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Q2 2024 GRUPO FINANCIERO BANORTE SAB DE CV EARNINGS CALL

EVENT DATE/TIME: July 24, 2024 / 3:00PM UTC



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PRESENTATION

Tomas Lozano Grupo Financiero Banorte SAB de CV - Executive Director - Investor Relations, Corporate Development and Sustainability

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, Marcos 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 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 Ramirez Miguel Grupo Financiero Banorte SAB de CV - Chief Executive Officer, Director

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 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 qualifying majority in the lower house, which was perceived by the market as uncertainty regarding the government bank's checks and balances. However, this concern has somewhat been addressed by the president-elect, emphasizing the importance for 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 key infrastructure projects for the country and has also acknowledged the importance of new sharing 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 consumption and investment driven in part by new showing.

Considering the uncertainty regarding the government transition period and the US election at the end of the year, we have adjusted our GDP growth expectations 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 service 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 we believe 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 MXN 18.90 per dollar at the end of 2024. Moving now to slide 3.

Financial results for the quarter continue to portray some operating trends with expanding lending dynamics and fee activity, both driven by strong internal demand. Asset quality is monitored with a 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 point 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 of this in a moment.

Starting up, profitability on slide 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 the 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 I 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 some operating dynamics across most of the business lines.

Analyzing the quarterly results by subsidiary, slide 5, the bank presented a strong core banking operation 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, on a cumulative 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 activation of resolutions issued by the Social Security Institute. The broker sector quarterly and annual declines were mostly explained by securities valuation. As for the pensions fund, the Afore, the sequential business performance was affected by lower yields on financial products.

Loan portfolio, slide 6, continues to expand, focusing on a diligent balance between asset quality and funding costs. Loan expansion continues to post double-digit panel 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 infrastructure during 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 7 maintains its double-digit growth, driven by the strong construction 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 assertively addressing our customers' demands with relevant offerings to retain and develop their lifetime value. The mortgage portfolio remains one of the main growth products, expanding MXN20 billion despite a more restrictive reached 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 providers.

The evolution of the credit card portfolio going 24% year over year was primarily driven by the enhancement of our self-service capabilities, higher transaction volumes, and the integration of the RappiCard portfolio since December of last year. Payroll loans are performing ahead of expectations, growing 8% in the year with a high number of applications despite our prudent approach to government entities with administration changes related to 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 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 response to unrelated clients in the commercial portfolio, which do not represent sectorial or geographical risks. Cost of risk remains stable in the quarter, despite our heavier mix in consumer lending.

Our fee revenue in slide 9, grew 3% in the quarter, given higher operation with digital-related businesses derived from the up sales then in May. With accumulated figures for the first half of the year, net fees grew 16%, led by a more dynamic transaction volumes in consumer products, driven by the increasing strength of private consumption and an overdependence from the external sales force for creditor in nature. 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 10, our NPS metrics reflects our customer-centric business model. For more than a decade, Banorte has been investing around [13%] of its revenues into developing digital and technological capabilities that can allow us to better understand and predict our claims we table and place our customers at the center of our product design and process transformation.

The results of this transformation journey that we started, as I mentioned, more than a decade ago, is reflected in our strong NPS, net promoter score, particularly in our Banorte Móvil App which has been recognized by World Finance as the best consumer digital bank and the best mobile banking up 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 a strategy, the technology, the processes, and most importantly, the people are cultured to address the market's changing demands.

Shifting gears to our sustainability strategy, slide 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 Verde Banorte.

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 company, 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 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 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 US presidential election takes place.

Now, I will leave you with Rafael Arana, who will go into the details of the financial results of the quarter. Rafael Arana, please walk in.

Rafael Arana De La Garza Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer

Thank you, Marcos. Thank you all for attending the conference. First of all, I would like to thank -- many analysts and investors call us yesterday to let us align more the conference to you for the main questions that you basically derive 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 have been taking in the past, and that has cost us, but now we are pretty confident about the position of our balance sheet and how we -- 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 23%.

The bank reached, as Marcos mentioned, a very important number around 31.5%. This has to do with the dividend flow that we send off to the Group but also with a very important profitability that we are deriving in every single action of the bank.

