

Q1 2025 Earnings Call

Company Participants

- Alejandro Padilla, Chief Economist and Managing Director of Research
- Gerardo Cuitlahuac Salazar Viezca, Chief Risk Management & Credit Officer
- Jose Marcos Ramirez Miguel, Chief Executive Officer & Proprietary Board Member
- Rafael Victorio Arana de la Garza, Chief Financial & Operational Officer
- Tomas Lozano Derbez, Head of Corporate Development, Investor Relations, Financial Intelligence, M&A and Sustainability

Other Participants

- Andres Soto, Banco Santander
- Brian Flores, Citigroup
- Carlos Gomez, HSBC
- Edson Murguia, SummaCap
- Ernesto Gabilondo, Bank of America Merrill Lynch
- Pablo Ordonez, GBM
- Renato Meloni, Autonomous Research
- Ricardo Buchpiguel, BTG Pactual
- Thiago Batista, UBS
- Tito Labarta, Goldman Sachs
- Yuri Fernandes, JPMorgan Chase & Co.

Presentation

Tomas Lozano Derbez [{BIO 20398814 <GO>}](#)

Good morning, everyone. This is Tomas Lozano, Head of Investor Relations, Corporate Development, Financial Planning and ESG. Welcome to Grupo Financiero Banorte's First Quarter Earnings Call for 2025. Our CEO, Marcos Ramirez, will begin today's call by presenting the main results of the quarter and will address the redefinition and next steps of Banorte's digital strategy as promised in our previous conference call back in January. He will also comment on the items proposed for boarding at our upcoming annual shareholders meeting.

Then Rafael Arana, our CEO, will go over the financial highlights of the Group, providing details on the NIM evolution, asset quality, capital allocation, as well as expenses for the quarter. Please note that today's presentation may include forward-looking statements that are subject to risk 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 [{BIO 17012786 <GO>}](#)

Thank you, Tomas. Thank you, Tomas. Good morning, everyone. Thank you for joining our call. The first quarter of the year was driven by strong business dynamics and solid performance across our subsidiaries, despite the complex economic environment. The uncertainty surrounding the new global trade order continues to pose additional headwinds for the country. Although Mexico has so far managed to contain the immediate risk of tariffs, the narrative of potential stagflation in the United States and other countries has gained traction. Therefore, our

economic analysis scheme has revised downwards its GDP growth estimate for the year to 0.5% to reflect a weaker business confidence translated into increasing challenges for investments and a more cautious consumer.

In our view, tariffs targeting Mexico will remain sporadic and will lay the groundwork for an earlier than expected revision of the USMCA in the second half of 2025. Domestically, industrial activity and investment continue to face the strong headwinds, and private consumption, while showing initial signs of deceleration, remains resilient, supported by three key factors, continuity in remittance growth, social programs, and a still dynamic labor market. On the monetary front, inflation continues trending down, approaching Banxico's target. This evolution, along with a softer economic activity, has resulted in a 100 basis points reduction in the reference rate this year, and we anticipate a further 125 basis points cut to reach 7.75% by year end.

On the fiscal side, the government is expected to continue its efforts towards fiscal consolidation, following a coordinated strategy between the public and private sectors to drive infrastructure investment. Moreover, on the political front, President Claudia Sheinbaum announced the continuity of the Mexico Plan agenda, highlighting efforts to improve sales efficiency in key industries, such as the automotive, chemical, textile, and pharmaceutical. Finally, regarding the exchange rate, we estimate a range of MXN19.80 to MXN20.40 per dollar for the year. I would like to stress that, despite this lower economic growth expectation, we are maintaining our guidance, given the operating dynamics we're seeing as of today. If anything, in our forecast changes, we will advise the market accordingly.

Shifting gears to the business performance on the slide number 3. Net income for the quarter reached MXN15.3 billion, increasing 11% sequentially and 8% year-over-year, supported by the sound performance of the banking business, reflecting an expanding loan portfolio and a shielded balance sheet that has neutralized its dependence to rate cycles and relies heavily in our business volume. Results were further benefited by a seasonal performance of the insurance company. ROE increased 185 basis points in the quarter, reaching 23.4%, whereas ROA expanded 20 basis points, standing at 2.4%, driven by a diversified income generation.

Analyzing results by subsidiary on the slide number 4, the bank net income reached MXN11 billion in the quarter, increasing 7% year-over-year, driven by greater loan origination and expanding margins, net fees, and trading income. These results yielded an ROE for the bank of 28% for the first quarter of 2025, 182 basis points higher versus the first quarter of 2024. The insurance business expanded 123% sequentially, and 14% in the year, on the back of a strong business activity and the positive effect of seasonal policy renewals of the quarter, offsetting an additional increase in the fee scheme paid to the bank for the operation of the bancassurance model. And it is 2% year-over-year, driven by the business expansion despite the highly competitive market. And the pension fund increased 12% in the year, supported by higher yields in financial instruments and a larger base of asset under management, which offset lower regulatory fees. The brokerage sector grew 136% versus the first quarter of 2024, due to greater transactional and trading income.

On the slide number 5, loan expansion performed above guidance, increasing 13% in the year and reporting annual double-digit growth across most of the portfolios. The corporate and commercial books expanded 26% and 16%, respectively, in the year, supported by working capital demands. These portfolios were further benefited by FX variations in the dollar book, which currently represents 16% of the total loan book. It is worth mentioning that our full year guidance assumes a deceleration in our corporate lending, as business sentiment is still fragile. Thus, we anticipate higher requirements for working capital and a more cautious approach in resuming CapEx investments. This deceleration is already observed in the quarterly evolution of

the book. Moreover, our government book rose 1% in the year, given the base effect of government spending prior to elections period last year. We feel comfortable with our current exposure to this portfolio, primarily focusing in developing competitive relationships to boost profitability.

