Q3 2025 Earnings Call

Company Participants

- Jorge Eduardo Vega Camargo, Deputy Managing Director of Comptrollership
- Jose Marcos Ramirez Miguel, Chief Executive Officer
- Rafael Arana de la Garza, Chief Financial Officer & Chief Operating Officer
- Tomas Lozano Derbez, Head of Corporate Development, Financial Planning, Investor Relations and ESG
- Unidentified Speaker

Other Participants

- Andres Soto, Analyst, Santander
- Brian Forrestal, Analyst, Citi
- Carlos Gomez, Analyst, HSBC
- Daniel Vaz, Analyst, Safra
- Jorge Kuri, Analyst, Morgan Stanley
- Marcelo Mizrahi, Analyst, Bradesco
- Renato Meloni, Analyst, Autonomous
- Ricardo, Analyst, BTG Pactual
- Tito Labarta, Analyst, Goldman Sachs
- Unidentified Participant
- Yuri Fernandes, Analyst, JP Morgan

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 Third Quarter Earnings Call for 2025. Our CEO, Marcos Ramirez, will begin today's call by presenting the main results of the quarter and the first nine months of the year and will comment on the strong results of our core business as well as extraordinaries that impacted this quarter's result.

Then, Rafael Arana, our COO, will go over the financial highlights of the Group, providing details on the margin evolution and sensitivity, asset quality and expenses and will cover the adjustments in the guidance to reflect Bineo's impairment and the Group's operational strength. 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 {BIO 17012786 <GO>}

Thank you, Tomas. Good morning, everyone. Thank you for joining us today. Before starting our call, I'm proud to share with you that yesterday, we concluded our 120th anniversary celebrations with a special Board meeting in Monterrey. With Thank you for your patience, as we had to move our official reporting dates to make this celebration special. We achieved 125 years of sharing with you, our shareholders, a transformational journey that has allowed us to become one of the leading financial Groups in the country. Your trust and support have been as you have helped us to execute and embrace digital transformation, expand our business participation and reminding the way we operate by placing our customers at the center. Moving on with our results, let me begin by highlighting that this was an overall strong quarter. Our core business continued to demonstrate the structural strength supported by the solid performance across our business units, expanding margins and disciplined expense management. However, it was overshadowed by two extraordinary items that impacted our results. The first item has to do with the NIM. As you well know, we announced itself in September. Although this transaction is still awaiting regulatory authorizations, accounting -- accounting standards require its classification as a discontinued per operation with an initial valuation impairment of MXN1.3 billion. Second, we recognized a new non-performing case for the commercial portfolio with this corresponding impact of higher provisions and cost-of-risk for the quarter. It is important to highlight that is an isolated case and we do not expect any particular industry to be at-risk. These extraordinary events do not reflect a weakening of the structural strength in our core business or operating trends. Additionally, our cost-of-risk outlook for the full year is not modified since the possibility of occurrence of such case was previously anticipated. We expect the positive trends in our quarterly results to continue during the fourth quarter, together with the usual seasonal dynamics that characterize the end of the year. Regarding the Mexican economy, our economic analysis team maintains its GDP growth forecast at 0.5% for 2025, driven mainly by Brazil signs of recovery in domestic consumption. Looking ahead to 2026, we anticipate a rebound in GDP growth to 1.8%, supported by a combination of factors expected to stipulate private consumption and tourism. Such as Mexico participation in the FIFA World Cup and the renewing momentum in key sectors such as investment and construction. On the fiscal front, the Mexican government expects to uphold its fiscal consolidation efforts to 2025 to 2026, in-line with the budget proposal recently submitted to Congress. Additionally, we foresee a continued constructive and collaborative dialogue between Mexico and the US in the coming months, which could support the review process of the USMCA scheduled for next year. Regarding monetary policy, we forecast two additional 25 basis cuts in the reference rate. Bringing it to 7% by year-end. For next year, we expect two further reductions with the rate reaching 6.5% in the first quarter and remaining stable throughout 2026. Finally, we expect a steady Mexican peso for the remainder of 2025. As the broad weakening of the US dollar and the increased appetite for risk assets have favored the currency. As a result, our economic analysis team forecasts MXN18.80 per dollar by year end. Now, starting off with the financial results on Slide number 3, we highlight the Group's sounds and structural performance. Margins for both the Group and the Bank expanded in the quarter supported by the neutralization of our balance sheet sensitivity. Cost of fund optimization has absorbed the impact of declining rates in the loan portfolio, which also reflects the natural hedge of larger fixed-rate loan balances. The overall expansion and composition of our credit portfolio continues to support revenue generation, driven by a resilient internal demand and the implementation of our Hyperpersonalization strategy. Our capital generation remains strong, driving the capital adequacy ratio to 22.3% and creating opportunities for capital optimization. We will provide greater detail later in the presentation. As per the extraordinary items that I mentioned before, we see impact and regarding risk metrics, an increase in the NPL ratio to 1.4% and cost-of-risk reached 2.7%, reflecting the isolated case during the quarter. On Slide number 4, net income for the third quarter decreased 11% sequentially and rose 1% with accumulated figures, mainly affected by both extraordinary items already discussed. Nevertheless, results still reflect a strong structural performance in our core businesses. ROE for the first part for the first-nine months reached 22.3%, in-line with the full-year guidance. Results by subsidiary on Slide number 5, despite a minus 4% sequential decline in the Bank's net income to [ph]MXN1.3 billion. Mainly affected by higher provisions that offset the dynamic consumer activity In core banking products. And structural efficiency in margins. Consequently, ROE for the bank stood at 27% for the quarter, with accumulated figures, net income for the bank grew 2%, reaching MXN34 billion. Despite higher provisions, the bank display a sound cooperation and higher market-related income from heavier trading activity. The business was positively impacted by the neutralization of our balance sheet sensitivity to rates, supported by larger lending volumes along with a consistent optimization of our funding costs. Our banking operations still show resilience on consumer dynamics and the positive impact of higher fees from the insurance company. Altogether, these results yielded an accumulated ROE of 28.4%, in-line with the guidance. Our insurance business grew 20% during the first-nine months of the year. Driven by higher premium issuance, mainly in the life sector. The overall positive evolution of the business is also capturing higher lending activity of auto loans and mortgages at the Bank. Which offsets greater fees paid-for the bancasurance operation. Annuities expanded 28% quarterly due to the higher business volume despite a greater competitive market. With accumulated figures, it grew 3% driven by a positive technical result from lower inflation-adjusted reserves. In the brokerage sector, the quarterly decline was driven by lower evaluation in securities. However, the first nine months expansion derives from increased fees due to higher trading operation and market-related gains. Lastly, results in the pension fund business were driven by higher yields on financial products in both comparison periods. On Slide number 6, the loan portfolio, excluding the governing book grew 10% year-over-year, driven mainly by consumer lending. In the year, the commercial and corporate books grew 9% and 7%, respectively. Still supported by short-term working capital financing, primarily in the tourism, real-estate and industrial sectors. Deceleration in both portfolios is in-line with our expectations for the year since customers in both segments continue to wait for trade clarity before committing to long-term investments. Moreover, these portfolios were further impacted by FX variations in the dollar book, which currently represents 40% of the total loan portfolio. On the other hand, our government portfolio declined 12% in the year, largely related to lower activity in the federal government And prepayments from states and municipalities. Nevertheless, we reiterate our appetite for the segment and we anticipate a seasonally active fourth quarter. Turning to Slide number 7. Consumer lending continues to drive overall loan growth. The 12% year-over-year expansion was supported by ability to capture the disposable market to digital capabilities, process efficiencies and a hyperpersonalized business model. In this sense, auto loans sustained stronger-than-expected annual growth, increasing 31% this expansion was driven by our ongoing efforts with existing strategic agencies to improve our availability and the competitiveness of our offering within the partnerships and our capacity to gain market-share by capturing business from competitors. The credit card portfolio rose 16% year-over-year, mainly supported by our resilience on private consumption, improved promotional efforts that derived in larger building balances. Targeted marketing campaigns and the continued success of our rewards and loyalty programs with our existing customer-base. Loans grew 10% year-over-year, driven by an observed greater demand, process optimization and increased availability to digital channels. Moreover, we continue to enhance our value proposition with differentiated high liquid products designed to align with evolving customer needs. Finally, mortgages rose 8% in the year, supported by improved origination processes, strategic alliances and our high annualization is starting. On Slide number 8, the structural asset quality continued to demonstrate solid performance across most of the products. However, as noted at the beginning of the call, our risk indicators reflect an isolated non-systemic case with the commercial portfolio. I would like to insist that it does not indicate broader sectorial or geographical concerns nor a deterioration in our quality forecast. While the recovery outlook remains strong, such case resulted in elevated provisioning. In this sense, both NPL ratio and cost-of-risk dropped rose in the quarter. However, we are still holding our cost-of-risk guidance range for the year between 1.8% and 2%. On Slide number 9, net fees grew 1% quarter-over-quarter and remained relatively stable with accumulated figures. Sequential slowdown reflects lower transaction activity compared to a seasonally high second quarter. With accumulated figures higher transaction volumes in consumer Products and investment funds were offset by higher fixed-rate on credit coordination to the external sales force. Moving on sustainability on Slide number 10, I would like to highlight that in-line with the high-growth rates of loans, a growing proportion of this portfolio is related to hybrid and electric vehicles. This supports growth in sustainable products such as Autoestrene Verde by Northeast in Auto Loan Product. Similarly, on the social front, our group in payroll clients demands stronger support from them through financial education workshops, which help our clients make better informed decisions when hiring the different financial products available to them. Lastly, the environmental form, we are very close to reaching our 2025 target of 226,000 planted trees across Mexico, in-line with our commitment to organization. So as you can see, our core business and structural strengths continue to have some evolution. In this sense, apart from the consolidation impact of net income, we are maintaining or improving all of the other operational ratios in the guidance for 2025 being confident we will comply with our commitment to the market. Now before asking Rafael to cover the main financial results of the Group and the updated guidance for the year, I would like to address our capital allocation plans. The Bank's organic capital generation enabled us the possibility of an extraordinary dividend during the 4th-quarter. Accordingly, we are having a shareholders meeting in the upcoming days to seek approval and proceed with the distribution of around 35% of the net income of 2024. Amounting MXN6.99 per share by year-end. With this, our total payroll ratio will reach 85%. With this, I conclude my remarks and please, Rafael, please go ahead.

