.2% on the overall capital adequacy ratio. With that, I stop on these numbers and I would like to now move how the evolution of the guidance because there was also some concerns about the slight reduction on the net income. On the guidance, if you see loan growth, we are right on the guidance and above the guidance on the loan growth. Net interest margin is in range with the guidance. Net interest margin of the bank is also in range of the guidance.

The expense growth on the recurring basis is in line. We are looking at a number close to the 13%, so we would like to push that number below the 13%. Efficiency 36% to 37%, we are below that number, so we are in good terms with that part of the guidance. Cost of risk is in line with the guidance, with the low end of the guidance, 1.8%. And if you (inaudible) on that, that would be 1.7%. The tax rate is above 27%, is 27.7%. Net income is basically the guidance that you see is being affected basically by the foregone cash that we have been using for the buyback program. Now it's reaching close to MXN500 million on that part and that number could increase depending on, as Marcos mentioned, if we succeed to continue to use the buyback program. The return on equity for the group is above the guidance. Now it's above the 22%. The return on equity of the bank is above the guidance, is reaching the 31% and the ROA also is above the guidance.

So basically we are on line to deliver the guidance and we have to maneuver on the effect on the buyback program that we will use as needed and also the effect on the foregone cash that we have been using to pay for the buyback program. So the GDP now has been reduced to 1.9%. Inflation rate continues to be 4% to 5%. Today there was an inflation data, but underlying inflation continues to be under control, so no issues on that part. And we see that the reference rate based upon our estimates of our chief economists should be reaching at the end of the year around the 10.5%, on average 10.9%. But what we see now is that based upon all the actions that we are taking, now the funding cost is trending now in the right direction, even though the interest rates haven't gone down as expected.

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With this, I stop my comments. I'm happy to answer any questions.

Questions And Answers

Tomas Lozano, Head of Corporate Development, Investor Relations and ESG

(Question And Answer)

Tomas Lozano, Head of Corporate Development, Investor Relations and ESG

Thank you, Marcos and Rafael. Now we will continue with our Q&A session. As always, we kindly ask you to present only your most relevant question and we'll be happy to take any other questions any time after the call. Questions will be ordered on the 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're now ready to start the Q&A session. We'll take the first question from Yuri Fernandes from JPMorgan. Yuri, please go ahead.

Yuri Fernandes

Thank you a lot, Tomas, Jose Luiz, Rafa, Marcos Ramirez. I have a question regarding loan growth. It has been pretty good and we have elections in early June. So trying to check, guys, if you are see any kind of deceleration sign or like how you are seeing loan growth in June and maybe July? I know it's very short-term oriented, but my point here is to try to understand if business confidence remain in place and credit demand remains there. And if you may comment, how is your credit appetite? I would assume it's unchanged because you're keeping the loan growth guidance, but trying to understand a little bit the demand and also Banorte's appetite to grow loans here. Thank you very much.

Jose Marcos Ramirez Miguel, Chief Executive Officer

Thank you, Yuri. Yes, we do have appetite, but first we want to control the risk. So we are going to see first the risk and then the appetite and that's the way we should continue. But saying that, we expect to have it, as we said, at the beginning of the year, and now again more than two digits of growth on the credit. So maybe a little bit down, maybe, we don't know, but at least the 10% digit number, we see that it's reachable. And as I said, with a very good quality of risk. I don't know, Rafa, you want to jump in or?

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

Yes. Just to say that demand continues to be there. I think Banorte has positioned in a very important way on the corporate, on the commercial side, on the SME side, and on the consumer side. So all the evolution that we have in digital and all the technology that we offer to our clients allow us to be on a prime position to deliver the loan growth. We, as Marcos mentioned, continue to see a very reasonable demand on loan growth that will continue and allow us to deliver the guidance that we promised you.

Gerardo C. Salazar Viezca, Chief Credit and Risk Officer

Yes, if I might add, this is Gerardo Salazar, I will just add that as long as we can see GDP growth or those lower, low unemployment rates, eventually lower interest rates, consumer confidence is still there, business investment environment is still positive in several factors or sectors of the economy. Also the housing market conditions are in

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place. We are seeing good patterns of consumer spending and also some bank-specific factors that contribute to this loan growth. So we remain with a positive outlook regarding loan growth because of these and some other factors.

Yuri Fernandes

Super clear. And if I understood, the growth should continue to come from SMEs, consumer, like no major change in the growth mix, right?

Jose Marcos Ramirez Miguel, Chief Executive Officer

And corporate and commercial are really growing at a very important pace.

Yuri Fernandes

Thank you very much, guys.