The transformation is ongoing. And as you know, since '18, we set up a strategic business for the growth of Banorte. One was Rappi that I just want -- just to comment to you that this 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 on the -- right now. The main issue about Bineo, when we launched Bineo at the beginning of the year, in January, it was the response of a strategic decision that we did in 2018. But what is relevant to us is that since 2018 to now, many actions have been happening in the market. Many incumbents have come into the market, as you know, many names are now playing 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, how it's moving from the new entrance and 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 or 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 and sustainable proposition for any incumbent that comes into the market.

The NIM, net interest margin now for the Group is at 5.7%. As you know, there has been the effect on the annuities company that is based upon the inflation-related instruments. I will go in a minute when we talk about the NII and expand this explanation. But

basically, it's the result of the inflationary effect on the instruments that we hold. And the other thing is a good one that we grew the business 6% on the pension years. 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 post quarter. And that is the result of two things that how we have been preparing the balance sheet but also the dynamic of the lending -- on the lending side that the loan book, as Marcos mentioned, continue to grow in a very important way, right on track what we guide the 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 cost 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 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 guided the market, and we like to keep the numbers around this 35% to 36%. Capital adequacy ratio continue to be very positive 20.2% and for Tier 1 14.1% after paying the dividend of the Group and also each impacting the buyback program.

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 that is causing some attention because we received many calls from investors and analysts about what happened with the annuities business, 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 case of the buildup of the business that grew on a 6% basis. That's why you don't see much on the net income basis compared to the technical research and what happened with the margin on the business. But it's 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 the 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 that NII continues to hold pretty nicely for us. And now that we clarify the annuities piece, 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, we 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 there -- 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 [23%, 24%], year on year after a very strong year last year. Car loans above the 20% are the same or the credit card business. The mortgage business is taking its piece 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 entities 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, you have the balance sheet prepared for the easing cycle asset 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 rate 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 reported through 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. But I think it's a very strong number ahead of what we guided the market to be. And on the net income for the bank, it's 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 really all the actions that we have been doing at the bank to increase the profitability, be an efficient operation, and also taking extremely good care of business.

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% NIM of the Group.

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 taken 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. Interest -- non-interest-bearing deposits grew 9% that I think is a very strong number considering that interest rates are still pretty high. So being 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 grow at a fast pace 26%, but these time deposits are now in a much more aligned, I would say, way to the funding cost 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 risk that we like to do on the book. We continue to see cost of risk is roughly below the 1.8% with Rappi 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 of the -- on expense line, continue to be very close to the 6%. And when you add up all, the Bineo and the Rappi 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 to 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 I referred to the funding side and the ability of combining together the funding side and percent sales in the market as needed. And the capital numbers continue to be well above any requirement that we currently have with the 14.1% on the 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 were 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 long 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 is 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 restrict (inaudible) that will be 1.7%.

The tax rate is above 27% -- is 27.7%. Net income is basically the guidance that you see. It's being affected basically by the foregoing 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 see fit 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. It's reaching at 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 foregoing 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 have been going down as expected. With this, I stop my comments and I'm happy to answer any questions.

QUESTIONS AND ANSWERS

Tomas Lozano Grupo Financiero Banorte SAB de CV - Executive Director - Investor Relations, Corporate Development and Sustainability

So thank you, Marcos and Rafael. Now we will continue with our Q&A session. (Event Instructions) Yuri Fernandes, JPMorgan.

Yuri Fernandes JPMorgan Chase & Co. - Analyst

(spoken in foreign language) 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 seeing any kind of decelerations fine, or like how you're seeing your 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 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 Ramirez Miguel Grupo Financiero Banorte SAB de CV - Chief Executive Officer, Director

Thank you, Yuri. Yes, we do have appetite. But first, we want to control the risks. 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 growth on the credits. So maybe a little bit down, maybe we don't know, but at least the 10% -- digit number we've seen that is reachable and as I said with a very good quality of risk. I don't know, Rafael --?

Rafael Arana De La Garza Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer

Just to say that the 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 had, in digital, all the technology that we offer to our clients, allow us to be on the front 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.