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

Thank you. Thank you, Marcos. Now we move so to the financial highlights and I would like to this and thank you for all the feedback that you gave us yesterday concerning the results and some of the questions are that allows to really go directly into what's really of concern of what you saw in the numbers.

First, let's remember that when we set-up the guidance for the loan growth, we were expecting a country that was supposed to grow at zero GDP and we set-up a loan growth with the exception of the government book Very close to 10% or double-digit -- big double-digit growth. I will go in a minute to show that that's still very feasible for us and we still going to keep that on the guidance. But if we see a very strong consumer that continues to grow in a very good way for us, it's not the same on the corporate and the commercial, that is much more a wait-and-see. A mode for the country, even though we continue to provide working capital and some CapEx for the for the commercial and the corporates. But that I would say that's where you see a less activity in the books. The government books is starting to move forward in the way that we always expected that by the end-of-the year, the government book was going to continue to be trending up based upon many initiatives that were on the making for the, I would say, for six, seven months on the Group. So even though there was some concern about that the commercial and corporate was not grown in the bank and that we are only becoming more a consumer bank, that's not exactly the case and it's most related to what I mentioned about the economic activity that is very related to what's going to happen with the USMCA in the corporate and the if you look at the -- on the positive side, concerning the growth in the lending side, we basically captured market in carnels, payrolls, credit cards, mortgage books and a piece on the commercial and the corporate, but we capture market on that part. Governments start to move, this is public information. So you will see that we have been starting to move from 26.4% to 27.4% and you would reflect that on the fourth-quarter. So all in all, what we see is that we continue to see very strong demand on the consumer side and very healthy demand on the consumer side and we will see the numbers in a minute. And what Marcos mentioned about this isolated case that was very not expected for us. We were working with that case for many months, but it was really not on a hands to sort it out and [ph]Pero will explain that at that in a minute. So if we now move because what I don't want for the investors to see is that is

Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

To really slow-down on that part. I think the third-quarter is always the most difficult one, but you will see a very good pickup on the fourth-quarter and the long-run to achieve, but we tie the market to. If you go to the slide that we're showing on NII, I think the key part is looking at the NII, especially on the -- what is loans and deposits. NII concerning loans and deposits is growing a very healthy 15% on that part.

Second. So when you see another part on the NII, when you see the MXN1.5 million that was really not expected to happen because it's related to the strength of the peso, that is causing us to lose on the net income -- on the NII MXN1.5 billion that was not expected in any way when we set-up in set-up the guidance. If the pesos starts to go more in a trend to the 18% 19% something, you will see a recovery on that part. But NII, especially on the loans and deposits continue to be very healthy and growing in a nice way.

So that's what I would like to result on that part that that expansion on the NII will continue also into the fourth-quarter based upon all the cost of funds that we have, we will see in a minute how the spread of the group continues to expand based upon all the strategies that we set-up on the balance sheet. So very reasonable NII in loans and deposits, 15% year-on-year on that part and a negative impact in the valorization from CapEx MXN1.5 billion that was really not expected when we set-up at the beginning of the year.

So if I move now to the next one, and the Bank continues to expand in an important way. Now it's reaching 6.9% based upon all the strategy that we set-up on the balance sheet. And that also has allowed us to compete in the market because by having the lowest-cost of risk and NPLs, we can provide the market with very attractive prices we like the risk. So we are very, very diligent on the risk, but based upon the spreads that we're getting on the book, we can really go for the that we like to have at the Bank.

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

So I already discussed the NII. Bank net fees, some people are concerned about the bank net fees. Remember that the third quarter is really kind of a slow month-on that, you will see a lot of activity in the fees in the coming next three months because of all the promotions and things that accompanied at the end-of-the year. We have a very -- I would say we are very confident that fees will continue to expand. And remember that when you have to look at fees, and since we are selling really cars and mortgages in a very important way.

I mean we -- in parallels, we are but basically the leader in the market and in the mortgage book, we are second in the market but very close to the first one is that you have to pay the dealers as on the commission basis, but you have with the dealer, with the sellers with the sales force that we have and the same happens on the mortgage part. Then you absorb that through the life of the loans. So that is related to the very fast pace that we are growing the book in the mortgage book and in the car loans.

