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Market Intelligence

Grupo Financiero Banorte, S.A.B. de C.V.
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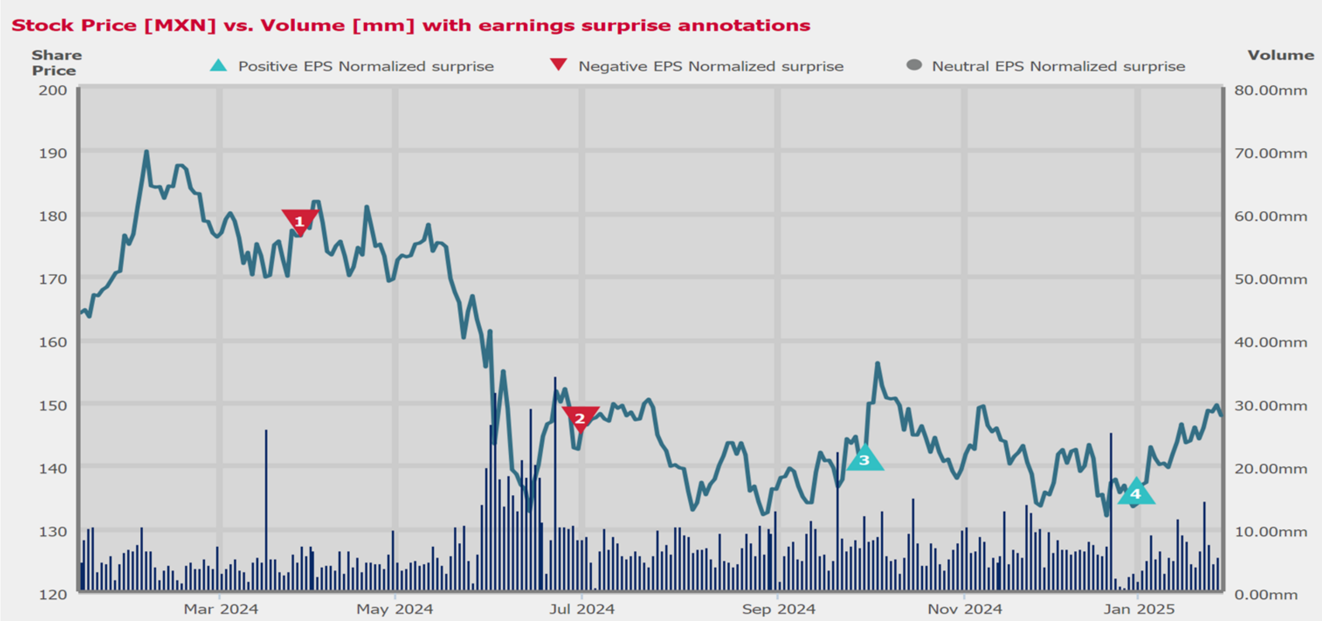
FQ4 2024 Earnings Call Transcripts

Wednesday, January 29, 2025 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2024-			-FQ1 2025-	-FY 2024-			-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	4.86	4.88	▲0.21	5.35	19.84	19.98	▲0.71	21.01
Revenue (mm)	38801.51	38176.00	▼(1.61 %)	40310.48	149204.90	147779.00	▼(0.96 %)	160582.67

Currency: MXN
Consensus as of Jan-29-2025 2:29 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2024	4.97	4.93	▼(0.80 %)
FQ2 2024	5.11	4.91	▼(3.91 %)
FQ3 2024	5.00	5.06	▲1.20 %
FQ4 2024	4.86	4.88	▲0.21 %

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Call Participants

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Presentation

Tomas Lozano Derbez
Head of Corporate Development, Investor Relations, Financial Intelligence, M&A and Sustainability

Good morning, everyone. This is Tomas Lozano, Head of Investor Relations, Corporate Development, Financial Planning and ESG. Welcome to Grupo Financiero Banorte Fourth Quarter Earnings Call.

Our CEO, Marco Ramirez, will begin today's call by presenting the main results of the quarter and the year. He will comment on our capital allocation as well as our macro expectations for the year. Then Rafael Arana, our COO, will go over the financial highlights of the group providing details on the margin evolution and rate sensitivity, asset quality as well as expenses for the quarter. He will conclude presenting our 2025 guidance. Please note that today's presentation may include forward-looking statements that are subject to risks and uncertainties, which may cause actual results to differ materially. On Page 2 of our conference call deck you will find our full disclaimer regarding forward-looking statements. Thank you.

Marcos, please go ahead.

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

Thank you, Tomas. Good morning, everyone. I wish you all the best [indiscernible], and thank you as always for joining us today. We are pleased to share with you the results achieved both in the quarter and throughout 2024, delivering on our commitment to the market a year ago despite the challenging second half of the year with clear signs of economic slowdown and increasing uncertainties regarding the transition period of the new government of Mexico and the presidential elections in the U.S.

On the macro front, GDP growth in 2024 is expected to reach 1.6%. Domestic demand remains resilient throughout the year, driven by a strong labor market, with increasing wages and improvement working conditions [indiscernible] of remittances reaching historical maximums and a dynamic investment activity. Altogether, this led to a stronger internal demand, which partially offset a weaker external sector. For 2025, we expect GDP growth to slightly decline to 1% given the effects of the fiscal consolidation, lower inertial momentum and different headwinds from the international environment.

Nonetheless, for this year, we anticipate still resilient private construction dynamic supported by healthy consumer fundamentals and the tailwind on the initial stages of the new administration so-called Mexico [indiscernible], which intends to boost the country's economic loan with a stronger [indiscernible].

[indiscernible] inflation stood at 4.2% in 2024, improving versus the 4.7% [indiscernible] in 2023. For this year, we expect additional declines to materialize anticipating a year-end figure of 4%. In this sense, and in line with our expectation, the Mexican Central Bank reduced its reference rate to 10% at the end of the 2024. And for this year, we foresee additional decreases of 150 basis points to 8.5% by the end of 2025, which should be positive for credit demand.

On the political front, the President recently announced the shipment of the first 100 days of per administration, [indiscernible], among other topics, the continuity [indiscernible] reforms, including the judicial one and the approval of the economic package for 2025, highlighting digital consolidation efforts, a strategy to maintain the sustainability of public accounts and higher inflows for social programs.

The President also announced a long-term international development plan, which focuses on infrastructure projects that will drive connectivity and economic development across all regions of the country. These plans improves the capitation of natural resources, creation of [indiscernible] in strategic sectors and strengthening of regional content to reduce imports, relocation of supply chains and enhancement of public product association, granting, agility and transparency for investments.

Finally, we will closely monitor any changes in public policies and additional announcements made by the President [indiscernible] that could potentially impact the Mexican economy. We maintain our constructive view regarding the upcoming trade negotiation, supporting product integration between Mexico and the United States in the long term, especially for the auto tech and electronics industry. However, we anticipate a volatile short-term environment given the challenges around tariffs, integration and security.

The Mexican currency ended 2024 at MXN 20.82 per dollar, its weakest level since 2008. For 2025, we forecast a level close to 21.4% as we anticipate macro uncertainties [indiscernible] the exchange rates.

Now shifting [indiscernible] to the group's overall performance, on Slide #3. The quarter displayed solid operating trends with expanding lending dynamics and activity, both driven by strong product construction and higher seasonal transaction volumes. Margin performance was supported by [indiscernible] selective lending, top-level asset quality and optimize funding costs. [indiscernible] sensitivity in local currency reached MXN 90 million from every 100 basis point change in the reference rate. Capital generation remains strong, ending the year with a 21.8% capital adequacy ratio and a CET1 of 13.2%, gladly converting to our management target for this indicator. We will discuss our capital allocation strategy in more detail later.