Carlos De La Isla Corry Grupo Financiero Banorte SAB de CV - Executive Director

If I might add -- this is Carlos de la Isla. 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 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 JPMorgan Chase & Co. - Analyst

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

Rafael Arana De La Garza Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer

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

Tomas Lozano Grupo Financiero Banorte SAB de CV - Executive Director - Investor Relations, Corporate Development and Sustainability

Ernesto Gabilondo, Bank of America.

Ernesto Gabilondo BofA Securities, Inc. - Analyst

My first question will be a follow up on loan growth. So just wanted to hear from you, it's 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, highway, trains and also the nearshoring opportunities, if you are already preparing Banorte to benefit from that?

And I don't know if it'll be finally the opportunity to leverage on the Interacciones' 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 the 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 Nexto. So also, can just give us an 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 Ramirez Miguel Grupo Financiero Banorte SAB de CV - Chief Executive Officer, Director

Wow, what questions, 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 stand right now. We started its operation with significant discounts. We were at the valuation price to earnings, and price to book value and this will be accretive 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.

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, we are thinking and aiming to 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 in 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 the opportunity to the product investments.

What else? The loan growth, yes, we can expect double-digit loan in the next administration. In sectors, they obviously know that all that is related to infrastructure. Consumer is going to be there. And also, the government right now is only short term because

nobody wants to see more than at least three, four months which we have ahead of us.

As soon as this cloud and the new government needs to take action in 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 a ramp up that everything is there, showing the opportunities and the willingness of everyone. So that's it. What else --?

Rafael Arana De La Garza Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer

The other one was the foregone interest on the buyback program at Nexto has been around MXN400 million to MXN500 million already and could reach approx. to MXN1.5 billion to MXN2 billion on a full-scale basis. So that's the foregone interest. And 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 on the funding side. So I think is, in a way, helping us on the foregone interest, but I think this is going to be pretty good on the EPS accretion in the coming years. If you see the -- if you do the numbers are going to be pretty good.

Jose Ramirez Miguel Grupo Financiero Banorte SAB de CV - Chief Executive Officer, Director

Alex wants to say something.

Alejandro Padilla Grupo Financiero Banorte SAB de CV - Chief Economist and Managing Director of Research

Thank you, Marcos. Well, 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 significant evidence that nearshoring is taking place in Mexico. For example, when you see the imports of capital goods, especially in 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're 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 will see a lot of public and private associations as Marcos mentioned before.

And on the consumption side, at least from the economic standpoint, we have been observing a very resilient domestic demand once private consumption continues to grow, also investment. Private consumption is a big chunk of our GDP, and it has been supported by remittances but 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.

Tomas Lozano Grupo Financiero Banorte SAB de CV - Executive Director - Investor Relations, Corporate Development and Sustainability

Natalia Corfield, JP Morgan.

Natalia Corfield JPMorgan Chase & Co. - Analyst

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 cover 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 usually a cushion that's low for Banorte's 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 subordinated notes and if this would be either in H1 or Tier 2?

Jose Ramirez Miguel Grupo Financiero Banorte SAB de CV - Chief Executive Officer, Director

Thank you, Natalia. Yes, that is in September -- as we say, we cannot say that it's stable. Willingness is there, all this is considered already. The TLAC effect I have it here is going to grow on its own (technical difficulty) Well, is going to be 17.90% by 2025, so we are already there. So we don't need to do anything, 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 Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer

No, I think what Marcos says, Natalia, we are always looking for windows of opportunity in the market. You have -- as you know, we like to have around 28% to 30% on the total half of our instruments in the capital notes that are efficient for us. And we're always looking for windows of opportunities 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 the market.

Natalia Corfield JPMorgan Chase & Co. - Analyst

Thank you. If I may follow up. And then any preference for instrument if it's either H1 or Tier 2?

Rafael Arana De La Garza Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer

Whatever is the best for us at that window, Natalia. It is a Tier 2 or Tier 1, whatever is the best for us.

Jose Ramirez Miguel Grupo Financiero Banorte SAB de CV - Chief Executive Officer, Director

We want to pick up the box, pool of tools and then we decided to which tool we can use. So far, we have all the tools that are in the box.

