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PRELIMINARY TRANSCRIPT

Q1 2026 GRUPO FINANCIERO BANORTE SAB DE CV EARNINGS CALL

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PRESENTATION

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

(audio in progress) annual report together with our first report on nature and biodiversity risks and opportunities following the TNFE guidance. Both reports are already available on our web page. We'll begin today's call with remarks from our CEO, Marco Ramirez, who will present the main results of the quarter, highlighting the strength of our core business metrics despite a volatile macro environment. Then Rafael Arana, our COO, will go over financial highlights for the group, providing details on the margin evolution and cost of funds, who'll address a schedule of debt in our provisions as well as remarks on cost control.

Please note that today's presentation may include forward-looking statements that are subject to risks and uncertainties, which may cause actual results to differ materially. On Page 2 of our conference call deck, you will find our full disclaimer regarding forward-looking statements. Thank you. Marcos, please go ahead.

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

Thank you, Tomas. Good morning, everyone. Thank you for joining us today. We begin the year with an overall strong first quarter and solid performance across our business units, despite higher market volatility and increased geopolitical risks, particularly the conflict in the Middle East. Despite this complex operating environment, we are reaffirming our outlook and guidance, supported by a strength in our core business.

At the same time, we remain prepared to adjust our strategies as needed to navigate through any ongoing volatility. In this context, 2026 is key for the trade relationships between Mexico and the US as the USMCA formal revision begins in July. Discussions are already underway and our base case is still supportive of a constructive agreement between both countries. Regarding macroeconomic performance, Mexico is positioned for a stronger and more balanced growth in 2026.

After a modest 0.6% expansion in 2025, GDP growth is expected to reach around 1.8% this year, driven by improving domestic demand, a temporary boost from the spillover effects of consumption and tourism from the FIFA World Cup in the summer alongside a stronger export and investment during the second half of the year assuming a positive resolution of the USMCA. Furthermore, we believe the execution of the Mexico and other infrastructure initiatives from the federal government will support a stronger growth over time. On monetary policy, Banxico delivered a 25 basis point cut during the quarter, bringing the rate down to 6.75%. Given recent inflation dynamics, we expect limited room for further reductions this year with utmost 1 additional cut to end the year at 6.5%, effectively marking the end of the easing cycle. Finally, we expect the exchange rate to remain broadly stable in 2026, despite recent US dollar volatility linked to the political developments with a level of MXN18.1 pesos per dollar.

Now starting off with the financial results on Slide number 3, we highlight the group's strong core business performance. Net interest income for the group and the bank expanded year over June, driven by a continued optimization of funding costs and an expanding portfolio of consumer lending, which helped offset a lower interest rate environment. It is worth noting that provisions for the quarter were mainly impacted by a periodic recalibration of some of our internal models. This adjustment was already embedded in the guidance.

So it does not represent an additional impact in our cost of risk estimate for the year. Moreover, our capital adequacy ratio reached 19.7%, reinforcing our financial flexibility and enabling further optimization of the capital base. I will expand on this later on the presentation. Shifting to business performance on Slide number 4. Net income for the quarter reached MXN15.5 billion, up 1% year-over-year.

This performance mainly reflected a defensive margin and disciplined expense management, partly offset by a one-off provision increase already mentioned, negative mark-to-market adjustments across insurance, foreign and brokerage portfolios and a normalization of our trading income. Profitability metrics remained resilient with ROE standing at 23.9% in the first quarter and ROA at 2.4%. Analyzing results by subsidiary on Slide number 5, the bank reported net income of MXN11.7 billion in the quarter, 6% higher year-over-year, displaying some business trends across our core segments. Sequentially, net income declined 6%, mainly explained by seasonally lower transaction volumes and higher one-off provisions. Overall, these results yielded a 30% ROE for the quarter, up 213 basis points versus the first quarter of last year.

The insurance company net income declined 20% year-over-year, despite solid commercial performance driven by strong auto credit activity. Results were mainly affected by a base effect from base policy renewals to be fully reflected in this quarter, negative mark-to-market adjustments and higher bancassurance fees. The annuities business grew 7% year-over-year supported by larger business volume and a positive valuation of inflation-linked assets. The pension for annual contraction was mainly driven by negative mark-to-market effects despite higher fee income for larger assets under management.

Similarly, the brokerage sector annual decline reflected lower market valuations in securities. On Slide number 6, lending activity, remains resilient, growing 6% year-over-year, and 8% excluding government. Overall growth was mainly led by strong consumer activity, with solid contributions for the commercial and corporate portfolios, which grew 6% and 2%, respectively, despite some repayments and exchange rate movements in the dollar book.

While our current guidance does not reflect any benefit to potential renegotiation of the USMCA, we are well positioned to capture opportunities as the investment decisions move forward. Government lending declined 5% year-over-year, mainly due to prepayments and scheduled loan maturities during the quarter. It is worth noting that our appetite for this portfolio remains unchanged and we are constructive on the offset potential to support public infrastructure projects released related to the Plan Mexico. Turning to Slide number 7. As I mentioned earlier, consumer lending continues to be the main driver of growth, increasing 11% year-over-year.

Performance was supported by healthy consumer demand, efficient execution and process optimization and a commercial approach that prioritizes deeper client engagement. Although loans stand out with a strong 30% year-over-year driven by a solid activity across the sector and recent commercial partnerships. Credit card business balances grew 14% year-over-year, driven by sound consumption trends and targeted commercial initiatives. Along the same lines, payroll lending increased 12% year-over-year supported by a broader product offering and greater availability to digital channels, building deeper customer relationships. Finally, mortgages, they grew 6% year-over-year, driven by improved execution in origination, personalized offerings and a disciplined risk approach.

Turning to risk indicators on the Slide number 8. Asset quality is well contained, performing in line with the loan mix, stable at 1.4%. This still reflects the nonsystemic phasing in our commercial portfolio, the impact of recent changes in our mortgage write-off policy and a stronger growth in consumer lending. I would like to highlight that this indicator is the result of a disciplined risk exposure prioritizes, lower leverage profiles across the different loan portfolios. Moreover, as I mentioned earlier, the quarterly cost of risk hike is not related to asset quality and responds mainly to the scheduled recalibration of our internal risk models, Rafa will provide further details later in the call.