And another important thing that mention is that we have two very large issuers that was a very important part of the fees that were running for us because of the very large number of transactions. But we decided based upon a very, I would say, a profitability metric analysis that we did with those two clients that it was not on the best for the Bank to keep on serving those because there was basically no money to be made on that. You will see that balancing out in the next.

So when I go to the next page and the sensitivity continues in the same way that we have been planning the book. So the sensitivity on an NII basis is nothing and basically -- and on the balance sheet, on the peso is continues to be very, very, very low. On the dollar book, you see that's much more active balance sheet management, not in the same that was in the peso that you have a long way to really position the balance sheet. And the reason for that is that we don't have fixed-rate loans on the dollar group. We have a lot of fixed-rate books on the book that allow us to hedge The balance sheet in a natural way. And the next -- in the next -- what you see the profit -- the bank's net income was but basically affected by the what Marcus was already mentioned, but that extraordinary pace that we have had on the commercial side. And the ROA of the bank continues to stay at 2.5% and the ROE of the bank including the loan that was mentioned before stay at 27%, but in a cumulative basis by the end-of-the year will be very, very in-line with what we guide the market to be. I will jump to the next one and is basically the graph about the managerial NIM. When you see the effect of the annuities and insurance on that part, you see now basically those two trending. So there's no -- the only thing that happened on the pension book was a slight effect on the UD because of inflation of what that happened on the quarter. The most important part will [ph]seemia in the next slide and to see why we are confident that will continue to expand and continue to deliver pretty good numbers on that. On the margin side. You see that when you look at the graph, you see the active -- the rate that we are really having on balancing the active freight that is present in the market how we are dealing with the reduction of the fees. But you see and also a very important part is the reduction that we are having on the funding side that you can see that on the right dotted line on the on the low part of the graph. And then you move into the next one that is no, no, no. Into the next one, that is really the spread and the spread is 8.9% and you see that, that spread continues to expand even though the rates continue to drop. And that spread will continue to move-up through the remaining of the year and into the next year. So basically what you saw, you see in those graphs is that you see the portfolio continues to hold pretty, pretty good numbers around 12.9%. You see a deep reduction on the on the on the active rate, that is basically the lowering of the rates that the general bank is doing. But you see that the spreads goes in the other way and that's exactly what we plan the balance sheet to do Since we started to position our balance sheet. So that will continue in the coming months. The next graph really shows the trend that we have on the funding costs and that graph will continue to drop-in the coming months. As you know, and basically, October, November and December are pretty rich months concerning the non-interest bearing deposits and we will continue to see that drop-in the funding cost has stayed there for the remainder of the year and into the next year. There was a concern about a -- on the funding side that it was like a drop on the interest-bearing deposits. That was a deliberative move because there was expensive funding that we were holding on the balance sheet and we don't need that anymore. And so we got rid of those of those expensive funds, okay? And in the next graph, in the next graph is really what is creating the being so steady on the NPLs and cost-of-risk it was kind of a surprise for the market and also for us. Big pickup that we have on the cost-of-risk and is I think it's mentioning there is it's tough to keep the risk numbers the way we have been keeping it for many, many months and years. And this is really an extraordinary case. There are the go in a minute on to explain exactly what this case is. But what I would like to address is that we still hold that Marcos mentioned that we will on our guidance on the cost-of-risk from 1.8% to 2% on that part. And underway, write-off rate that you see continues to be quite steady on that. So this was the big pickup that we have in the third quarter. And another thing that is -- that you will see is that an additional MXN400 million provisions were put also on the third quarter that those provisions will be reversed in the in the coming quarter. Because it was basically because of a calibration of the models from the credit cards that we are coming into before integrating the [ph]Futuro, the, the is Integration with us. I will pass and then I will continue, but Isaias would like to address there. Is that the case?

Jorge Eduardo Vega Camargo {BIO 6106123 <GO>}

Yes, sure, Rafael. Thank you. Good morning to everyone. I will say that the higher provision recorded during the period is primarily attributable to a single isolated exposure within the commercial loan portfolio. The specific case require an additional reserve following a detailed rate review that consider updated financial information and collateral valuations. Importantly, this adjustment is not indicative of a broader portfolio trend, comprehensive statistical and credit analytics confirm that the event is idiosyncratic and non-replicable.

The [ph]pusher in question has characteristics that differ materially from the rest of the portfolio, that is, including sector, geography of LIBOR structure and collateral profile and those does not share risk drivers or behavioral patterns with other loans. Portfolio label analysis support this conclusion. Let me explain three factors. The first factories correlation tests between the affected exposure and the rest of the commercial loans book show coefficients statistically indistinguishable from zero confirming the absence of common risk factors.

Second, migration and delinquency rates across all other commercial cohorts remain stable and within historical norms. And third, performance and profitability of default distributions no significant drift compared to prior quarters. Consequently, the increase in provision should be interpreted as a one-off technical adjustment, reflecting the institution's conservative provisioning framework rather than a signal of trade deterioration or a change in portfolio quality.This proactive approach strengthens coverage ratios and demonstrates the Bank's commitment to prudent forward-looking risk management practices, ensuring portfolio resilience under diverse economic scenarios.

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

Thank you. Thank you, [ph]Eduardo. If you have more questions, we will address that during the -- with that. The other thing that we would like to touch the next slide please. When we commit to the market at the beginning of the year about the guidance, we said that we were going to push hard to go into single-digit numbers, the expansion on the ratio. As you can see on that part, we are very, very close to achieve that to reach a lower-cost expansion for the year And started to go back again to-single digits and from then a continuous evolution into what we like with our third forecast income ratio. This was a big step and you will see that big drop also on the fourth quarter on the expense line, but we are right on-target what we promised the market that we will be below and two-digit numbers into single-digit numbers. And that's -- I think that's another part that we will discuss when I touch about the guidance. The next one goes with the capital. And Marcos already announced and the distribution of the extraordinary dividend. And the reason for that you can see easily on the quality of the capital and the size of the capital base, 14.8% is what we have an on the CAR Tier 1. That number, when we pay the dividend will go for a -- for the first-quarter close to the 12.5% and evolve here very close to the number that we would like to have that is the 13% 1 ratio, fully compliant with the TLAC, no issue with the TLAC in any way. So capital continues to be a very, very strong generation of dividends for the for our investors and we continue to hold a very prudent management on the capital base. Now I will move into the guidance to see what are the adjustments that we will have in the guidance. The first one was loan growth, the new guidance that we have put in the loan growth, the range is open because there is pipeline, but we have to go to make that pipeline, a realistic one, but we think that without the government group, we're going to be very close to the double-digit number, if not above the 10% in double-digit numbers, but we have to see how the pipeline evolves on the remaining of the months. The pipeline looks strong and I think we could achieve what we promised the market on that. Net interest margin for the Group will be a bit 1.1 -- a little bit above what we guide the market on the range. The NIM of the bank for sure will be very close to the 6.7%, 6.8% the recurring expense growth that we were putting Double-digit numbers. It's going to range from 9.4% to 9.7% that put us on an efficiency ratio from 35.5% to 36.9% trending to the number that we would like to have that is the third board. Cost-of-risk, we continue to hold the 1.9% to 2%. We feel confident about that. Tax-rate the same. Generic -- the net income basically has been affected by. If you strip the, the number, the bank is exactly on on guidance and you have to consider that we were not taking into account MXN1.5 billion of FX that happened to the Bank that really affect the net income in a MXN1.5 billion. So on the net income basis, basically what you say is the effect of and let me let me tell you this. There's a lot of initiatives trying to minimize this effect but in order to try to be as close as we can be for the guidance by the end-of-the year, I'm not promising that we will be on the guidance, but efforts are being made to be very close. We continue to see very good consumer government is coming alive and also a pipeline on the dollar book is becoming quite effective. At the same time, we don't see any hiccups on the quality of the book on the consumer and no more extraordinary cases coming under the commercial and corporate return-on-equity for the Group will continue to go from '22 to '23 up from 21.5% and the return-on-equity of the bank will be from 28% to 29% the ROA will stay at 2.2% to 2.4%. So with this, this is the guidance that we have at this at this moment. But I would like to address the fact that important efforts are being made based upon the dynamic of the bank that we could really achieve a better number on the -- of the net income guidance by the end-of-the year. That will be close to what we promised the market under on the balance. With this, I conclude my remarks happy to and (inaudible) Q&A.