Turning to slide number 6. Consumer lending displayed a resilient behavior, increasing 12% year-over-year, driven by some employment levels and labor conditions as well as the scaling of our hyper-personalization business model. The mortgage portfolio grew 8% in the year, reflecting an improved time-to-market for loan origination, personalized offerings, and retention efforts to keep high-quality clients. Auto loans rose 28% in the year, giving a combination of existing commercial alliances and the overall business activity in the sector. We are currently negotiating additional commercial alliances to increase our availability in the market.

Regarding credit cards, the portfolio increased 19% year-over-year, driven mainly by greater activity from our high-value existing clients, especially as this product keeps gaining relevance as a recurring payment method. In addition, the evolution of this product has been supported by different promotional campaigns to incentivize revolving usage. We continue to monitor the adoption of our segment-driven offering, and we'll report the evolution as they gain traction. Finally, payroll loans grew 11% in the year, mainly due to the incorporation of new products that enable comprehensive relationships with our customers.

On the slide number 7, asset quality continues to evolve ahead of our expectations. The NPL ratio remains stable at 0.9% in the quarter, and the cost of risk slightly increased to 1.8% due to the volume and mix of loan origination. Fees, on slide number 8, grew 2% year-over-year, driven by higher transaction volumes in the acquiring business and consumer products, supported by a still strong internal demand. On the other hand, higher origination to the external sales force weighed on paid fees in the period of setting the positive evolution of charged fees. In the quarter, the fees declined in line with the seasonal operation of the third quarter.

Moving on to sustainability, I'm happy to share that during the quarter, we published two relevant reports for our investor community. Our 2024 Integrated Annual Report, in which we show progress and incorporate valuable feedback from our stakeholders across environmental, social, and governance pillars. We also published our fourth Climate Risk and Opportunities Report, where we identify potential climate-related risks to our branch network and loan portfolio, confirming our commitment to transparent and timely disclosure for the financial world.

Finally, as I committed to you during our last earning call, I will address our updated digital strategy, as well as comment on our annual shareholders meeting that will take place later today, as you know. As you may recall, five years ago, we anticipated the big disruption coming into our industry. We were not certain about the best direction for Banorte in this new era. And therefore, we look forward with three simultaneous pathways. First, we accelerated the digital transformation of Banorte, the traditional bank, enabling a bank in minutes with a hyper-personalized operation, leveraging the significant investment in technology and talent. Second, we signed a strategic alliance with RappiCard that enabled a first-hand experience in the fintech industry, where we built a tool from scratch to serve a younger clientele based on analytics and data. And the third one, we created a full digital bank from zero, with a state-of-the-art technology in models, data and infrastructure.

Let me be very clear, at that point in time, we were not sure about the solution, but we knew one thing, we needed to guarantee our success. Today, after years of testing and learning, the exploration phase is over. Now, I assure you that the best path for Banorte is to consolidate our efforts, leveraging the business's scale and technological capabilities achieved through our

digital journey, focusing on increasing profitability through our cross-selling potential and cost efficiencies powered by a hyper-personalized business model. Currently, we are focused on the execution of a comprehensive strategy that is founded on the learnings and tools acquired from each of the three ventures that we developed to increase our availability -- ability for a sustainable competitive machine, servicing a multi-segment and multi-demographic market.

It was time to choose from the different harvests that we planted years ago and build a plan that consists of one, continue investing heavily in Banorte; two, acquire 100% of the young venture with Rappi, as announced last week, sign a long-term exclusive commercial agreement for distribution to Rappi's ecosystem. We have created a tool for credit cards that customers love and it's a clear winner in that market, but we have reached the profitability limit. We need to use our scale and increase the value from cross-selling Banorte's products to these customers. In other words, we are transforming the entity from a mono-product into a multi-product business to boost profitability.

Three, integrate Bineo's learnings and strategic components of its infrastructure, which we are confident will add value to this new consolidated strategy while we analyze the possibility of selling the entity, knowing it has an important value in today's market. And four, launch a new digital proposition for younger individuals, focus on value propositions that prioritize functionality and ease of use, combining our acquired tools, products, and learnings. Finally, this robust strategy, obviously, will only consume a fraction of the cost, supporting our efforts to improve efficiency.

Now, regarding our upcoming Annual Shareholders' Meeting, we are proposing the distribution of a cash dividend for 50% of the net profit of 2024, equivalent to MXN9.99 per share. And the constitution of a share buyback fund for the same amount authorized last year of MXN32.3 billion for the following 12 months. Both proposals align with our focus on total return to our shareholders.

With this, I conclude my remarks, and now, Rafael will cover the main financial results of the Group. Thank you and, please Rafael, go ahead.

Rafael Victorio Arana de la Garza {BIO 22681143 <GO>}

Okay. Thank you very much all for attending the call. I will now move to a more specific questions concerning what just Marcos mentioned about. The first one goes to the -- how the net interest income and non-NII is working for the bank. In NII, as you saw, it's growing 4% on a year-to-year basis. What is important is the NII of the loans and deposits is growing 16% year-on-year basis based upon the strong growth that we have in the loan book. And we felt the continuous downward trend on the funding costs.

Non-interest income 99%, basically driven by the first quarter, very good results of the insurance company, that compared to the last year, really outperformed the results. Net fees 2% year-on-year on a group basis. That's basically because when the incremental growth that we have had in the lending part, especially in the car loans and also the mortgage part is aligning with a more broker fees that we have to pay for getting the business. So it's one-time investment and you get the results for the life of the loan.

Premium income, very good results, 17% year-on-year. So it continues a pretty strong result from the insurance business I mentioned before. Trading income, we have a very good quarter for the trading income. As you know, usually trading income, we are kind of flattish for that operation this year based upon the positions that we hold and how we position ourselves and also the business

that we do with clients, the trading income grew 104% on a year-to-year basis. So pretty good results on NII, on the loan side, NII on the insurance side and also on the trading side.

If we go now to the bank, the bank continues to perform with very good numbers. The NIM of the bank is starting at 6.5%. There were some concerns on why the NIM dropped from 6.8% to 6.5%. Basically, if you saw the growth in the asset group, the asset group grew basically 3.2% for the quarter. So it was a very strong growth for the quarter on the asset group. It's also that will be temporary in the coming months because the funding cost will continue to go down. Now we are building again at a very good pace a portfolio on the loan book.

