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Q3 2026 GRUPO FINANCIERO BANORTE SAB DE CV EARNINGS CALL

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PRESENTATION

Tania Martinez *Grupo Financiero Banorte SAB de CV - Head, Investor Relations*

Good morning, everyone. This is Tania Martinez, Head of Investor Relations. Welcome to Grupo Financiero Banorte's third-quarter earnings call for 2026.

Our CEO, Marcos Ramírez, will begin today's call by presenting the main results of the quarter and the nine months of the year highlighting the structural strength of the core business, positive trends across credit portfolio and portfolio liquidity metrics, and the evolution of the main macro indicators. Then Rafael Arana, Chief Operating Officer; and Tomás Lozano, Chief Financial Officer will go over the financial highlights of the group and capital allocation for the remainder of the year.

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.

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Thank you. Marcos, please go ahead.

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

Thank you, Tania. Good morning, everyone, and thank you for joining us today.

Let me start by saying that this has been a year with a lot of moving pieces, but our core business remained strong. We continue to see sound performance throughout the group with healthy margins, loan growth picking up across all segments, and asset quality evolving in line with our expectations.

Overall, strong operation performance has translated into solid profitability, reinforcing our confidence in delivering on our commitments to the market as we move through the last part of the year.

On macro front, the Mexican economy has shown gradual signs of recovery despite a challenging global environment. We have revised upwards our 2026 GDP growth forecast to 1.9% and expect growth between 1.6% and 2% in 2027, supported by exports, improving economic and trade visibility, and gradual recovery in consumption and investment.

The evolution of Plan Mexico and the rollout of guidance for the new infrastructure projects, particularly in the energy sector, could provide further support for economic activity with early opportunities already beginning to emerge and potentially translating into higher investment over time.

Regarding monetary policy, given current inflation trends, we anticipate the Central Bank to keep the reference rate at 6.5%, for the remainder of 2026.

Moving into 2027, persistent inflationary pressures and the path of the US rates could lead to some tightening potentially bringing the rate to 7% by year-end.

On the fiscal side, we expect the government to maintain its consolidation efforts, helping Mexico preserve its investment-grade credit rating. Moreover, the trade outlook between Mexico and the United States remains constructive, ongoing discussions regarding Section 232 tariffs on certain industries point to continued bilateral cooperation while broader topics such as rules of origin, labor provisions, and other technical aspects will likely to be addressed in 2027.

The USMCA review remains an important focus and continuing dialogue will support deepened integration across North America value chains.

Looking further ahead, the evolution of the US Mexico relationship, Mexico 2027 midterm elections, and the effective execution of policies aimed of strengthening investment in productivity and competitiveness will be key to consolidate Mexico economic recovery and sustained medium-term growth prospects.

Finally, before turning to our results, I would like to briefly comment on the Digital Economy Bill, which was recently approved by the Congress. Our initial assessment is constructive as the initiative has the potential to advance financial inclusion, support formalization and accelerate the digitalization of the economy, while enhancing transparency and broadening access to financial services. Its long-term impact will depend on effective implementation and adequate infrastructure, and we believe it has the potential to generate new opportunities for the financial ecosystem.

Starting off with results on slide number 3. Our core business continues to reflect a structural strength and the resilience of our operating model. Margins remained steady, supported by a contained funding costs, accelerating lending volumes, and a favorable portfolio mix. Although the group NIM continues to face headwinds from inflation index securities in the annuities business, the strong fee generation and continued expansion of the loan book supports revenue growth, driven by sustained internal demand, assertive market fit, and the continued deployment of the hyper-personalization strategy.

Notably, our loan origination maintains a steady asset quality, with NPLs at 1.4%. Cost of risk remains within the full-year guidance and continues to incorporate additional reserves from the commercial credit event recorded a year ago.

On capital, organic generation remained strong, bringing our capital adequacy ratio to 22.5%. We're managing CET1 around the 13% target, while maintaining flexibility to support business expansion. I will come back to capital allocation later in my remarks.

Moving to slide number 4. Net income for the quarter reached MXN15.7 billion, up 1% sequentially, and 9% year over year with accumulated figures, amounting to MXN47 billion. Results were driven by higher revenue across subsidiaries, a strong lending activity at the bank, and disciplined management of cost of funds and expenses, offsetting higher provisions associated mainly with

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loan origination and lower market-related income.

Profitability continued to reflect business performance with ROE for the quarter of 24.5%, and accumulated ROE reaching 24.7%, up 235 basis points year over year. ROA stood at 2.3% as of the first nine months, increasing 6 basis points in the same period.

Analyzing results by subsidiary, on the slide number 5. Bank's net income for the quarter reached MXN12.3 billion, relatively flat sequentially, and amounted to over MXN36 billion with accumulated figures, up 7% year over year. Results reflected an improving lending mix, consistent low-cost deposit attraction, and strategic management of the funding mix. ROE remained at attractive levels reaching 31.1% for the quarter and 31.2% with accumulated figures, up 286 basis points year over year. Accumulative return on tangible equity stood at 34.6%.

Insurance net income increased 2% sequentially, supported by a better performance in financial products while premium origination normalized from the high levels of the previous quarter. With accumulated figures, the decline mainly reflects change in VAT accreditations and higher bancassurance fees, which offset increased premium volumes across the business.

Annuities expanded by 72% in the quarter and 31% on accumulated basis as business grows more than compensated for higher claims.

Pension funds continued to perform well with a larger base of assets under management supporting revenues along with controlled expenses. Despite negative mark-to-market effects during the quarter, accumulated net income grew 11% year over year.

Lastly, the brokerage sector accumulated decline mainly reflected lower market valuation in the Securities portfolio despite higher transaction fees.

Moving to slide number 6. Stage 1 & 2 loans reported double-digit growth of 11% versus the third quarter of 2025, in line with the upper end of our guidance. Commercial and corporate books have gained traction, growing 13% and 11%, respectively, as we start to see a gradual recovery in investment across key sectors including infrastructure, energy, tourism, and industrial parks.