Questions And Answers

Operator

Thank you. We will now move to our Q&A session. As always, we kindly ask you to present only your most relevant question and we will be happy to take any other questions anytime after the

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

Call. Questions will be ordered on a first come, first year basis. Please raise your hand-on the platform and we will unmute you when your turn comes. Tanya 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 are now ready to start our Q&A session. We'll start with Brian Forrestal from Citi. Brian, please go ahead.

Q - Brian Forrestal

Hi, Marcos Rafael, Tomas, [ph]Tan and team. Good morning. Thank you for the opportunity. I wanted to ask you on the proposed interchange rate caps for credit and debit cards. If you have any color on your conversations from the regulator, any, I don't know, initial gauging of impacts that you could have? I think it's probably going to become a very relevant discussion. So any color you can have on that would be greatly appreciated. Thank you.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Thank you. Yes, we are aware of that. It still moving. Nothing is said about that. So we should wait. We have a meeting with the Minister of Finance and the Board of Banco of Mexico and we agreed to start working and to move on. And we have a some days ahead to manuate and to see what's going on. So-far, we don't have anything and we as soon as we know, we will let you know, but so-far we are -- it's work-in progress and they open the doors to -- that's very important to negotiate and to hear from the Bancos to Mexico what's going on.

So we will see in, let's say, one month around that the conversations. I cannot tell you more because I don't know anymore.

Q - Brian Forrestal

No, Super. Thank you.

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

Thank you. Now we will continue with Jorge Kuri from Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi, everyone. Good morning and congrats on the great results. I wanted to ask you about and your market-related income. I'm just trying to figure out what -- what's the number going-forward because it's evidently been a really big contributor to the profits this year. You're on-track to basically double the amount of market-related income this year versus 2024. And if I just try to benchmark it in any way, the number really looks above-trend. If you look at it as a percentage of revenues, it will probably be around 6% this year versus a very consistent 3% over the last three, four years. If I look at it as a yield on the -- your marketable securities, that's around 1%, which is also exactly double of a very consistent 0.5% that it's been over the last To the year. So can you walk us through what's behind this really big increase? And I guess most importantly, how sustainable that is as we look into 2026 and '27? Thank you.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Thank you. It's not sustainable. It is -- it was what it was because they saw an opportunity that rates were going down, the tax was somehow it was clear to see what was going on in the market. So we take the advantage. But I think for the future, we are not depending on the trading for the Bank. So if we see an opportunity, we will take it. But again, you will see for the next year that the budget is going to be a boring one, I don't have to say no, but it's going to be the same that this month and we do not expect to move the needle there too much. Rafael, do you want to say something?

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

No. Thank you, Jorge for the (inaudible). And sorry that we cannot project this graph, but you will see that even though you see a big number on the trading book, if you compare that number to the expansion on the -- basically on the NII, and compared to the expansion that we have on the clinical resource of insurance and annuities and also the impact of the net fees the trading when you look at a percentage basis continues to be basically the same trend.

As Marcos mentioned, it was a very easy gain based upon the way we position the balance sheet and our positions. But it's not that we are chasing or changing in many way there. The strategy on the -- on the trading book. But we are very, very I would say very carefully looking at this is that the NII continues to expand much faster than this. The net interest NII also for the annuities and insurance continues to expand faster than that and also the fact of the net fees if we see that this takes another trend compared to this -- to the to what I mentioned about the NIIs and the fees.

Then that will make us to put into another strategy on the trading book that we are not really moving anything on the strategy. If you -- we will send this graph, I'm happy to put that on the on the webpage for everybody to see that we take a very delicate balance about trading NII, NII of the insurance and the feed and Yes, this was a very good part of the year, but also because the other also went up in an important way.

Q - Jorge Kuri {BIO 3937764 <GO>}

Thanks for that. Can I just ask a clarification. Rafael, I think you mentioned there's going to be a reversal of loan-loss provisions of MXN400 million pesos during the fourth-quarter. Did I understand that correctly?

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Correctly, guys.

Q - Jorge Kuri {BIO 3937764 <GO>}

Okay. Thank you.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Thank you.

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

So. Now we'll continue with Yuri Fernandes from JP Morgan.

Q - Yuri Fernandes

Thank you, Tomas. Good morning, Marcos, Rafael. I would like to explore a little bit the insurance results here. And I know this is volatile and it's hard to predict the dynamic. But this quarter, we saw the premium decreasing a little bit like 3% quarter-over-quarter but technical reserves, they were down 17%. So basically the insurance reserves, they didn't follow as much premiums and this helped, right, in the end, like this helped insurance results so if you can provide a little bit of more color why this happened like any clarification? And how do you see the insurance results?

And a second one and this is very quick half and Marcos, just on the guidance, so just making clear, the guidance exclude -- includes B&L. So basically, we are doing all the calculation with your accounting earnings. Meaning that the 4Q should be stronger, right, like basically you are using the MXN13 billion as net income for this quarter to get to your guidance? Thank you.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

We'll start with the second one. Thank you, Yuri. Yes, the guidance that we are providing to you, if you see, we -- there is better guidance in some items and this is the guidance included linear. That's the one that everything is in there. And the first one talking to insurance, Rafael, please well (inaudible).

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

Yeah. I think first thing to notice is that the insurance business is having an extraordinary good year. And we expect net income to grow very close to 20% or above that. We know that the return-on-equity of the company is 68% what happened is basically that one wealth management product that we are actively selling on our wealth clients are the had a small reduction on the year and that really explains the reduction in the clinical reserves because that products basically, you need to reserve 100% when you put on the book.

But there was not a lack of of growth on the company basically on the property and casualty and also we are becoming quite important on the wealth management for this product. So nothing really Really to worry about that something is going on, not in the right term on the insurance. On the other hand, I think the insurance business providing the 20%, I mean the 68% of the general equity and the activity that the company is having is becoming really a very important part of the net income of the whole Group, the insurance company. So no, it's basically -- and that is explained very well on the on the book that we provide you how the technical reserves went down because of the -- we have a reduction on the placement of this product for this quarter that will restart again on the fourth-quarter. On that part. So that's basically is -- and I also want to add another thing on there because somebody would like to ask this, what's going to happen with the insurance and provisions that are being run around the market that some companies didn't provide. But [ph]GFNorte fully is in fully provide for the issues about the taxes on the insurance part. So there will be no effect for us on the insurance side. So that's for the market to know. And in that part because that was also another concern for some of some investors that what's going to happen once the settlement of the insurance business of what's going to happen with Banorte. Is as always fully providing that.

