Q2 2025 Earnings Call

Company Participants

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

Other Participants

- Andres Soto, Analyst, Banco Santander
- Brian Flores, Analyst, Citibanamex Casa de Bolsa SA
- Brian Morton, Analyst, Barclays
- Carlos Gomez Lopez, Analyst, HSBC
- Ernesto Gabilondo, Analyst, Bank of America
- Nicolas Riva, Analyst, Bank of America
- Pablo Ordonez, Analyst, GBM
- Renato Meloni, Analyst, Autonomous
- Tito Labarta, Analyst, Goldman Sachs
- Unidentified Participant
- Yuri Fernandes, Analyst, JP Morgan

Presentation

Tomas Lozano Derbez {BIO 20398814 <GO>}

Good morning, everyone. This is Tomas Lozano, Head of Investor Relations, Corporate Development, Financial Planning and ESG. Welcome to Grupo Financiero Banorte Second Quarter Earnings Call for 2025.

Our CEO, Marcos Ramirez, will begin today's call by presenting the main results of the quarter and the first-half of the year and will provide more details on the steps that Banorte is taking to strengthen even further our anti-money laundering capabilities And, lately he will also comment on our guidance for the year. Then Rafael Arana, our COO, will go over the financial highlights of the Group, providing details on the margin evolution and sensitivity, asset quality, expenses and our capital allocation for 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. Thank you. Marcos, please go-ahead.

Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

Thank you, Tomas. Good morning, everyone. Thank you for joining our call today. Second-quarter of the year displayed sound core business performance despite a still turbulent macroeconomic environment. Internal demand remained resilient in the quarter. However, we anticipate a challenging second-half of the year as the global economy still depends on uncertain trade, fiscal, monetary and geopolitical factors.

For the Mexican economy, our economic analysis teams posted GDP growth forecast at 0.5% for the year 2025, driven by resilient private consumption amidst weaker investment and export dynamics. On the fiscal side, the Mexican Government continues with a prudent spending strategy and solid tax revenues, which support the country's fiscal stability and preservation of the investment-grade credit profile.

Moreover, we anticipate the Mexican Government to continue working closely with the US on-trade, migration and security efforts. Regarding monetary policy during the first-half of the year, the Mexican Central Bank reduced the reference rate by 200 basis-points to 8% and we anticipate reaching 7% by year-end. The Mexican Peso has shown resilience, supported by a weaker US dollar and an improved risk perception.

Therefore, our economic themes expect MXN19.50 per dollar in the year 2025 and MXN19.20 in the year 2026. Finally, before diving into the financial results, I would like to address one of the market's main concerns during the past few weeks. As you know, the US Treasury Department recently designated three Mexican-based financial institutions as being a primary money laundering concern. Mexican authorities have concerned that there is no more financial institutions under investigation, and this was later reinforced by the Mexican Banking Association, which also stated its commitment to strengthen the anti-money laundering framework in the Mexican banking system.