Tomas Lozano, Head of Corporate Development, Investor Relations and ESG

Thank you. We'll now take the next question from Ernesto Gabilondo from Bank of America. Go ahead, Ernesto.

Ernesto Gabilondo

Thank you. Hi, good morning, Marcos and Rafa, and thanks for the opportunity to take questions. My first question will be a follow-up on loan growth. So just wanted to hear from you still soon, but I don't know if we can expect double-digit loan growth during the next administration. If you can share with us in which sectors are you detecting the stronger lending activity? If you are hearing that the new government could be more active through public-private associations, and so far in terms of energy, water, infrastructure, highways, trains and also the nearshoring opportunities, if you are already preparing Banorte to benefit from that? And I don't know if it will be finally the opportunity to leverage on the interaction expertise. And on the other hand, on the consumer segment, we have seen high inflation prints, but at the same time, we have a strong labor market, higher salaries, the social program. So also wanted to hear your thoughts on that segment.

And then just very quickly a second question on the implications of your buyback program. So can you share with us how much of the buyback program has been used? Again, if you use most of the buyback, how should we expect of the special dividend by year-end, if you use most of it, we should not expect a special dividend or what should we think about that? And also you were mentioning that as you use the buyback, you will be having lower financial interest that today are invested at Cetes. So also can just give us the amount of how much lower interest have been lose because of using the buyback. And then because of that would it be reasonable to expect the net income growth guidance to be more in the low end of the range? And also when do you expect to have the cancellation of those shares? Thank you.

Jose Marcos Ramirez Miguel, Chief Executive Officer

Wow, what a question, Ernesto. I will start with the share buyback program. So as you know, we have been operating our share buyback program amounting to close to 50 million shares. That's where we are standing right now. We started its operation with significant discounts in relative valuation price to earnings, the PE and price to book value. And this would be accreted to our shareholders when shares are canceled, with significant growth in earnings per share and dividends per share in the upcoming months and years, obviously. A special dividend depends. If we continue, maybe we need to decide in the future, which is best for the investors or maybe we cannot give a special dividend. But so far,

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we are thinking and aiming to give this special dividend. Depending on how the market reacts, we will see what is better for investors.

And I think that's it about the share buyback program. And going to the -- yes, as I said, the new government has also expressed support for an economic model involving more public-private associations to drive the key infrastructure projects for the country and has also acknowledged the importance of the nearshoring opportunity in Mexico. So we are confident that all this is going to happen. As I said, the cabinet appointments so far seem to support this expectation for the next administration. And we know the same as you know, but it's still that they want to give opportunity to the private investments. But there's the loan growth. Yes, we can expect double-digit loans in the next administration. In sectors, obviously, all that is related to infrastructure, consumer is going to be there and also the government. Government right now is only short term because nobody wants to see more than these 3, 4 months that we have ahead of us.

As soon as this cloud disappears and the new government needs to take action on all the new investments that they need, we see a long-term demand in government. And so we do expect at least 10% in the next years. It seems fair to say yes. We don't know yet, we don't have any other data, but it seems that it's reasonable in this environment. As mentioned by Gerardo, everything is there, the nearshoring, the opportunities and the willingness of everyone. So that's it. What else?

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

The other one was the foregone interest on the buyback program, Ernesto, has been around MXN400 million to MXN500 million already and could reach as tops to MXN1.5 million to MXN2 billion on a full scale basis. So that's the foregone interest on that. I think we could manage that with a slight reduction on the upper side of the guidance on that, based upon the dynamic of the lending side and the fee side and all the activity of the bank, and also the good trend that we are seeing now on the funding side. So I think this is in a way hurting us on the foregone interest, but I think it's going to be pretty good on the EPS acquisition on the coming years. If you see the numbers are going to be pretty good.

Jose Marcos Ramirez Miguel, Chief Executive Officer

Alex want to say something.

Alejandro Padilla, Chief Economist and Managing Director of Research

Thank you, Marcos. Alejandro Padilla, Chief Economist. Well regarding your question about the nearshoring opportunities and also what should we expect in terms of infrastructure, well, so far we have seen a significant evidence that nearshoring is taking place in Mexico. For example, when you see the imports of capital goods, especially machinery and equipment since last year has been growing at a two-digit pace, the demand for industrial parks and also the rents or the prices of these industrial parks, in the last 12 months have been increasing at a two-digit pace as well. We have been observing a lot of investment announcements since last year. Last year, they added nearly \$110 billion, so far in the year we have been observing \$45 billion.