Q - Yuri Fernandes

No, no. Thanks for clarificating the VAT also have -- and thank you also, Marcos. Thank you, Yuri.

Operator

Now we'll take our next question from Ricardo from BTG. Thank you, Ricardo.

Q - Ricardo {BIO 16814517 <GO>}

Hi, everyone, and thank you for the opportunity of making questions. As you mentioned in the presentation, you have been seeing that bank has been growing quite a bit in consumer loans. So could you walk us through what is driving that trading demand that you talked in the presentation, especially given the slowing down macro-environment? And are you expanding to new customer profiles or regions here or is it mostly growth within the traditional portfolio base? Thank you.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Please, Rafael.

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

Thank you. I think that what's quite important, has been really revamping all the processes that we have for the consumer and also for the companies. But on the consumer, especially, on the mortgage -- on the mortgage process and on the card process and on the credit card process, you really See most of the most efficient process in the market that allow us to serve that and go back to the client in a very short period of time. So -- but what you see on the numbers of and you can compare that to the -- to the other bank that is very active on that bank, on this part is that really is penetrating the market on a month-by month basis. And the most important thing, if you look at the NPLs of the car loans that stayed really lower 0.6% and also NPLs on the mortgage book that is still very low, just barely above 1% on NPL. It's basically all the processes and we are serving our clients, but also we are attracting a lot of new clients by the by the products that we sell on the on the mortgage part and on the car loans and also on the credit cards. If you see the expansion that we have in credit cards and and charts, you continue to see that term loans are growing 31%. So many of those clients our clients of Banorte, but a lot also are coming from the market. Credit card, we're growing 16%. So we are also outpacing the market in that and the most -- and in the mortgage book that is around 8% to 9%. The most important thing is that we are really attracting the clients that we like and is basically based upon the pricing policy that we follow based upon the risk of the client and the value of the client, we think that we are offering the best deal in the market for the mortgage part. So it's coming from the already-existing client base, but also a new -- a lot of new clients are coming to the bank based upon the offer that we have on the car loans and on the mortgage channel on the grade box.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Thank you, thank you.

Q - Ricardo {BIO 16814517 <GO>}

Thank you.

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

Thank you. We'll continue with. Ernesto is having some connections, so he sent me his questions to read them. And he says further, thanks for the opportunity. We believe there are five negative headlines for next year. One, a potential deceleration on the Auto portfolio because of higher tariffs to Autos and auto parts from Chinese cars; two, lower US rates in the loan portfolio that you have in dollars, third, lower tax banking deductions. Other banks have anticipated the basis-points impact of the effective tax-rate. Four, the value-added tax impact on the insurance sector. Other banks are disclosing the impact for next year. Five, the proposal in the interchange fees, I think Ernesto that has been Already covered. And finally, can you please elaborate on your initial thoughts on these impacts and the potential tailwinds, especially if Mexico reaches the USMCA renegotiation?

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Ernesto, thank you much. Yes, that's the the bad things that there is also good things. The GDP is going to be both as the -- we still don't know surgery the proposal in the interchange fees. So that's out. In 8% and regarding the orders, we can work one-by-one. And yes, but the insurance sector we are covered, we regarding that is not a hit for us. So I see more plus that minus for the next year. Maybe Alice can walk us through how we see things for the next year. Rafael, please ahead.

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

Let me Ernesto, let me guide you on the impact of the VIT for the instruments. Remember that prices the insurance based upon the risk of the client. So we don't have just a single price for that. So I think we could accommodate that impact that the VIT will have based upon this evolution that we have.

And I just -- before [ph]Alex comes and said, look, this year was supposed to be zero GDP and we continue to grow on that part. Next year is expected to be some somewhat a better year-on that part. So there will be headwinds that you mentioned that potentially are coming for everywhere. But I would say that if the USMCA goes forward, the tailwind was going to be quite strong.

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

Thank you. And yes, this is Alejandro, Chief Economist. Well, from the macro side and answering some of your questions, first, in terms of GDP, as Marcos was mentioning before, we are holding our 0.5% GDP for this year. We observe a contraction in the third-quarter. However, I think that in the fourth-quarter, we should see a recovery. Why? Because of what we mentioned before, there are some seasonal factors that tend to be very positive in terms of consumption by the end-of-the year.

Bloomberg

Moving forward to 2026, our forecast is 1.8% and this is supported by several factors. The first one is that we're going to have an international growth component of slightly above 40 basis points. Then we expect a recovery in private consumption combined with a Founding tourism during the summer. This is associated, as Marcos mentioned before with the FIFA World Cup, this could have between 40 to 50 basis points to growth. Then we have a positive effect on primary activities due to better weather conditions in 2025 that will benefit crops in 2026. The fourth one is that we expect a solid external sector performance as Rafael was mentioning before, considering that Mexico has an effective tariff rate that is lower than the rest of the world. And this has been supportive of the Mexican exports that has -- they have been growing at a two-digit pace throughout 2025 and I think that although not at this similar pace, but they will continue growing throughout 2026. And the fifth one is that public construction and also infrastructure projects that the government plans to reactivate as part of its priority programs will be equivalent to almost 1.4 percentage points of GDP and this could be also beneficial for GDP in 2026. And then if we move into tariffs, well, although Mexico is facing two type of tariffs, the specific country tariffs that the US has imposed to Mexico and Canada and the tariffs that are associated with sectoral goods to the rest of the world. The effective tariff in Mexico is less than 7% in the world is 17.4%. So we have a relative position that is stronger vis-a-vis the China and other competitors. So that I think that will support exports for the remaining of 2025, but especially in 2026. And then regarding the US NCA, we have a very constructive view in that regard. We believe that Mexico will continue playing a key role within the highly integrated value chains with the US and we think that the review process in 2026 will go in a very positive way taking into account that there is a lot of cooperation and coordination between Mexico and the US and that this will result in a USMCA 2.0 that will allow Mexico to increase its participation in the US market.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Excellent. Yeah, Alex. Thank you.

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

Thank you. Now we will continue with Tito Labarta from Goldman. Tito, please go ahead.Hi, thanks so much. Good morning, Marcos and Rafael and everyone. Thanks for the -- taking my question. A couple of questions. First, just on the. So there should be no more impairment charges from here. I assume, is that correct? And would there be any potential tax benefits

Q - Tito Labarta {BIO 20837559 <GO>}

You can get from this? And then -- but maybe more importantly, I mean, you sold it to another fintech and I guess mostly just to get rid of the license and get maybe something in return. But maybe talk a little bit about your own digital operations, how that's evolving, why you feel comfortable selling Bineo and how the whole digitizing the bank is going, particularly as fintechs maybe get a little bit more relevant so over-time?