On Slide number 9, fees grew 15% year-over-year, driven by strong volumes across consumer and wholesale banking products, with the retail segment achieving record net new account openings. Moreover, mutual funds and the positive impact of prioritizing efficiency and profitability in our digitally affiliated business supports this growth. Sequentially, net fees declined after a high seasonal base in the fourth quarter. On the ESG front on Slide number 10, the first quarter of the year marked several key sustainability milestones, including the publication of our annual 2025 report, which integrates our financial performance with relevant progress across our sustainability strategy. We also released our inaugural report on nature and biodiversity related impacts and dependencies in our loan portfolio aligned with the TMTD titles, becoming the first bank in Mexico to disclose under this framework.

Before concluding my remarks, I would like to emphasize that despite the one-offs already discussed, our operating performance continues to reflect the underlying strength in our core business, supporting a positive outlook and our ability to deliver the guidance for this year. As we continue executing our strategy, we are transforming our operating processes by deeply integrating artificial intelligence into daily work streams across the organization. We were among the first institutions to adopt AI at scale and our intention is to have 10,000 people across operations and back office areas, integrating daily activities with artificial intelligence levels 1 and 2. This effort is guided by a formal AI governance structure already in place. That is, advancing multiple use cases across the bank, such as a client personalization, rating 1 agent per client and shaping our business and risk areas by simplifying workflows, enhancing decision predictability through advanced data usage and supporting exponential growth opportunities.

Finally, as you know, we will hold our Annual Shareholders Meeting tomorrow where we will propose the distribution of a cash dividend equivalent to 50% of our 2025 net income or MXN10.45 per share. This proposal is fully aligned with our continued focus on maximizing value and total returns for our shareholders. With this, I conclude my remarks, and now Rafa for the main financial results of the group. Thank you, and Rafa, please go ahead.

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

Thank you, Marcos. We move to the specific financial highlights. But I would like to stress what Markus mentioned because there was some concerns about a pickup on the provisional side, but we will discuss that in specific in a minute here too. But I can assure you that basically, are not related to the performance of the portfolio. We will do a big gain on that part.

It has been related to some regulatory issues on calibration of models that we have we have been doing on that part and a specific case on the commercial side that is coming back from last year. As you know, we are fully working on the recovery of that part. So we will strip down the net effect of the provisioning, taking away all the extraordinary effects and what is the current level of provision that the bank is really performing at. So the first thing that we would like to see is that the NII in loans and deposits continue to be

double digit, 10% growth year-over-year. And the NII for the quarter was 1% and 10% for year-on-year.

So NII continues to perform exactly as planned. Basically, it has to do with a lower churn in the funding plan, a much strong performance as we have on the portfolio basically on the fixed rate part of the portfolio that we have built over time and is delivering a pretty good results of the margin, please.

So another thing that is causing some attention about this is related to the insurance business. The insurance business, the premium is going as planned but we have to adjust the fact of the first quarter against the second quarter because in the second quarter, basically, you will have a policy that usually runs in the first quarter that has been moved to the second quarter. That's what is causing that decrease in the performance on the insurance company, but the insurance company continues to deliver exactly as planned on a current basis, if you strip that extraordinary process of the big premium that is going to be moved into the second quarter.

So NII continues to go strong. Loans and deposits NII continues to do well. So I think the core, as Marcos mentioned, continues to be right on track to deliver the guidance that would promise the market. If we move to another very basic issue concerning the structure of the bank and how the activity of the bank is really moving forward, when you look at the core banking revenues and NIM, you see the net interest margin for the bank which is sitting at 6.5, 2 basis points ahead of what we have the lower end of the guidance for the market. So you will continue to see and we will see addressed in a minute that we strengthened the quality of the balance sheet that is delivering these margin numbers.

When you go to the NII, we also see that it is growing 9% on a year-to-year basis, based upon what we mentioned about the deposit ratio that we have. Bank net fees also showing the increased activity of the bank in every single of the channels. We are basically reaching record levels of new opening of accounts at the bank and new open accounts also on the digital space with very strong balances, especially at the branch level. The sensitivity that we also show the market in the costs that we have, we are back around the 48%. There was some concerns for some analysts because we pick up at the end of the year, we explained that because of the growth in the government book and also the big inflow that we have on the deposit side.

But now we are back again to the 48%. So basically, we are bit sensitive, so neutral on that part. On an NII basis is basically knocking 0.1. So we continue to be very disciplined to managing the balance sheet in a way that can really allow us to take the full benefit of the fixed rate part of the group. The profitability of the bank, the return on equity of the bank is reaching 30.1%.

This is also, as we mentioned during the -- when we have been talking to some of the analyst. When you see the 30.1% it is also including that extraordinary effect of the sale of the credit bureau that is basically MXN500 million that is included in that part, okay? We've used that down, you reach the 29.7%, that's what we have before. The net income of the bank is growing at 6% on a year-to-year basis and the ROA is 2.4%, going down from the -- for the fourth quarter. As you know, in the fourth quarter, you basically get a full inflow of very cheap deposit funds that allow us to benefit the margin on the asset classes that we have in.

This is the most important graph that shows why we are so confident about delivering the margin numbers and how the balance sheet is also working for us in sustaining the margin. The graph on the top, the blue line shows exactly that -- what's the active rate of the portfolio to 12.0. The next 1 is the clear blue line is shows where the reference rate in the market, the 7.3%. And in the low end, we see basically what is the funding cost that is for the market. But what is critical for us is the red dotted line, the black line with red dots that shows exactly how resilient the net interest margin for the loan portfolio has been through time, notwithstanding the ups and downs on the active rate and the passive rate.

So that shows exactly how we are managing the balance sheet and how we are delivering the margin based upon the strategy that we follow on the asset classes. Funding cost continues to be a good story. We had a very good quarter on the funding cost. Usually, we have more withdrawals in the first quarter. This year has been much more steady.

The support for the inflow that we have at the end of the year, so that continues to show a very good trend on the cost of funds. We continue to see that number to be able based upon what we saw on the potential reduction of rates coming down and also on the management that we have been doing on the retail phase to reach those numbers very close to the 42 at the end of the year. What is also quite important is that there were some concern about the impact that some of the other players in the market, especially the newcomers into the market, how they're going to affect our non interest bearing demand deposits. As you can see, on a year-to-year basis, noninterest rate deposits is growing 15%. So that really shows the strength of the retail franchise that we have and how we are integrating the relationship driven model for the clients that allow us to really give a much better deal in the overall relationship that we have with the bank and not in just a specific problem.