And very interesting that even during the month of May of June and also July, we continue to see these announcements of investments. So all in all, I think that nearshoring is going to be a good opportunity for Mexico. We continue to sit at a sectoral and at a regional level, especially in the central and northern part of the country. And this will require a lot of infrastructure, given the bottlenecks that we have in Mexico, especially in terms of access to water, electricity, roads, ports, et cetera. So given the limited room of maneuver of fiscal accounts in Mexico, given the adjustments that we might see in the economic package for 2025, I think that there's a good opportunity for the private sector to jump in and we'll see a lot of public and private associations, as Marcos mentioned before.

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And on the consumption side, at least from the economic standpoint, we have been observing a very resilient domestic demand. Private consumption continues to grow, also investment. Private consumption is a big chunk of GDP and it has been supported by remittances, by social programs that have been increasing steadily, also by very good conditions in the labor market. And well, we have to say it also trade has been supported consumption. So we continue to observe this engine of the economy to continue to perform well, at least in the next quarters.

Ernesto Gabilondo

Thank you very much. Very helpful, Marcos, Rafa and Alex. Thank you.

Jose Marcos Ramirez Miguel, Chief Executive Officer

Thank you, Ernesto.

Tomas Lozano, Head of Corporate Development, Investor Relations and ESG

Thank you. Now we'll continue with Natalia Corfield from JPMorgan. Natalia, please go ahead.

Natalia Corfield

Hi, everybody and thank you for taking my question. I'll actually go back to the extraordinary dividends. It seems that it might be part of the plan for this year. And under this context, I was looking at your capitalization, you have the call of one of your perps in September this year. I'm not going to ask the question if it's going to be covered or not, I know your thoughts around that. But given that you have this call in next year, at the end of the year, you have the introduction of TLAC. I calculated that you're going to have, based on the numbers of the second quarter around 120 basis points of cushion over the fully loaded TLAC. So this is usually a cushion that's low for Banorte standards. You usually have more than that. So with all of that said, I think my real question is, if you're thinking about issuing a subordinated note and if this would be either in AT1 or a Tier 2.

Jose Marcos Ramirez Miguel, Chief Executive Officer

Thank you, Natalia. Yes, we have this in September. As I said, we cannot say that a willingness is there. All this is considered already. The TLAC effect I have it here is going to grow each month, each year what is easy. It is going to be the 17.9% by 2025, so we are already there. So we don't need to do anything and we need to maintain everything and we are not preoccupied, we are occupied on that and we don't see any problems so far.

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

No, I think what Marcos says, Natalia, we are always looking for windows of opportunity in the market to have, as you know, we like to have around the 28% to 30% on the of that of instruments, capital notes that are efficient for us. And we are always looking for windows of opportunity. When the window is there, we are not chasing the market. We are looking for the window. And if the window is there we go to market.

Natalia Corfield

Thank you. If I may follow up and any preference for instrument, if it's either AT1 Tier 2?

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Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

Whatever is the best for us at that window, Natalia. If it's a T2 or T1, whatever is the best for us.

Jose Marcos Ramirez Miguel, Chief Executive Officer

We want to have the box full of tools and then we decide, which tool we can use. So far we have all the tools are in the box.

Natalia Corfield

All right. Thank you so much.

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

Thank you, Natalia.

Tomas Lozano, Head of Corporate Development, Investor Relations and ESG

The next question is from Brian Flores from Citi. Go ahead, Brian.

Brian Flores

Hi, team and thank you very much for the opportunity. Very two quick questions. The first one is on NPL ratio because I think this is the highest level in some quarters so just wanted to understand if this -- and I think it's coming from the commercial side. So just wanted to understand if this is in hand with the revision not only from you, but also from consensus on GDP. Are you seeing more sluggish activity on the commercial side? Or what do you think is explaining this behavior on companies? And then, Rafa, if I may, you made some very interesting comments on Bineo. You mentioned that you already know exactly the niche that you want to attack. Can you elaborate a bit on what is this niche and how does it compare to other players, big banks and fintechs. And if you could also expand a bit on how does it affect fees and funding going forward for your operations? Thank you very much.

Jose Marcos Ramirez Miguel, Chief Executive Officer

Thank you, Brian. The first one, the NPL ratio, I will ask Gerardo to give some color about that.

Gerardo C. Salazar Viezca, Chief Credit and Risk Officer

Yes, Brian, I will tell you that we are maintaining a very low and stable NPL and also a very low and stable cost of risk. We contribute to that indicator in five fronts. The first front is an efficient recovery process. The second one is we perform a regular impairment review. The third front is that we do a proactive credit management. The fourth front is enhanced credit analysis and the fifth front is a dynamic risk assessment. So we are not seeing further on the road any problem of a systemic nature. We, as Marcos said at the beginning of this session, we are not seeing any high correlation within our commercial loan portfolio between or among some loans that have gone bad. So we just make the provisions for those. We started to resolve them and we are not expecting a 0% recovery rate. We are implementing all of our resources in those five fronts that I just mentioned.