Starting off with profitability, that's Slide #4. Reported net income for the quarter amounted to MXN 13.7 billion, a minus 4% decline quarter-over-quarter, mainly driven by our annual expense management strategy. We leveraged the same income generation of the last quarter to a bank's different personnel, administrative and operating expenses impacting net income figures. Nevertheless, with accumulated figures, net income for 2024 reached MXN 56.2 billion within the guidance provided for the year, an increase in 7% versus 2023, driven by a solid performance across all our business lines.

ROE rose 20 basis points compared to the fourth quarter of 2023, reaching 21.6% accounting for the share buyback operation and the distribution of extraordinary dividends during the quarter. ROA slightly declined year-on-year and versus the last quarter in an acceleration in loan growth towards the same of the quarter.

Analyzing the results by subsidiary, Slide #5. The bank reported net income of MXN 10.7 billion in the quarter and MXN 44.1 billion in 2024, with some core banking operations, driven by a higher quality lending activity, control [indiscernible] and a strong fee revenue, which enabled the opportunity to advance expenses for this year. Altogether, these results yielded an ROE for the bank of 21.9% for 2024, 146 basis points higher versus 2023. The insurance business grew 14% sequentially and 26% versus 2023 on the back of current business generation, despite an increase in the fee scheme between the insurance company and the bank during the fourth quarter. [indiscernible] business was 40% higher in the quarter and versus 2023, giving a normalized operation of the industry, following the reactivation of the resolutions issued by the social security institutes, along with lower reserves constitution during the quarter.

The pension fund business had a sequential decline driven by lower yields and financial products, with accumulated figures it grew 8% derived from higher business volumes. It is worth mentioning that starting in January, we had an additional reduction in fees from 0.57% to 0.55%. We anticipate this reduction to have an impact on the financials of this year but will be rapidly mitigated by the higher assets under management. Finally, the brokerage sector reported double-digit growth with accumulated figures, offset by larger transaction fees.

On Slide #6, loan expansion continues to post double-digit growth across most of the portfolios. The corporate and commercial book grew an outstanding 24%, 18% year-on-year, respectively, given the continued demand for companies requiring higher working capital to expand their productive capacities and the benefit from the FX variation in the dollar loan book that today accounts for 16% of the total portfolio. For this year, we anticipate a slight deceleration in these books as the new investment pipeline is on hold [indiscernible] uncertainties around the freight negotiations [indiscernible]. Nevertheless, we still perceive good dynamics in [indiscernible] financial services and industrial parts, supported by the development plan set forth by the new administration for the following years.

Moreover, our government book rose 70% in the year, given the resuming activity following the federal, state and the municipal elections. There is opportunity for this group to expand [indiscernible] the potential public [indiscernible] associations for infrastructure projects to start to materialize.

Turning to Slide #7. Overall, consumer lending maintained double-digit growth of 11% in the year, mainly supported by solid employment levels and improving labor conditions, as well as the scaling of our [indiscernible]. The combination of these factors have allowed us to reap the benefits of stronger consumer dynamics, enabling a more acceptive cross-sell mechanism based on our clients' needs and desires.

The mortgage portfolio remains one of the main growth drivers despite our client need -- sorry, despite the minor deceleration at the end of the year. This portfolio grew MXN 19.6 billion in 2024, even with the restricted with this approach, prioritizing high-quality, low-leverage clients. We anticipate this product to benefit from lower rates throughout the year.

Auto loans reported a solid 25% growth in the year supported by our commercial alliances with different car dealerships and greater overall business activity in the sector. We continue working on building a sound network that guarantees the availability of our offering with the best selling brands.

Regarding credit card, this business rose 18% year-on-year, driven mainly by the introduction of innovative products that addresses specific needs of our younger and lower income clientele. It is worth mentioning that credit cards have gained relevance as our foreign payment method, which has had a positive impact on new client acquisition and balances.

Finally, payroll loans also show a good credit dynamic, growing 10% annually, reflecting a rebound offering with different products that address our customers' short-term liquidity needs.

Slide #8. We preserve top-level asset quality with an NPL ratio of 0.9% at year-end despite our continued growth across all portfolios, especially in the consumer segment. Cost of risk stood at 1.8% in the quarter and the year, given the dynamic recalibration of internal models. It is worth mentioning that so far, there are no signs of sectorial or geographical deterioration in our books.

Please, on Slide #9, show expanding trends. Net fees grew 18% year-on-year in the quarter, with core banking fees increasing 15% in the same period. As I mentioned before, the evolution was mainly driven by the increase in transaction volume of consumer products and [indiscernible].

Changing gears to ESG, Slide #7. We continue to make progress on the different projects announced at the beginning of the year. The resources from our [indiscernible] bond issuance are well advanced with over 70% of the funds already allocated to various [indiscernible] with our clients. We continue the internal capacity building efforts required to grow our sustainable finance penetration. And towards the end of 2024, we announced an ambition long-term commitment to growth and [indiscernible] by the year 2030, working together with [indiscernible] tree initiatives and local associations in Mexico.

At the end of next month, we will publish our 2024 integrated annual report which will provide in-depth information regarding our sustainability practices. Finally, before moving into the financial highlights of the quarter by [indiscernible], I would like to cover 4 additional buckets.

The first one, I will take a moment to expand a little further into the capabilities that Banorte has today. We were recently recognized as Bank of the Year in Mexico by [indiscernible]. This award was not only a great way to serve fair well to a successful 2024, but a way to highlight the remarkable transformation of the bank in these last 125 years. This award acknowledges our efforts in strengthening our digital banking offering via innovation, deep customer understanding to continue the investments in technology, resulting in a significant improvement in customer experience are giving us a competitive edge in the market.

Second topic, we have received many questions regarding the direction of our pivotal strategy. In this regard, we are certain that there is a market of young and big savy individuals looking for convenient, simple and reliable banking solutions as well as a digital driver to increase financial [indiscernible]. As a financial group, we have the technological and human capabilities to address this market. And I want to assure you that we are finalizing our value proposition by consolidating efforts and leveraging the scale and the strength of the group. I will be communicated this to you in our next quarterly call in April.

Third topic, regarding the possible implications for banks of the recent executive order of the Trump administration to designate [indiscernible] or organizations. In this regard, I would like to stress that Banorte has a [indiscernible] policy that has been strengthened by continuous investments in governance structures, human, technological and operational resources that enable us to not only comply with the local regulation but exceed our surveillance capabilities of our clients' operations.

Our compliance program is supervised by the National Banking and Securities Commission to support [indiscernible] or information required and in some respects related to different payment systems channels like [indiscernible] by the Mexican Central Bank and by our internal audit division and -- an annual basis.

Moreover, [indiscernible] has robust anti-money laundering protocols that are supervised by the corresponding American authorities. Nevertheless, we welcome all the processes that strengthens the security of banking compliance systems with which we [indiscernible].

Lastly, topic #4, regarding our capital allocation strategy. As you know, our internal capital generation remains strong, enabling high-value returns to our shareholders. In 2024, we delivered an 89% payout ratio comprised by an ordinary dividend that accounted for 50% and extraordinary dividend that added an additional 90% and the cancellation of 70.3 million reports of shares during the quarter, representing an additional 19%.

I would like to stress that we continue evaluating all the different alternatives to return value to you, while being mindful of the operating environment and organic loan mix. As such, we anticipate our Q1 targets ranging between 13% and 13.5% in the year.