In this regard, I would like to take this opportunity to emphasize that Banorte has always operated a very Strict anti-money, laundering policies and controls and we are taking important steps to strengthen it even further. We operate under a robust compliance program with dedicated experienced personnel, strong governance, a state-of-the-art technological infrastructure and detailed policies and procedures. Nonetheless, before the US Treasury Department's recent action and in response to the US government designation of certain drug cartels as foreign terrorist organizations in February, by Norte Board of Directors requested that we take proactive steps beyond what the Bank was already doing to mitigate a rising risks. With the advice of an expert third-party earlier this year, Banorte began our vision of its, anti-money laundering and sanctions compliance programs, including among other things, one, reassessing and updating its compliant policies and procedures; two, conducting an in-depth review of customer activity to ensure our controls are effective and to make any appropriate enhancement; and three, preparing significant training exercises for critical staff. I assure you that Banorte takes these matters very seriously, closely monitoring all relevant developments. As such, we are prepared to take decisive action to ensure that the Bank continues to operate consistently with all applicable laws. Now, shifting gears to the business performance on Slide number 3. Net income in the second-quarter declined 4% sequentially to MXN14.6 billion, driven mainly by three factors. One, the normalization in the insurance business after the seasonal premium peak of the first-quarter. Two, our expense allocation strategy to balance distribution, the best of our ability during the year and to take advantage of the current -- the strength of the FX to secure better cost conditions. It is worth noting that the expense guidance for 2025 remains unchanged and I want to reinforce that this line should be assessed annually rather than quarterly. The third factor was the negative valuation effect of the FX in the margin, which was partially offset by lower funding costs. It is important to remember that 15% of the total loan book is dollar-denominated and therefore, the size and interest collected from this portfolio depends on the FX. On the other hand, net income for the first-half of 2025 reached MXN29.9 billion, increasing 6% compared to the same-period of last year, mainly driven by a strong performance in core banking revenues, which we will discuss in detail later on. ROE increased 17 basis-points in the quarter to 23.6% Reflecting sound operating dynamics across our businesses as well as the effect of the dividend payment in May. Analyzing the quarterly results by subsidiary on Slide number 4, the Bank's net income expanded 7% sequentially MXN11.8 billion, supported by dynamic consumer activity in core banking products, a shielded balance sheet, the easing cycle and larger market-related income, although slightly offset by higher operating expenses. These results yielded an ROE for the Bank of 30.2% for the quarter, 285 basis-points higher sequentially. With accumulated figures, ROE for the Bank stood at 29.1%, 34 basis-points higher than the first-half of 2024. Supported by the balance sheet neutral sensitivity to monetary policy movements in the peso book. The insurance company, as I mentioned before, had the expected quarterly reduction as premium origination normalized after the seasonal renewals of the first-quarter. However, on an accumulated basis, we continue to see strong business generations, mostly driven by the Bank insurance model. The annuities business quarterly decline accounts for greater claims in the portfolio, in-line with business expansion despite a greater competitive market. In the brokerage sector, the quarterly expansion was driven by increased activities from higher training operations. Lastly, the sequential performance of the pension fund business was affected by lower yields on financial products. On the Slide number 5, lending activity adjusted for the government book had double-digit growth driven mainly by the consumer portfolio. In the year, the corporate and commercial groups grew 17% and 11% respectively, supported by short-term working capital financing. Nevertheless, long-term financing for these segments is still on-hold due to the uncertainty surrounding the ongoing trade negotiations with the US. Moreover, our government book reduced 16% in the year, impacted by short-term maturities and prepayments for state-owned companies as well as from different states and municipalities, given our current preference for shorter-term financing. However, our appetite to government lending remains unchanged, expecting a more dynamic second-half of the year. Turning to Slide number 6. The consumer portfolio continues to display strong results despite a tangible economic slowdown. The resilient private consumption, efficient architecture of our internal processes are below average time-to-market and the evolution of our digital capabilities have enabled to capture additional business from the market. By leveraging On our hyper personalization business model, we have developed a competitive advantage on two main fronts. One, our ability to increase origination with high-value customers. And two, a competitive risk-adjusted margin supported by our data analytics models and risk appetite. In this sense, consumer lending grew 12% year-over-year, driven by ultra loans, which rose 30% given the resilience -- resilient performance of this business sector, along with our continuous efforts to further strengthen current and new commercial alliances with dealerships. The credit card portfolio increased 18% year-over-year due to greater transactional activity resulting from our improved promotions and rewards and loyalty programs for existing clients. We continue to build a sound product offerings to address different demographics and income profiles. Payroll loans grew 9% in the year, mainly due to greater demand from our clients, process optimization and increased availability through digital channels. And finally, the mortgage book had an 8% annual expansion supported by the increased market presence, thanks to the strategic alliance with key developers together with the optimization of our credit origination processes. Asset quality on Slide number 7 continues to perform better-than-expected. In the quarter, the NPL ratio stood at 1.1%, reflecting specific isolated cases in the commercial and corporate books which have not sectorial or industry-related risks. Most of these cases are expected to resume payments during the next quarter. Consumer products are evolving ahead of expectation given our focus on high professionalize organization -- originations, sorry. On the other hand, SME NPLs have been normalizing for the past quarters, in-line with higher loan origination volume. Cost-of-risk slightly decreased to 1.7%, supported by the assertiveness of our internal risk models and the credit growth mix during the quarter. Net fees on Slide number 8, they grew 4% quarter-over-quarter and 2% compared to the first-half of the last year, driven mainly by higher transaction volumes in Consumer Products and the strong performance on the acquiring business, reflecting still sound internal demand. Moreover, as we saw during the first-quarter of the year, higher sales origination to the external sales force had an impact on fees paid-in the period, offsetting the positive evolution of charge fees. Moving on to sustainability on Slide number 9, we have taken important actions to make our branch network operations more sustainable. During the quarter, we received the EDGE Certification for the first eight branches out-of-the 64 branches that we plan to certify this year and we began the installation of the solar plants in the first 25 branches, reiterating our commitment to lower energy and water consumption in our operations. On the social side, we continue with our financial education program reaching more than 1,000 payroll clients during the quarter. Our goal -- our ongoing progress in sustainability enable us to continue being part of the important sustainability indices such as the Good and for Goods Index and we're proud of being recognized by local authorities for our efforts in developing a more sustainable value chain with our key suppliers. Now before asking Rafael to cover the remaining financial results of the Group, I would like to address a few additional comments. First, based on the results from our corporations that IPOs captured, we feel confident that we reaffirm our guidance for the year. We have seen better-than-expected results in our expense line and in our main risk indicators. However, other factors such as the FX and interest from the potential dividend distribution in the fourth-quarter could impact our results for the year. Second, I want to reiterate Banorte's strong commitment to maintain the highest standards regarding anti-money laundering. And could -- constantly adopt global best practices in this matter to protect our operations. And last but not least, regarding M&A, we are still evaluating the best actions to take. So-far, we can tell you that we are already operating with a linear cost structure in the entity. As soon as we have additional information on this matter, it will be promptly communicated to the market. Now with this, I conclude my remarks. Rafael, please go-ahead.