So that is key for us. Another very important thing is that the mix continues to be big healthy 70, 70 demand deposit and 30 the time deposits. So time deposits continues to grow also pretty -- in a strong way, 11% for the year, but with very good costs, and we

continue to be the leaders in the market. What is also -- and this is going to -- we're going to take some time on this graph, and then we will move into more detail about that to explain the cost of risk. As you see, is moving to 2.2% or 2.2%, 2.06% without the recalibration of the models, Gerardo will explain that in a minute.

What is clear about this is that the cost of risk is in range of what we expect for the end of the -- for the guidance that we delivered to the market. We really don't see any specific issues concerning any trends or basically a deterioration in any of the portfolios. Basically, as you know, in the third quarter, we had an extraordinary case, that is also affected in the first quarter a much more par, but still was there. And we are really hoping for the recovery of that loan in the third quarter. The annual specific part, and Gerardo also will talk about this is the write-off rate as you see is very steady.

So the pickup in provision is perfectly explained by the that we said. The models, specific case that we have in that part and also at the pace of growth of the consumer book.

Remember that the consumer book is the 1 requires more provisioning since we are growing at a very fast pace on the consumer group that is obviously showing not because of deterioration of the book, but because of the regulatory issues that we need to put in there in the provisions in day 1.

Another important thing concerning the consumer is that basically, we are reaching now the third place in the credit card market, as Marcos mentioned. That is a milestone because, as you know, our credit card business is the 1 who respond the rate related to the 20% that we EBITDA in all the consumer or other consumer business that we have. So now we are continuing to grow in a very solid base. As you saw in the NPLs, credit cards going down on the NPLs. We're saying that the payroll loans is going down on the NPLs.

So that really shows that we are growing nicely and with a very good trend on the NPLs. So I would like to ask Gerardo to go and explain the case of the provisioning part.

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

Yes. Thank you, Rafa. This is Gerardo Salazar, Chief of Risk and Group Officer . Let me bring to your attention the performance of the quarter-over-quarter cost of risk. As you can see, it increased from 1.36% to 2.18%, highly influenced by 4 factors.

Factor number one, a base effect of the Tarjetas del Futuro, the consolidation of the fourth quarter of '25. The factor -- the second factor is internal models to calibration as Rafa was explained, and this is expected within the guidance. The factor number 3 is growth on retail portfolios and the fourth factor is additional provisions for a specific wholesale better according to regulation.

But if we exclude TDF's, Tarjetas del Futuro's effect, before quarter '25 and the internal models effects on the first quarter of '26, cost of risk will have changed from 2.32% to 2.06% that reflects an improvement. But also, let me guide you through a different timeframe. If we talk about cost of risk in the 12 months timeframe, you will see that it increased from 1.7% to 1.89%. But if you exclude Tarjetas del Futuro accounting impacts for the fourth quarter and internal models effects on the first quarter of '26, cost of risk in a 12-month timeframe will have changed from 2.02% to 1.86% and that also reflects an improvement in a 12-month mainframe.

Well, in this graph, you're currently seeing, there is a very important relationship between cost of risk and provisions and also between provisions and write-offs. Let me talk and get you through bringing your attention to these 3 variables. The component number 1, we have a very stable contain risk operated approximately 0.43%. And that indicates realized losses are under control, and there is no systemic deterioration in asset quality.

Component number 2 or variable number 2 is at elevated cost of risk partly due to recalibration and not truly is duration because of model updates and prudence are driving provisions in this case. The third variable, which is provisions. But as a matter of fact, as very clearly see are increasing and this is driven by model recalibration and state isolation of the already mentioned cases.

This suggests that we are front loading risk recognition. And let me just explain why I'm telling you that we are provisioning ahead of losses. Cost of risk is elevated by prudence and moderate calibration, not by a spike in a realized default rate, and this is evidenced by a stable write-off rate. As a result, reserves are strengthening, and this is positioning Banorte in a very conservative mode for future credit cycles.

So in the short term, there is pressure on earnings because of a high cost of risk. But in the medium term, we have -- we will have earnings tailwind that is lower future cost of risk as provision normalized. In essence, and to conclude, I will tell you that cost of risk is elevated, but mainly due to prudence and moderate calibration, not at the duration in credit and write-offs remain stable at 0.43%, confirming losses are contained. The result is higher provisions today, strengthening reserves and positioning Banorte

conservatively for the future.

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

Thank you, Gerardo. Thank you. So basically, we continue to see the guidance that we the market that we are right in on target to deliver the guidance that we promised in the market for the whole year.

The other thing that has also now that we have been managing the Vimeo and TDF in our target, basically, streaming the expense lines, you see that finally, we are reaching our first target that is close to the 34%. That we note the number for the end of the year, but it will be around 35% for the end of the year, but we are clearly in trend to reach our 34% that we are aiming to have fully in '26. So good expense control, and that's notwithstanding that we continue to invest in every single part of the technology case and also including in some branches and ATMs that we need to put in place, basically for the payers. There also has been some concerns because basically, we usually run our core Tier 1 from 12.5% to 13.5%. So there were some questions about the 12.7%.

So what happened to the 12.7% because it seems that 90 basis points of the capital moves from 1 place to the other. Those 90 basis points of capital that you see that is not showing on the core Tier 1 are basically related to basically to regulatory issue 40 basis points that we will see that returning for us around 80 basis points in July and another 50 basis points that are related to the risk-weighted assets that happened in the first quarter. So that will be normalized in the second quarter, in the third quarter. And you will see the usual numbers covering around the 13.5% core Tier 1. And remember that at the group level, we are still holding 90 basis points of capital also.

So that 12.7%, we have to add 90 basis points that is being hold at the group level.

So we continue to see the guidance to be delivered as we promised by end of the year. And I would like to also talk about the important that we see on the consumer book that we continue to really outpace the market in most of the different products that we have, and that has to do with the fact that we are moving more and more to the hyper personalization issue that allows us to do the cross-sell in a much efficient way.

The only 1 that is below our expectations is the mortgage book, but you will see that the mortgage book will be recovering in the second quarter, in the third quarter to reach a loan growth around 8% to 9% by the end of the year. Everything else is online on the consumer. We continue to gain market share. If you see the evolution of the market share of Banorte compared to the market, we will continue to see a very good evolution in most of the products. So with that, I conclude that the guidance is going to be delivered as we promised the market.