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Jose Marcos Ramirez Miguel, Chief Executive Officer

We had isolated cases in companies that do not represent any industry or regional concerns so far. Rafa, I'll head with you.

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

I think that what I mentioned is when we decided about the launch of the digital bank was to really look at the evolution that the new entrants into the market were doing. So basically we need to have a very good response on that. We invest in technology that was basically a digital native technology in that. But what you have to understand also that from 18 to 24, Banorte Bank also evolved a lot in the digital side. So now we know exactly how to deliver the value in a very, very efficient way for the market of Bineo. That will allow Bineo to touch parts of the market that in the past Banorte was not touching on that part, but in a very, very efficient way. So what you will see when the value proposition comes in place in Bineo and the way we're going to compete for Bineo is that we'll be a multi-segment bank, but with a very, very low cost income ratio and a very high efficiency on how we deliver the products and services to the clients.

So it will be a bank that it will be on the backdrop of everything that Banorte has a Board with the advantage that we'll have a lot of native technology and evolution of the analytical skills. And also with that, I would say on comparable cost space that we are saving up for the bank.

Brian Flores

Thank you, Rafa. If I may follow-up just very quickly, when you say parts that you didn't touch, does this mean going a bit lower on the income segments or are you thinking another segment in particular?

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

I think like, for instance, remittances, remittances is a done deal for Bineo, everything will be digital, no fees and that will evolve on that, but I'm talking about that part of the market. But then you also will look for the payrolls, you also will look for the insurance business, you also will look for everything that is related to evolve the client in a very efficient way, in a very local space business. You have a business with all the technology, with a local space to operate and deliver every single product that is needed in the market for the clients that we will search. So we are pretty pleased of how the we have been defining the strategic positioning of Bineo concerning the overall architecture of the group and we are very pleased with that.

Brian Flores

Super clear. Thank you.

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

Thank you.

Tomas Lozano, Head of Corporate Development, Investor Relations and ESG

Thank you. Now, we'll continue with Renato Meloni from Autonomous. Renato, please go ahead.

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Renato Meloni

Hi, everyone. Thanks here for the call, for the questions. I want to go back to the funding side. So last call you were saying that you are not feeling the competition from the fintechs on the high-yield accounts, but you added a remark in the earnings release this time saying -- citing the increasing sensitivity of customers to higher yields. So I wonder if this means that now you're seeing more competition and what does that mean for the trajectory here in cost of funding? And also if you could comment a bit on the strategies that you're applying to keep cost of funding coming down? Thank you.

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

If you look at the trend on the funding cost, it shows you that the effect of all this new -- I will not say that they have zero effect, but it's a completely different way to approach the market. If you drive your relationship with the client on a relationship basis that allows you to have the credit card, the payroll, the mortgage, everything that is related to service applying on the retail side compared to just set up the funding cost. I'm going to pay you 15% on the funding side, but I'm going to charge you 120% on the credit card side. So that's not the way we approach the market. We approach the market in a way that some clients are, the merit for them is to have a better return on what they have on the funding side because of the relationship that they have. But in many other ways, it's a service that we provide overall that is not just specific related to the funding side.

If we were just competing based upon the funding side, not on a relationship driven, I think we will be in a very bad position because everybody will be paying 15%, 16% to achieve funding. But just imagine if you're getting funds at 15%, 16%, what's going to be the price that you're going to put on the products? It's going to be crazy on going to the market. So if you look like, for instance, let me guide you to the prices that we have on the mortgage side. The mortgage side range for us, 9.75% to 11.5%. Well below, even below the reference rate. How is it possible that because of all the relationships that you have with the client, you provide them the credit card, you provide them the insurance, you provide them. So the lifetime value of the clients allows you to have a pretty strong relationship to them and drive them in a very healthy way to keep on solving all the financial needs. Not to give me 50% here and I charge you 120% here. So that's not the way Banorte works.

Renato Meloni

Okay. That's understood. But how do you expect the trajectory here on cost of funding towards the end of the year? And what do you see the number that now it's at 47.8%?

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

Well, I think it will continue to go down, Renato. It will continue to go down based upon all the strategies that we have seen. We see already in July a pretty good trend and that will continue through a year. Remember that the difficult part of the year is really the March, April, June month that are really the slow months. So the funding gathering really starts to pick up around September, October, November and really peaks on around December. But already the trend is better than expected for us.