In the quarter, wholesale banking balances also reflect the positive impact of the FX in our dollar-denominated book, which currently represents 14.6% of the total portfolio, recovering most of the decline related to the dollar weakening throughout the year.

Government lending increased 14% year over year, supported by higher activity at the federal level despite some repayments and amortizations from states and municipalities. Some financial opportunities around Plan Mexico are starting to emerge, potentially enabling a dynamic environment for credit origination in this segment.

Moving to slide number 7. Consumer lending grew 9% year over year. We continue to make better use of our data and technology to deliver more relevant offers to our customers, supporting greater cross-selling and deeper penetration across our client base.

Auto loans stand out, growing 23% year over year as our partnerships with leading brands, scale of our sales teams, and hyper-personalized offerings continue to support origination.

Credit cards grew 10% year over year, supported by effective commercial campaigns, targeted promotions, and the value of our rewards and loyalty programs for our existing customers.

Payroll loans were up 11% versus the third quarter of last year, supported by a stronger value propositions that combines relevant benefits with better customer experience, giving our clients the flexibility to engage with us digitally or throughout our branch network.

Finally, mortgages grew 6% in the same period as we continue to make progress in our origination process and customer journey. The service and process adjustments we have implemented are gradually gaining traction, supporting a better trend in the portfolio.

On slide number 8. Asset quality remained healthy, with NPL ratio improving sequentially to 1.4% and cost of risk for the quarter at 2.3%. As discussed earlier, this reflects the loan growth dynamics of the period while underlying credit trends remain consistent with our expectations. That said, we expect the risk indicators to close the year within our guidance.

Slide number 9 shows continued growth in net fees, up 14% year over year and 15% with accumulated figures. This was supported by higher transaction volumes across our channels and products, increased lending and mutual fund activity, and a stronger transactional comprehensive platform. Mobile financial transactions also expanded 20%, supported by a scalable infrastructure capable of processing high volumes efficiently and with a short time to the market.

On the ESG front, on the slide number 10, we continue our efforts for lower our Scope 1 emissions. With more than 106 branches already undergoing the sustainable certification process, thanks to their improved efficiency in energy and water consumption.

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Moreover, Banorte improve its 2025 CSA sustainability score, reflecting our overall progress across different environmental, social, and governance performance metrics.

Now, let me give you an update on our progress with artificial intelligence. As we have discussed in previous calls, we keep moving forward our visions for one agent per client, bringing together AI and data to better understand our customers, provide more relevant solutions, and deepen client relationships through cross-selling capabilities.

We are also using AI across core business segments to transform processes with tangible results in simplifying workflows, reducing processing times, and automating repetitive tasks, allowing our teams to focus on higher-value activities.

Coding is also a good example, where these tools are already improving development speed and creating new opportunities for cost savings. Importantly, our approach combines autonomous AI capabilities with human judgment. We see human digital interaction as a key part of our operating model, with technology improving speed and execution while people remain at the center of decision-making.

Finally, I will follow up on our capital allocation plans. The group's organic capital generation enabled us the possibility of an extraordinary dividend during the fourth quarter. Accordingly, we are calling for a shareholders' meeting tomorrow to seek approval and proceed with the distribution of 20% of the 2025 net income, equivalent to approximately MXN4.18 per share during the fourth quarter. With this, our total payroll ratio will reach 70%.

Now, I will leave you with Rafa and Tomás to get into the details of the financial results of the quarter. Rafa, please go ahead.

Rafael Arana *Grupo Financiero Banorte SAB de CV - Chief Operating Officer*

Thank you. Thank you, Marcos, and thank you, all, for the head-ups you usually send us the day before that allow us to concentrate exactly on the issues that need more clarification on understanding.

The first part that we will see is that NII continued to grow at a very, very positive level. As you can see, 12% on the loans and deposits that really shows the ability to keep on building up the deposit franchise, 12% has been non-interest-bearing deposit growth for the year that shows really the strength that our commercial and corporate and government banking has the ability to attract deposits at a very good cost -- zero cost and a very good growth over the lending book.

There was also on the quarter movements on the insurance side and on the annuity side. The annuity side had an extraordinary month that allow us to really grow our market share participation, and the insurance business continues to do on the right track. You can see the -- there are some numbers on the technical reserves that basically on the year to year shows a decrease on that part less claims. But the growth on the insurance business continued to be a very good companion to the delivery of all the consumer building blocks on the on the mortgage book, on the car loans, and also on the credit card and on the payroll.

So a pretty good story for the entities concerning the pension comps, the annuity, and the insurance business, you also see that the annuity is affected by the inflation, but they will be corrected, as you will see. There, you will see a disparity on the technical reserves and the effect of the -- of basically the inflation because of the very good growth that we have during the quarter on the annuity side.

The non-interest income continued to be a driving force for the bank that really shows the capacity for the bank to manage more and more and more activity through every single one of the channels that we use. Transactions are growing very close to the 40% per year. And most of those transactions are accompanied by some benefit either on the fee side, but also accompanied the entrance of the deposited side and opening of the new accounts and activity for the overall bank.

So I will move into the next year -- into the next graph. The bank continues to do well, in every single part of the revenue side. And also, I will move into the cost in a bit. There were some concerns that the NIM of the bank was decreased by a bit for the quarter. There's a clear explanation for that.

We have an extraordinary growth on the book in every single part of the book. Obviously, when you grow your book, you get basically sources from the deposited front, and that gives you a reduction on the margin for that quarter. Then once the loans start to release the margin, that margin will be balanced in the coming quarter along with a large inflow that we expect on the non-interest-bearing part.

So the NIM that you see at the bank level has to do a lot more with growth than anything else compared to the cost of funds on the capacity to grant and acquired on the funding side.

On the NII, we already see the loan and deposits growing nicely, and the bank net fees also growing at a very good pace.

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There has been also concerns that we are overcharging on the fee side, and think -- no, it has to do with the fact that the activity of the bank, as I mentioned before, has increased in a substantial way and that allows us to really serve our client and companies in the way that we need to serve them. And obviously, there's a charge for the service that we provide on that. But if you compare that to the market, we're always below the market, as you can see, on the fee structure when you look at the overall net income of the bank compared to the other peers. We always are maybe at the low end of the fee numbers, growing nicely, but we take very good care not to overprice on the fee side.