And what happened in the first quarter, there was a lot of moving parts like you many times said, but those moving parts are easily explained by the manner how do we manage the book and how do we manage in a conservative way, the provision inside of the group. Everything else is on track. Good funding costs, good margin, good growth in the consumer and ready for any potential growth that comes into the market for the and the commercial once the market start to develop in a much more active way, we are fully prepared to capture the area.

QUESTIONS AND ANSWERS

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

Thank you, Marcos and Rafael. We will now move to our Q&A session.

(Event Instructions) We're now ready to start. We will take the first question from Ernesto Gabilondo from Bank of America.

Ernesto Gabilondo Bofa Merrill Lynch Asset Holdings Inc - Analyst

My first question relates to loan growth. We have observed that Banorte's loan growth and overall industry growth are tracking below expectations for the year. So against this backdrop, what do you see as a key potential drivers that could help accelerate growth in the corporate and government loan portfolios, which are the ones that are lagging any color of what you're seeing will be helpful.

And my second question concerns on asset quality and other income. We understand these lines were affected by certain one-off items on provisions, as you mentioned. The increase was mainly related to the recalibration of your models. However, as this is not expected to repeat, should we expect cost of risk to behave more in the low end of your guidance range of 1.8% to 2.1%? And in terms of further income that came meaningfully higher than expected, could you provide some detail on the drivers behind this performance specifically?

I don't know if there were asset sales or recoveries.

And also, how should we assume these levels in the next future quarters?

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

A long question. Talking about the loan growth, it's not below the expectations. It's not a fault in the year. It's going to be -- as we said since the beginning, it's going to be, I don't know, in the second quarter and third quarter, is going to be increasing, and I will ask Alex to walk ahead on that, please.

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

Yes, Marcos. Thank you. Thank you, Ernesto. This is Alejandro Padilla, Chief Economist. Well, as you know, the Mexican economy started the year with a slowdown in the first quarter, follow a strong close to last year.

This performance can be explained by seasonal factors that typically affect the beginning of the year as was reflected in the Monty DP proxy of January as well as some headwinds stemming from the global geopolitical environment, as Marcos mentioned earlier in the call. In this regard, I expect the first quarter to show no growth in terms -- in a quarterly basis and later to accelerate 1.1% in the second quarter. Even so, we believe the economy will gradually regain momentum, in particular, during the second quarter, we could see some positive effects associated with the FIFA World Cup matches that Mexico will host. In this regard, a few weeks ago, we published a research note on the potential impact of the World Cup on the Mexican economy. The key finding of our study points to a potential impact of something around 42 to 62 basis points on GDP already incorporated in our forecast driven by investment in the 3 whole cities, particularly in connectivity, also driven by consumption and by tourism.

And looking ahead in the second half of the year, some of the factors we expect to support the growth includes the launch of infrastructure projects under the government's announced investment programs, especially following the recent approval of the infrastructure investment law as well as the progress in the discussions related to the USMCA review process. In this context, we continue to see a constructive tone in the bilateral tax between the US and Mexico, which has allowed the export sector to maintain a very favorable performance. And as a result, we believe our guidance range of 1.4 to 1.8 is achievable with a bias towards the upper end of the range.

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

As I said, the government lending and the corporate lending, our appetite for this portfolio remains unchanged. We are very constructive on the upside potential to support the public infrastructure projects related to the Plan Mexico. And you will see that the second semester, I think so. And now (inaudible).

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

Before touching on asset quality, we remain very optimistic about the 2 drivers of loan growth. The first 1 is the USMCA, sooner or later, we'll take Mexico as -- with a more favorable treatment than the rest of the world. That's very important for us. The second is the with Strategic Infrastructure Investment Act, which are making projects more bankable. So we are very well aware that some private investment is at times just waiting to see what the rules are going to be and to source and make some CapEx regarding loan growth.

So in the commercial side of the business, we have those expectations, our central scenario and that's a very important growth driver. And being more specific, this is Strategic Infrastructure Business Act provides bankable potential for so many projects at the moment.

Regarding asset quality, as Marcos was mentioning, we -- you mentioned Ernesto, that we expect beyond more effects, adverse effects more than these one-off items that we just mentioned. Let me touch on credit risk modeling calibration. As this core credit risk modeling recalibration is about realigning the model outputs like proverbial close default exposure before with observe reality without rebuilding the model. And what happened that just happened is in the commercial side of the book.

Once we take this into consideration, we have we are obligated to make recalibrations of equals, correcting the level of risk estimates to current reality while preserving the most ranking power using updated data, disciplined methodology and strong governance. If you look at other parts of the loan portfolio, there are very favorable data on that regard. If you look at mortgages, for example, you would look at very favorable data.

We will continue to make model recalibration, but let me make, with the permission of Marcos and Rafa, a forward-looking statement regarding, for example, the internal model of mortgages. We are expecting a very important push on capital for the second or third quarter of this year, which will be around 60 to 90 basis points on capital. That gives an example that sometimes internal model calibration will eat on earnings and some of the times, they will build a possibility of provisioning less in the income statement or having a stronger capital in the balance sheet. So if -- let me be very explicit about this. We do not expect control, credit risk metrics regarding cost of risk or NPLs going forward.

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

Thank you, Alex. Another thing, talking about other income, the sale of Gro, as Rafa mentioned, good recoveries was around MXN500 million of net income. A normal level should be close to previous years talking about in other income..

Ernesto Gabilondo Bofa Merrill Lynch Asset Holdings Inc - Analyst

Perfect Marcos, Gerardo, Alejandro. Just a last question on the digital competitive landscape against other fintechs. I remember in the last conference call, you mentioned to be exploring new products, ideas to compete against the new entrants and to serve the unbanked younger population. Also in your remarks, you commented about the adoption of artificial intelligence. So just wondering if there's any update on potential new products for these younger or bank clients? And what would be Banorte's key differentiators?

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

Thank you, Ernesto. As you know, we know how to manage the public about 40 years and above, and maybe we may do something with the younger people that clients are with us. That's why we will launch a new product, a lot of things Yes, it's going to be at the end of this 1 that you will see, and it's going to be called a banca coming. And you will hear about us in the future about that.

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

The next question is from Tito Labarta from Goldman Sachs.

Tito Labarta *Goldman Sachs International - Analyst*

One quick follow-up on the provisions for that 1 specific corporate that you had a provision a bit more you quantify how much that was? And is that now fully provisioned? Or could there still be more provisions related to that? And then my second question. Just thinking also a little bit about the loan growth in USMCA, right.