Net fees for the bank, 9% year-on-year, and the NII for the bank is 9% year-on-year. If you go at the margin numbers -- on the peso numbers, the margin is growing 9% also. So we are really having a pretty good result on the margin. And also, you have to take into consideration that more and more the fixed rate part of the book is playing an important role for sustaining the margins. So if we move now to the net interest income and sensitivity evolution, as you know, we have been also working for a long time to position the balance sheet in the way we used to today. That is basically no issue concerning the effect on the downward trend for the rates. So the sensitivity right now is sitting at 93 per 100 basis points on that part.

So the more the rates come down, it's a much better position for the bank based upon the limits on the loan book, and also the continuous downward trend on the funding cost. It has been a slow downward trend, but a continuous downward trend that will accelerate in the coming months. This is basically to a very active ALCO that many, many parts of the organization take part in this management of the ALCO, with the treasury leading that and also the risk team. The portfolio continues to be pretty sound. So that also on the dollar book, you see that we continue to see -- have a much more careful view about the sensitivity of the dollar book, because we don't have a clear view exactly where the rates are going to be. When you look at the whole NII sensitivity, it's less than 0.1% for the book.

If we go to the more numbers of the bank, the ROA of the bank is 2.4%. Basically, the net income of the bank continues to grow 7% on a year-to-year basis. The return on equity of the bank is sitting at 28%, 182 basis points that Marcos mentioned before. So basically, the key metrics of the bank concerning the profitability and the management of the bank is in a good trend. And also, what is important to notice about these metrics is that are basically in a very strong activity that is basically facing the bank in the consumer side and also in part of the commercial side and on the SME side. There's also a graph that we also project about the managerial need to try to balance out the effect of the annuities company. As you see, we are basically on a very steady basis. We know that we are controlling our margin pretty well. And the evolution that we see for the coming months will also be, we think a good story about this.

On the cost of funds, you see a very kind of a small downward tick on the graph that we are presenting to you. But if you see at the pace of growth on the non-interest-bearing demand deposit on a year-to-year basis is going 5%. Considering there are still a lot of offers in the market that really pays higher for the funding, we haven't had no effect on that issue at all. Interest-bearing demand deposit is going 24%. So basically, we continue to see a very good activity at all the banks of the commercial, the corporate, the government, the retail, really providing the source of funds that we know. And one thing that is quite important is that the CETES deposits is 99% of the base. So I think by noticing a very well position is evolving pretty sound on a downward trend on the funding cost. And that also will pretty less the margin as we said before.

Time deposits continue to be a good story, 13% on the retail side. So overall, the funding is growing at 10%. We really think based upon the pace of the first three months that this trend will

continue in the coming quarters. If we now move to the asset quality that I think has been a very solid story for the last five years. Credit provisions grew 5% quarter-to-quarter. Why? Because basically the loan book on the consumer side and part of the commercial and corporate outpaced what we expected for the quarter. So basically, the credit provisions are more good provisions that you have to put on the book on day one. So the cost of risk staying at 1.8% as Marcos mentioned to of this, (inaudible) Tarjetas del Futuro is 1.7% and the write-off ratio that I think is something that we consider a lot when we do manage the bank, it's a very steady line that we don't play around with, with write-offs and things in order to provide steady numbers on the NPLs and cost of risk.

Another good story is the expense line. The expense line, as you know, we don't load a lot of expenses in the fourth quarter. There were some concerns about some of our investors and analysts, but was basically to prepare the bank for a downward trend on the expense line. The downward trend is providing us cost-to-income ratio of 34.5% that is below what we expect for the year. Let me be very clear about this. We will continue to be very aggressive on the reduction on the cost side, but this number will have a slight pickup to be what we guide the market to be. Maybe we can continue to do based upon now that we decide the issue about Bineo and Tarjetas del Futuro, that we have a more opportunity to be close to this number by the end of the year. But we have to be very clear, this is not what we expect as is for the end of the year. It would be a good number, it's not going to be this number. And the graph that you see on the growth revenue and expense revenue is a graph that Banorte likes to see, and we will continue to see that graph based upon a good trend on the volume side and a very managerial base on the cost side.

Then we move to capital, and I think this will be coming some questions about capital. Capital, as you know, by the end of the year was below, but we basically like to manage the bank around 13.5%. It was very close to the 13.2%. Now we are back again to the 14.4% based upon the strong, basically generation of capital for the group. So the capital base is still and continue to be a solid part of how do we manage the banks. There are always some concerns about why don't we lower more than quarter one. I think based upon what's going on in the world right now, it's a good position to be the number that we have on the quarter one.

On the graph, you also can see that now on the TLAC basis, we fully comply with TLAC, 17.9%, we are 22.9% on this part. So the liquidity ratio continues to be very strong around 183%. So I think the solvency and liquidity of the bank and the organization continues to be something that we need to keep a very good care of that based upon everything that is going on. But at the same time, providing very strong profitability on the return that we do to the investors with a 28% of the bank and 22% or 23% at the group level. So solid capital foundation, solid liquidity, solid risk numbers, very good growth on the loan book and very good trend on the funding cost. I would say that, that will be there.

Marcos was very emphasized this at the beginning of the call. We are not changing the guidance, but in the GDP. Now the GDP, we see a GDP more on the range that around 0% to 0.7%. That's where we think that the GDP will sit based upon our Economist, our Chief Economist, that we see that. So that's the only part of the guidance that we are moving. Some people are concerned that why we are not more conservative about the guidance because we don't have at this point in time based upon the activity of the bank, the result of the bank, the penetration that we have in the market and how we are delivering the products and services to our clients, that we continue to see pretty reasonable demand that we don't like to change the guidance at this point in time.