If we move to the next graph, basically has to do with the sensitivity management of the book. Marcos already referred to that, so I will not go into that. I think we are fully prepared for either another reduction on the rate for the Mexican -- for the Central Bank or a steady space at least for seven months to eight months, so the balance sheet is fully prepared for that.

On the foreign side, as you note, we don't have fixed rate part of the book, so it moves with the rates along with the rates. The sensitivity of the NII continues to be very, very low, so the balance sheet is fully prepared for either a steady state on the rates or even of a reduction -- a potential reduction in the rate.

If I move into the next one. The bank continues to deliver a solid profitability for the bank, the net income, 9% on the year on year. And there was a comment that -- and I appreciate the comment because it allows us to explain this part. It says, its below -- it's almost -- expenses are growing above the net income.

But remember that expenses when you go to the recurring part of the expense growth is below 8% on that part. As you know, we still have some expenses related to the closing of Bineo, the inclusion of Rappi is fully now embedded on that part.

So expenses will continue to be single digit by the end of the year, aligned with the guidance, and the fact that the net income is in a case when you add up all the all the expense line, but you have to take into consideration the fact of the renewal part, okay?

The return on equity for the bank is at 31.1% on that part, and the ROA, 2.4% on that part. So I think the bank continues to deliver as expected and in line with the guidance that we provide the market with.

The next slide, please.

This is the graph that allow us to keep and it should give you an idea of how resilient the margin is for the book. You will see the graph that is on the middle, the black graph with the red dotted lines. It shows exactly how we have been able to sustain the margin of the book even though the steady state of the rate for the market.

The thing that is relevant in this part is that we will continue to see this evolution because we expect a very important inflow of non-interest-bearing deposits for the next three months. Even though at this point in time, net interest-bearing deposits are growing at a pace of 12% per year, that really shows the ability to really manage the funding the funding costs. So big volumes with the right cost and also on the time deposits, we are also growing and keeping the first position in the market.

The next one, please.

That shows exactly the funding costs and the split about non-interest-bearing, interest-bearing demand deposits, and also the time deposits on that part that allow us to move on there -- that is slide, 45.2% that you see a small pickup on that has to be related to the fact that Marcos just mentioned, we had an extraordinary third quarter on the loan growth. And that really puts some pressure on the funding cost that will be balanced out on the last part of the year because of the large inflow that we will get on the funding side.

So overall funding costs in line what we expect and it will continue to go down. The margin on the book continues to be steady. Net interest margin for the bank continues exactly as we provide for the guidance, so I think you will see on the fourth quarter also an increase on the margin side.

I would like to also go to something that somebody made a comment also in one of the reports yesterday. If we could go back to the pace of growth of the book, yeah.

Let me just guide you to something that is relevant concerning the guidance for the year. When you see the pace of growth that happened in the third quarter in the corporate or also in the government book and in the commercial book compared to what happened in 2025, you will see that in 2025, the third quarter really was like a steady third quarter and jump into the fourth quarter.

What happened this year, and we are grateful for that because of the efforts that all the banks are putting in place, government, corporate, commercial, that we saw a jump a quarter before last year, okay? So that will allow us to keep on building the margin.

But also, when you compare the third quarter to the fourth quarter on this year, you will not see strong growth like you saw yesterday, it will be a much more balanced growth. It will be aligned on the low part of the guidance because the growth happened in

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the third quarter and not in the fourth quarter, so the fourth quarter will be a base comparison that is higher that was the year before, so that has to be taken into account. It's not that the portfolio is not growing nicely because it's growing nicely in every single part, consumer, corporate, commercial but it anticipated compared to last year. So take that into account when you see the evolution of the loan growth on that part. That doesn't mean that we are -- we'll be below the guidance, but you will not see a big pickup like you saw yesterday -- the year before on that part, so that is also quite important.

Another relevant question that you sent to us yesterday is concerning the provisioning side. If we -- and let me -- no, the one that you -- let me remember you this part because if you look at the commercial line, if you look on the first quarter of the commercial line of '25, the commercial line was around 1.3% and it jumped to 1.5% in the second quarter of '25. Then that special case that we have been talking about that we are actively working to release that case, make the commercial book to jump to 2.8%. But the commercial people has been working not on that case or on the overall health of the book, that now the number is around 2.4%.

If you normalize that to the 1.5% when we saw the pickup, the commercial book is in better shape that it was in the third quarter of '25. So let's be very clear about that. It's not deterioration of the book in any case. It's just that simple case that we are building provisions on that part. But that explains exactly why the relation goes into that one.

If I now go into the consumer -- if you look at the credit -- on the credit card book on that part and on the overall consumer, what you can see is that some people were surprised, they say MXN826 million were the rise on the provisions on the consumer.

But if you strip that down, only 1% of that has to do to deterioration, 86% has to do with growth because we have been growing nicely in every single part of the book and 13% goes to the calibration that we did on the mortgage book. So that explains that any concerns about deterioration of the book on that has to be stripped by growth, the recalibration of models, and really the deterioration that is only 1%, okay, on that part.

So thank you for the heads-up from that part, that allows us to go deep in the explanation of this part.

Now, if I go now to the -- you will see that for the quarter, based upon the provisions that we had and what I just mentioned about the growth, you see a pickup on the cost of risk. But on a yearly basis, we are right on guidance around the 1.9%. And I already explained that 83% of the consumer -- 86% of the consumer has to do with growth that we have been growing nicely and getting -- and capturing market share in every single part of the book on the consumer side on that part.

And the commercial, I think I already explained that the commercial is doing even better when you strip that case away from the book.

And when you look at the credit risk, you have to look at the right part and also the buildup of the provisions on that part. So we are never at ease with the risk, but we are actively managing the risk at a very good growth and we are taking into consideration, and some people have concerns that our models on the credit card are, let's say, overweighed on the buildup of provisions.