I guess, particularly like on the corporate and government book, if USMCA given everything going on geopolitically in the world, if that gets delayed, and doesn't -- you don't get a resolution this year, how could that potentially sort of continue to impact not only the commercial growth, but then could there be some indirect effects on the consumer, which is, as you said, has been very resilient?

But if there's continued ongoing uncertainty, could there be some ramifications on the road also for the consumer, also, again, if there's any delays on USMCA or if that doesn't get resolved sooner or get results rather later?

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

The first 1 goes to Rafa please.

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

That specific loan that is related to the third quarter provisioning is MXN276 million and there's no more coming to that issue.

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

We expected the other way around, we expect to start to recover something that keep us in the past and the second 1 is on growth, Alex.

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

Regarding the USMCA. Thank you, Marcos. Thank you, Tito, Alejandro Padilla again. Well, regarding the USMCA review, bilateral discussions between the US and Mexico continue to be highly constructive.

The recent visit this week by the USTR miner reflects a strong spirit of cooperation with both sites, aiming to deepen regional integration in order to enhance North American competitiveness and national security. And as you mentioned, Tito, a lot of things have happened in the geopolitical step from.

And I think that the recent conversations between Ministry of Braava and the USTR here, a focus on advancing the USMC review with particular emphasis on strengthening routes of origin especially in the auto sector and steel, cooperation on critical minerals, the reduction of nontariff buyers and sectoral tariffs as well as reinforcing supply chains. The improving investment clarity, uncertainty and enhancing regional competitiveness vis-a-vis Asia, is crucial for both countries in preparation for the technical discussions that we will have by the end of May and the official start of the review process on July 1. So all in all, I think that this will be something that we will continue to analyze and discuss in coming months. We have to remind also that we have US midterm elections in November.

So let's see how this situation can also change the way the discussions take place. However, we are constructive that maybe somewhere around end of 2026 or beginning 2027, we will have clarity about the extension of the agreement.

But I think it's important to stress out, and I will be very emphatic on this that, for example, FDI in Mexico has been resilient despite of the situation. Why? Because Mexico has important competitive advantages and competitive advantages with the rest of the world. Last year, FDI reached figure around \$41 billion, which was almost 11% above the previous year. While new investments, we're

talking about greenfields where depicted an even larger increase.

So all in all, I know that there are some uncertainty surrounding what's going to happen with the USMCA. But the exporting sector continues to perform very well. Indeed, the data that we have until February suggests that exports are growing in a cumulative basis around 7% with advanced manufacturing and key industries, especially the industries of the future growing at a 2-digit pace. So that's the way we are analyzing USMCA and the performance of investment and the exporting segment.

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

Just 1 thing about the -- what you mentioned about the consumer potential too. I think the discipline that we have in the risk side you usually see a push coming from the commercial people, from the retail people, telling open more the risk metrics, open more allow us to get more. We will not do that. We will continue to be as disciplined as we are. We are gaining market share in a very important way.

And we will not stress the risk models that. We are very happy with the models, the way they are performing, and there's no need for us to go and get market share based upon aggressiveness that we will not do that at all.

Tito Labarta Goldman Sachs International - Analyst

No, that's helpful. And so and just -- and again, we don't know what's going to happen to USMCA, hopefully, it does get resolved. But how much is that impacting certainly, I guess, the commercial loan book? Just the concern is like if it doesn't get resolved, like that slow growth there, that then can have other ramifications for the rest of the economy could get a little worse. But how much -- can you quantify how much uncertainty is causing that commercial loan book to not grow for now?

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

Currently, for the total loan book, all loan origination on the book that are related to US exposures is around 2.6% or 2.7% of the total loan book. That's our exposure. But what we are trying to say is that when the international trade framework like USMCA in favor of Mexico, which is the less credible scenario, but suppose you think in a very adverse way, it's going to continue to be tilting in favor of Mexico.

But if that happens, we could count on an immediate boost on trade and working capital financing, if that happens and also a second run effect regarding CapEx which will finally accelerate for the loan book in the wholesale sector. And also the reshoring will be amplifying the cycle. And finally, getting to your question, Tito, there will be a spillover to consumption. And that what we're trying to project is a scenario in which job creation in export sectors are going to materialize, incomes will grow and retail credit expansion will take place.

So in that scenario, I think that we are trying to see not being optimistic, but rather pessimistic in the international trade, economy will be tilting still in favor of Mexico relative to some other countries. We're not saying there is not going to be tariffs in the near future, but the treatment that USMCA will give to Mexico will be favorable to say the least.

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

We will continue with Yuri Fernandes from JPMorgan.

Yuri Fernandes JPMorgan Chase & Co - Analyst

I'll limit myself to just 1 question here. Regarding capital, guys, I guess Rafa already mentioned that capital is expected to improve in June. So if you can explain the 40 bps regulatory headwind this quarter, what was this? And why should it improve in June? And

also the marked RWA, I think like the marked RWA is part of the reason why core capital didn't improve, so maybe some color on that.

And finally, just an understanding that I got from Gerardo and Rafa's previous answers about capital and provisions. So basically, the internal models require more provisions because the capital was a little bit less good than you expected. So once capital improved, maybe could have lower provisions. So just making sure this understanding is also right.

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

Capital -- question about the capital Rafa, please.

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

Yes, you're right about what you mentioned. The fact is we have 30 basis points of capital that were basically affected by the risk-weighted assets that we have because they require more capital based upon the regulatory issue and also concerning the deposit mix that we have, we have a layer that we go to the regulator, that layer was moved. So that penalized us by 50 basis points. That as Gerardo said, we will recover those 80 -- those 90 basis points at well against those. In July, we will recover 80 basis points on that part.

So please note that there was -- even though this has happened unusually, we will also like to talk more about with the regulator about some issues that I think we will also allow us to move that 40 basis points into the capital again. But consider that we don't achieve that, you will see a replace of capital of 80 basis points in July, in addition to the generation of capital that the bank has in a permanent way that we will see by July as we usually see the numbers very, very close to the 13.5% that we basically like to run the bank around that number.

So those things happen on that card is not that we were careless or anything like that about the capital or the weighted assets or anything like that, basically 1 is the regulatory issue that we are talking to the regulators about that issue. And the other thing is that the density of the portfolio really increased on that part. So there was nothing really that was out of the hands. One is a regulatory issue and the other 1 was part of the evolution of the deal.