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

Thank you, Marcos. Thank you all for the -- for attending the meeting. I would like to start with a -- and thank you for the questions that you always give us a day before the call after the -- we produce the results because that allow us to address on a very I would say detailed basis what are your main concerns about it.

If I go to the NNI first, as you can see, what is relevant about the NII is that the loans to deposits is growing 15% and even that number could be higher. I'm going to explain that in a bit, but loans to deposits continues to to grow in a very important way, 15%. So that really is showing two things that we have a very resilient loan book based upon the mix that we have on the fixed and the variable And a continuous downward trend on the funding cost. If you continue to see on the table, you could see that the effect that we have on the FX that Marcos just mentioned is really reducing by MXN887 million the effect of NII. So if you strike that because that was not provided in any way when we set-up the guidance and we are not changing the guidance as Marcos mentioned, but that is really affecting us by MXN887 million on the quarter. If you put that number back into the NII, you will see that the NII could expand even more -- more than that. So that number is not a small number, MXN887 million. Nobody was expecting the peso at the levels that is today in that past. We have a very specific strategy to keep containing that, but that was a a big surprise for that. And we are counterbalance that in as I will tell you in a minute time, but it's not a small number. So when you consider the the impact on the results of the of the quarter, you have to take into account the effect that FX has on us, while, if I go to the loan book, the loan book, 15% of the loan book is in dollar terms. So obviously, we receive more -- less, less the result from that loan book. And if you go also to the structure of the capital notes that we have the AT1s, we also are receiving less than expected because obviously the -- even if we have a perfect hedge on the -- hedge to call policy that we have, obviously, we are paying less interest on that using the capital base, but the total amount of the capital base is being reduced by 30 basis-points. That's is compared to the total capital number that we have that is 22 -- 21.7 is a very strong capital numbers on that part. So the FX effect past affecting the capital -- in the capital notes has effect on the dollar group and when you add everything up, that is up to MXN887 million for the quarter on that part. If you ask me if there will be more slide on the -- more strongly on the peso side, I don't know, eventually our Chief Economist will touch on that part. So once we address the NII, I would say that that's the main effect that we have, but a very strong Loan-to-deposit ratio that is really hovering up the loans to the to deposits. Okay. Now if I now move into fees, in fees, what an fees and then -- in the next one, please. When we go to the NIMs, you see that the 6.4 of the NIMs has to be explained at and let me just try to see while the NIM continues to be very resilient and that NIMs once you add the MXN800 million that I just mentioned about the FX, that NIM is basically been extremely resilient because if I'm going to give you two numbers, if you go to May '24, the reference rate was at 11.06%. And if you go to May 2025, the reference rate is at 8.55%. But when you look at the spread of the book, the spread of the book has only been reduced by 4 basis-points. So when you see a strong reduction of 255 basis-points from the reference rate the strength of the balance sheet that we build based upon the fixed-rate and the continuous downward trend on the funding cost allow us to have an effect of only 4 basis-points on the spread. That extremely relevant and that will continue to benefit in the coming months as the downward trend in the rates continue to happen. And if I now look at the banking fees -- the banking net fees, as Marcos explained, you have to remember that when we have a very strong growth in the mortgage group and in the car loans, part of that mortgage group is sell by the branches online, on the digital capabilities, but still some of that happens with the alliances that we have with many, many, many brands in the market. When you have those many brands in the market, you have to have a specific sales force devoted to those dealers and that you have to pay in front the fees that you have for every one of those sales that happen at the dealers. So that is pushing the fees paid-up but the advantage of that is you pay that fee once and you get the benefit of the full loan for the life of the loan. So if we continue to grow the consumer group at the pace that we are growing the consumer group and we think that we can We can continue to do so. You will continue to see this compression of the net fees, but eventually, when