But remember that the market in Mexico has created what I call a difficult process on the -- especially from the fintechs that are really building up noncurrent clients at a very fast pace because of the high interest rate that they charge to them. So we are taking that into consideration and our models reflect that and they are very predictive, and we are very at ease with the way we have been building up the provisions based upon the growth and the quality of the book.

If we move to the next one. Expenses also when they say expenses are growing above the net income, taking into account the consideration that I just mentioned on that part. If you take into consideration the buildup of provisions that we have for that special case that is above MXN2 billion plus the Bineo part of this, MXN850 million, you are looking at a net income effect on the book, very above the MXN3.2 billion. That is already embedded on the net income.

So when you release that case and also you finalize the process that we have with Bineo you will have a much more current way of moving forward on the cost side. But the cost will be below, it will go to -- as we promised the market, at one-single-digit growth for the end of the year.

That will also put the cost-to-income ratio at 35.5% concerning the third quarter a better number than the second quarter, not better than the first quarter that you have a very large inflow on the insurance side and then you get a better -- on the revenue part.

But I think the cost/income ratio, as we mentioned, 2026 is a leveling year, '27 will be a trend as we'd like to go very close to 34% and then continue to go as we proceed also on the artificial intelligence move.

If we go to the next one, the capital -- and I'd like to thank you, especially the bondholders and the equity holders of the bank because when we jump into the third quarter of '26 and our capital -- base capital was at 12.5%. There were concerns that we were happy giving up dividends and not taking care of the capital. No, but we are taking very good care of how the bank is able to

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generate capital at a very fast pace because the discipline we have on the risk side, that the unexpected loss is kept at a minimum level on that part, and we are not consuming capital in that part.

So when you see the jump from the second quarter to the third quarter, you see a very substantial jump from 12.5% to 13.2% where we would like always to be is around 13%, maybe from 12.5%, 13.5%, but much more closely to the 13% on the core Tier 1.

So now, the third quarter is already at 13.2%, and that capital will continue to build up into the fourth quarter. And as Marcos mentioned, that will allow us to go into an extraordinary dividend that we have done in the past, not at the same level, but also at an important level of MXN4.2 per share on an additional dividend.

We are way above the TLAC part, so I think the bank continues to deploy capital at a very fast pace on that part. We don't want to save capital for us. We would like to return that to the market at a safe way and in a continuous way. So I would say that, that's basically if we jump into that part.

And I will now ask Tomás to reinforce the guidance for you.

Tomas Lozano *Grupo Financiero Banorte SAB de CV - Chief Financial Officer*

Thank you, Rafael. Yes. As Marcos and Rafael just discussed, we are maintaining the guidance. If we go line by line, as Rafa just discussed about the loan growth you are seeing these very good trends all over the portfolio. So we're maintaining the 8% to 11%.

About the margin, as they discussed also for the group right now, we're covering the low end because the inflation at the annuities, but we expect that to recover towards year-end, so we're maintaining that.

The bank margin is on the high end. As you have seen for this year, we are at 6.8%, so on the high end of the guidance.

The expenses, as Rafael just mentioned, we continue fully committed, and there were some questions about this. Remember, we manage this on an annual basis, so we are fully committed on delivering the expenses guidance for the year.

The cost of risk also as has been discussed today. Due to this isolated case, evidence suggests that we can be on the high end of the -- of the cost of risk, but still within the guidance. And I would like to clarify what Marcos and Rafael discussed about the normalized NPL. The reported was 1.41%. But if you take out this isolated case and the changes in the mortgage book, the number is 1.01%. I think this is a better description of the dynamics that we're seeing from a risk perspective.

Taxes, no changes. Net income, no changes. So the other change that we really had was coming from our Chief Economist, Alex Padilla, if you remember at the beginning of the year, we started with a guidance of 1.4% to 1.8% in the GDP. Now, we are moving that to 1.9%. But other than that, we are fully committed to delivering the guidance.

So with this, we conclude and we will go back with Tania to start with the Q&A.

Rafael Arana *Grupo Financiero Banorte SAB de CV - Chief Operating Officer*

Just one thing. Concerning the tax rate because there was also a question about the tax rate. Remember that we do that on a yearly basis. The first quarter, we basically overload the provision on the tax rate, and then we start to level that up to finalize the guidance by the end of the year, so that was the effect that happened on this quarter.

QUESTIONS AND ANSWERS

Tania Martinez *Grupo Financiero Banorte SAB de CV - Head, Investor Relations*

(Event Instructions) Yuri Fernandes, JPMorgan.

Yuri Fernandes *JPMorgan Chase & Co. - Analyst*

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Hi, Tania. Hi, Marcos, Rafa, Tomás, everyone. Congrats on another quarter. Have already mentioned a little bit about asset quality, how NPL ratios they have been behaving and some of the movements about cost of risk. But if you can help us just to understand, like after this higher cost of risk from maybe an easier comp, should we see cost of risk moving towards the guidance you have in the coming quarters?

And what should we think about the coverage ratio? Because I think part of the explanation is that maybe your results, they would be stronger if your coverage was flattish. But instead, we saw like your coverage ratio moving up. So if you can help me just understand a little bit the dynamics of the provisions and the dynamic of the coverage ratio. I think this is an important point for investors. Thank you.

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

Yuri, Rafa will talk about that.

Rafael Arana *Grupo Financiero Banorte SAB de CV - Chief Operating Officer*

As I mentioned, Yuri, let me start with the dynamics of the -- what we call the NPL formation on the book and if we see deterioration of that.

As I mentioned to you, deterioration, if you look at the book overall, it's only 1% deterioration. The rest has to do with a fast-pace growth that we have in every single part of the of the consumer book and now also on the commercial and the government and the corporate book, that is not creating any pressure on that part. But the government book at the beginning demand some special provisions for a very low period of time, three or four months at the most.