Tomas Lozano Grupo Financiero Banorte SAB de CV - Executive Director - Investor Relations, Corporate Development and Sustainability

Brian Flores, Citi.

Brian Flores Citigroup, Inc. - Analyst

Very two quick questions, the first one is on NPL ratio, because I think there is high level in some quarters. So I just wanted to understand if this -- and I think it's coming from the commercial side. So I 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 Ramirez Miguel Grupo Financiero Banorte SAB de CV - Chief Executive Officer, Director

The first one, the NPL ratio, I will ask Gerardo to give some color on that.

Gerardo Viezca Grupo Financiero Banorte SAB de CV - Chief Risk Management and Credit Officer

Yeah, Brian, I would tell you that we are maintaining a very low and stable NPL and also a very low and stable cost of risk. We contributed 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 around 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 with our commercial portfolio between or among some loans that have gone back. 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 our resources in those five fronts that I just mentioned.

Jose Ramirez Miguel Grupo Financiero Banorte SAB de CV - Chief Executive Officer, Director

We have isolated cases in companies that do not represent any industry or regional concerns so far. Rafael--

Rafael Arana De La Garza Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer

I think that what I mentioned is when we decide 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 20, to 24, Banorte bank also bolted 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 aboard with the advantage that we'll have a lot of native technology and evolution of the analytical skills and also with, I would say, on comparable cost base that we are shaping up for the bank.

Brian Flores Citigroup, Inc. - Analyst

Thank you, Rafael. 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 of other segment in particular?

Rafael Arana De La Garza *Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer*

I think, like, for instance, remittances. Remittances is a done deal for Bineo, everything will be digital, no fees, and that will evolve from that, but I'm talking about that part of the market. But then you also will look for the payables. 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 low-cost base business.

You have a business that will have all the technology with a low-cost base to operate and deliver every single product that is needed in the market for the clients that we will serve. So we are pretty pleased with how we have been defining the strategic positioning of Bineo concerning the overall architecture of the Group, and we are very pleased with that.

Tomas Lozano *Grupo Financiero Banorte SAB de CV - Executive Director - Investor Relations, Corporate Development and Sustainability*

Renato Meloni, Autonomous.

Renato Meloni *Autonomous Research LLP - Analyst*

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 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 *Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer*

If you look at the trend on the funding cost shows you that the effect of all these new -- I would not say that they 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 the client 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 carrying 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 going into 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 went for us 9.75% to 11.5 %, well below -- even below the reference rate. How is it possible that because of all the relationship that you had 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 their financial needs, not to give me 50% here and I charge you 120% here. So that's not the way Banorte works.

Renato Meloni *Autonomous Research LLP - Analyst*

That's understood. But how do you expect that 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%, 48%.

Rafael Arana De La Garza *Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer*

No. I think it will continue to go down, Renato. It will continue to go down based upon all the strategies that we have been seeing, we see already, in July, a pretty good trend, and that will continue through the year. Remember that the difficult part of the year is really the March, April, June months that are really are just slow months. The funding gathering really starts to pick up around September, October, November and really peaks around December, but already the trend is better than expected for us.

Tomas Lozano *Grupo Financiero Banorte SAB de CV - Executive Director - Investor Relations, Corporate Development and Sustainability*

Jorge Kuri, Morgan Stanley.

Jorge Kuri *Morgan Stanley & Co. LLC - Analyst*

Hi, everyone. Good morning. Thanks for the opportunity to ask questions. I wanted to ask about the change in the sensitivity of the balance sheet through raise. You've done a 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 hasn't happened, right? Evidently, rates have been higher for longer.

And so if we continue in this environment -- 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 even so this scenario plays out. Thank you.

Jose Ramirez Miguel *Grupo Financiero Banorte SAB de CV - Chief Executive Officer, Director*

Thank you, Jorge. They are question and -- we are starting so far -- we are aiming and we collect strategies that banco unico will decrease two times during the year and 50 basis points. And that's our -- let's see -- our frame of work.

Obviously, we have tools; that doesn't matter. So far, it seems that it's going to happen. We will do some recover -- 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 say, some instruments to turnaround. And we will manage.

But so far, we have this study, and you can see it right now in the rates 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, no? So the answer is that it's a matter of each week to decide and to do the fine-tuning. No, we cannot turn around immediately, but at least we can react and react in the data that we are receiving.