you see that on the margin and all those that will be more than compensated. So the other fact that you need to see on the on the fee side is that everything that is on the digital side continued to expand very, very, very nicely. So if I move to the next one, sensitivity of the balance sheet is only MXN20 million. So that shows exactly the good work that the Bank has been doing on the -- on preparing the balance sheet for the scenario that we've seen on the rates, but also allowing us based upon the mix that we have on the portfolio to expect a continuous evolution and sustainability on the margin side that we have been enjoying in the past year. Okay. On the dollar book, as you know, there's more a lack of certainty and most of the of the loans on the dollar books are in variable-rate, not in fixed-rate. So we have to be much more flexible on the dollar book. That as I already told you, is 15% of the book. If I move now to the to the profitability of the Bank, Marcos already touched on this, but I would like to stress one thing. On the ROE, we continue to expand the ROE -- if you look at the first-quarter to the second-quarter, we grew from 2.4% to 2.5%. And on the return-on-equity, we grew from 28% to 30.2% or 30.2% on the return-on-equity. With our strong capital base and taking into account that we are the least leveraged bank in the system on that path. So we continue to have a reasonable growth on the bank net income, very strong return on the equity and a continuous evolution on the return on assets. So if we go now to the next one, we always project this because based upon the effect that we have on the regulatory terms on the -- I would say, insurance annuities company, we basically split the NIM without the insurance and annuities and the NIM about the Group. So it's basically to show you without that effect that sometimes that inflation has on annuities. So we are staying at 6.2 at the Group level If we now go to the cost of funds, cost of funds is trending and now you see a -- it was -- some of you would say that is a small decrease on the 48.1%. But you have to remember that based upon the position that we have on the time deposit base, we have to wait for three months to have the full effect of every time there is a reduction on the rate. So you will continue to see that number trending down on a monthly by monthly basis. And that has shown why the -- when you look at the NII and when you look at the effect of the NIM, that number will continue to be quite supportive for the expansion of the NIM. And if I go to the asset quality and some of you call us yesterday about that and I will ask Gerardo to talk about this. But there's something that that some people say, well, there's some pickup on some of the of -- if you look at the NPLs, but you have to look at this in an overall piece. And some of you ask me about specifically the SME, I will touch that. SME, and as you know, we have a very low number of NPLs coming down as low as 1.1 during after the pandemia that started to pick-up to 2.2 compared to the 6.2 that we used to run that portfolio is extremely low. Now you see a slight pickup, many actions has been taken there to address that. You will see that a continuous downward trend, but you will see the full effect up until the first-quarter of next year. So when you look at the cost-of-risk, and Gerardo will explain why the cost-of-risk is going down and the NPLs have a very slight pickup on that part. The cost-of-risk continues to be better-than-expected. If you look at the guidance that we gave, we are staying at 1.7% and if you strip the joint-venture, we have 1.6%. So it's going better-than-expected. Write-off because many people sometimes thinks that Banorte has the policy that immediately to write-off when we see a spike on the portfolio, we never do that. As you can see that. There's a very, very level -- level trend on that part. Credit provisions also going down. No, notwithstanding that we are growing the consumer portfolio that requires a lot of provisions on day-one. So I will turn to Gerardo to try to address the things about The risk that you were concerned about yes.

Gerardo Cuitlahuac Salazar Viezca {BIO 16248253 <GO>}

Thank you, Rafael. As you have seen in our report, five key credit risk metrics have presented a very interesting dynamic. You have seen that NPL and NPL formation has gone up. Cost-of-risk going down, lower provision charges also are taking place and also the coverage ratio is going down.

If you put together a very brief and executive explanation of these five key credit risk metrics, I will tell you the following. During this second-quarter, the NPL ratio and NPL formation rate increase, reflecting a moderate deterioration in asset quality, primarily driven by commercial lending specific cases of idiosyncratic nature. Up to now, there is a very slight reversion or normalization, as Marcos said, taking place in comparison with record-low levels of both NPL and NPL formation.