Now I will pass the word to Rafa to cover the main financial results as well as to discuss our expectations for the year. Rafa, please, go ahead.

Rafael Victorio Arana de la Garza
Chief Financial & Operational Officer

Thank you, Marcos, and thank you all for attending the conference. As Marcos has mentioned and I will just stress the balance sheet continues to be quite a strong position of Banorte. As you know, we have been basically pulling our balance sheet very close to neutral. There was a small pickup on the quarter based upon the movements that we need to do in the treasury, but is still almost neutral for the sensitivity and more than ready for the lowering trend that we see on the interest rates.

Return on equity continues to be a very important piece of information for the market and for us [indiscernible] metrics that we follow the profitability of the bank and the evolution of the bank. The group is evolving in the fourth quarter to 21.6%, about 22% for the year. And the bank is reaching in the fourth quarter 27.8% return on equity above 28% for the year, pretty strong number also taking into account the strong capital base that the bank continues to hold.

The transformation will continue to hold on and the digital offering that we have, our decision and intelligence is becoming a part of a natural evolution for most of our processes. As you know, we have an inherent artificial intelligent [indiscernible] can do transactions and help our clients to evolve and do the transaction that they, in some cases, are stocking the process. They can really see the [indiscernible].

The net interest margin for the quarter continues to evolve at the group level, 5 basis points to reach the 6.5% and Banorte [indiscernible] continues to evolve in the quarter to 6.8%, 90 basis points on a [indiscernible] basis. So this is a result of this structural balancing the position of our balance sheet and also giving us the right trend on the mix on the book and the results is [indiscernible] on the evolution of the margin. Some of the -- of our investors were concerned about the reduction on fees on the interest rates and [indiscernible] that's going to affect the evolution of the margin for us. So we have been working for [indiscernible] the balance sheet for the last 2 years. I think we're in a good position to keep [indiscernible] interest margin for the bank.

Cost/income ratio, 36.9% is a number that we know is high for Banorte. There's a lot of efforts coming into place that are already being rolled out on the shared services initiative. You will see also and there were some concerns from the some analysts and investors that there was a strong [indiscernible] on the expense ratio at the end of the year. That strong pickup, as Marcos mentioned, has to do with severance payments, the result of the productivity that we do every year. But in addition to that, [indiscernible] that all that is the shared services evolution also is coming with an important reduction in the [indiscernible] that also is part of the [indiscernible].

And we also anticipate based upon the currency movement some software and IT expenses that will be benefit for us in '25. [indiscernible], Banorte usually, we always advance expenses for the year yet, but this was an extraordinary [indiscernible] much more aggressive number [indiscernible].

When we look at the capital ratio, the capital ratio is 21.8%. As you know, we were into the market for an AT1 that proved to be very, I would say, very opportunistic like [indiscernible] and we position ourselves in a very good position for the [indiscernible] on a capital base and for the first time in many, I would say, in many months, you see the capital -- the core Tier 1 at 13.2, that is very close to our commitment to the market from 13 to 13.5. But you will see in the first quarter that 13.2 going up again above the 13.5% [indiscernible]. So these are the basic key metrics.

Now if we move to the NII. NII proves to be also a very good story. And basically, if you go to the NII on loan [indiscernible], 13% growth on a year-to-year basis compared to the same quarter and on a year-to-year basis 7%. This is the result basically of lowering our funding costs [indiscernible] a very important increase in the asset side as you saw through the year that we reached the 14% loan growth. So we start to see a very good combination of good growth on the asset side plus a reduction on the funding side that is giving us pretty good numbers on the NII.

Noninterest income overall for the year was up 28%. Net fees, as was mentioned before, 18% for the year. Premium, as you will see and there were some comments about the insurance business. The insurance business had a very good quarter, basically on the medical part due to a very large policy that was issued on that part. So that was a result of the increase in [indiscernible].

The other thing that is relevant on the NII, and it's coming now is becoming more and more, I would say, usual for the market, difficult to understand the evolution of the [indiscernible] related to the [indiscernible] business. But I think by now we know that this is basically related, [indiscernible] the margin, but at the same time, [indiscernible] stays the same. The only case that's not exactly what happens if you grow the business in an important way. So I would say relevant numbers in the NII basis.

And I will also try to express there were some concerns about what was the effect of the buyback and what was the effect of the [indiscernible] dividends for the NII, I would say that MXN 565 million was the total sale of the NII, the buyback and [indiscernible] dividend that we gave to the market. The [indiscernible] dividend was very MXN 36.7 million and the buyback program was MXN 528 million. That is -- was expected from the margins on the -- from the bank to really serve our commitment to our shareholders.

On the next slide, you see that a very sound evolution is coming on the banking ratios. I would like to seek to call attention to the net fees of Banorte Bank that is growing 22% year-on-year. That's a result basically of a lot of activity that is happening in every single channel of the bank, the mobile channel, the branches, ATMs, everything is really increasing our activity in a very important way.

In this graph, you also see the evolution of the net interest margin for the bank that it reaches the 6.8% at the end of the year. There is also of that reduction on the funding cost growth, a very important inflow of demand deposits and noninterest-bearing deposits. So that's basically what's coming on the core banking ratios, fees margin, and we will move into more indexes in a minute.

If we go next to the net interest income sensitivity evolution, there was some comments that we jumped from the third quarter to 36 million to 90 million as a result effect to taking positions that will allow [indiscernible] you will see that working again in the first quarter on that part, but it's basically a neutral balance sheet. I think that's a very positive position that we are to face the imminent reduction rates that our economists [indiscernible] that will be a little more aggressive than the [indiscernible].

If you move to the -- now the other key metrics of the bank are evolving. You see the next one. If you go to the ROA, you see there was a slight reduction on the ROA. That's a result basically that it was a very strong pickup on the loan origination at the end of the year. So you will see the returns of those originations coming and flowing into the next month of the year. Net income of Banorte, you see a reduction, and that has call the attention of some of our analysts and [indiscernible] that they have some concern here.

But you have to see that the net income of the third quarter was basically affected by a strong advance on the cost side that you will see on the [indiscernible], but basically, the basic generation of the bank of the net income basis, that is the asset side, the funding side and the fee side and the risk side or are perfectly aligned to continue to deliver a continuous net income growth. There were a lot of adjustment on the fourth quarter to [indiscernible] on the expense side, basically the [indiscernible] for the coming year. We will grow [indiscernible].

The return on equity for Banorte Bank, which is on the third quarter, 31% in the fourth quarter, 27.8% up an average of for the year above the 28%.

If we go to the next -- that's the managerial [indiscernible] take into account the effect of the Annuities. I think that by now, we have so many ups and downs and inflation. This has to come more from the year [indiscernible] investor base.

I would like to move to the next slide -- that is really something that you know we have been chasing for some time, the reduction on the funding cost based upon the high pace of growth on the loan book. There was pressure on the funding side on '23. We started to normalize that on '24. And finally, we are now reaching the trends that we'd like to see. We reached the 46.6% on the funding side, that's what is really pushing up along with the sensitivity of the balance sheet -- the net interest margin along with a very positive generation on the asset side.

So what was the story. And I would say that there were some basically loan-to-deposit ratio we are not reaching still the 100%. We are still on 104% and that gives you some imbalances on the asset to really decide that is easily compensated by a position that we can do on the market [indiscernible].

And another important thing is the cost of the market [indiscernible] also are coming down in an important way. You see that noninterest-bearing deposits, demand deposits grew on a year-to-year basis, 8%, that's quite a number because this is really noninterest-bearing deposits basically delivered by the payroll base that we have that is growing in an important way and the activity of the new accounts that are coming into the bank.