Let me be very clear about one thing. We know that the market could be in a stress position for some months or maybe for a longer period of time. But Banorte is fully prepared to take

advantage of the market. I think we can offer products and services to our clients that not many banks can offer to our clients. So that's the way we're going to compete and that's the way we are competing and the way we are delivering the numbers on the long run on the profitability side.

So with that, I close my remarks. Thank you very much.

Questions And Answers

A - Tomas Lozano Derbez {[BIO 20398814 <GO>](#)}

(Question And Answer)

Thank you. Now we will move to our Q&A session. As always, we kindly ask you to present only your most relevant questions and we will be happy to take any questions any time after the call. As you know, today we have our shareholders' meeting. So besides taking only one question, we will possibly ask you to disconnect before and take questions later any time after the call.

Questions will be ordered on a first-come-first-serve basis. Please raise your hand on the platform and we will unmute you when your turn comes. Jose Luis and myself will be calling the name of the person that is next on the line. If there are any technical difficulties, please let us know by using the chat. Thank you. We're now ready to start the Q&A session. We'll start with Renato Meloni from Autonomous. Renato, please go ahead.

Q - Renato Meloni {[BIO 19012073 <GO>](#)}

Hi, everyone. Thanks for taking my question here. So just looking at the revision for GDP growth at the same time that you didn't revise your loan growth, right? So it's a wide range that you have from 0% to 0.7% on GDP. So what's the GDP estimate that's embedded on the 8% lower end of your guidance and what downside risks you see to that? Thank you.

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

Renato, Alex?

A - Alejandro Padilla {[BIO 6837329 <GO>](#)}

Yes, thank you. This is Alejandro Padilla, Chief Economist. Well, first of all, let's see that Mexico's economy contracted by 0.6% in the fourth quarter of 2024. And we anticipate 0.4% decline in the first quarter of 2025. If this is confirmed, a two consecutive quarters of decline would meet the definition some use for a technical recession. However, even under this scenario, our full growth or full year growth forecast for 2025 remains a positive at 0.5%. And this is because we continue to see on a sectoral basis, more resilient private consumption, taking into account about private consumption account for two-thirds of total GDP.

By sectors, the main risks are concentrated, obviously, in investment and exports, both highly exposed to global conditions and political uncertainty, particularly stemming from President Trump. Private consumption has shown some resilience, as I mentioned before, though early signs of slowdown are emerging, especially among middle and lower income households. And this is important because when you see the loan book, you can know that on a sectoral basis and on a regional basis, the exposure of a north is located in areas of the economy that have been portraying a more resilient performance. And this's why you see these numbers. On the other side, services remain the most solid component of the economy, like tourism, for example, and some goods like automobiles have performed surprisingly well. And this is just an example of sales in Mexico in the first quarter of 2025 increased 3.3% on an annual basis. And this is

suggesting that there are some pockets of strength that may help caution the broader slowdown of the economy.

A - Rafael Victorio Arana de la Garza {[BIO 22681143 <GO>](#)}

Thank you, Alex. Alex, you also asked about the rationale about -- or Renato, you also asked about the rationale about why we are holding up the guidance of the loan book.

Q - Renato Meloni {[BIO 19012073 <GO>](#)}

Correct, yes.

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

-- before. We continue to see very strong demand, but we are not weakening in any way the onboarding risk profiles that we have, the FICO scores in any way. But the fact is that the more we evolve on the digital revolution, our process are much more convenient for clients. We can -- we are really taking market from other participants in the banking sector. So that's it's not that the market is going to disappear, the market is going to shrink, but I think we will get some of the best parts of that market. That's why we are still holding the guidance for the 8% to 10% loan growth.

Q - Renato Meloni {[BIO 19012073 <GO>](#)}

That's clear. Thank you.

A - Tomas Lozano Derbez {[BIO 20398814 <GO>](#)}

Thank you, Renato. We'll now go with Tito Labarta from Goldman Sachs. Go ahead, Tito.

Q - Tito Labarta {[BIO 20837559 <GO>](#)}

Hi, good morning. Thanks for the call and taking my question. A little bit of a follow-up to Renato's question on the guidance, but more taking a more optimistic view, because I mean, you already saw a slowdown in 4Q and 1Q, as you mentioned. You're still growing the loan book 13%, you're still not seeing any asset quality issues. Could there be upside risk to the guidance? I don't know if it's loan growth or NIM or maybe cost of risk. And I know it's still early in the year, but where could upside risk come from? I mean, if there's less uncertainty about tariffs, I mean, I know there's been a lot of noise about that, but maybe they don't really materialize in the way that is expected currently. Or given as you mentioned private consumption is still very resilient in Mexico, could there be some upside risk somewhere in the guidance? Or what would you need to see to maybe get more comfortable on the outlook for Mexico and for the bank? Thank you.

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

Thank you, Tito. Gerardo, please go ahead.

A - Gerardo Cuitlahuac Salazar Viezca {[BIO 16248253 <GO>](#)}

Yes. This is Gerardo Salazar, Chief Risk and Credit Officer. Tito, as you are mentioning, Banorte up to now has experienced loan growth with high credit quality and low non-performing loans ratio, despite the elevated uncertainty from tariffs or trade tensions. There are six reasons in order to maintain our expectations regarding the credit outlook for Banorte. The first one is we are practicing rigorous risk-based lending approach. We are in the game of selective lending. We're

focusing on resilient sectors that are less exposed to global supply chain disruptions. We also are doing granular risk segmentation, sectoral risk scoring, factoring in sensitivity to tariffs and supply chains exposure to avoid vulnerable borrowers.

The second reason is that we maintain strong credit underwriting and monitoring that is tied to underwriting standards, early warning systems, and regular stress testing. Up to now, it is a blessing to have a very well capitalized balance sheet. The third reason is for portfolio diversification. Banorte performs sectoral diversification, geographical focus, and also client mixed in the wholesale part of the lending book. The fourth reason is strong client relationships and advisory. This is very important in the wholesale market that we attend to. The fifth reason is to focus on creditworthy segments with high quality borrower targeting and data-driven credit scoring, all making an emphasis in the consumer loan book.