To be clear, the Bank maintains a very disciplined and forward-looking approach to credit risk. The increase in NPLs was partially anticipated and the underlying exposures are in large part, well collateralized and supported by solid recovery prospects. Despite the uptick in non-performing assets, provision charges declined, resulting in a lower-cost of risk.

This is attributable to three factors. First, better recovery prospects. Second, better origination in low-risk segments in the retail loan book and consequently, newer vintages that are of even higher credit risk quality. As you have seen and at the same time, the coverage ratio declined modestly, yet remains within the Bank's strategic risk appetite and comfortably above regulatory requirements.

The Bank continues to maintain robust reserve buffers with coverage ratios that are appropriate given the credit quality and expected recoveries of the portfolio. Overall, and final to just end my commentary, while credit quality trends were in close monitoring, the Bank is well-positioned to manage potential stress scenarios, supported by proactive risk management, adequate capital buffers and conservative provisioning accumulated in prior periods.

Unidentified Speaker

Thank you. Thank you very much. So that explains exactly where we are on that. We are always vigilant and there's something that has to be mentioned here. When you see that Banorte is growing on the consumer group, the way it has been growing that I think is not quite important

Important way is with a very disciplined credit credit policy that we haven't changed in more than five, six years that we address the market in a very specific way. If we like the risk and we like the client, we can be aggressive with -- even on the price, but never on the risk. And that has allow us to sustain a permanent growth from the consumer book because some people has asked us that if you see a market that basically is not growing based upon a very lack of growth on the economy, how is growing at the pace that is growing on the loan book and especially on the consumer side.

But I will not diminish the corporate and commercial also. And the reason is that we are taking market-share, not because we are chasing the market-share number, but because based upon the process that Marcos mentioned and the digital revolution of the Bank, we have been a very convenient Bank for our clients. And since we price the client-based upon the risk of each different client and the value that client brings to the Bank, that allow us to really have a very, very differential offer into the market.

So when you see a compression in the economy in the way that Mexico has been seen, the only way that you can grow your portfolio is that you are considered one of the best options in the market. And I think that's why the reason that Banorte has been grown the consumer book and also the commercial and the growth on that part.

If I now move to the expense piece, and this is something very important that Marcos mentioned. When you see a pickup on the expense line and we we touched that point in the last call what we are doing is taking advantage basically of the expenses that we have in dollars. So we are advancing expenses on that and we are normalizing the expense line.

So I'm going to add to tell you a number. When we set-up on the guidance of the beginning of the year, we set-off the guidance that we will be on a divid -- double-digit number. Now I can assure you that by the end-of-the year, we will be on a one-digit number on the expense line. So that will compensate the lack of the effect that we have on the valuation based upon the price that the peso has today on the FX. So we are doing all the efforts on the expense line to be one-digit by the end-of-the year below the -- instead of

The two-digit that we have been experiencing on the past two years to go down to one-to-one digit, it has to allow us to compensate the other issues that we have on the FX side. Another thing that is relevant to notice is that some people has been asking us about the effect that we have having about the Fintechs on the funding side. And I can give you a very specific numbers that are I would say are relevant.

Non-interest bearing deposits as we see today are growing at 8% and the time deposits are grown -- the time deposits are growing at 11%. So when you look at the overall growth in-demand deposits with zero cost and with cost, we go to 11%. So as you can see, we continue to grow the funding at a very reasonable cost at a very good -- at a very good pace.

So the expense line that you see here will be again in the third-quarter, you will see a slight pickup on the third-quarter or even a level against the second-quarter, but you will see a huge drop-in the fourth-quarter that when the full effect of all the actions taken will take take place to put us on one single-digit number for the expense ratio.

Okay. If I now move into the capital ratio. Capital ratio, as we mentioned, it's back again to the -- remember that on the first -- on the fourth-quarter, we set-up for the dividends that we pay in May. So that reduced for 13.2% regaining 14.4% and now we are back around 14% on the core Tier 1. The total capital ratio is 21.7 as we mentioned, the effect of the FX on the capital ratio is around 30 basis-points, well-above any requirements that the authorities have.

One other important thing to mention is that the LDR that usually Banorte has been basically around 100 and 102, 103. Now we are below 100 -- around 94, 95 on the LDR, okay?