Also we are becoming more and more active on the remittances side and the remittances have been proving to be a very important source of funds also on the cheap end on the [indiscernible]. The interest rate [indiscernible] deposits, you saw a decrease in the quarter of close to 6%, and that's a good news because we are [indiscernible] noninterest-bearing deposits with interest-bearing deposit on demand deposits. That shows the quality and the potential of the distribution capacity that Banorte has in every single of the banks that are commercial, corporate, government, retail.

[indiscernible] deposits continue to be a balance, some very good growth on the [indiscernible] deposit base, 16% year-on-year, with lowering trend on the funding cost on the [indiscernible] deposit also.

If we go now to some of the of, I would say, the key elements that Banorte has in a way the way that we compete in the market that is basically the quality from the asset group you see that the cost of risk and there was some concern of the cost of risk jump a bit. Yes, it jump a bit because we originate a lot in the fourth quarter in the government book that required provisions on [indiscernible] and they will come back in the coming months.

And also credit card, the mortgage [indiscernible] all the book really pick up a very strong growth on the end of the year, and that was accompanied by the initial provisions, not because there was a lack of quality of the group because this mandatory is a way we have to provide the provisions based on the [indiscernible] that we have to comply with. But we continue to see a very strong asset quality.

If you -- let's take a pick on the -- if you go to the [indiscernible] 0.6% NPL, you go to the mortgage to 0.9% NPLs. If you go to the [indiscernible] that is sometimes of concerns 1.8%. That is the same level that we have on the commercial and corporate, corporate 0.1%, government 0. So overall, below 1% NPLs and very strong cost of [indiscernible] below what we guide the market at the beginning of the year.

And there has been some concerns about what are Banorte doing in order to keep the group? Basically what we started 5, 6 years ago, to be very diligent, very, very active on evolving to more and more analytical tools in order to provide the necessary information to have the right onboarding policies that we have, and that has been proving that all the investment and all the quality [indiscernible] people that we have on the risk side, on the collection side and the discipline that the banks that all the people that we're lending at the bank [indiscernible] is what is giving [indiscernible].

The write-off rate. Some people say, write-off in Banorte is really -- a very stable line. That is also something very relevant about Banorte. We don't go up and down [indiscernible]. So we don't go into the market, our growth in the market at any price and then kill the book by [indiscernible]. This is a very disciplined evolution of the right operation.

If you go on the fourth quarter on '23 to the fourth quarter of '24, due to an evolution of 14.8 to 16.2, this is basically what we have been mentioned. We advanced a lot of payment, the severance payments, the evolution that we have on the shared services unfortunately comes with a reduction on the HR numbers. And that effort will continue in a very active way through the year, but most of the severance has been already advanced in place for the quarter. So that's the result of that [indiscernible].

If you try to split up the expense growth of an [indiscernible] this is quite important for the market to know this is the recurring expenses of Banorte at 7.4%. If you add the [indiscernible] is 5% more. So that's what puts you on the 12.4%. So the whole idea right now and Marcos already touched on that and mentioned on that is that we have to converge not on this year, but I'm sure in the next year, to the recurring expenses that Banorte has. So there will be an aggressive reduction on the expense line that has already started in '24 and will continue into '25.

What was going to be the result of that on a net income basis? Our goal is, as you know, on a permanent basis to be at least at 34%. We know we are above that, 36.9% there's a strong effort for the next year, as you will see on the [indiscernible] in a minute, but we are aware that we are very conscious of the expense line, and we are taking actions on that. Banorte doesn't feel comfortable on a cost-income ratio of 36 points.

The bank and liquidity ratios, the liquidity ratio continues to be right on line where we like the liquidity ratio to be and the capital adequacy ratio, as I mentioned, is 21.8%, well above the requirements of the [indiscernible]. And on the core Tier 1, for the first time in many, many quarters, we are on the range that we promised the market of [indiscernible].

I have already touched on the capital return, but I think it's relevant to mention that. How was the payback to the investors last year? 50% was the initial payout that we gave and then from [indiscernible] and then comes the extraordinary dividends. There have been some questions about how active is going to be the buyback program. The buyback program is active and is active until we go to the assembly on May to renew the buyback amount that we have. Currently, we have close to MXN 22 billion to be used as needed on the buyback.

Some people have said why are [indiscernible] more aggressive based on the share price? Because the world is not quiet, and we like to be, as always, conservative and ready to do whatever we need to do in order to really reflect the real price of the share in the market.

Now I would like to go first to the 2024 results on the guidance. Loan growth, we promised the market, 10% to 12%, we reached 14% strong growth at the end of the year. Net interest margin, we promised at the group level, 6.1% to 6.4%, we reached 6.3%. Net interest margin of the bank, we promised 6.3%, 6.5%, we reached 6.5%. Recurring expense growth, 7.4%. Total expense growth, we promised market from 13% to 14%, we reached 12.4%, it is below what we promised the market, but we are not comfortable with that number and all actions are being taken in order to continue the reduction of them.

Efficiency, we promised the market from 36% to 37%, we reached 37%. Cost of risk, 1.7% to 1.9%, we end at 1.8%. So we comply.

Tax rate -- and let me touch on the tax rate because there was some concern that we produce a very low number of the compared to the usual numbers at Banorte. When you look at the tax rate, you have to look -- if you go to the first quarter, the tax rate was 30%. Why it was 30%? Because there were some provisions that we needed to do. There was some evolution coming on the inflation rate. So we basically have to look at the tax rate on an annual basis because if you go to a quarter-to-quarter, many adjustments come based upon inflation, based upon many issues that come from that part. So our commitment for the tax rate was 26% from 27% to 25% to 27%, we end at 26%. That is right in line what we promised the market.

If you see the evolution of the tax rate on a quarter-to-quarter basis, obviously, a big drop in the fourth quarter but a big jump on the first quarter. So when you see everything is balancing that out. We are not playing the game of adjusting their the net income based on the tax rate is based upon the evolution of what we see on inflation on all the issues that are needed to [indiscernible].

Net income 56% to 56.8%. We ended up at 56.2%. If you add what we take strong buyback from the extra dividend, you see that, that number was very close to the high end of the [indiscernible]. The return on equity, 21.5% to 26.5% for the group. We ended at 22.4%. Return on equity for the bank, we promised 27.5% to 29%, we ended at 29.1%. And ROA for 2024 was 2.3% to 2.4%, we ended at 2.3%. So we comply with every single line of the guidance that we commit the market to be.

Now I will go to the guidance for the year. And just to put everything in context, '24 was a challenging year, '25 is another challenging year. Based upon many issues that are going in Mexico, in the U.S. and in the world. So based upon the information that we have right now, this is the guidance that we are committing as we speak.

Loan growth received [indiscernible] potential loan growth from 8% to 11%. We were going to tend to the double-digit growth. Net interest margin holding for the group from 6.1% to 6.4%. For the bank, 6.4% to 6.6%. Our recurring expense growth instead of the we are lowering now to the range of 6% to 7% and total expense growth 9% to 10.5% with a big effort to be on single-digit numbers for the year. Efficiency from 36% to 37.5%. Cost [indiscernible] reached 1.8% to 2%. Tax rate, 26% to 28% [indiscernible]. Net income, 59.6% to 62.1% [indiscernible].

Return on equity for the group 21.5% to 23% and return on equity for the bank from 28% to 30%. ROA from 2.2% to 2.4% with a GDP of 0.7% to 1.3% and inflation rate from 4% to 5% and Banxico 8.5% by year-end on the interest rates.