Renato Meloni

Okay. Thanks.

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

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Thank you.

Tomas Lozano, Head of Corporate Development, Investor Relations and ESG

The next question is from Jorge Kuri from Morgan Stanley. Go ahead, Jorge.

Jorge Kuri

Hi, everyone and good morning. Thanks for the opportunity to ask questions. I wanted to ask about the change in the sensitivity of the balance sheets to rates. You've done an extraordinary job at reducing the sensitivity over the last two years. I just want to understand how permanent is that? And what happens if rates just don't come down either as quickly as we expect or as much as we expect, which I guess I'm not saying something that hasn't happened, right? I mean, evidently rates have been higher for longer. And so if we continue in this environment of higher for longer rates, say, for the next six to nine months, are you going to start to have to pay up for this unwinding? Just walk us through how your either P&L or balance sheet get impacted if and so this rate scenario plays out. Thank you.

Jose Marcos Ramirez Miguel, Chief Executive Officer

Thank you, Jorge. All of them are good questions, and yes, our strategy so far and we are aiming, we have a strategy that Banco Mercantil will increase 2x during the year and 50 basis points. So that's our, let's see our framework. Obviously, we have tools that doesn't matter. So far it seems like it's going to happen. We will do some -- we have a meeting every Friday here and we see all the data and take the decisions and we have tools. We can do something with the assets that we have. We have, as you said, some instruments to turn around and we will manage it, that's it. But so far we have this strategy and you can see it right now in the -- it's projected when the rates go down, what we can do when the rates go up. And we have it in pesos and we have it in dollars. So it is -- the answer is that it's a matter of each week to decide and to do the fine tuning. We cannot turn around immediately, but at least we can react and react in the data that we are receiving. And Rafa wants to say something about it.

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

No, I think what Marcos mentioned is, this is a permanent, as you see in the graph, Jorge, is that now we are not liability sensitive, very close to be liability sensitive. We are 324 on the asset, on the asset sensitive side. But what is strange and this is what is, I would say, very positive for Banorte is that basically that we are in a neutral position because we have 57% on fixed and 43% on variable, and variable could reach very easy to 48% 49%. If we speed up some of the of the loans and coming from the government side, we will be in a neutral position. So that will allow us time enough to chip the -- from now that you have fixed to variable from variable to fix, that's the evolution that we have.

And also the key defensive part that we have is the funding costs. So that's why we are working so much on the funding costs that allow us to have a very reasonable funding cost, that allow us to manage the ups and downs on that. We really think the rates were going to go down, but there's a possibility as you mentioned that rates would go up. And we are very vigilant on that part. That when the chips changes, the variable rate part of the book, again, will sustain the growth on the net interest margin and the fixed rate part of the book, the key part is to keep the risk very, very low because on a risk-adjusted basis, we continue to evolve in a very positive way. I'm going to give you just a number to show you how strong the position that we have on the fixed rate part of the book. If you look at the NPS of the mortgage book is zero, we are around 0.8%, like this. The next one in the market is a double of that. So if we compete on the funding side, we will continue to deliver margin on a very steady basis.

But if I move to another part of the portfolio, the auto loans 0.5% NPLs, the next one very close to 2%. So on a risk-adjusted basis, we have been able to really sustain a permanent growth on the net interest margin for two reasons,

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very sound growth, but the funding cost also is very slowly trending down in a positive way. So that continues to keep the margin at 6.4%. So many people were concerned when we set up the margin at 6.4%, when they said, when rates go down, you will going to be hit very hard on the margin side. No, because the funding cost will also accompany that down drop on the rate. So everything has to do with manage an equilibrium fixed to variable on the lending side and the funding costs.

All that is what is giving Banorte the ability to sustain the margin. If the rates go up, we immediately react and based upon almost half of the portfolio, immediately we'll get the benefit. And we will adjust the other part of the book based upon what we see on the market, but we are very vigilant about that Jorge. Thank you for the question because I think it's a unique position that Banorte right now is. We already pay for the sensitivity, but really the downward trend hasn't really started in a permanent way, but we are ready for that. And we are also ready if rates go up because of the position of the loan book that we have.

Jorge Kuri

Thank you, that was very clear. Do you mind if I add another question related to deposit, which has been--

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

Go ahead.

Jorge Kuri

Yes, can you hear me?

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

Yes. Go ahead please, Jorge.