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

And regarding the regulatory side of your question, Yuri, what we could say is that due to composition of the total loss absorption capacity, TLAC, formula, a low risk-weighted asset density translate into a higher TLAC requirement. But not the risk on capital management discipline becomes a handicap in terms of TLAC requirement. But the CNBV will adjust the TLAC formula established under current Mexican regulations. The new methodology reduces TLAC volatility by adopting 3.5% of the corresponding risk-weighted assets from the numerator, and that instantly will give us some comfort that is not needed, but it is very welcome, yes.

So you will continue to see a very good evolution on the capital numbers. So it was -- honestly, the 50 basis points were unexpected, but I think that we will recover 80 basis points by July.

Yuri Fernandes JPMorgan Chase & Co - Analyst

Super clear. So it's not the second quarter, it is July. So this improvement is for the third quarter and just making sure that this is the --

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

For the second quarter, you will see the evolution of the natural generation of capital of the bank, that we will be very close to the 13.5% at the end of the second quarter.

Yuri Fernandes JPMorgan Chase & Co - Analyst

No, no. Super clear. And again, you have a solid capital position and organic generation. It's more like it was a little bit surprising, the evolution we would expect a little bit more. But very clear the explanations, Rafa and Gerardo.

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

The next question is from Ricardo Buchpiguel from BTG.

Ricardo Buchpiguel Banco BTG Pactual SA - Analyst

I have just a quick 1 here. The other operating income and expense line has been a bit more volatile and even positive in the last couple of quarters. I understand that Q4 was related to a reclassification in the insurance provisions, but I wanted to understand better what drove the positive print in Q1 and what we should expect in terms of a normalized level?

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

Yes. The other operating income, as we mentioned, has to do with the sale of the credit bureau that MXN526 million into that net number. So you will see that normalizing in the second quarter. If you talk about the insurance, if you look at the claims and things, they were -- they performed pretty well. And what we mentioned about the reduction on the insurance company has to do with a specific big client that will be moved from the first quarter to the second quarter.

You will see a normalizing the results of the insurance company in the second quarter. But the insurance company is doing very, very well, very solid numbers also coming return on equity is about 50%. So it was just a matter of timing where this peak policy instead of going into the first quarter is moving to the second quarter. So that's the only thing. Claims and everything, were under control.

So nothing related to that combined ratio also is very longer you also don't see any specific issue.

Ricardo Buchpiguel Banco BTG Pactual SA - Analyst

Very clear. Just when we question. If I take your account the MXN126 million out of the equation, then the level from Q1 could be seen as a little bit more normalized or is there any other adjustment should just to -- do you have a sense on the number moving forward?

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

I think -- if you just talk about the level of normalized on the Q1, you also have to talk about the extraordinary issues that as late what Gerardo talked about the calibration of models and things like that. If you add all those things more than net, the benefit of the credit income that we have because you have just for the calibration of the models, close to calibration of the model plus, in addition, the last part of that credit that went sour in the third quarter, you get around MXN600 million, and you get a net income of MXN520 million by the credit bureau sale. So in next 1 to the other. So I would say that if you strip those 2 I would say that you will get very, very similar numbers that you get on the key metrics of profitability of the bank.

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

Now we'll continue with Pablo Ordóñez from GBM.

Pablo Ordóñez Peniche Grupo Bursatil Mexicano SA de CV Casa de Bolsa - Analyst

Congratulations on the results. My question is more structurally strategic on artificial intelligence. We know you have been mentioning about the rationalization for a while. But now, Marcos, you mentioned that you have 1 agent or client. Is that correct?

Is this already implemented? And my question is -- sorry? And how should we think of the AI strategy for Banorte in terms of products and financials? Is there any further upside in the medium term on the expense line? And also, can you remind us where are you in terms of your cross-selling index? And what other KPIs are you following?

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

Thank you. It's a good question. Yes, it should translate to less expense of our lease business. That's the final objective, and we are doing this because we are aiming to go there and also the numbers of the cross-selling, they range to 2.6% on the retail and up to 4.8% on the wealth management piece. So it has been increasing from the 1.4 that we have 4 years ago to the 2.4% that we currently have.

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

Yes. Remember, in month think we were at 1.17. So it was less than half.

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

I think AI is -- I think it's critical for you to understand this. We are moving, as Marcos mentioned, to basically normalize off the back end of operations, the back operations by the end of the year. Everybody should be managing their job based upon artificial intelligence that will be achieved by the end of the year. That's what we call level 1 and there will be some level 2 that we will be using some agents in some more complex tasks.

On the personalization piece that we have been ongoing for the last 3 years, there's a lot of artificial intelligence embedded on that. Basically, what we are looking and Marcos touched on that is to have an agent per client that allows -- and that agent per client will manage other -- many other agents that allow us to really serve the client based upon a specific mix that the client has. But the core of that, and that will not be any useful, even if you have agents if you don't have all the data that you have to build in place and get all the models, the models that you have to have in order to measure the most critical bits that we measure with the lifetime value. So everything that we do now that we've gone by plan is based upon the large time value. So the key metric that obviously cross sell is a key metric that we use, but the most important thing is what's the value of that core sale that is really reflected on the lifetime value.

So artificial intelligence, just remember that Banorte was the first along with the 8 other banks that were the first to touch on artificial intelligence with Watson 8 years ago. So we have a long run on that part. Obviously, our division intelligence has accelerated a lot in a very important way.

But just remember 1 thing, if you don't have the data online, real time, artificial intelligence is just a.

Ricardo Buchpiguel Banco BTG Pactual SA - Analyst

Perfect. And on the expense on the efficiency, Rafa, Marcos, do you think that this AI could take Banorte a bank in the low 30s of efficiency in the next couple of years?

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

Two years, I don't know, but we should aim to that in, let's say, 3, 4 years, yes.

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

Next question is from Brian Flores from Citi.

Brian Flores Citi Infrastructure Investments LLC - Analyst

I have also just 1 question. It is on your risk-adjusted NIM, as you mentioned, and you explained, you are advancing on the consumer book. Yet, as we saw the NIM is decreasing. So I just wanted to check with you if the new originations are coming at maybe lower spreads. And on the risk side, I just wanted to check if -- this higher mix or -- sorry, higher proportion of consumer on the mix should also bring a slightly higher cost of risk.