And then I have a follow-up on provisions after. Thanks.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Thank you, Tito (inaudible) question. First, there is no more impairment charges, that's it. What you see is what everything. We don't see any tax benefits on the other hand. So that's it. We won't talk about anymore. And we learn a lot. There is a lot of experience that we learned. Remember that four years ago, we took all the roles possible votes and we'll learn from them. So it's obvious that we -- now we are prepared and we are stronger and we did take-over digital banking inside and and make-up to whatever. So, and maybe Rafael wants to say something else, but yes, there is a lot of learning, obviously.

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

Yeah, what Marcos mentioned Tito is that we learned a lot on that part, but we also discovered that, that it was not just the issuance of a having a digital bank from scratch that was to to provide that learning process and I think it did. But the most important thing is that has very clear path on how to address the digital evolution that we see on the young people and the newcomers into the banking system with a very good proposition that you will see in the market pretty, pretty soon that basically addresses the issues of the newcommerce that they really need a lot of financial education and a lot of practical ways to manage the interaction with the client, with the app on that part.

And based upon of all that we have learned and all -- all the learning process that we have also in the artificial intelligence part we will deploy that in a very short period of time to address the capabilities of Panorte to really reach that part of the population that was not really an important I would say goal of an order for a time because we basically were very happy delivering a very good mobile application for the mid to the high-end of part of the of the pyramid. But we were losing a little bit on the part that we learned from and from, the The newcomers into the banking process. But I think we have a very good response to that that you will see that in a very short period.

Q - Tito Labarta {BIO 20837559 <GO>}

Great. Thanks, Rafael and Marcos. And then my follow-up on the provisions, you mentioned the cost-of-risk, excluding the isolated case was MXN1.87. So it implies the additional provision was about MXN2.5 billion, if I'm correct, when is that the right number? And given there could be some guarantees here, do you expect to be able to recover this over-time? How quickly and is the guidance factor-in any recovery there? And also, I guess, is this now fully provisioned?

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Yeah. Thank you, got it. Up to now, Tito, it is 45% provisioned. But let me tell you about the -- despite this higher provisioning, the intrinsic economic value of the underlying asset and collateral structure supports a favorable recovery outlook. The exposure retains substantial realizable value given the quality, liquidity and marketability of the pledge for as well as the borrower's receivable repayment capacity. From a valuation standpoint, internal stress-testing and discounted cash-flow analysis to indicate a higher expected recovery rate well-above typical levels for comparable distress exposures, the assets net present value on the conservative recovery assumptions remain significant, limited ultimate loss severity.

Accordingly, while the provision reflects a prudent accounted treatment aligned with expected credit-loss models, the economic loss expectation is materially lower. This positions the Bank to achieve a reasonable recovery ratio as resolution progresses mitigating the impact on capital and profitability metrics.

A - Unidentified Speaker

Thank you, (inaudible).

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. And is that the MXN2.5 billion, the right amount? I had a different number initially, but just want to confirm how much that was the provision for the isolated case?

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Yeah, the provision is around MXN2.2 billion.

Q - Tito Labarta {BIO 20837559 <GO>}

MXN2.2 billion. Okay, perfect. Great. Thanks.

Operator

Thank you. Now we'll take our next question with Marcelo Mizrahi from Bradesco. Marcelo, please go-ahead.

Q - Marcelo Mizrahi {BIO 24427822 <GO>}

Hello, guys. First, thank you to be here for the first time. So my question is regarding the cost of funding. So we see -- we saw very good results coming from that part and we it's important to hear you about the competition, how you guys are thinking about the competition and the cost of funding, why the cost of funding of is going lower? And it's already impacting the NIM and probably could be some good Upside to the next year. So the question is regarding how is the competition and how do you believe guys that the cost of funny will be in the next couple of quarters? Thank you very much.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Thank you, Marcelo. I guess the competition, you're talking about in e-commerce, I mean also now. Rafael, please go-ahead.

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

And yeah, the we continue to see as you can see on the funding cost that is going down, not just because of the rates because we are getting rid of of expensive funding that we needed when the rate of growth of the asset side really happened to into now we are balanced out with our own funding part. I can give you some numbers on this so the overall growth on the non-interest bearing of the non-deposits is around 6% and it will end the year well-above that because of the seasonality of the year.

Time deposits also is a pretty good story around 10% with a very reasonable I would say price to offer to the client-based upon that. The quality of the unprofitability of the client. So we don't see really the big effect that happened when the new entrants were offering 15% and that is also going down and it's becoming a lot more rational on that part. So we continue to see pretty good activity on the funding side, lowering the cost on a permanent basis and I think as Alejandro mentioned, next year will be a good activity on the funding side.

We have very, very balanced cost on the different types of offerings that we do for the non-interest bearing and interest-bearing deposits and and the mix continues to be quite nice 31% is in term deposits and 69% in-demand deposits. So I think we have a well-positioned bank that provides a lot of services and opportunities for the people, but we see is that we are opening now more new accounts at the branches and on the digital side than any year before.

So we continue to see that the clients based upon our model that you can open everything in minutes on digital or in physical is attracting a lot of good clients and that is giving us a non-interest bearing part growth and also the time deposits growth on a very balanced cost. Looking-forward,

Q - Marcelo Mizrahi {BIO 24427822 <GO>}

It's possible to maintain you guys believe that if we will see a better environment to growth, it's possible to maintain this cost of fund in this percentage compared to the interest rates or not?

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

I think so. I think we will. We will continue to keep the funding cost trending down. There's a lot of initiatives all over the place, transactional banking, cash management and SMEs, individuals all over the place where we are looking for funds. Let me interrup the question.

Q - Marcelo Mizrahi {BIO 24427822 <GO>}

Thank you.

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

I would like you to make a position regarding the last question of if you are still there, let me be very precise with the provisioning for the quarter, it's 1.7% -- 1.7% for that asset.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Yeah, or that specific case.

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

Thank you. Thank you, Ferra. We'll continue with Renato Meloni from Autonomous. Ronato, please go ahead.

Q - Renato Meloni {BIO 19012073 <GO>}

Hi, everyone. Thanks here for letting me ask questions. So first, I wanted to focus a bit on this decline on the interest-bearing deposits. Was this -- you mentioned that there was some expensive funding that you've eliminated. Was this concentrated or among like separate clients? And then your loan-to-deposit rate went to 105%. So I'm wondering if you can still increase leverage here or keep growing with that with that level?

And then just a second follow-up, during the presentation, half of was mentioning that the provisions for the credit card business as far as I understand would be reversed for the -- in the upcoming quarters. So just wanted to make sure that this reversal is happening and why are you provisioning now and then reversing it later? Thank you.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Sure, Renato. I will start with the second one in provisions. [ph]Arana please go ahead.

A - Unidentified Speaker

Yes. I will tell you, Renato, that from the overall point-of-view, we see the increase in provisions for credit card loans during the third-quarter primarily reflecting the extraordinary expansion of the portfolio. As you remember, Marcos was mentioning a 16.1% growth year-over-year. That's very important to keep into context. And this is -- this effect is mechanical and volume-driven as provisioning is applied to a larger base of performing assets, particularly those in early stages of seasoning that naturally carry higher model probabilities of default. Importantly, delinquency rates and risk metrics remain stable across cohorts or clusters and

Confirms that the higher provisioning -- provisions stem from the portfolio growth and composition effects. Another factor that we must take into consideration for this third-quarter should be the extraordinary provisioning with and [ph]Futuro credit card portfolio. And this effect is expected to be reversed in the short-term due to model calibration and that's the quantitative effect that Rafael was mentioning is MXN400 million. So we expect a reversion that is not just mean reversion, but reversion in absolute value of around MXN400 million in provision for us.