Jorge Kuri

Yes, so I wanted to ask about Bineo and how you're going to position the deposit remuneration there. I mean, it does seem that the type of clients that the neo banks are attracting, whether it's Nubank or (inaudible), they obviously enjoy the higher remuneration on the deposit side. And I do think it also has to do with the particularity of the client that the neo banks attract versus what the incumbent banks do. And so is it possible for Bineo to pay up for deposits? And do you think you won't be able to attract the young demographic, more tech savvy that I'm guessing you want to with Bineo if you don't pay as much as the neo banks/digital banks are paying up in Mexico?

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

Yes, Jorge, I think the whole idea of setting up Bineo and I think the experience with RAPI allow us to really understand that market because we're moving to the young and new commerce into the market. Now that we know that how to make that business profitable, how to set up the risk profiles and everything. And for Bineo, I think the good thing about Bineo and we don't want to compete on a 15% interest rate because that will be positioned the bank as a product-driven bank. And we don't like to make Bineo a product-driven bank. Bineo will be a lifetime value bank that allow us to set up the price of the relationship based upon the lifetime value of the client. So maybe and this is, I would say, on a hypothetical issue, some clients could maybe merit to have a high interest rate to be paid for them because of the lifetime value that they have on the overall relationship.

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And maybe we could do that if the relationship is profitable. But we will never compete just for the sake of gathering funds at a very high cost that we cannot deploy on the asset side. We will never go into that. We already started to pay interest at Bineo. I think unreasonable, we don't like to have an arbitrage with Banorte in any way, but on a client-by-client basis, but in Banorte, we sometimes could pay above the reference rate if we would like to keep a relationship with the client. And in Bineo, we'll be the same, based upon the value and profitability of the client. I don't -- we don't like Bineo to be positioned in any way as a product-driven bank. It's a relationship-driven bank that sets everything based upon the lifetime value. And based upon that, we will price the deposits, the lending based upon the risk of the client.

So it's a completely different ballgame that we will have on that, that we have learned that already in Banorte because in Banorte, we're already working like that. In Banorte, in the hyper-personalization process that we have, now we price the relationship based upon risk, lifetime value of the client and needs of the client. And it's delivering pretty strong results. That's part of the numbers that you see on the fee side and the numbers that you see on the growth on the lending side is that we are really setting up the relationship not on a product-driven basis, on a relationship based upon the needs and risk of the client.

Jorge Perez Araya

Understood. Thank you very much.

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

Thank you.

Jose Marcos Ramirez Miguel, Chief Executive Officer

Gracias.

Tomas Lozano, Head of Corporate Development, Investor Relations and ESG

Thank you, Jorge. Now we'll continue with Tito Labarta from Goldman Sachs. Tito, please go ahead.

Tito Labarta

Hi. Good morning, everyone. Thank you for the call and taking my question. My question is on expenses. I think you had mentioned that you work to maybe try to get below the guidance, just to see where can you see some potential savings there? And also following up a little bit, thanks for the disclosure on Bineo. We see, right, the expenses running around MXN300 million, MXN350 million per quarter. Is that the right base there? Is that an area for potential savings also? Or is that sort of the base that you can work off of Bineo? And any thoughts, I know it's very early, but I think you've mentioned you want it to be profitable, like, when do you think Bineo could breakeven? Thank you.

Jose Marcos Ramirez Miguel, Chief Executive Officer

We'll start with the expenses. We had it here, the historical growth by category and everything is, IT is 3.4% of the total, 1.9% is human resources, 1.5% is administrative facilities, and operating is 1.4%. So we are maybe I will show it to you give me one second because the graphic is a nice graphic that you should see, understand that we're -- more than the spending, we're investing, I'd like to see it has some investment, and then you have the net income is going at 3%. So

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we're going in more than the net income, the IT expenses, but we are saving the other. So and we want to keep it that way. The graphic is there for a second, this one, and it shows everything. And you see there how it has been evolving during the years and we want to keep it that way. Obviously, if something is wrong, we can decide and accommodate these figures and to be more relaxed or more in the other side. And talking about the Bineo, Rafa, please go ahead.

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

No, I think Bineo is already set up as an entity around 200, 250 people. You can imagine the efficiency that we could reach on that business once we set up all the product and value proposition in place. So I don't think -- I think Bineo already is causing some issues on the -- around 2.4% on the expense side, but it's already well under control. I think it's positive. Where we see a lot of savings coming is from this shared service opportunity that we are centralizing all the backups operations of the group into just one operating unit. That could really deliver the reduction from the 36% to the 35.5% on the guidance. I think -- and that will stay for the coming years. I think Bineo is being bought in an efficient way. And the breakeven of Bineo, we are aiming to have once we set up the value proposition in place, three years from there.