And Rafael wants to say something about it.

Rafael Arana De La Garza *Grupo Financiero Banorte SAB de CV - Chief Financial and Operating 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-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 loans coming from the government side, we will be in a neutral position. So that will allow us time enough to shift -- that from now that you have fixed to variable, from variable to fixed; that's the evolution that we have.

And also the key defensive part that we have is the funding cost. So that's why we are working so much on the funding cost that allow us to have a very reasonable funding cost, that allow us to manage the ups and down 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 shifts 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 NPLs of the mortgage group, it's still -- we are around 0.8% like this. The next one in the market is the 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 outer 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: 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 -- 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 rates. So everything has to do with manage an equilibrium fixed to variable on the lending side and the funding cost.

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 parts 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 paid for the sensitivity, but really the downward trend hasn't really start 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 Morgan Stanley & Co. LLC - Analyst

Thank you that that was very clear. Do you mind if I add another question related to the deposit which has been -- yeah, 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 neobanks are attracting, whether it's Nubank or Klar or Ualá, 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 neobanks 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 neobanks/digital banks are paying up in Mexico?

Rafael Arana De La Garza Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer

Yes, Jorge. I think the whole idea of setting up Bineo -- and I think the experience with Rappi allow us to really understand that market, because we move into 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 position 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, 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. And maybe we could -- 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're already starting to pace interest at Bineo. I think our reasonable -- we don't like to have an arbitrage with Banorte in any way. But on a client-by-client basis, in Banorte, we sometimes could pay above the reference rate if we would like to keep a relationship with the client. And Bineo will be the same based upon the value and profitability of the client.

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 ball game 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 fees 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 but a relationship based upon the needs and risk of the client.

Tomas Lozano Grupo Financiero Banorte SAB de CV - Executive Director - Investor Relations, Corporate Development and Sustainability

Tito Labarta, Goldman Sachs.

Tito Labarta Goldman Sachs & Company, Inc. - Analyst

Hi, good morning, everyone. Thank you for the call and taking my question. My question is on expenses. I think you have 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 the expenses running around MXN300 million, MXN350 million per quarter. Is that the right base there? Or 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 wanted to be profitable. When do you think Bineo could breakeven? Thank you.

Jose Ramirez Miguel Grupo Financiero Banorte SAB de CV - Chief Executive Officer, Director

I will start with the expenses. We kind of -- 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 in operating is 1.4%. So we are -- maybe -- I will show it to you. You give me one second, because the graphic is -- it's a nice graphic that you should see.

Understand that we are -- more than the spending, we are investing in -- I would like to see it as an investment, no? And then you have the net income is growing at 3%. So we are growing more than the net income, the IT expenses, but we are saving in the others. And we want to keep it that way.

The graphic is there for -- una second -- this one. And it shows everything. And you see how it has been evolved during the years, and we want to keep it that way. Obviously, 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, Rafael please go ahead.

Rafael Arana De La Garza Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer

No. I think Bineo is already set up as an entity around 200 to 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 reductions from the 36% to the 35.5% on the guidance, and that will stay for the coming years.

I think Bineo is being brought 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 *Goldman Sachs & Company, Inc. - Analyst*

Okay. No, that's very helpful. Thank you. And if I could ask just actually one clarification back on the buyback program. Rafael, you mentioned I think 400 million, 500 million impact. Was that specifically for this quarter? Just to clarify if that impacted this quarter at all.

Rafael Arana De La Garza *Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer*

No, it is for the remaining of the year.

Tito Labarta *Goldman Sachs & Company, Inc. - Analyst*

Okay.

Rafael Arana De La Garza *Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer*

(technical difficulty) quarter, a portion in that quarter, and that will repeat in the coming months.

Tito Labarta *Goldman Sachs & Company, Inc. - Analyst*

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

Rafael Arana De La Garza *Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer*

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

Tomas Lozano *Grupo Financiero Banorte SAB de CV - Executive Director - Investor Relations, Corporate Development and Sustainability*

Carlos Gomez-Lopez, HSBC.