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

On the -- I think if you look at the risk-adjusted NIM and you look at the public information, Banorte has a huge edge on the risk-adjusted margin on the consumer. We have 90 basis points in advantage compared to the next competitor that we have in our risk-adjusted margin. That allows us to really play in the market when we like the risk to be quite aggressive for the clients that we like to buy because the risk-adjusted margin allow us to do that.

And that's basically related to the risk discipline that risk that we have. If you see a reduction on the -- slight reduction on the NIM, I think you should be looking at the guidance that we gave, that is 6.4% to 6.8%. We are now staying at 6.6% because usually, the first quarter is the low end quarter because a lot of the cheap funding basically starts to move away from the bank. This year, we have retained a lot more than usual, but usually, you get some outflows on that part.

So the margin, as you saw on the graph that we project about the NIM of the portfolio, it's continue to be steady and growing the more the rates go down, the better for us, as you saw on the sensitivity on the group. So you should expect an improving the margin and this is key in how Banorte competes. When we like the risk based upon the risk-adjusted margin that we have and based upon the lifetime value of the client that we have to develop, we could really, really bring that client into the bank.

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

And regarding cost of risk, there is no trade-off. We are not trying to aggressively pursue as Rafa and Marcos just told us. More loan volume sacrificing a series of risk that we have shown internally and externally that we are controlling the consumer loan book in a very good way because we have not just a low number regarding cost of risk and NPL but also an alignment between leading and outcomes. That is we have seen stability with low volatility, not just low levels and cost of risk. And also there is alignment between provisions and write-offs, like we said before.

And the vintage performance is very consistent in every type of consumer lending product. So what I tell you that there is a trade-off, and we have demonstrated that we are controlling the consumer loan book as we should.

Brian Flores Citi Infrastructure Investments LLC - Analyst

Thank you, Super clear. Just clarifying here. I think my point was on your Slide number 18, I think we see when maybe the consumer appetite was less, the cost of risk closer to 1.5%, right? Now we're closer to, let's say, 1.82%, which is in the guidance, as you mentioned, but part of the trade-off. So just compared to previous years, that's what I was trying to convey here, slightly higher cost of risk now that you have this shift in the mix.

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

Yes, but as you mentioned, you know that if we grow the consumer group, by nature and by regulation, you have to build more provisions on day 1. So that -- you're right on that. But that's in alignment of the pace of growth. If you look at the pace of growth of the consumer that we have, we are outpacing the market in many of the products. And that obviously is giving us more provision on the , but not because deterioration, is because of regulations, the composition.

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

Now we'll continue with Renato Meloni from Autonomous.

Renato Meloni Autonomous Research US - Analyst

So first, I would like to -- just focusing here on Slide 16. So you can see that your active rate is declining less than set this year. And that's because of the mix shift, as you mentioned -- just mentioned, now you were able to retain a lot of the value here in this first Q. So I'm wondering, as the consumer portfolio outpaces the growth of the rest of the portfolio, do you see some expansion here if rates continue at this level? And can we maybe expect your NIM to end the year at the higher end of the guidance?

And then just a follow-up here, still thinking about this mix shift. You mentioned before that you're building up provisions ahead of the -- or of any credit cycles, but your coverage ratio remains at historically low levels. So considering that you're stronger in consumer lending now do you think you would have to operate at a higher level?

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

The margin, I think that if you continue to see the downward trend on the rates, we could see an expansion in the margin, yes. I think we could see by the end of the year, you will see an expansion of the margin coming for 2 things: a lower funding costs that we have and a very large inflow of funds that were going into the fourth quarter. So that will be a case.

And concerning the other thing related to the provisions, we have -- well, it comes with a growth. I mean not because it's bad growth, it is because the growth requires more provisions. So yes, we will be building more, and more provisions, but in alignment with not because of deterioration, but because of this is needed by regulation that we set those provisions on day 1. So is just the size of the portfolio. I mean we are growing nicely.

If I give you some very clear numbers. Car loans 8 years, 0.55. Mortgages, 1.2. Credit cards going down to 3. Payables also going down on the NPLs.

That are the ones that consume more the provisions.

So no, I think we are never, I would say, comfortable with the provisioning because we always take care of those things. But I think the discipline that we have on the risk side, and we will continue to have that discipline. This is allowing us to compete very -- because remember working with Banorte and Banorte has more a higher funding cost at this point in time that BBVA and set. So the way that we compete against them is based upon the risk-adjusted margin that we delivered and we compensate by the lack of the funding cost, we compensate on the risk adjusted side.

Renato Meloni Autonomous Research US - Analyst

So you're comfortable with the current coverage ratio now?

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

Yes.

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

The next question is from Andres Soto from Santander.

Andres Soto Santander Osbkinc - Analyst

Just a couple of follow-ups on my side. In the release, you mentioned that the USMCA uncertainty is impacting corporate demand. And your -- in the call, you have expressed confidence on a positive resolution, given that this -- the positive resolution is rather a consensus view. What do you believe your clients are still waiting before they resume investment and credit demand?

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

The wording for the rules and be published. It's the last line, I would call it, the regulation and the signing of the agreement.

Andres Soto Santander Osbkinc - Analyst

And your expectation is that for that agreement to be signed of 2026?

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

Sorry, again.

Andres Soto Santander Osbkinc - Analyst

If the expectation is for the agreement to be signed in 2026 still?

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

No, our expectation today is that -- it could be by the end of 2026, but most likely in 2027. And this is because you have in the middle, the midterm elections in the US in November. So I think it's going to be very difficult for the US to really want to sign an agreement before the elections.

So I think it's more a matter of 2027. But I think the important thing is that while we see more visibility, uncertainty about the talks and the specific topics that they are discussing that could put the confidence of investors in the second half.

Andres Soto Santander Osbkinc - Analyst

Got it. And in terms of loan growth, can you remind us how to be down -- you break down the guidance of 8% to 11% between consumer and corporate?

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

Yes. Mortgages from 8 to 10, on 10 to 12, auto from 15 to 20, credit card from 14 to 18, so consumer is at between 10 and 14. Commercial from 8 to 10. Corporate from 8 to 10 and government from 0 to 4.

Andres Soto Santander Osbkinc - Analyst

So this 8 to 10 in the commercial side is contingent on people getting confidence on the agreement is close to be signed, right?

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

Yes. That's -- that's why we split the consumer and on the commercial and the government. I think the consumer will be above double digit -- double-digit growth. And on the commercial and the corporate depending of how the ruling of how the investment is going.