Tito Labarta

Okay. No, that's very helpful. Thank you. And if I could ask just actually one clarification back on the buyback program. Rafa, you mentioned I think MXN400 million, MXN500 million impact. Was that specifically for this quarter, just to clarify if that impacted this quarter at all?

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

No, it's for the remaining of the year.

Tito Labarta

Okay, so--

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

But this quarter, a portion in that quarter and that will repeat in the coming months.

Tito Labarta

Okay. So was there any impact from the buyback program on interest income in this quarter?

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

Yes, a bit. But if you see the margin of the bank at 6.4%, so no. I think yes, but not material.

Tito Labarta

Okay. Perfect. Good. Thank you very much.

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YTD Change(\$): -23.23
YTD Change(%): -13.821

Bloomberg Estimates - EPS
Current Quarter: 5.104
Current Year: 19.785
Bloomberg Estimates - Sales
Current Quarter: 37752.333
Current Year: 151004.66700000002

Tomas Lozano, Head of Corporate Development, Investor Relations and ESG

Thank you. We'll take the next question from Carlos Gomez-Lopez from HSBC. Go ahead, Carlos.

Carlos.

Carlos Gomez-Lopez

Hello, good morning. Thank you for taking the question. I wanted to ask you about loan growth and to what extent the devaluation -- the depreciation of the peso has affected it? If you know how much the loan growth would have been without it? And when I look at the loan growth by category, I see that your consumer loan growth and mortgages have actually been gliding down for the last year, right? The year-on-year numbers have been declining continuously. Do you expect that to continue? Do you see demand continuing to slow down because of high rates or do you expect it to stabilize going forward?

Jose Marcos Ramirez Miguel, Chief Executive Officer

I will go for the second one first, Carlos. The mortgages has been declining a little bit, but we expect it to not stabilize that way. We expect it to go the other way around because the rates will go down eventually and more clients will ask for mortgages. We are in that line of thinking right now. And as you know, we have 13% of our assets are in dollars. So yes, it affects all the data there, but we do not expect the loan growth to increase there. Rafa, please go ahead.

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

No, I don't think that Marcos mentioned. And going to the mortgage part, you remember, Carlos, that last year we were very vocal about that. We were holding up the loan growth because the funding cost was creeping up at a faster pace. So we really reduced the pace of growth. One of the places that we reduced the growth, not because we didn't have the demand, was on the mortgage part. Now we are -- now that the funding cost is trending in the right direction and we still feel that we will continue to expand on the mortgage side. We like that market a lot. We have the demand in place. The process has been improved a lot. So no, you will continue to see pretty good numbers coming on the mortgage side.

And if you look at the overall numbers of the market, you will see that basically most of the banks reduced the pace of expansion on the mortgage side by the end of the year. Now we are picking up again. You will continue to see those numbers increasing on a continuous basis from the months coming now and from the coming months. But it was basically that we hold up the loan growth because of the funding cost.

Carlos Gomez-Lopez

So you were growing -- a year ago, you were growing at 16%. Today, you're growing at 8%.

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

No, I think you will be on double digit, around 12%, 13% because of the slow start that we have at the beginning of the year. But right now, the pace is the same that we have the pace at the mid of last year that we were picking up on the lending side.

Carlos Gomez-Lopez

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Okay. And if I can follow-up with just a technical question you show us the guidance, you have made a tiny adjustment to your net income expectation, I calculate this 0.7% to 1.4%, which is almost exactly reflected in the reduction in the share account. So should we understand that you are maintaining the guidance in EPS terms, but you are adjusting slightly in terms of net income?

Jose Marcos Ramirez Miguel, Chief Executive Officer

Correct, Carlos, that's -- I remember that all this buyback program is going to change the numbers a little bit, so let's match again because if you hit some data the other is better.

Carlos Gomez-Lopez

Okay. Thank you so much.

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

Yes. Exactly as you said and thank you for saying because we couldn't say it better.

Carlos Gomez-Lopez

Thank you.

Tomas Lozano, Head of Corporate Development, Investor Relations and ESG

Thank you. Now, we'll continue with Edson Murguia from SummaCap. Edson, please go ahead.

Edson R. Murguia

Hi. Good afternoon. Thank you for taking my questions. The first one is related to the changing methodology of calculation of ratios, and my question is, does it have a material impact on regulatory reports to the authorities? And if you can explain a little more what changed for a future comparison ahead. My second question is regarding to Bineo, but what you have learned since launch Bineo in order to enhance the value proposition for the second part of the 2024? Thank you.