So we don't see that, and that is very easy to see on a line-by-line basis that we provide the market, the information for them. So we don't think that there's concern about the book. We're always concerned about the book. But at this point in time, we are more concerned about that the pace of growth aligned with the quality of the book continues in the same trend that we have. So we don't see really deterioration of that and is a very -- we can provide that breakdown that I just gave to you, that 86% has to do with growth. 1% deterioration, and the rest 13% has to do with the recalibration of the models on the mortgage book on the consumer side.

On the commercial side, I already explained that the book has been performing better than before that special case that we have been building up provisions last year and this year, and we are very close to the MXN2 billion of provisions that have been put into that book.

And believe me, we are actively, actively seeking to become that asset current. We don't know if that is going to happen at the end of this year on the first quarter or second quarter of this year, but actively, we are seeking that to be resolved. So that has to do concerning about deterioration.

And I think we are -- as I mentioned, never at ease but comfortable with the way the growth, the risk, the expected loss, and the unexpected loss is behaving. And as I mentioned to you, the unexpected loss is very easy to measure on a very simple way, look at the pace of growth of the capital base.

The other thing concerning the issue about the coverage ratio that you just mentioned, I think if Gerardo wants to jump into that, and then I close the remark about the coverage ratio.

Gerardo Salazar *Grupo Financiero Banorte SAB de CV Earnings Call - Chief Risk and Credit Officer*

Yuri, this is Gerardo Salazar, Chief Risk and Credit Officer. I will tell you that we are considering always six factors regarding NPL normalization and cost of risk normalization. Let me begin with that.

The first factor for NPL normalization is portfolio seasoning. So if I provide you some color very briefly about this normalization, and we talk about portfolio season, new loan vintages mature with delinquency gradually converting to our historical patterns.

The second factor that we're considering in this NPL normalization is stronger borrower fundamentals, and that's very important. We always consider that factor. I don't think it needs more explanation.

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The third factor is improved underwriting. What we're doing is better scoring, segmentation, affordability assessments to reduce default formation.

The fourth factor we're taking into consideration in this normalization of NPLs is effective collections. Earlier intervention improved cure rates and recoveries.

The fifth one is portfolio mix, which clearly is one big explanatory variable regarding the performance of this third quarter.

And the sixth one is write-offs.

We agree that there could be some denominator effects that influence reported NPLs ratios, but do not necessarily represent genuine improvements in credit quality. Those six factors are what we consider as essential looking at NPL normalization.

If I look at cost of risk normalization, there's only six factors. I will just list it very briefly. The first one is the provision base effects. The second one is model recalibration, as Rafa was saying. The third one is portfolio seasoning. In this case, stabilization of exit losses and new originations cohorts mature. And the fourth one is to lower default formation. The fifth one, isolated commercial exposures, which we continue to have some very isolated cases in a very low number. And the sixth one is portfolio composition. Obviously, growth in lower risk lending can offset high respected losses from consumer expansion.

Looking ahead, we expect NPLs and cost of risk to be influenced by portfolio seasoning, borrower repayment capacity, disciplined underwriting, and effective collections.

And on the provision side, normalization should also reflect the absorption of model calibrations, the absence of unusual reserve adjustments and the evolution of isolated commercial exposures. But our focus is on stabilizing underlying default formation and expected credit losses rather than relying on portfolio growth or write-offs to improve reported ratios.

Just remember, normalization is primarily about actual borrower performance, while cost of risk normalization also reflects forward-looking expected losses, portfolio growth, model assumptions and provision effects that will be a bit of color regarding this normalization phenomena that we are experiencing.

Rafael Arana *Grupo Financiero Banorte SAB de CV - Chief Operating Officer*

And concerning the coverage ratio, Yuri, let me just give you a very simple explanation about that. When you see that the credit card portfolio is growing at a fast pace that we are growing and the way we have to put provisions of day 1, that is really related to that credit model that we have, that demand the provisions that we have, and we have to build up the coverage ratio because of the models that we use for the credit card.

It's not that we are anticipating deterioration or anything like that. It's really related to the pace of growth of the portfolio. We are really looking at a pace of growth for the year in credit cards, very close to 900,000 credit cards. That is really a record for Banorte, and that's the number that has put us on the third place on the market.

As you know, we have always been, let's say, below our fair market share in the credit cards. But the coverage ratio has to do exactly with the way that we provide based upon the models that we have on -- the proprietary models related especially to credit card part. That's why you see a growth in the coverage ratio, Yuri.

Yuri Fernandes *JPMorgan Chase & Co. - Analyst*

No, super clear, Gerardo, Rafa. So it's not like a worsening in the environment like fintechs and people gain more leverage. It's basically growth. You're growing more, you're provisioning more --.

Rafael Arana *Grupo Financiero Banorte SAB de CV - Chief Operating Officer*

Exactly. That's correct.

Yuri Fernandes *JPMorgan Chase & Co. - Analyst*

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And just one follow-up on the corporate case, it's clear you're not going to revert this. You are working to revert this soon. But what about more provisions? Do you anticipate more provisions for the corporate case?

Rafael Arana *Grupo Financiero Banorte SAB de CV - Chief Operating Officer*

Yeah. On the corporate cost for the year, we need around [MXN125 million] more by the end of the year, that needs to be put into the book that is already being considered as part of the guidance that we that we are in order to be in line what we promised the market.

Gerardo Salazar *Grupo Financiero Banorte SAB de CV Earnings Call - Chief Risk and Credit Officer*

And just to add to that, Yuri, at the end of this year, 72% of that credit exposure will be covered by provisions.

Tania Martinez *Grupo Financiero Banorte SAB de CV - Head, Investor Relations*

Beatriz Shinye, UBS.

Beatriz Shinye *UBS - Analyst*

Hi, everyone. Good morning. Thanks for taking time to make questions. Just one from our side here on profitability. You're running our ROE close to 25% despite a lower rate environment and relative elevated credit cost. As we think about next year, what should you think about the ROE from here? Is the current level sustainable? Thank you.

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

Beatriz, thank you. We think we could handle this. And as soon as we have the guide for the next year, we will release it to you. But yes, it should be around that.