And the last reason I can provide to you, Tito, is that we are still practicing prudent growth strategy, That is disciplined growth over aggressive lending, the result of market share gains. As Rafa was telling you, we are in the game of gaining market share and growing above the system's average or above some of our peers. And also, we are focusing on relationship lending, expanding with existing clients that have proven creditworthiness. So we are still maintaining our prudent approach to loan granting and also for the management of the credit process end-to-end.

A - Rafael Victorio Arana de la Garza {BIO 22681143 <GO>}

And just to say, when do we see the need to change the guidance the upside risk. I think if you look at all the reports from the U.S. banks and from the European banks, as I say, you have to wait for the 90 days. I think that we will have a very clear view about how the bull continues to perform on the growth side around maybe August, that for sure we can have a lot more information to change the guidance. Right now, we're sticking with the guidance. But as you mentioned, the bank is extremely active and we are penetrating pretty well the market as we speak.

As we said, as our forecast changes, we'll advise the market accordingly.

Q - Tito Labarta {BIO 20837559 <GO>}

No, that's very helpful color. Thank you for that and congrats on the results.

A - Tomas Lozano Derbez {BIO 20398814 <GO>}

Thank you, Tito. Now, we'll continue with Brian Flores from Citi. Brian, please go ahead.

Q - Brian Flores {BIO 23132759 <GO>}

Hi, team. Thank you for the opportunity. I wanted to understand better the NIM dynamics that we are seeing. You mentioned in the report you basically decreased the NIM on lower repo income, some effects due to FX and inflation. Just wanted to understand, could you elaborate a bit on how recurring these effects could be going forward? Thank you.

A - Rafael Victorio Arana de la Garza {BIO 22681143 <GO>}

I mean, as you see, the currency right now is sitting at MXN19.60, that I think is too low. That has an effect, obviously, on the corporate book, that we have a portion of the corporate book linked to the dollar book. That's one thing. The other thing about the repo, this year, last quarter, we took advantage and we break a little bit our discipline about that, but we will go back to that part.

So there will be no issue on that part. And I would say that the margin, if you look at the margin and really the composition of the margin, and you see the growth on the asset book, that was the key part, the 3.2% growth on the asset book, that was the case that really beat a little bit our margin, that it will be delivered the margin in the coming quarters.

So honestly, we don't see any issue on the margin side that is really related to any weakness or anything on the loan portfolio, on the funding costs, that is a trend that we will decrease the margin on the coming months. I think, honestly, it's a pretty good story for us that the asset side grew 3.2%. And we have a reduction on the margin on that part. And another portion was the FX, and the other portion was basically, as I mentioned to you, that we overshoot a little bit on the position that we have on the trading book. But all of those things are not structural to our margin numbers.

Q - Brian Flores {[BIO 23132759 <GO>](#)}

So very clear, Rafael. Thank you.

A - Rafael Victorio Arana de la Garza {[BIO 22681143 <GO>](#)}

Thank you.

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

Thank you. Bye.

A - Tomas Lozano Derbez {[BIO 20398814 <GO>](#)}

We'll now go with Thiago Batista from UBS. Go ahead.

Q - Thiago Batista {[BIO 15398695 <GO>](#)}

Yes. Hi, guys. Congratulations for the results. I have a follow-up on Jose and Marcos' comments in the beginning about the digital strategy of Banorte. If I'm not wrong, Banorte has now two or maybe three digital brands. Maybe I can call Tarjetas del Futuro, Bineo, and maybe Banorte Mobile. After the acquisition of Tarjetas, are we expecting to consolidate all the brands in just one app? This is the first of the question. The second one, when you look for your digital strategy, who are your main competitors right now? Do you see Bancomer, Banamax, et cetera, or the newcomers like Nu, Mercado Pago, (inaudible) So who are you guys competing in your digital side?

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

Good question, Thiago. We are competing with BBVA mostly. He's the one that has a scale. And as you know, we have in Mexico, the net promoting score, the NPS, and we're competing always against these guys. So that's the main competitor, and it's a good one. And regarding the apps, we are not saying that we will concentrate everything in the app of Banorte, because we want to have some margin to see what's going in the market, and to see if we need to calibrate something and to have more products for our clients. So we will say that we will keep everything in Banorte, but we will be very versatile, I don't know how to say it, in how we manage our apps. The idea is to concentrate everything in this highway, and from here to see all the customers and to see what they need and approach them. Now it is either the way back is we are not proposing it, the clients are proposing to us what they want, and we will deliver to them. That's the idea.

Q - Thiago Batista {[BIO 15398695 <GO>](#)}

Okay. Very clear. Thanks.

A - Tomas Lozano Derbez {[BIO 20398814 <GO>](#)}

Thank you. Now we'll continue with Yuri Fernandes from JPMorgan. Yuri, please go ahead, Yuri.

Q - Yuri Fernandes

Thank you very much, and also congrats on the results. Just one question here on the trading gains, if you can comment a little bit on these, like how sustainable are those gains, and any kind of, I don't know, overview in this line. Thank you very much.

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

That's very important because the rates, as you know, we were persistent that the rates will go down, and they went down, so everything is there already, and maybe we have more trading with our customers and with clients, but talking about our positions, we harvest the position, so that's why it was so big. So instead of going through the whole year, the market decided to go in the one quarter, and that's it, and now we start from zeroing our positions, and maybe in the future, we will see more, but not in the same amount.

A - Rafael Victorio Arana de la Garza {[BIO 22681143 <GO>](#)}

To give you some color, Yuri, as you know, the trading income, as Marcos mentioned, was around MXN2.1 billion this quarter, and as you know, it's not an official guidance, but the recurrent level should be between MXN0.8 billion and MXN1.2 billion, so lower than this one.

Q - Yuri Fernandes

Super clear, and I guess this is somewhat, I don't want to say a hedge, but part of your main pressure that you discussed in the previous questions was some of that by these trading gains, right, these trading games, right? Like thinking together, makes some sense, right?