If we place the loan growth, let me go on a line-by-line basis because that's an information that you always look for. Commercial will be growing 11%; consumer, 11%; the mortgage book, 10%; credit card, 13%; car loans, 16%; payroll, 11%; corporate, 9%; and government, 7%.

If you see the adjustment is basically on the corporate to see basically the evolution of how all the issues concerning trade and things coming into place in the next few days, we will have a lot more information.

With this, I -- and I will also -- another question that usually comes to us that health investment in technology, the investment in technology continues to hold at 13.1% of total revenue that has been the norm, and we will continue to have [indiscernible].

With that [indiscernible] my participation.

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member
Thank you, Rafa.

Question and Answer

Operator

[Operator Instructions] We'll start with Tito Labarta from Goldman.

Daer Labarta
Goldman Sachs Group, Inc., Research Division

[indiscernible] I guess just on the guidance because you mentioned Rafa, you expect another challenging year in 2025. Just to think where could you be or what would have you be more optimistic on the guidance or you reach maybe the higher end or maybe is there even upside to that? And what makes you -- what would make you be more pessimistic and where you would be at the lower end, meaning I mean you talked about tariffs from the U.S., slowdown in Mexico, you have the reform? So just help us to contextualize the guidance with all of the uncertainties that are happening in Mexico, U.S. globally?

And then I just have a second question on the capital return. Do you think the sort of 90% payout in some form of dividend buybacks. Is that a consistent number that we could expect also for 2025? And what could change that either higher or lower?

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

I will start with the second one. We don't want to call it consistent. It's 50% in the number that we should be the normal one. And depending on what's going on and the different alternatives that we will have in the future. obviously, putting increase, but we maintain the 50% dividend policy. And then we will see [indiscernible] the best way for the investors, but we want to have some discretion there, [indiscernible].

[indiscernible] the number one, Rafa will start on [indiscernible].

Rafael Victorio Arana de la Garza
Chief Financial & Operational Officer

Yes. And I will jump then to Alejandro Padilla, that is our Chief Economic. If you ask me, that is already been contained on the guidance. If you see last year, corporate grew 24%. Commercial grew 18%. We are adjusting that as we see today because it's basically a wait and see for the U.S. and for Mexico to put more on the investment side concerning the export side, the near shoring side on that part. So if you see where I could see a pickup on that if we see a good evolution on the foreign direct investment that we see the right policy is coming into place. Corporate could evolve, not to the '24, we are putting a line on that, but could also move into double digit. So that would be a good pickup, and it's already adjusting on the low end. Let me say that. So that -- I would say that's a conservative view on the [indiscernible].

If you go to the government book, the government book finally started to pick up by the end of the year and the possibility of a much more aggressive policies concerning the private and public sector working together, that should also give us a pickup on the loan side, on the government book. And in addition to a lot more business that is coming with the [indiscernible].

The other potential growth that we can see is we are putting the mortgage book at 10% but based upon all the evolution that we have seen on the process that we'll do and the latest numbers that we closed the year on the mortgage book, maybe that's the potential pickup of that to move from the 10% to 12% on that part. So we see a potential movement on the loan book, basically potentially on the corporate or on the government book.

On the consumer, there is still resilience, the labor part of the economy continues to be quite resilient. If that continues to be the case, there's a potential pickup on that. What I would like to convey to you is that we are putting [indiscernible] this is going to be a tough one, but maybe the mid to the low end on the guidance on the loan book growth, that's what we are committing on that.

That also will be compensated -- when we look at the numbers on the margin, the margin is picking up also because the funding side will continue to go down. So that I would say there's potential pickups the corporate, the government book, the mortgage book also, I think potentially, the car lending part could be as a good one. The funding side will be a good story. Expenses will be a good story that we are not reflecting [indiscernible] because we have to execute, and that's on us on that part. So it's -- when I say challenging, I'm not saying [indiscernible], I'm saying challenging and challenging means executing. And I think we are very good and execute.

Alejandro Padilla

This is Alejandro Padilla, Chief Economist. Let me just quickly walk you through our forecast of 1% of GDP. The main drivers that we are considering for this year are consumption and exports. For consumption, we think that they can grow around 2% from the almost 3.5% that we observed last year. And in terms of exports last year, they grew -- or the contribution was [indiscernible] and we think that they will increase by almost 3%. Thinking about the upside risks, I think that the upside risk are coming from investments in which if the tariffs are delayed and the President Trump starts like the negotiations with Mexico about the USMCA in this year. And we don't have a significant increase in tariff, then I think that we might see a positive effect in exports.

Why? Because the [indiscernible] all of the inventories that they will require in the U.S. and that will boost exports. And the second one is investment in which maybe some of the programs coming from [indiscernible] Mexico can take place. The President [indiscernible] has already mentioned that she wants to put a very interesting program in which the private sector will be accompanying the government to develop the infrastructure that Mexico requires and this can boost investments also in 2025. That, I think, could be an upside risk.

And from the other side, the [indiscernible] risks are coming basically from the trade policies that President Trump [indiscernible] can implement in the next days. and also whatever that we might see in terms of the deceleration of the global economy.

Daer Labarta
Goldman Sachs Group, Inc., Research Division

Great. No, that's very clear. One quick follow-up. Rafa, you mentioned earlier that the core Tier 1 ratio should increase in 1Q. Any color as to how much it can increase?

Rafael Victorio Arana de la Garza
Chief Financial & Operational Officer

Yes, it will be above the 13.5%. It will be coming close to 13.6%. What is important and going back to what Marcos mentioned on the dividend policy, Banorte continues to be a very strong capital generation entity, and we will continue to do that based upon the discipline that we have in the risk and how we take care of the capital. So that will allow us to see the potential evolution of, as Marcos mentioned, on how we can remunerate our investors in the best possible way.

Operator

We will now go with Gustavo Schroden from Citi.

Gustavo Schroden
Citigroup Inc., Research Division

I have 2 questions. The first one is regarding [indiscernible]. You gave some color about the potential news in the first quarter. But I'd like to get your sense because [indiscernible] reported another loss in the quarter, so something about MXN 225 million. It was 31% worse than last quarter and it's almost MXN 1 billion losses in the year. So do you have an idea of when [indiscernible] could reach a breakeven point to share reverse?

And also, how optimistic are you with [indiscernible] and their strategy? I'm asking this because we have this experience in Brazil when we saw large banks, incumbent banks like [indiscernible] they had the same strategy at the end of the day, they decided to unify the digital platform. within the retail business. So I just wanted to understand how do you see the [indiscernible] and about the strategy going forward?

And my second question is regarding the sensitivity interest rates. We could observe that the bank has significantly reduced the sensitivity. The -- despite this small increase in the fourth quarter versus last -- versus the third quarter. So you commented a little bit during the call, but just to be clear here, what is the strategy? Is the bank planning to be neutral on rates? Or is it just a short-term adjusting the sensitivity? How should we think on it for 2025 onwards?

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

So I will start for the second one. In pesos, the strategy is [indiscernible] 2025. Obviously, we need to move them up the machinery because it's a dynamic process, but that's the strategy to be neutral.

And the first one, as I said, first, there is some market [indiscernible] looking for, as I said, convenient, simple and reliable banking solution, as well as we need to move to the financial [indiscernible]. So the new idea is there. And so far is working according to plan, the -- according to the business plan. But yes, we realize that we need to move faster, and we realize that we need to do something specific for us and for Mexico. And that's why we will launch this in this quarter. We will move all the pieces that we have and we will [indiscernible] with a new piece that is going to be stronger and different. And that's all I can tell you so far. I don't have [indiscernible] something else, but that's the idea, and it's going to be a movement in the pieces.