Rafael Arana *Grupo Financiero Banorte SAB de CV - Chief Operating Officer*

And if you ask us on a long-term basis because you have heard us saying that in the meetings that we have with you, I mean, 31%, 32% as we have at the bank, I think on a long-term basis, that number should be much more around 26%. But it has to do a lot with also the cost of capital that the country has. And on the overall for the group, should be more around 22% for the group. So on a long-term basis.

Tania Martinez *Grupo Financiero Banorte SAB de CV - Head, Investor Relations*

Renato Meloni, Autonomous.

Renato Meloni *Autonomous Research - Analyst*

Hi, everyone. Thanks here for taking the question. So Rafa, picking up on one of your earlier comments that you're seeing more leverage in consumers, particularly coming from the fintechs, are you doing any types of conversations with the regulator to tackle this problem and prevent a higher over leverage? Should we expect some measures on those to tackle those, or you think the market will self-regulate? Thank you.

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

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It's a tough question, Renato, but we are working as a Asociación de Bancos, as an ABM. We should address this to the regulator. They know that there should be a potential problem. We don't yet. And we are aware of that, and we will manage as soon as the pieces move, and I cannot tell you anymore because that's to be determined.

Rafael Arana *Grupo Financiero Banorte SAB de CV - Chief Operating Officer*

And a response to that Renato, if you look at the way we have been managing the entrance of these new entrants into the financial systems, I think the marketing piece that we put in place for the young people that is called [BA], is also a response to that to address the fact that we needed to bring those people again into the financial system and allowing them to restart the credit cycle, but we needed to do it in a very intelligent way.

We are using what we call a guaranteed credit card that we basically have some funding put in place for us, and then we start freeing some line of credit into a specific credit card. And also we are using -- if you are having a payroll, then we link your payroll to the to a specific credit card in order to reduce substantially the rate that we charge to those clients.

So to give you an idea, it's less than a third of what those fintechs are charging those people. But at the same time, we also paid on the guarantee front, a reasonable return to the investors.

So I think we're moving in all the pieces because we know that we cannot say such a large amount of newcomers into the financial system, to the credit bureau and really, stop them to be able to get a credit on the financial system for five years. As Marcos said, the regulators are already aware of that, but we are advancing on that part in order to bring those people into the financial system in a secure way, in a safe way. And I would say, let me -- this is going to be a strong work in a decent way.

Tania Martinez *Grupo Financiero Banorte SAB de CV - Head, Investor Relations*

Tito Labarta, Goldman Sachs.

Tito Labarta *Goldman Sachs International - Analyst*

I guess a question on -- just to follow up a little bit on the NIM. I know Rafa, you mentioned given the strong growth that impacted NIM a little bit. But if I think overall, I think there was also some impacts from inflation.

And then also looking -- trying to compare that with the insurance because of the annuities business, and I know in the past, there's been some offsets because the technical reserves were lower, also costs were lower. How should we be thinking about sort of the group NIM evolution also considering that insurance -- the technical reserves were lower just to think of one is sort of compensating the other overall?

And then if I can ask just a second question on the loan growth, good acceleration there. How sustainable is this growth? Part of it was wholesale and government. You talked a little bit about the consumer. But how do you think about this sort of loan growth going into next year and also how that will eventually impact the NIM? Thanks.

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

Thank you, I will start for the second one. The loan growth for the next year in the government, we will release it next year, but it should be again around double digit. We are thinking around the same as this year.

Maybe you can give us a color, Alex, how do you see the next year, and then we will go back to the first question.

Alejandro Padilla *Grupo Financiero Banorte SAB de CV - Chief Economist*

Thank you, Tito. This is Alejandro Padilla, Chief Economist. Well, as Marcos was mentioning the early remarks, we're expecting growth next year around 2%. And I think the most important part is that the engines of growth should level in 2027, not only the exporting sector, but we think that private consumption and investment should play a significant role as well.

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So think about investments and Plan Mexico and all the infrastructure that Mexico requires, we're optimistic that this is getting traction. The most recent data suggests that construction and anything regarding energy and transportation that was lagging behind in previous years have been gaining momentum, so that's part of our expectations for the next year.

Gerardo Salazar *Grupo Financiero Banorte SAB de CV Earnings Call - Chief Risk and Credit Officer*

On loan growth, what we are expecting regarding loan book growth, we're considering seven factors. The first one was already mentioned by Alejandro, which is a stronger-than-expected economic growth, which is very important.

The second one is we are still banking on the premise that nearshoring and infrastructure investment are bankable up to now.

The third factor in transitory terms or for now is the lower interest rates. We don't know how the cycle is going to change. We know looking forward that the interest rates should go up eventually even though expectations remain as they are now. But that factor, although is transitory, is still working and being considered.

The fourth factor is consumer lending expansion. We continue to see as the report clearly emphasizes a very healthy loan growth there.

The fifth factor, SME banking penetration. SME banking with Banorte has been penetrated in the market more than proportionally. And that gives us a formation a very good expectation regarding growth.

The sixth one is market share gains and deeper customer relationships in several parts of the loan book. We're seeing that, and we are eager to take advantage of those opportunities.

And the last and seventh factor with greater utilization of existing credit clients. There is more upselling, yes, but with the customers that we really want from the risk point of view.

Rafael Arana *Grupo Financiero Banorte SAB de CV - Chief Operating Officer*

Tito, if you go to the NIM and you do ex insurance and annuities, you see a range from 6.0% to 6.3%. I would say that 3 basis points are related to these fluctuations of the inflation rate on the annuity side. So I would say that the NIM for the group and on a steady basis should be more around 6.3%, on top 6.4% on that compared to the 6.8% at the bank level, if you steady the inflation phase on the annuity side. So I would say that's what we have seen in the past.

Tomas Lozano *Grupo Financiero Banorte SAB de CV - Chief Financial Officer*

And Tito, on a year-on-year basis, just to give you the number in pesos, the impact is MXN1.2 billion of less margin related to inflation, that assumption was compensated in the technical results.

Tania Martinez *Grupo Financiero Banorte SAB de CV - Head, Investor Relations*

Gustavo Schroden, Citi.