A - Rafael Victorio Arana de la Garza {[BIO 22681143 <GO>](#)}

Exactly right.

Q - Yuri Fernandes

Okay, thank you very much.

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

Thank you, Yuri.

A - Tomas Lozano Derbez {[BIO 20398814 <GO>](#)}

Next question is from Ernesto Gabilondo from Bank of America. Go ahead, Ernesto.

Q - Ernesto Gabilondo {[BIO 16384492 <GO>](#)}

Thank you. Hi, good morning, Marcos and Rafa. I'm sorry about my voice. My question is on expenses. So we know this OpEx came at the double-digit growth. However, considering potential economic recession impacting potentially loan and NII growth, wouldn't it be reasonable to expect softer OpEx growth? And then just a quick question on Banamex because

all of investors are always asking about it. Banorte became the second, third largest bank in Mexico through acquisitions. So if you acquire Banamex, I believe Banorte will be close to the size of BBVA in the retail side. So wanted to ask you, would you be interested to take a look into Banamex if the government allows to do cost synergies?

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

Let me start by the second one. We have been saying the same (inaudible) Our duty is to see whatever is on the market and analyze it. And then our Board will decide and you guys, the owners of the top will decide in the assembly. So we see everything that is moving here and there is a lot of moving pieces all the day. So we will watch closely what's going on and propose and that's our duty, no? And the first one is about the expenses and the OpEx, maybe Rafa, go ahead.

A - Rafael Victorio Arana de la Garza {[BIO 22681143 <GO>](#)}

On the expense line, as we mentioned, we front-load a lot on the fourth quarter. Now we will see a much more balance on the first quarter and that give us a cost-to-income of 34.5%. One key issue that has to be considered is that now that we are integrated, the operation of Bineo and Tarjetas del Futuro inside Banorte, that also will allow us to continue to cut expenses in a very important way. And also, we will not stop the investment in technology. I mean, the good thing about the investment in technology is that it's becoming more and more on specific issues and not to build up a very, very strong technology job.

Now we are really looking for the accelerators on the analytics, the accelerator of artificial intelligence those are not cheap also, but are not the same amount of money when you are building the whole infrastructure of the bank. So I think you will continue to see, not as aggressive on the first quarter, but a continuous trend on the lowering of expenses through the year that will consolidate, and let me be very clear, at the end of the year. That was most of the action that we are taking now will really crystallize at the end on the fourth quarter. That's when you will see a big drop on the expense line.

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

Look at planning annually, not quarterly. For the year, it should be between 9% and 10.5% expansion.

Q - Ernesto Gabilondo {[BIO 16384492 <GO>](#)}

Perfect, thank you very much, Marcos and Rafael.

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

Thank you, get well.

Q - Ernesto Gabilondo {[BIO 16384492 <GO>](#)}

Thank you.

A - Tomas Lozano Derbez {[BIO 20398814 <GO>](#)}

The next question is from Ricardo Buchpiguel from BTG. Go ahead, Ricardo.

Q - Ricardo Buchpiguel {[BIO 22986646 <GO>](#)}

Hi everyone, and thank you for the opportunity of making questions. Also about the digital strategy going forward, can you please give more color on how Bineo fits in this plan? You mentioned you could eventually spin off the operation while transferring some part of the technology to Banorte and integrating, if I'm not mistaken. But how challenging is to do that given Banorte potential legacy systems, right? How can you -- everything is relatively ready for you to transfer this technology or are there still some investments you need to do in order to both technologies of each bank to run well together? Thank you.

A - Jose Marcos Ramirez Miguel {[BIO 17012786](#) <GO>}

More than the technology, I think it's the experience. We know now the market, we know what's going on. Everybody can get the technology, but not the experience. Rafael, can you give more color on that?

A - Rafael Victorio Arana de la Garza {[BIO 22681143](#) <GO>}

Yes. I think what Marcos mentioned is key. I mean, we are basically moving Bineo based upon -- we tested a lot of technologies on Bineo, the latest technology on the cloud, on the digital, on everything. And when people think about Banorte, they think like a very legacy bank that is really tied up to all their legacy. We have been delivering the legacy system for Banorte for the last six years. So the issue that we are moving Bineo here is that Banorte really is now fully functional on digital in anything that you want to test Banorte with. It has to do with cloud, anything that goes on the cloud, on the analytics piece, how fast we can go into micro components in containers and everything.

So Banorte is really a state-of-the-art shop on the technology side. The legacy system is basically now, basically doing the posting of the transaction, but all the functionality has been the layering and many, many different layers on the -- up to the client needs. So no, when people thinks about that Banorte is really the whole legacy, no, no, no, that's why we are integrating Banorte, Bineo here because when Banorte says that we are a bank in minutes and the digital application that Banorte has, has been rewarded as the best digital application in the market is because really Banorte has really outpaced the market and not just the Mexican market in many ways about analytics, technology, and how do we now develop the solutions to the client in a very, very, I would say, not as fast as we would like to be, but fast, much faster than we used to be.

Q - Ricardo Buchpiguél {[BIO 22986646](#) <GO>}

Very clear. Thank you.

A - Tomas Lozano Derbez {[BIO 20398814](#) <GO>}

Thank you. Now we'll continue with Carlos Gomez Lopez from HSBC. Carlos, please go ahead.

Q - Carlos Gomez {[BIO 15024854](#) <GO>}

Hello, thank you for taking my question. And again, congratulations on the results. The question on the margin, last year, arguably you hedged perhaps even too much, you left money on the table. This year, those hedges are working very well. As you said, you were able to reap the rewards in one quarter of something that you expected to accrue over the next year. How does it look into 2026 and beyond, because the expectation that you have an interest rate is now lower than it was a quarter ago. You haven't disclosed here, but I imagine that you have what you expect in 2026, 2027. At some point, the hedges that you have today will have to run off. So what

will be the sustainable level of margin? Perhaps you want to give it without annuities. You have 6.0 now. Where should we expect it to be in 2026, 2027? Thank you.