Andres Soto Santander Osbkinc - Analyst

Perfect. That's very clear. And my second follow-up is on the cost of risk. I see additional provisions related to the case that happened in the third quarter. What has specifically changed this quarter to make you made additional provisions?

And how confident are you that this is going to be released in the third quarter?

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

Gerardo.

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

What I will tell you, Andres, is that in the last 2 months, we changed or reach an inflection point in which we are more optimistic. As we said in the last call, there is economic genetic value of a positive nature on this because the recovery rate is very high, but we are bargaining to make a very important restructuring process in which all the parts involved in this on finally have reached an agreement. We have not finalized that. It is not perfected from the legal or contractual point of view but we remain confident that we touch the bottom on this case. And from now on, there is recovery to be made.

Andres Soto Santander Osbkinc - Analyst

What percentage of the loan is already provisioned?

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

100%.

Andres Soto Santander Osbkinc - Analyst

Understood. And that implies, if I did the numbers correctly, that has added up 20 basis points to your cost of risk over the past 12 months, correct?

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

Yes, that's right.

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

It's correct.

Andres Soto Santander Osbkinc - Analyst

Perfect. So -- and that was already reflecting your guidance for cost of raise of 1.8% to 2.1% this year meaning -- I mean, the release of those provisions, meaning that structurally, given the change in the loan book, you are probably running at a cost of risk structural that is 2% or slightly higher because of this growth in consumer lending. That is correct?

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

Correct.

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

That's correct. .

Andres Soto Santander Osbkinc - Analyst

congratulations on the results.

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

And we will continue with Marcelo Mizrahi from Bradesco.

Marcelo Mizrahi Bradesco BBI - Analyst

So my question is regarding the level of NIM. So in this quarter, do you Banorte delivers the NIMs very close to the top of the range of the NIM -- of the guidance of the NIM and looking forward, I understand that okay, there's a lot of -- first, you guys already mentioned that it has -- we will have some impact on the interest rate reduction on the second quarter on the NIMs. So my question is how -- what's the level of the NIMs are looking to the guidance that we have to work looking forward?

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

As in the guidance, the NIM is from 6.2% to 6.5% of that. And the NIM of the bank is from 6.4% to 6.8%. That's the guidance, and we will depend on that.

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

Well, now you are in the middle, 6.6% basically looking forward to our 6.7%, 6.8%.

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

The next question is from Carlos Gomez Lopez from HSBC.

Carlos Gomez-Lopez Hsbc International - Analyst

First, on the capital maybe the only 1 that doesn't quite understand it, and maybe we will take it off-line. But just to clarify that when you have this reduction, this 80 or 90 basis points that disappeared, all be in the fourth quarter of last year. That's the timing of it?

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

The impact was in the first quarter, and you will see the positive compensation that Rafa and Marcos mentioned during the third quarter.

Carlos Gomez-Lopez Hsbc International - Analyst

The impact was this quarter or -- the fourth quarter of last year would be normal. It is this quarter, which would be below normal. And actually, what I thought was more interesting is Rafael, you emphasizing so much that you would like to run the company with a 13%, 13.5%. That is what you think is the normal level of capital for the bank, right?

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

Yes, it is. That's why we -- as I mentioned, we are warehousing at the group 90 basis points, but those 90 basis points to the number that we have on the core Tier 1, we are already in the number that we like.

Carlos Gomez-Lopez Hsbc International - Analyst

Okay. That's very clear. And second on loan growth, and I'm sorry to come back to this, but we are already at the end of April, we are running at 6%. And when I look at the trends for the system and for you, the pointing down, not up. Do you see any evidence whatsoever that we are starting to see an inflection and we are -- at least we are seen a continuation of loan growth as opposed to a reduction of loan growth every single month or that's something that we cannot really hope for until after the summer?

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

In a way that we consider the pipeline and the pipeline is full. So our expectation is that in the next months, you will see some growth there. We don't have the magic ball, but at least the pipeline that is full. And we are options that something is happening.

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

Next, we'll go with Edson Murguia from Sumacap.

Edson Murguia SummaCap SC - Analyst

I have just 1 regarding on the loan book growth, specifically Auto loan. How sustainable is having 30% growth on a basis? Because you mentioned in the prior remarks that Banorte will not change models will not change the risk appetite that the bank has. So trying to understand how can we see for the following quarters.

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

Well, it's not sustainable 30%. As I said before, the expectancy in from 15% to 20%, and we are optimist, however, 15% to 20%, but obviously, it will go down a little bit, and that's why we keep the guide for the year for -- between these 2 levels.

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

Because you are building from a very large base every year, 35% last year. Right now, we have grown at 25%. But as Marcos mentioned, we are very comfortable with 15-16% car loan growth because we like the brands that we are managing, and we like the risk that those brands that our company with.

Edson Murguia SummaCap SC - Analyst

Congrats on the results.

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

We'll take our last question from Natalia Corfield from JPMorgan. Natalia, we can contact you after the call is over.

Natalia Corfield JPMorgan Chase & Co - Analyst

Can you hear me?

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

Yes. Perfectly.

Natalia Corfield JPMorgan Chase & Co - Analyst

All right. Sorry, I was on mute. So my question is on capital gain. You added around 10 basis points over minimum market. And I'm wondering at the right level or not.

What is the level that you would control [Technical Difficulty] this level is below what having best and I know [Technical Difficulty].

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

We didn't hear you well, but Rafa what you are talking about.

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

Yes, the level that we'd like to have on the core Tier 1 ranges from 12.5% to 13.5% when we pay the dividends or not. And that's the level that we have been basically maintaining on that part. As you know, we have been on a dividend basis, basically 83%, 85% when you are extraordinary dividend, but we continue to be very disciplined about the 12.5% to 13.5% on the core Tier 1.

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

You want to ask about the TLAC?

Natalia Corfield JPMorgan Chase & Co - Analyst

Correct.

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

That 150 to 200 basis points of above TLAC.

Natalia Corfield JPMorgan Chase & Co - Analyst

150 to 200.

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

Let's say, between 100 and 200, in the aiming to 150 bps.

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

And what Gerardo mentioned, that there is a recalibration of the TLAC that will be penetration for us that will give you a very post.

Natalia Corfield *JPMorgan Chase & Co - Analyst*

All right. Because it used to be higher -- you ended the quarter at 162. So 162 would be comfortable for you based on what you just said.

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

Yes. And yes, we will at a certain point of core Tier 1, 148, but that was too much on that. That's why we start to pay a dividend basis.

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

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

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