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

Yeah, what you mentioned about the interest-bearing the positive to remember that Banorte had a very strong years two years ago on the loan growth that really, really overshoot concerning our capacity to fund the book. So that created a need to go into the market and go for market funding. Now that we have been growing the funding side in a very important way and we are now a very balanced assets against liabilities.

We have the capacity to get rid of funding that is not necessary anymore and it was much more expensive to have against the funding that we can really go into the market today or keeping the growth on the natural funding side on the interest-bearing deposits, retail deposits, our commercial and SME deposits.

So that's the reason that you will continue to see and expanding size on the number -- of the size of the deposit of the deposit book, but also with a much better price in the coming months based upon the trend that we see in the non-interest bearing and the trend that we continue to see on the time deposits with a very reasonable rate that really reflects the value and the different values that that we provide to our clients. So I think we are getting again into a very balanced position. And you can see that easily on the LDR, you will see that by the end-of-the year, the LDR will also drop again around 97 with a very good funding costs for the year.

Q - Renato Meloni {BIO 19012073 <GO>}

Perfect. Thank you.

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

Thanks.

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

Thank you. We'll continue with Daniel Vaz from Safra. Daniel, please go-ahead.

Q - Daniel Vaz {BIO 20885467 <GO>}

Thanks. Good morning, Marcos. Rafael, Tomas, [ph]Antonio and team happy to cover Banorte once again and enjoy the conference call. Congrats on the strong NIM performance. I was looking at the sensitivity right now is practically zero, so you have been able to expand margins in this easing rate environment. It's quite impressive. And to face, well, I think [ph]Evnasto mentioned the negative headwinds, you see the funding benefits that you mentioned, you see better GGP. And I want to focus on the favorable loan mix as your consumer lending has been outpacing the portfolio, right? So on retail, looking ahead to 2026, you're growing now 12% year-over-year, right, so on the consumer portfolio and well-above this in-car loans and credit cards. I saw -- I noted some acceleration in payroll and mortgage. I think it's normally much more important and tend to perform better on lower interest-rate scenario. So my question is, do you see room for this portfolio, this consumer portfolio to expand above this current pace of 12% for the next year? And maybe if that -- that's a follow-up question, would it be enough to guide the market to NIMs even better than your guidance in 2025? Thank you.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Thank you, you're pushing the word to (inaudible). It seems that, yes, there is room for improvement. Yes, and we think that next year, we will grow a double-digit growth in '24. In our portfolio. And we will release that in January, I guess, next year, no. But yes, we are -- let's call it that way, we are optimistic and documented, optimistic. So we expect a good year next year and we are working on that and that we need to handle a lot of things internally.

But it seems that it's going to be a good year and we are expecting it. And yes, we can grow more than in the consumer portfolio for next year. The answer is yes, no. And the better NIMs, we're very happy with the that we have right now, but maybe we can improve them a little bit. That's right. (inaudible) I don't know, you want to say something.

A - Unidentified Speaker

The only thing that I would add is that we see a big opportunity on the payroll portfolio. We are launching a lot of improvements on the value proposition on the payroll portfolio. And I think it's with the commercial and the corporate and the government and the and the retail part. So the payroll will be a good story. Credit cards continue to be, I would say, the most efficient product to be acquiring the market and also on the

It's if you walk into one of our of our offices and you decide to go into the offices and in five minutes, you will get your credit card -- the credit card that you like and based upon your profile on that. But if you want to go into the mobile, it would be exactly the same. You will get your digital credit card in less than minutes, in five minutes and then if you want to get your card in physical, that will be -- that will send it to you in a very short period of time.

So a lot of improvement on the process side allow us to compete a better way and being the first-in the market by the response to the client, that give us an edge that we have been using in this. And also we are adding more-and-more value into their -- into the propositions for the client to become a really a very related client to the bank. In cross-sell, we expect cross-sell to keep increasing in an important way. The hyper personalization process that we are using by providing each of the clients basically of the risk of the client and the value of the client of what they have outside with us that is allowing to bring a lot of good clients into the bank.

So the processes are are in-place and improving. I think the analytics are in-place and it's very, very relevant the way we do this. And the pricing also we price every single client differently based upon the risk and potential value for the bank. So that is what really is driving the growth on the consumer is not just pure demand, it's that really the value proposition that we are offering on a client-by-client basis is being the difference in the market.

Q - Daniel Vaz {BIO 20885467 <GO>}

Yes. Thanks for the clear -- the clear answer.

A - Unidentified Speaker

Thank you.

Operator

Thank you. Now we'll go with Andres Soto from Santander. Andres, please go-ahead.

Q - Andres Soto {BIO 15822388 <GO>}

Thank you, Tanya. Good morning, everybody. Thank you for the presentation. My question is regarding some comments that you guys have already made on terms of GDP growth and loan growth for next year. I understand you are expecting a rebound to 1.8% and expect loan growth to remain at double-digit in 2026. I would like -- given that one important consideration there is the USMCA renegotiation, I would like to understand what is your expectation in terms of timing for this? Do you expect next year to be an even year in terms of growth or you expect most of the growth to be delivered in the second-half of the year given this expectation?

And also tied with that, how these Shape of recovery will translate into your cost-of-risk performance over the next few quarters? Thank you.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Let's start with the [ph]macro -environment, please. Alexa, go ahead.

A - Unidentified Speaker

Thank you, Marcos. Thanks, Andres. Well, we think that's going to be pretty balanced, the growth dynamics for 2026. And regarding your question about the review, well, according to the agreement, it will officially start on July 2026. However, and the -- some issues have already been addressed by Mexico and by the US as well, like for example, making the consultations with industry leaders and designing the the whole negotiating process.

So I think that although it's kind of difficult to have and the complete agreement by 2026, we can have a very good idea of what's happening on a sectoral basis. I think it will depend also on mid-term elections in the US and how President Trump sees the result for the Republican Party because on that, it will depend if he goes and tries to reach a faster agreement or not. Regardless of that, I think that by the third or fourth-quarter of 2026, we will have a very clear idea of what's going to happen with the USMCA 2.0.

And I think this is going to be positive in terms of investment, for example, that has been one of the main sectors in Mexico that has been lagging behind, obviously for the uncertainty coming from tariffs. But I think that 2026 can be a good turning point. In the project relationship between the Mexico and the US and that's why we are optimistic and our GDP number of 1.8% contemplates that idea. Miguel, Rafael You want to go through the loan question.

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

Maybe I don't know, [ph]half, is that so under the baseline of a scenario of 1.8% GDP growth, the cost-of-risk is expected to remain contained around the same interval yeah, between 1.8% and 2%. But this is going to be supported by several structural and cyclical factors that are favorable to the bank. On the structural side, the institution benefits from a very well-diversified loan portfolio.

We have to remember that. And also a conservative underwriting framework and enhanced early warning and collection models that include to improve risk -- that continue to improve risk discrimination and recovery rates. Cyclical

A - Unidentified Speaker

Stable employment conditions, moderate inflation and gradual easing of interest rates should sustain borrower affordability and credit performance and particularly in the payroll and mortgage segments. Furthermore, the ongoing optimization of provisioning models after calibration adjustments are in 2025 are -- will likely normalize credit cost levels and that's our expectation. Let me tell you that, Andres, overall, these dynamics suggest that despite modest economic expansion, the bank's cost-of-risk should remain within historic range, reflecting both prudent risk management and resilient asset quality fundamentals.