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

The ALCO is not working for 2025. As you can see, the rates that we're giving to the market is several years now. We're not worried about 2026, but you are right, someday the wall will kick us. In 2029, I don't know.

Q - Carlos Gomez {[BIO 15024854 <GO>](#)}

What's the duration of the ALCO? What's the average duration of your hedge?

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

It's four years. Four and a half.

Q - Carlos Gomez {[BIO 15024854 <GO>](#)}

Four and a half, okay.

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

Yes. Gerardo, do you want to say something?

A - Gerardo Cuitlahuac Salazar Viezca {[BIO 16248253 <GO>](#)}

Yes, yes. Thank you, Marcos. I will add that the ALCO work is very dynamic. And we base our work in four main pillars. One is to also explain and forecast immunization to duration and repricing matching. The second pillar is about emphasizing proactive liability management, which is or has been very important in the deposit side in our liabilities. The third pillar is to highlight dynamic asset pricing and portfolio mix strategy. That has worked very well in our loan book, in the consumer side of the loan book and partially in the wholesale side also that makes a very good contribution to that. The fourth pillar is using hedging and derivative strategies whenever there is needed. That's more of a tactical approach, it's not part of the strategy, but I will say overall, Carlos, that our balance sheet is designed to preserve earnings across rate cycles by optimizing the mix of fixed and variable instruments, also managing liability repricing lags and selectively using hedging instruments. We have insulated, to a big part, our mean from the impact of falling reference rates, demonstrating strong interest rate risk management and pricing discipline. And that's the everyday playbook in the outcome.

A - Rafael Victorio Arana de la Garza {[BIO 22681143 <GO>](#)}

If I may add, Carlos, just what Gerardo and Marcos mentioned that I think they're explaining and Marcos pretty well is that, if you look at the mix, how much money you are getting from the volume of the loan book and how much money you are getting on the margin side from really the effect of the rates, more and more is based upon on the volume side. So what I can say to you is that Banorte used to be years ago, very dependent on the rates. If rates were going up, the margins were going up. Now, if rates go down, based upon everything that Gerardo was mentioned and based upon the mix that we have on the balance sheet, Banorte is really now dependent on itself to keep on the growth on the group side and really stabilizes with a very steady funding cost, the results that you see on the margin. So if you -- and I will maybe get burned because of this, but our goal is to keep the margin from 6.2% to 6.4% through the cycles. That's what we would like to have.

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

This is our target.

A - Rafael Victorio Arana de la Garza {[BIO 22681143 <GO>](#)}

Yes, this, yes.

Q - Carlos Gomez {[BIO 15024854 <GO>](#)}

Okay, thank you for taking the risk of giving the forecast. And if I can ask, I have noticed that your dollar book has increased considerably, now 16% of total loans. Should it increase any further or has it reached the limit?

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

Well, part of it is that the dollar increase and that's when you see the proportionate changes and now it's bigger, no? Now that it went down, it will go down. Part of it is that. Another part is that the years, the clients are -- they need that dataset that we are providing them. We don't ask them, they just ask for us.

Q - Carlos Gomez {[BIO 15024854 <GO>](#)}

Thank you.

A - Tomas Lozano Derbez {[BIO 20398814 <GO>](#)}

We'll now go with Andres Soto from Santander. Go ahead, Andres.

Q - Andres Soto {[BIO 15822388 <GO>](#)}

Good morning to all and thank you for taking my question. Regarding your GDP expectations, not only for this year, but if you look ahead over the next few years and what you expect for Mexico, I'm a little bit puzzled by your expectations for cost of risk. If I remember from the 2015 to 2019 period, your cost of risk used to be at around 2.2%. So it's hard for me to reconcile how you can achieve between 1.8% and 2% in a significantly deteriorated microenvironment. I understand the asset quality is pretty solid, but at some point, you will need to update your model to reflect that you are originating loans in a not so supportive microenvironment. So I would like to understand what are the key factors that you will take into account when and if you need to revisit your risk provisioning model.

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

Thank you. I will ask Alex and Gerardo to answer the question. Alex, please.

A - Alejandro Padilla {[BIO 6837329 <GO>](#)}

Thank you, Marcos. Thank you, Andres. Just to put a bit of context on our expectations on GDP beyond 2025. In 2026, we're expecting 2% growth, and this is explained by three main things. The first one has to do with any type of recovery that we might see, especially the effect of declining interest rates, and also that the government will not continue the consolidation process of the fiscal accounts that we are observing in 2025.

The second one is that in 2026, we expect that there will be more visibility of what's going to happen with the trade deal with the U.S., and then I think it is important to take into account that

even though we have threats of tariffs right now in Mexico, in relative terms, Mexico is better positioned than other countries. And I think it's also relevant to take into account that our baseline scenario that we outlined since President Trump won the election last November remains unchanged. We anticipate that the tariffs were going to be intermittent, but that ahead there was a big chance that the revision of the USMCA will be forward to the second half of 2025.

So this will give a boost of confidence to enterprises or firms to terms to continue their investment strategies once we have the agreement in 2026, so that's the second thing. And the third one is that we are accounting for something between 20 basis points to 30 basis points on GDP, based on the World Cup, the effect of consumption given that this event, even though we will not have the largest amount of games or matches in Mexico. Well, this will boost also tourism in 2026, so that's explanation behind our expectation for 2026.

A - Gerardo Cuitlahuac Salazar Viezca {[BIO 16248253](#) <GO>}

Yes. And regarding the loan book and the behavior about credit. There are seven main factors that give us some optimism regarding what we are conveying to you as of now. But let me start with one very special tenet. There is no trade-off in Banorte between market share and risk taking. And that's very important for you to understand because we will never change market risk in order to grow our loan book, and that's what we will see as a starting point.