Rafael Victorio Arana de la Garza
Chief Financial & Operational Officer

I just -- I would add that Banorte has evolved a lot in the digital world. As you know, the bank in [indiscernible] based upon the learning experience that we have with the Rappi and with [indiscernible] we have a very clear way to move forward in a very fun way that you will see, as Marcos mentioned, in the next investor conference that we have, you will have a very detailed plan. I've already executed a movement towards this.

I would say, potential financial inclusion and financial adherence of some people that would like to just leave on the digital. I think we have all the pieces now. We have all the learning experience -- and we now understand what we need to do on this part in a very important way. That will reduce the losses, reduce the cost and be quite aggressive in the market in a good way, not in a [indiscernible] the way in a stupid way.

Gustavo Schroden
Citigroup Inc., Research Division

Yes. No, no, I got you. And just a follow-up on [indiscernible]. Have you seen any different pressure from newcomers, especially digital players that could be impacting [indiscernible] performance? It is something related to the, I would say, potentially stronger competition from newcomers and digital players?

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

No, no. So far, [indiscernible] that you have and it's not moving any faster than everybody is expecting. So, no. The answer is, no.

Rafael Victorio Arana de la Garza
Chief Financial & Operational Officer

[indiscernible] that we don't like to compete just on price like some people [indiscernible]. We think we have all the potential to really deliver value for any different type of clients that like to do business with us based upon the [indiscernible]. We don't like to play the game of [indiscernible] on the investment side and killing on the asset side, the clients because the amount of people that are being sent to the [indiscernible] based upon that policy is not good for Mexico, it's not good for financial inclusion, and we are not in that game. .

Operator

Now we will continue with Eric Ito from Bradesco.

Unknown Analyst

I have 2 here from my side as well. The first one is regarding the guidance for 2025. On your NIM, you have a guidance of 6.1% to 6.4% and you will finish the year at 6.3%. So I just want to understand what would be the reason that could make you reach the low end of the guidance for 2025? Because when we look at the performance, you have a broadly neutral sensitivity to interest rates. And then when you commented about loan growth between the lines, we still see faster acceleration on credit cards and auto loans [indiscernible] portfolio. And I think funding continues to be strong. So what would make you reach the lowest end of the guidance for NIMs?

And then my second question is regarding cost of risk. I think you increased the expectations to 1.8% to 2.2%. So I just want to understand -- I just want to confirm if that's basically because of the higher loan origination or are you seeing any [indiscernible] on the portfolio for 2025?

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

Regarding the first one, you have to name the first one that in those annuities, and you are right, it's between 6.1% and 6.4%. But the need for the bank, [indiscernible] between 6.4% and 6.6%. That's why -- that's the explanation of why it's lower because the [indiscernible] there. And talking about the second, the cost of risk, Dr. Salazar is going to answer that.

Gerardo Cuitlahuac Salazar Viezca
Chief Risk Management & Credit Officer

Yes. But I will say risk at this time [indiscernible] that if we are -- we moved to a proactive risk management practice in consumer lending we think this goes into higher margin part of the loan book will contribute to interest rate margins, but also it will increase provisions. Provisions will -- are going to increase in 2025 due to no problems in asset quality. What I will tell you is that what we are foreseeing is that we are going to perform in 2025 with a strong loan growth leading to front-loaded provisions and such increase will not mean materialization of loan defaults and also our loans [indiscernible] performed well, provisions may normalize, bringing cost of risk down again. I think we're going to see that throughout the year. But initially, the guidance that you just saw between 1.8% to 2% is the reasonable thing to do in order for us to be sure that we are ensuring provisions aligned with drill and observable credit risk. That's more or less the sink or the factor regarding cost of risk looking forward to 2025.

Operator

We will now go with Ricardo Buchpiguel from BTG.

Ricardo Buchpiguel
Banco BTG Pactual S.A., Research Division

I have 2 here on my side. So a follow-up on the discussion you had on loan growth. So if you could talk about how much of Banorte portfolio is connected to sectors that are highly dependent on exports to the U.S. and then will be negatively impacted by the increase in tariffs?

And for my second question, if you could also provide more color on what has been driving this growth of noninterest-bearing deposits that has been helping to reduce the cost of funding in Q4? And what we should expect for 2025, right? Is it, for instance, the competition with new competitors could eventually pressure a little bit the cost of funding or the idea is to have the same kind of policies in terms of pricing and mainly having some fluctuation depending on the mix on interest-bearing and noninterest-bearing deposits?

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

[indiscernible] is around 4.1%. You want to elaborate on, but this is around that. And the second one, Rafa, please ahead.

Rafael Victorio Arana de la Garza
Chief Financial & Operational Officer

No. I think -- when you talk about the second one, I think Banorte has never competed in a way. If you look at the overall information that the [indiscernible] provides in order that you can see the implicit rate that Banorte charge on the books, you will see that Banorte is always on the mid- to the low end of the pricing [indiscernible]. But when you look at the NPLs and that book provides, we always are at a really low, low end. So that combination of really low cost of risk with a very sensible pricing on the market as usually on the mid to the low end allow us to have on a risk-adjusted basis, a pretty sound numbers coming into the income statement.

So when you say that that's the way we do compete. We don't chase the market. We don't go on a price -- raising the price to try to fill the risk in a way that could eventually provide [indiscernible]. We are very disciplined on how we do compete in the market. We like -- if we like the risk we like to be aggressive on the price. If we don't like the risk, we don't even talk [indiscernible]. That's what provides us in a very sensible risk-adjusted margin that is evolving every single day. And so I would say that's the way Banorte competes. It's not that we chase the market and we play the game of high rates in order to compensate the losses. No, no, no. We don't do that and we [indiscernible] for the last 5 years, and we will continue to be very, very disciplined on that.

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

Thank you, Rafa. And Ricardo, just on the first point, the 4% is to total exports to U.S. is around 3/4 of that. So around 3% of the book [indiscernible].

Operator

Now we will continue with Ernesto Gabilondo from Bank of America.

Ernesto María Gabilondo Márquez
BofA Securities, Research Division

So my first question will be on your OpEx growth, you have been opening branches, hiring commercial bankers to benefit eventually from the nearshoring opportunities. However, given the noise that could take place during the Trump administration, the massive deportations, is management evaluating to put on hold, maybe some of this hiring of commercial bankers, opening new branches or maybe delaying some technology investments, I don't know, in Rappi or in other platforms because we have seen that OpEx has been growing at a double-digit pace in the last couple of years?

So just wondering, when do you expect OpEx growth to be again in line with inflation or modestly above inflation?

And then for my second question, President [indiscernible] has been saying in several occasions [indiscernible] willing to work more closely with the private sector, to be more open in renewable energy and in creating public-private associations. So can you give us -- if you already have visibility on this, is this already happening?

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

No, we're not going back. We will continue with investments. We know what happened in [indiscernible] 1.0, we expect [indiscernible] 2.0 at least at the beginning that is going to be some kind of the same. So obviously, we will be very cautious and it doesn't mean that we can change if something happens. But so far, the idea right now is to [indiscernible] and to compete and to be there with the market and we are willing to take a little bit more of [indiscernible] the market in the future. So we will be very competitive and we will be fighting with other banks, and we will be investing and it's going to be around -- I think a little bit above the inflation with the expenses that we are putting on that.