Jose Marcos Ramirez Miguel, Chief Executive Officer

Thank you, Edson. I will start with the first one. We don't see no material changes. I have here the Articles 108 democratic today the COB were amended, but we have all the data here, but being sincerely with you, it doesn't change materially anything. So we will continue. It's almost the same. And the second one that's interesting, Rafa, please go ahead.

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

Sorry Edson, I cannot say because it's all the strategy we are setting up for Bineo, so sorry, but you will be seeing in the coming months how the value proposition takes place and how Bineo positions itself to deliver value to the market, but it's really a very really a very difficult time for us to convey the strategic initiatives that we are delivering.

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Edson R. Murguia

Okay. Well, I'm going to wait then, but thank you so much.

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

Thank you, Edson.

Tomas Lozano, Head of Corporate Development, Investor Relations and ESG

Now we will continue with Diego Martinez from BTG Pactual. Diego, please go ahead.

Diego Martinez

Hi, Rafael. Hi, Jose Marcos. Thank you for taking my questions. Can you hear me?

Jose Marcos Ramirez Miguel, Chief Executive Officer

Yes.

Diego Martinez

Perfect. I just have a quick question there regarding the bank's results. I saw that the ROE presented an important growth there. You posted that 31.5% ROE. That is a pretty solid good number. I can understand that most of this comes from higher portfolio growth, interest income, but there is a line there regarding that you have had a less tax payment compared quarter-over-quarter compared with the first quarter. Can you explain or give us more color about what changed here or what is the reason of this lower tax payment in the income results? Yes.

Jose Marcos Ramirez Miguel, Chief Executive Officer

Thank you, Diego. Rafael, please go ahead.

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

Diego, if you remember the first quarter, we were criticized because we have above 30% tax rate and that was because of the provision that we do at the beginning of the year. What you see now is that, that is trending to the number that we guide, that is at 27%. We still are above that. So no, it's not because you can't even say that on the first quarter you overpaid on the tax rate and on the second quarter you're starting to normalize that. But that's really non-material. I think the return on equity has to do with the results that the bank is on the basic business of the bank, the margin, the fees and the provision inside, and I would say also the fact that we've paid the dividends from the bank to the group. Now with that pay of dividends, we reduced the capital base of the bank. That's still pretty high, 14.1%.

But that also helped us to increase the return on equity for the bank. Remember that sometimes we have been, in a way, I would say, close to attention that if we pay more dividends, we will have a much better return on equity instead of the 28%, 29%. I think, yes, but we don't like to play the leverage game in any way. And I think the numbers that we are delivering return on equity are really coming from the operations with a high capital ratio, with very decent numbers on every single part of the business. It's not that we are managing the balance sheet, affecting the net income in a way that

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we could provide different results just by managing the capital base. The capital base is there. We pay the dividends when it need to be paid, but the fact is that the bank builds up capital at a pretty fast pace.

Jose Marcos Ramirez Miguel, Chief Executive Officer

And taxes should be seen on an annual basis?

Rafael Arana de la Garza, Chief Operating Officer & Chief Financial Officer

Yes.

Diego Martinez

Perfect. Thank you very much.

Tomas Lozano, Head of Corporate Development, Investor Relations and ESG

Thank you. Now we'll take the final question from Nicolas Riva from Bank of America. Go ahead, Nicolas.

Nicolas Riva

Thanks very much, Marcos and Rafa, for taking my question. I'm going to go back a bit to the question that Natalia asked about the capital ratios and the call option that you have on the 6.75% at the PERP in September. So as Natalia said, I think we all have a pretty good idea of what you're going to do and I think most likely you're going to be calling that PERP. In that case, you would be losing 100 basis points of capital. And then I look at your total capital at the end of September -- at the end of June, 20.2%. So that means you would be at about 19.2% if you call the 6.75% on in September. And if you are not to call -- if you are not to issue a new bond. In that case, then your capital ratios you would be like basically about 130 basis points over the minimum requirement. So then my question is, would you be okay having a buffer of just 130 basis points over the minimum requirements? Or in that case, if you prefer to issue a new AT1 or a new Tier 2, replace that capital and have some more buffer over the minimum requirements? Thanks.

Jose Marcos Ramirez Miguel, Chief Executive Officer

We are okay with that. Obviously, if we see an opportunity, we will take it, but we are okay. And remember, we will start the next year again from zero and growing the capital. So it's going to be the lowest part of the cycle, let's call it. So we feel comfortable.

Nicolas Riva

Okay. Thanks, Marcos.

Tomas Lozano, Head of Corporate Development, Investor Relations and ESG

Thank you very much for your interest in Banorte. With this, we conclude our call. Thank you.

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