The seven main factors, Andres, that give us this stand -- this stance is that one, we have a deep understanding of credit behavior and segments. We do segmentation by credit product, but mainly, by customer profile, which is very important for hyper personalization. The second factor is that we do data quality and enrichment, we are constantly occupied on cleaning and being consistent with the data completeness in our models in the retail side of the book. The third factor is model sophistication with explainability. We do use some advanced techniques, but we keep always in mind that we have to explain and also make predictable results. The fourth factor is robust validation and backtesting. We use champion challenger testing all the time, and also backtesting across trade cycles.

The fifth factor is dynamic and granular risk calibration. That is dynamic score, scoreboards, and granular probability of default and loss-given default models. The sixth factor is macroeconomic sensitivity and scenario adjustments. That's the thing you were talking about, GDP expectations, but just this is one of seven factors. And the last factor is portfolio monitoring and feedback loops. That's what keeps Banorte learning all the time. I will see this as a base in order to have those expectations that Marcos was telling you about and Rafael has just mentioned.

Q - Andres Soto {[BIO 15822388](#) <GO>}

Thank you very much, Gerardo. And those micro variables, is there any particular one that we need to pay attention to for when you will need to do a model update?

A - Gerardo Cuitlahuac Salazar Viezca {[BIO 16248253](#) <GO>}

Well, the risk factor is tariffs, risk and Trump risk, but we are constantly making scenarios and changing parameters in order to adjust our models in case it is necessary. We don't have a central scenario in which we are providing Trump's behavior, we are not trying to predict Trump's behavior and given our strong balance sheet, we are very confident that we can withstand any type of crisis being COVID-like, being Tequila-like, and being 2008 crisis-like. That will cost us in our capital efficacy ratio no more than 80 basis points to 100 basis points. And those are the kinds of scenario analysis that we have done and gives us the confidence to go forward and not to get afraid without putting risk-taking on the line.

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

We call it internally the tariff volatility.

Q - Andres Soto {[BIO 15822388 <GO>](#)}

Perfect. Thank you again and congratulations on the results.

A - Tomas Lozano Derbez {[BIO 20398814 <GO>](#)}

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

Q - Edson Murguia

Hi. Good afternoon. Thank you for taking my question. I'll follow up on the digital strategy. My first question regarding on this is what did you learn from starting a new bank? I know that you, Marcos, explained that right now it's part of the execution, so what did you learn? What would happen with the clients at Bineo? And my second question is with these acquisitions or the 50% of Tarjetas del Futuro, this multiproduct channel at Rappi, it means that you are using the infrastructure that you built from Bineo? What is the strategy between interconnection between the three pillars that you mentioned in your remarks?

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

Rafa, please go ahead.

A - Rafael Victorio Arana de la Garza {[BIO 22681143 <GO>](#)}

Edson, you're not going to like what I'm going to say to you, but you're asking me to deliver the whole strategy of how we're going to compete, so I cannot do that. Let's wait until we really see how we deliver the strategy into the market. We learned a lot of things from Bineo but you will see those implemented in there when we go into the market with the offer that we would like to deliver into the place. Thank you.

Q - Edson Murguia

Just a quick follow up. Regarding on the expenses or the cost of Bineo, looking ahead for the end of 2025, it means that it's going to be a lower number if we compare quarter to quarter?

A - Rafael Victorio Arana de la Garza {[BIO 22681143 <GO>](#)}

You will see that going through the year, as we continue to do the efficiencies and integrating the technologies and all things and how we rationalize all the infrastructure, you will see those flowing through the year, not on a specific month or day for the year, but you will see all this happening in this year.

Q - Edson Murguia

Okay. Crystal clear. Thank you so much and congrats on the results.

A - Rafael Victorio Arana de la Garza {[BIO 22681143 <GO>](#)}

Thank you.

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

Thank you.

A - Tomas Lozano Derbez {[BIO 20398814 <GO>](#)}

We'll now go with Pablo Ordóñez from GBM. Go ahead, Pablo.

Q - Pablo Ordóñez {[BIO 23001775 <GO>](#)}

Yes. Hi, Marcos, Rafael, congratulations on your results. My question is regarding your project and deposit dynamics. As you showed in your presentation, your cost of deposits has been rising at around 40% of CETES, and now with interest rates coming down, and apparently less competition, that are also reducing the interest rates that they offer. Did you see a scenario in which the cost of funds could improve further in the coming quarters? Thank you.

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

Yes. We see it. Rafa, please go ahead.

A - Rafael Victorio Arana de la Garza {[BIO 22681143 <GO>](#)}

No. Yes. As you can see, you have to take into account that Banorte has a sensible portion of the funding side on the demand deposits without interest and some demand deposits with interest, but also on the time deposit part. Those time deposits basically go with 30, 60, or 90 days. Some go all the way to 120, so you have to see those repricing flowing through the funding costs. So yes, you will continue to see a pretty good evolution on the funding costs as we speak in the coming months. I think by -- I would say, by the month of July, August, July, you will see an accelerating trend, one that the compound effect of those lowering rates take into full effect on the whole funding base, especially on the time deposit base.

Q - Pablo Ordóñez {[BIO 23001775 <GO>](#)}

Thanks, that's very helpful. And if I may, a second question on your net fees. Can you comment on what should we expect ahead? Net fees are growing only 2% year-over-year, but core banking fees continue to grow strongly at 11%. So what should we expect for the year in those revenue lines?

A - Rafael Victorio Arana de la Garza {[BIO 22681143 <GO>](#)}

I think what you should expect for the year on the fee side is basically to go above the loan book. I think a number to be expected around 12% to 14% will be a very reasonable number for the fee side. Remember that on fees, we are very active on the car loans and on the mortgage side, that you also have to pay fees for that. That will be some effect on that, but will be compensated by the volume that we are getting from those two products.

Q - Pablo Ordóñez {[BIO 23001775 <GO>](#)}

Perfect. That's very helpful, Rafa and Marcos. Thank you both.

A - Tomas Lozano Derbez {[BIO 20398814 <GO>](#)}

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

A - Jose Marcos Ramirez Miguel {[BIO 17012786 <GO>](#)}

Thank you.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2025, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.