Q - Andres Soto {BIO 15822388 <GO>}

Thank you, guys. If I may, a follow-up question to Alex. In this 1. -- 1.8% GDP growth expectation, what are you considering in terms of private investment? And I imagine this is mostly dependent on the USMCL renegotiation or is there any other factors that make you optimistic about private investment recovery in 2026?

A - Unidentified Speaker

Well, that's a very good question, Andres, and I can tell you that our forecast in terms of private investment will be highly correlated with the investment that the government will deploy throughout 2026. I -- as I was mentioning before, in the budget of 2026, the government is planning to spend close to MXN100 billion, 1.3 percentage points of GDP on infrastructure. And well, I think that plant Mexico and other type of mix programs between the private and public sector will be deployed in 2026 as well. So I think that's positive.

And the second one is that, yes, I think that we might see some firms that will start doing some CapEx taking into account a more certain scenario in terms of trade between the US and Mexico. So all of these are contemplated into our 1.8% GDP forecast for 2026.

Q - Andres Soto {BIO 15822388 <GO>}

Perfect. That's very clear. Thank you. Thank you guys and congratulations on the results.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Thank you.

Operator

Thank you. Now we'll take [ph]Edson with Capital. Please go ahead.

Q - Unidentified Participant

Hi, good morning. Do you hear me?

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Yes, it's on.

Q - Unidentified Participant

Okay. I'm not sure if I'm listening. But I have two questions. One is specifically for Dr. (inaudible) And could you give us a little bit more color about this calibration model, specifically in the consumer

Book because you mentioned Dr. (inaudible) this was related to calibration, but could you elaborate a little bit more? And my second question is regarding on the brokerage business. And could you give us a little bit more color about why total assets has a reduction in this quarter, but the AUM increase stop trying to figure out the rationale between the business per se. Thank you.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Okay. Let's go with the first one.

A - Unidentified Speaker

Yeah, it's okay. Yeah. The bank is continuing to refine these retail credit risk models and that is to enhance the accuracy or expected loss estimation across consumer and payroll portfolios. The ongoing calibration process incorporates updated behavioral data, revised macroeconomic assumptions and recent portfolio performance trends and that assures that the of default and loss given default parameters reflect current risk conditions more precisely. And that always gets proven by statistics like Call-IT of the KS, receiver operating characteristics, ROCs, also the area under the curve and the R-squared.

So if data is telling us that we have permission to calibrate our models, we will go-ahead and do it because this is always data and model-based. Remember, we use in the retail side of our loan portfolio around 120 are internal credit risk models and they go all the way from different segments, different products around also different clusters of the markets that we are attending. Thank you. And on my second some -- remember that we do see the positions between bank and brokerage and we have movements every day, not every quarter. So I think it's really non-material to see a movement in any of the isolated books.

Q - Unidentified Participant

Okay. And last, just a clarification. Marcos, you mentioned that the dividend that it's going to propose to the Extraordinary Shareholder Meeting is going to be MXN6.99 or it's going to be MXN0.90.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

No, MXN0.99, sorry about that.

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

Edson, you can find the full information if you want in the assembly.

Q - Unidentified Participant

Thank you.

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

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

Q - Carlos Gomez {BIO 15024854 <GO>}

Hello, good morning and thank you for taking the question. First of all, congratulations So in your first 125 years of existence, many more to come, I hope. And secondly, in particular, you mentioned the interchange fee and that is still to be negotiated. However, what is not negotiated, we understand is the non-deductibility of the EPAP contribution. Could you comment on that and whether you expect that partially or totally to be passed on to deposit cost? And if Tomas doesn't kill me, just a follow-up on the growth question. Yeah, we understand that you expect a better 2026, but when we look at the numbers right now, we seem to be slowing down, at least that is our perception. Is that what you see? Do you see the economy, which is still getting slower and you expect it to recover during 2026 or you have already started to see a recovery? Thank you.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Let's start for the [ph]hip. As you can see, it's not only Mexico, a lot of countries, they have this regulations, so we need to leave with that no. And maybe part of this is going to be passed on and maybe we will, I don't know-how to say the word swallowed it, no. But it is what it is and for the next year, you will see it on the guide and it's going to be included there and -- but we don't see that that affect us too much. That's very perfect answer, no.

And we don't like specific taxes, but this is -- if you see in other countries, they have it. So we -- we will manage it. And the second one please Rafael.

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

Carlos, we -- if we look -- if you look at the consumer book on the October numbers, are pretty, pretty, pretty strong, even stronger than the September numbers. So we haven't seen any slowdown in the consumer at all. On the contrary, we continue to see very strong numbers coming from the consumer. And at the same time, very active now is a of group and also dollar book starts to come back again. So no, we haven't seen as well.

A - Jose Marcos Ramirez Miguel {BIO 17012786 <GO>}

Alex.

A - Unidentified Speaker

Yeah. And well, regarding the GDP question, yeah, Carlos, as you do notice, the third-quarter GDP came in with a mild contraction. However, with some high-frequency indicators, this suggests that we might see a rebound in the fourth-quarter. Indeed, we are expecting an increase of 0.3% on a quarterly basis. And this is mainly by some more positive drivers coming from consumption.

Which has been lagging throughout 2025, but we are starting to see some recovery. So I think that this trend can extend into 2026, this recovery that we might observe throughout the fourth-quarter of this year.

Q - Carlos Gomez {BIO 15024854 <GO>}

Yeah, very clear. Thank you so much.

Operator

Thank you. And we have a follow-up question from Bradesco. Marcelo, please go-ahead. Marcelo.

Q - Marcelo Mizrahi {BIO 24427822 <GO>}

Hello. Thank you. Thank you. Hi, Tomas. Thank you. So it's regarding the efficiency. So the efficiency ratio or thinking about expenses to the next year. I believe that the sale of could bring some upside to the efficiency ratio in the next year or even in the next years. Could you guys give us some color about that target or something about that?

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

Yeah, the fact is that by canceling the operation of, you will see that basically what we put on the book today on the -- on what was the impact of the Bineo operation we think that just to give you an idea that based upon the cost-savings, we will recover that in seven months. So that gives you an idea of how the evolution of the efficiency ratio comes. And also once we get the go from the regulators, the and the [ph]Rapi operation will be included into into the scale of and also that will be also a reduction in cost and the most important part is that when you will look at the recurrent base of cost of Panorte and what was and are in was close to 5 percentage points.

So we start to go down to 3 percentage points less in the coming year. Beyond space upon these two operations plus efficiencies that we can we can achieve. So you will start to see now is in one single-digit, but is in uppers one single-digits. You will trend -- you will see those numbers trends from the 7 to the 8 from the next year and then drop again to very close to inflation plus 150 basis-points. By the third year. That's evolution that is on the efficiency ship.

Q - Marcelo Mizrahi {BIO 24427822 <GO>}

Very clear. Thank you.

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

Some thank you very much. Thank you for your interest in. With this, we conclude our presentation. Thanks.

Bloomberg