Gustavo Schroden *Citi Infrastructure Investments LLC - Analyst*

Congrats on the results. So let me explore a little bit about your capital. Rafa was clear saying that Banorte does not intend to retain capital unnecessarily. So given the current common equity position and the completion of TLAC requirement, what is the minimal minimum common equity level that management feels comfortable through the cycle? Understanding that target would help here us to assess how much of the capital generated over the next few years would be available for distribution.

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

Rafa, please go ahead.

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Rafael Arana *Grupo Financiero Banorte SAB de CV - Chief Operating Officer*

I think -- thank you, Gustavo, for the question. The 13.5% is what we have been telling the market that from 13% to 13.5% is in the range that we feel comfortable to be around that number. But we have also proved and that was something that we used to have in the past years. From 12.5% to 13.5% was the range that we used to move the core Tier 1 and then the capacity to distribute funds.

As you know, 50% is what we have been basically on a steady basis released to the market. And once we release the 50% of the net income of the past year, then we look by the third quarter what's the potential to keep building up capital based upon two things: the quality of the book and also the capacity that we have to keep building capital from our own internal operations.

And also, now concerning what Alejandro mentioned, now we see that potentially, we could have a better year next year. And that will also demand with more capital in order to grow the book more.

If that's the case, I think that we will be comfortable around 13% as a minimum for the capital number and the range to go to an extraordinary dividend will be when we reach 13.5% or above that. From 13% to 13.5% above that. I would say that will be our guidance for the market.

Gustavo Schroden *Citi Infrastructure Investments LLC - Analyst*

Okay. Rafa, I may just a quick one regarding the efficiency ratio, so -- or the cost to income, and we've seen a very good numbers over the past quarters and years. So do you still see room to improve that number, so we can dream with something close to 32%, 33% or something at that level, or do you think that the bank has captured all the efficiency?

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

Gustavo, we should go there. It's a matter of time, but it should go there and even further, so that's the idea. Artificial intelligence is going to help us and more clients and more volume, so the idea is to go there in a few years, even further.

Rafael Arana *Grupo Financiero Banorte SAB de CV - Chief Operating Officer*

We are not happy with the 35%. We are not happy at all. We already have been at 34%. We are much more comfortable below 34% than at 35%.

Tania Martinez *Grupo Financiero Banorte SAB de CV - Head, Investor Relations*

Daniel Vaz, Safra.

Daniel Vaz *Safra - Analyst*

Congrats for the results. Maybe my question maybe a bit too soon to talk about that, but we are following the Democratic sweep in yesterday, US elections. And I'm trying to get a sense here if this change in the Congress, in the US improve maybe the outlook for investment in Mexico, right? So we're talking about like better trade policy visibility? I don't know, we can talk back again of unlocking the nearshoring projects. So maybe if you have a sense if this would represent upside to your current loan growth expectations for next year and this is too soon, but which sector tends to benefit the first?

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

Thank you, Daniel. We saw that coming. So we have an idea what's going to happen next.

Please, Alex, go ahead.

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Alejandro Padilla *Grupo Financiero Banorte SAB de CV - Chief Economist*

Yes, for sure. Thank you, Daniel, for the question. And yeah, definitely, geopolitics is one of the key variables that we analyze when doing the forecast. It was highly expected that the Democrats could win at least one of the two chambers. This blue wave suggests that there should be some guardrails or some of the policies that President Trump has implemented specifically with Mexico.

What we think is that regardless of which type of party controls the Congress, the relationship between Mexico and the US will continue to be constructive. And in that regard, I think that the bilateral talks regarding not only the USMCA expansion or the annual reviews that will take place, but also what will happen with tariffs will continue to go on a very positive path.

We think that Mexico has enough competitive advantages to continue integrating with the US. We think that integrated supply chains will help Mexico to continue attracting investment to continue to be one of the key players in trade.

And just to put some numbers, I mean, as of today, Mexico represents 18% of the total imports that the US made annually. We are the main trading partner, Mexican exports have increased so far year to date 30%, 3-0, 30%. So I think that's a very clear sign that the integration of North America will continue.

And I think that given this change in the political landscape in the US, the trade relationship between Mexico and US will continue strengthening. We are optimistic that nearshoring will continue to take place. And in coming years, we will continue attracting that investment and we'll continue increasing exports to the US.

Tania Martinez *Grupo Financiero Banorte SAB de CV - Head, Investor Relations*

Ricardo Buchpiguel, BTG.

Ricardo Buchpiguel *BTG Pactual - Analyst*

I have a follow-up on one of the questions. From the current ROE of 24%, 25% to 22% that you mentioned as structured ROE. What are the key pieces that needs to normalize in your view? And just to confirm, I assume that this doesn't factor in the efficiency improvement that you mentioned around like 32%.

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

Thank you, Ricardo. Rafa, please go ahead.

Rafael Arana *Grupo Financiero Banorte SAB de CV - Chief Operating Officer*

I think, Ricardo, the key is what we call principality and has to do with the relationship that we hold with our clients that more and more the bank is really moving into a client-driven perspective on that part. I think you see that on the government part, on the commercial, on the corporate and on that, the consumer is also moving into that.

So when we look at the return on equity on that part, and you don't see -- and let me give you an example. There are some cases when you look at a relationship with a client, that maybe some of the products in an isolated way, it has a weak ROE. But when you look at the return on equity that the client delivers to us, then the return on equity really jumps into the numbers that we would really like to be.

So if you ask me what is the driving force on that part is keep building the relationship with our clients that we have, Banorte is in a very special position since we were a small bank in the north when already Banamex and BBVA were already basically the owners of the market.

Banorte has been building up this customer base. But we also have share -- we share those clients, our clients with other banks because this part of growth that we had. So we have a lot of business to be put into the bank from our own individual clients to keep enhancing the relations that we have with them.

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And since we now price the relationship with the client on -- based upon the lifetime value that, that client could deliver to us. I think the offers that those clients are receiving to become clients of Banorte are very powerful one, and we already have very good proof of that.