And the second point, yes, we have been in meetings with this Mexico [indiscernible]. And we are with a lot of investors -- potential investors the usual ones in Mexico [indiscernible] and we are working with them as all -- we see a pipeline there, and we will go for it. So yes, something is coming there and we need something to materialize, but we see some future there. I don't know if you [indiscernible]. .

Alejandro Padilla

Thank you, Ernesto. Thank you, Marcos. Well, I think that we have to take into account that the government will try to implement an important effort of fiscal consolidation 2025 and they will not have enough money to continue with some infrastructure projects that they require. So that's why they have been opening the space for the private sector to jump in and do some public and private associations to deploy that infrastructure.

Indeed, when President [indiscernible] released the Plan Mexico, well, she said that this plan was a pillar of the entire national development plan. And within those areas, there are some actions that they already mentioned that will take place between January and April of this year. For example, the relocation decrease for accelerated depreciation of new investments they will try to launch the development bank fund for SMEs as well. They will try to pursue mixed investment schemes for infrastructure projects in which the private sector will take an important role they will try to tender in 2025 [indiscernible] that will require at least MXN 100 billion of private investments.

And indeed, in this morning in her daily conference call, she mentioned that next week, they will release some of the details within the energy plan and she's willing to open for the private sector to be part of this development of infrastructure. so far, that's what we have, Ernesto.

Rafael Victorio Arana de la Garza
Chief Financial & Operational Officer

Let me just guide you through the way we have been investing. Most of the bankers were done last year, okay? So that investment is already in place. It's already been quite productive. The new ones will be basically related to new SME, a specific number of bankers that could reach around 100 bankers more because we continue to see good demand on SME.

If you go to the recurring expenses, and this is very important, please, recurring expenses for the bank is already at 7.4%. That is basically inflation plus the way we would like to see. The additional 5.9% that we have is coming from targeted [indiscernible].

Obviously, now that we have been learning a lot and we have been developing most of -- and deploying most of the issues, we can also go aggressive on the cost side on that part. The idea for this year is to be single digit on expense growth. It's not going to be above inflation like we usually add 150 basis points above inflation, but we will be on single digits this year. And next year, we will be very close to inflation for 150 basis points on that.

Why we continue to open some branches? Because [indiscernible] continue to be very aggressive on the market, and we see potential business to be there. If we see demand, we will cover that demand. We don't see demand, we don't -- we will not wait for the demand [indiscernible]. We only jump into the market if we see the demand already there and we can deploy pretty fast there -- the resources to retouch [indiscernible] analytics and digital that we have. So that's the story of the expense. We are not happy with the expense line, and we are working hard in order to reduce expense like single digit and then back to inflation or 150 basis. We will continue with the shared services, and that's a priority of the [indiscernible].

Ernesto María Gabilondo Márquez
BofA Securities, Research Division

Super helpful, Marcos, Rafa. Just a follow-up in terms of loan growth expectations. So if we really see these public-private associations and this pipeline, maybe we have room to have the double-digit loan growth in this year. Is that the assumption correct?

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

Yes, correct. And this is going to be in the second semester. Yes.

Operator

We will now go with Rui from JPMorgan.

Yuri Rocha Fernandes
JPMorgan Chase & Co, Research Division

I have a more balance sheet question here. Maybe Rafa can help me. We noted some OCI changes and some changes for your held-to-maturity portfolio, especially on the banking unit. And I think in the presentation, as you mentioned some 60 bps capital headwind from [indiscernible] maturity unrealized losses. So just trying to understand the moving parts here. What is driving the OCI? And I think there are also a line of [indiscernible] employee benefits, hurting a little bit the shareholders equity. Is this effect? Is this rate? Like just trying to understand because this was a quarter that this was a negative hit, but trying to understand when should we see like this is part of your [indiscernible] recovery at some point? Just trying to understand like the moving parts on the capital.

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

I can [indiscernible] remember that with IFRS we needed to add the comprehensive net income line. So remember, you have 3 categories for the instruments. The first one that goes against the results. The second one that the valuation goes against the capital. This is the one that is affecting that line. So basically, with the rates moving up as it happened in the last weeks of the year, you had a negative impact that doesn't go to the P&L. It goes to the capital. And thirdly, you have the instruments that are -- to maturity, and they go directly to the capital. Those are the 50 basis points you mentioned.

Yuri Rocha Fernandes
JPMorgan Chase & Co, Research Division

Okay. No. So basically -- and regarding the [indiscernible] maturity, was there was a higher growth on [indiscernible] maturity this quarter?

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

No, I think it got a valuation effect, no, basically. So in the 3 lines, you had a negative -- let me -- not call it like that because of the increase in rates. One that affected the P&L, one that affected the comprehensive income and one that affected the capital. If rates go down, then you will see the opposite next quarter.

Yuri Rocha Fernandes
JPMorgan Chase & Co, Research Division

And just a final one on loan growth. I think it was a good quarter and a good guidance for the year, like high single digit, low teens is pretty good for a turnover days. But we also see FX loans growing a little bit faster than local currency loans. And I think you mentioned like [indiscernible] to exporters, they are some 3% to 4% of total loans. When we go to foreign currency loans, we get to a number closer to 15%, 16%. Who else are you lending in U.S. dollars? Like what are the industries [indiscernible]? I would assume like you have -- you are only lending to companies with revenues in dollars. But just trying to understand what else are we seeing this segment of FX loans?

Rafael Victorio Arana de la Garza
Chief Financial & Operational Officer

What I'm looking at is that if you look our -- at our credit portfolio, we do dollar loans or loans denominated in the U.S. currency in some other parts of the economy, one of them being tourism. Tourism activities like hospitalities, like any kind of -- related to that supply chain, it is related to dollars. And you're right. Your assumption is right. We don't lend dollars to nonincome generating entities. So that's as far as we go. If you look at some other contracts, real estate contracts, are mainly U.S. denominated contracts. So if you look at 2 sectors of the economy, they are not export-related sectors, but you can lend them dollars with no FX risk involved in that type of loan origination.

Operator

Now we will continue with Carlos Gomez from HSBC.

Carlos Gomez-Lopez
HSBC, Research Division

A very specific question on the auto loan segment. It's growing now 25%. But even for the sector, the [indiscernible] growing more than 20%. Is that something that at some point start to worry you? Or you still [indiscernible] -- just there's room for further expansion? Any tiny little one on the dividend. You're going to pay the 50% very well. Since you intend to keep the capital between 13% and 13.5%, you're already there, I mean, when I do numbers, I don't get that you can pay much more than 60% next year, either through buybacks or [indiscernible] dividends? Am I doing something wrong? Or do you think that the range is higher than that?

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

The first one, remember, there is some mathematical [indiscernible]. We didn't have [indiscernible] 2 years ago, so that's why the [indiscernible]. Now to normalize part [indiscernible].

Alejandro Padilla

[indiscernible] of the Financial Group, I will tell you that in indication of cars, Carlos, [indiscernible] for the quarter indeed was up 6.8% quarter-over-quarter and an outstanding 24.9% year-over-year. That's a very high growth. Being once again the product with the strongest growth at Banorte partnerships with some other brands, we remain with solid alliances today accounting with nearly 20% of total origination.

But on the same note, contributing with portfolio expansion is the role out of the internal model update, which boosted approval rates enhancing origination. And regarding asset quality, which is your main concern within the auto loan book is the strongest among retail products and the best in the industry, posting an impressive 0.55% level in [indiscernible] plus quarter-over-quarter, an improving 7 basis points year-over-year.

Going forward, we will continue to focus on our commercial alliances, campaigns as well as preauthorized spreads and we believe the strong asset quality will prevail given the rollout of the new origination strategy. We remain very confident in these parts of the loan book.