Carlos Gomez-Lopez *HSBC Securities (USA) Inc. - Analyst*

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 Ramirez Miguel *Grupo Financiero Banorte SAB de CV - Chief Executive Officer, Director*

I will go for the second one first, Carlos. The mortgages has been declining a little bit, but we expect to not just stabilize that way. And we expect it to go the other way around because the rates will go down eventually, and more clients will be with us for [monetizing].

We are in that line of thinking right now. And as you know, we have 13% of our assets are in dollars. So yes, the FX affects all the data there, but we will not expect the loan growth to decrease there.

Rafael, please go ahead.

Rafael Arana De La Garza Grupo Financiero Banorte SAB de CV - Chief Financial and Operating 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 other 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 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 a 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 base 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 HSBC Securities (USA) Inc. - Analyst

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

Rafael Arana De La Garza Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer

I think it 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 HSBC Securities (USA) Inc. - Analyst

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

Jose Ramirez Miguel Grupo Financiero Banorte SAB de CV - Chief Executive Officer, Director

Correct, Carlos. Remember that all this buyback program is going to change the numbers a little bit. So let's (technical difficulty) again because if you get some data, it's better.

Carlos Gomez-Lopez HSBC Securities (USA) Inc. - Analyst

Thank you so much.

Rafael Arana De La Garza *Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer*

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

Tomas Lozano *Grupo Financiero Banorte SAB de CV - Executive Director - Investor Relations, Corporate Development and Sustainability*

Edson Murguia, SummaCap.

Edson Murguia *SummaCap - Analyst*

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 bit more what changed for 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 Ramirez Miguel *Grupo Financiero Banorte SAB de CV - Chief Executive Officer, Director*

Thank you, Edson. I will start with the first one here. We don't see a -- no material changes happened here in the articles 180 and 182, the [GOB] were amended. But we have all the data in here, but certainly, with view, it wasn't changed materially, anything, no? So we will -- it's compared -- it's almost the same.

And the second one that's interesting, Rafael, please go ahead.

Rafael Arana De La Garza *Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer*

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

Tomas Lozano *Grupo Financiero Banorte SAB de CV - Executive Director - Investor Relations, Corporate Development and Sustainability*

Diego Espinoza, BTG Pactual.

Diego Espinoza *BTG Pactual - Analyst*

Hi, Rafael. Hi, Jose Marcos. Thank you for taking my questions. I just have a quick question there regarding the bank's results. I saw that the -- percent -- an important growth there. You post that 31.5% ROE, but it's a pretty solid good number. I can understand that most of this comes from higher portfolio growth -- interest income, but do these align 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 payments or in the income results?

Jose Ramirez Miguel *Grupo Financiero Banorte SAB de CV - Chief Executive Officer, Director*

Thank you, Diego. Rafael, please go ahead.

Rafael Arana De La Garza *Grupo Financiero Banorte SAB de CV - Chief Financial and Operating 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 in 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 provisioning side, and I would say also the fact that we paid the dividends from the bank to the group. Now with that pay of dividends 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'd say, cost 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 number 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 we could provide different results just by managing the capital base. The capital base is there. We paid the dividends when it needs to be paid, but the fact is that the bank build up capital very -- at a pretty fast pace.

Jose Ramirez Miguel *Grupo Financiero Banorte SAB de CV - Chief Executive Officer, Director*

And that's should be seen on an annual basis, no?

Rafael Arana De La Garza *Grupo Financiero Banorte SAB de CV - Chief Financial and Operating Officer*

Yeah.

Tomas Lozano *Grupo Financiero Banorte SAB de CV - Executive Director - Investor Relations, Corporate Development and Sustainability*

Nicolas Riva, Bank of America.

Nicolas Riva *BofA Global Research (US) - Analyst*

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 [six and three quarter] on 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 six and three quarter in September. And if you were not to call -- if you were 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, you refer to issue a new AT1 or a new Tier 2, replace their capital and have some more buffer over the new requirements? Thanks.

Jose Ramirez Miguel *Grupo Financiero Banorte SAB de CV - Chief Executive Officer, Director*

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.

Tomas Lozano Grupo Financiero Banorte SAB de CV - Executive Director - Investor Relations, Corporate Development and Sustainability

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



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