So the return on equity has to do with principality. Because principalities like economies of scale, of the usage of capital return that you put that capital to use with your own individual clients on that part. And when I talk individual clients, it's commercial, government, consumer all that. I think that will be the driving force of Banorte in the next years.

Tania Martinez *Grupo Financiero Banorte SAB de CV - Head, Investor Relations*

Natalia Corfield, JPMorgan.

Natalia Corfield *JPMorgan Chase & Co. - Analyst*

I think Yuri addressed the fundamental side of the results. And my question is more related to your AT1s. I just wanted to know plans of issuance for next year. You have one AT1 that's callable in January. And I think we are expecting that that's going to happen.

Looking at your capitalization, I would not think that you would need to come back to the market. But you have a call -- another call in 2028, so I'd like to know how you're thinking about that.

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

That's a good question, Natalia. Yes, you are right. We cannot say anything by law, but the idea is to continue with our policies. And we have some callings in the future. And the idea is to go to the markets and Banorte is very strong. So we think we could make it and we will find a window. We were always trying to find the right window and to issue on those days, and that's going to be the idea to be looking at the markets and looking for a good time to do it.

Natalia Corfield *JPMorgan Chase & Co. - Analyst*

So we probably can expect you to be back next year?

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

Yes.

Rafael Arana *Grupo Financiero Banorte SAB de CV - Chief Operating Officer*

Natalia, remember that our AT1s has a specific range that we like to have. And the most important thing is that the AT1s being a local bank are key for us to compete in what we have been really leaders in the market in the growth on the dollar book, on that part.

So based upon the demand of the dollar book, that will really condition the need to go or not to go, as Marcos mentioned, in specific windows that we see on the market. But the demand for the dollar book continues to be very strong for Banorte, and that's why we really are always looking for windows to go into the AT1s. And I will use exactly the same words that you used at the beginning of your comment about the call.

Natalia Corfield *JPMorgan Chase & Co. - Analyst*

Yeah, perfect. And I have -- just like -- can you remind me what is the range of AT1s that you think it's -- that you feel comfortable?

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Rafael Arana *Grupo Financiero Banorte SAB de CV - Chief Operating Officer*

30% to 40%.

Tania Martinez *Grupo Financiero Banorte SAB de CV - Head, Investor Relations*

Carlos Gomez-Lopez, HSBC.

Carlos Gomez-Lopez *Hsbc International - Analyst*

I want to ask you about your outlook for next year because I have to say, when you look at your numbers, when I look at how you have changed your economic assumptions. One gets the sense that you are less concerned or less conservative that you have been in the past and that you are taking a slightly more positive outlook? Is that our perception or that indeed how you see things?

And second, going back to the AT1. So that percentage of your Tier 1, 30% to 40% that you have now, is that anything that you expect to maintain for the next year or that's something that depending on circumstances, could go higher than that?

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

The first one, yes, we are more optimistic. We just changed 1.9% the GDP for this year. And we are moving the next year for around 2%. So if you want to call it that optimistic, it's better than before. So we are in that range for next year.

And talking about the second one, the AT1, Rafa, please go ahead.

Rafael Arana *Grupo Financiero Banorte SAB de CV - Chief Operating Officer*

The AT1s. I would like to stay around that numbers. But if demand continues to be present in the way that they have been, and there has been an extraordinary acceleration in the market maybe for a specific period of time, we can go above the 40%. But that -- I don't think that will be something that we will be like a customary way of doing business on the AT1s.

Carlos Gomez-Lopez *Hsbc International - Analyst*

So did I understand that is demand for dollars for you to lend or demand for --?

Rafael Arana *Grupo Financiero Banorte SAB de CV - Chief Operating Officer*

The demand for the dollar book that needs to be funded using the AT1s.

Tania Martinez *Grupo Financiero Banorte SAB de CV - Head, Investor Relations*

Andres Soto, Santander.

Andres Soto *Santander Osbkinc - Analyst*

One of the most impressive areas of your results is your growth in deposits. They are growing even faster than your loans. I would like to understand a little bit what is driving this? It is related to more liquidity in the market, you're getting more principality from your customers? How are you seeing the competitive dynamics in -- for the deposits? And can -- what is your expectations in terms of growing deposits at the same level or even above loans going forward?

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

It's a mix of everything, Andres. We're giving 75 trucks in the next days, imagine that in the branches.

So Rafa, please go ahead.

Rafael Arana *Grupo Financiero Banorte SAB de CV - Chief Operating Officer*

No, I think, Andres, what you mentioned is the activity of the bank has increased, as I mentioned before, in a very important way. And everything -- one of the different branches of business that we have from the government side from the corporate, commercial and SMEs. And also, obviously, the branches are being more and more and more looking at principality of the clients. So the more we look into principality, the more we can really get on the benefit of the of the funding side. So I would say that it has to do with principality, has to do with the activity of the branches and see how do we really address the relationship with our clients.

And another important thing is that the way Banorte works on how to really price the relationship with the clients on a one-to-one basis really allow us to have on average, a better funding cost, but a better related with our client because some clients get a much better benefit on the resources, other not so much, but they get another benefit on the asset side, that in the funding side.

So on the overall, that gives that the client is happy with us and is happy to have a full relationship with us. I would say that that's the case. The more we get on the principality, the more the funding side will continue to grow the way it has been growing.

Andres Soto *Santander Osbkinc - Analyst*

Thank you, Rafa. Thank you, Marcos. And my last question is when you guys think about 2027, what is your main concern, if anything, it is a persistent delay in investment recovery in Mexico, continued asset quality deterioration at the system level, competition, both from traditional bank and fintech, or any other factor that I'm not mentioning here?

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

I would say all of the above. But I would say the environment, with the policies of the government and all that.

Andres Soto *Santander Osbkinc - Analyst*

So more related on the persistent delay in investment recovery?

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

Yes.

Andres Soto *Santander Osbkinc - Analyst*

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

Tania Martinez *Grupo Financiero Banorte SAB de CV - Head, Investor Relations*

Thank you, Andres. With this, we conclude our presentation. Thank you, everyone, for your interest in Banorte.

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