Carlos Gomez-Lopez
HSBC, Research Division

If we push back a little bit because -- so you have change your models you have boosted originations just as the sector as a whole is growing because not [indiscernible] when we look at the aggregate numbers, we also see growth more than 20%. When do you think the cycle will turn and do you think you'll be able to turn in time?

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

Yes. I will emphasize, Carlos, that this was a calibration of the model. That's not a structural change within the loan origination scores that we have within these loan segments and that's very important. Regarding managing the cycle, eventually, we are very keen looking for early warning signs in order for us to adjust the loan portfolio origination strategy, playing with some debt-to-income ratios scores in order to approve the loans and so forth. But regarding 2025, I think this sector is going to keep growing as we have seen it in the last year.

Rafael Victorio Arana de la Garza
Chief Financial & Operational Officer

If you remember, Carlos, that the Chinese manufacturing companies have been very aggressive and are in a market that is lowering the price in the market. So for the benefit of the consumer. So we are reducing the pace of growth of the car loan books, not because we don't see the market because we like to see if this is permanent. This is really an ongoing. That's why we are being in a way conservative on the pace of growth.

But I mean, we have expedite our process to get loans on the car loan market in a very efficient way. I mean, our process on the digital side is also very, very strong. So it's a lot of things together. It is the origination, it is the process, it is the market, it is the alliances is a competition that is lowering the prices. A lot of good things are happening in the current market. So the clients are getting advantage of that, and we are getting advantage of those clients. And as Geraldo mentioned, since we have the lowest NPL in the market, we can also be a some kind aggressive on the price, if we like the risk from the clients, and we are getting pretty good price coming into us.

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

[indiscernible] We may have a little bit of [indiscernible] because you know we have a subsidiary that they are pumping up the dividend to the financial group. So we may have something but the idea is we have a policy of 50%, and then we will decide what's best for [indiscernible] investors. .

Alejandro Padilla

Carlos, just one comment, on Page 24 of the report, we've made a disclosure that on December 27, we upstream MXN 11 billion additional from the bank to the group that is already embedded in the capital numbers that you mentioned. So at the group, as you can see in the balance sheet, we have around MXN 15 billion that has been already streamed from the subsidiaries, including the bank.

Rafael Victorio Arana de la Garza
Chief Financial & Operational Officer

Yes, the [indiscernible] is really after that we put the money out to the group. [indiscernible] about going up again very close to the 14%, 14.1%, 14.2%. Please take into account that we already [indiscernible] dividends to the group on that part.

Operator

The next question is from Andres Soto from Santander.

Andres Soto
Santander Investment Securities Inc., Research Division

My question is regarding potential M&A opportunities. Two years ago, we were discussing the possibility of you guys taking part [indiscernible]. That transaction is separately going through an IPO, and we don't know yet about timing, but it looks challenging for -- to say the least that they can get that money through our IPO. So I imagine an anchor investor will be needed. The question will be you willing to be the anchor investor? And same question for HSBC, which is also reorganizing its international operations, and they're thinking about [indiscernible] all the retail markets where Mexico is one of the biggest operations in their core markets. So would you be also interested in taking part in a potential transaction to acquire HSBC retail operations?

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

I think, Andres, it will sound like always, but it's [indiscernible] to see what's in the market and to see all the [indiscernible] and then we get to the assembly and then to the site with investors if they want to do it or not. But our duty is just to see what's going in the market and to see all the opportunities and to measure all that and to see its [indiscernible].

Operator

Now we will continue with Renato Meloni from Autonomous.

Renato Meloni

Bernstein Autonomous LLP

I have 2 on the guidance. So first, on the bank NIM. Just thinking here, what's your assumption for cost of funding to get to these numbers? And in that sense, do you expect to continue growing your noninterest-bearing deposits at the same rate as your loan book?

And secondly, here is on cost of risk. So there is an implied increase in cost of risk here. So I'm wondering if this is embed some deterioration in asset quality or if that's something else?

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

[indiscernible]Thank you, Renato. As of the full year cost of funds that we're assuming is [indiscernible] get to that level. As of the growth in the deposits, I would tend to think similar trends to what you have seen in the last quarter. [indiscernible]

Rafael Victorio Arana de la Garza
Chief Financial & Operational Officer

No. I think as you saw the pace of growth of deposits on the funding side was very rich and also the cost was where we wanted to be. As Tomas says, we will be from the [indiscernible] reach the number that we might see. But I mean, when you look at the asset side that we have on the fixed rate part of the growth and the funding rates going down, that's also what is sustaining the margin [indiscernible] the evolution of a [indiscernible] growth also on the [indiscernible].

I mean the most important thing for Banorte was to break the cycle of our growing funding costs because of our very high demand on the [indiscernible] side. Now we are able to match that almost one to one. So we can lower the funding cost and at the same time, grow the asset side in a very [indiscernible].

Renato Meloni
Bernstein Autonomous LLP

[indiscernible] on cost of risk?

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

Cost of risk, continue 1.8% to 2%, as we mentioned. So consumer will continue to evolve. But nothing on the [indiscernible] coming into the book.

Renato Meloni

[indiscernible] it's more a matter of mix than that's causing the increase?

Jose Marcos Ramirez Miguel
CEO & Proprietary Board Member

Yes, you're right. The mix explains everything. It is good reason provisioning going forward. You are projecting refer segments, but higher yielding segments. And those are provision intensive loan segment. So they will require more provisioning and eventually, they will contribute to higher interest margins at the same time. So this kind of provisioning and cost of risk increasing is explained by good reasons. We are not seeing any threat, any problem going forward.

Operator

And the last question comes from [indiscernible].

Unknown Analyst

I have 2 of them. The first one is related to [indiscernible] which is the new credit card. I was trying to understand the value proposition because you mentioned in the earnings release that it's a low-income segment product. But low-income segment products are related to higher risk. So trying to figure out what is the rationale behind this?

And my second question is related to the AI investment. You mentioned, Rafa, that 31% of the total revenue is invested in technology. So I was wondering how much money are you investing only in artificial intelligence?

Rafael Victorio Arana de la Garza

Chief Financial & Operational Officer

Yes. The first one is Banorte [indiscernible], you will see pretty soon, an important launch on that. Sorry, but I would not like to disclose the strategy of that [indiscernible] going to be a very revolutionary product that could be balancing a more risky part of the customer base with a product that is perfectly aligned in a way that we can develop those clients in the risk cycle. So -- but if you have to work for a month until we see the big launch of the product.

The second one that [indiscernible] mentioned was basically related -- the problem is if I try to quantify AI technologies [indiscernible] I mean, in every single of the new issue that we do in analytics, AI is a way of life, machine learning is the same, being economics the same, is already fully in place on that. Everything related, like, for instance, there's a big push in technology that all the knowledge that the technology has -- the people and the technology in developing new architecture and development new software things is being integrated [indiscernible] customer base that the AI, the generative AI and the agents to eventually substitute much more of an interaction when you are trying to design a product based upon what you have already embedded in the knowledge of the technology, that's a big push on that.

The avatar that we have is fully loaded with artificial intelligence. Risk is also using a lot in that part. So it's all over the place. The way we operate technology, a lot of AI is embedded in the way we operate technology and the way you [indiscernible]. So it's going to be difficult because it's already part of the development of any software that we do on that part. So I would say that it's already a way of [indiscernible] in Banorte [indiscernible] what I would say.

Operator

Thank you. With this, we conclude our presentation. Thank you very much for the interest in Banorte. Goodbye.