So I will also try to address an issue that was same to us yesterday and thank you for the question about the impact on the trading gains. Trading gains, as you have seen on the graph and on the red line, trading gains for us is a flat light. But based upon the position and the size of the balance sheet, if you compare what was the effect of

Gerardo Cuitlahuac Salazar Viezca {BIO 16248253 <GO>}

Trading gains on the revenue composition, if I take 2014, when we start to address that big number that was coming from trading on the overall revenue composition of the Bank was topping 8%. Now if you see the number is usually around 4% to 5% to 6% as currently is at this level. So we haven't changed our policy that we basically use the trading for the sake of our clients on that part.

Policy, we had a good month and we love to have good months but not because it's basically the size and the positions that we hold at the Bank. Okay. Then if I go to the guidance and Marcos already addressed that, we are not changing the guidance, but finally, as I mentioned to you, we will be looking at a single-digit number on the expense growth for the end-of-the year.

So don't get nervous if on the third-quarter, you continue to see a high -- a high-double -- a double-digit cost number because that will drop substantially in the fourth-quarter to have a full-year at only one single-digit number.

Tomas Lozano Derbez {BIO 20398814 <GO>}

With that, I close my remarks. Thank you, Marcos and Rafael. We will now move to our Q&A session.

Questions And Answers

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

As always, we can be ask you to present only your most relevant question and we will be happy to take any other questions anytime after the call.

Questions will be ordered on a first come, first, third basis. Please raise your hand-on the platform and we will unmute you when your turn comes. For the Luis and myself will be calling the name of the person that is next on the line. If there are any technical difficulties, please let us know by using the chat. Thank you.

We are now ready to start the Q&A. We will begin with Tito Labarta from Goldman Sachs. Tito, please go-ahead.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi, thanks, Tomas. Good morning, Marcos, Rafael. Thanks for the call and taking my question.

I guess my question is, I guess on the NII, I guess two-parts. First on the FX, right? I think you mentioned you expect to tend the year-around 19.50, but it's still a little bit stronger than that. Just could there be just further impact from that if the currency stays at around this 18.60 level or even appreciates more just to think about any hedging you could do to offset that or should we just expect if the FX continues to appreciate, there should be some further downside risk-related to that.

Conversely, if the FX does go to that 19.50 or depreciates, would you be able to reverse some of that negative impact that we saw this quarter? Just to try to think about the overall FX impact.

And then the second question, somewhat also related to the NII, more on the loan growth, right? Because Marcos, you mentioned second-half of the year should be more challenging. I mean, you're still doing good on the loan growth, asset quality, holding Now but could there be some downside risk to loan growth from here just because the economy is slowing, there's still a lot of uncertainty. Any concerns about loan growth slowing further? Thank you.

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

Thank you, Tito. The first one, you are right, the FX continues to strength and strengthen. Obviously, we will produce a same amount in dollars, but it's going to be less pesos and it's going to hit us a little bit. But I see more upside than downside right now, MXN19.60 and we already swallow all the FX probably no, but it's not a problem, the next reality.

So if the -- if it returns to MXN20.20 something, yes, we will reverse that and we will learn more than and we will explain that. And if it goes to, I don't know, MXN17 something or MXN10, yes, it will hit us a little bit more. But on my point-of-view, the -- we already took the hit and this is it. That's my point.

And the second one is yes, everybody is concerned about the loan growth, but let me tell you that the first semester we grow 0.2% and now we are expecting to grow 0.5%, which is more -- the second looks better than the first one in terms of growth, know. And that is going to give us an idea that maybe it is not so bad for the next quarter, the next semester.

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

So we are working hard and trying to get to the objective, but it seems that this is reasonable and we can do it. I don't know, Rafael, you want to add something?

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

No, I think I would touch us on the first one, Tito. The FX, you have to split the effect on that. On the dollar book, it hit us on a direct way. I mean on that part. We have a $4 million and that $4 million goes to the dollar book and the dollar books get converted to pesos and that's the effect that we have.

On the AT1s because there were some concerns also on the AT1s. The AT1s, as you remember, we hedged to come on daily month. We basically buy bonds UMS to match perfectly the AT1s. So the effect that you have in that is that the money that you take from the capital base is less than what was supposed to be, but also you have a reduction on this -- on this quarter of 30 basis-points of the on the seats on the total cap because our position in AT1s is around 31% of the total capital base.

But that's perfectly hedged. That's something that needs to be addressed very, very -- in a very important way. We don't need to hedge more the AT1

A - Unidentified Speaker

The heighten ones are hedged on day one. If I contrary the peso weak and small, then you have a pickup on the capital base because of the value of the of the AT1s. But the AT1s are perfectly hedged and the other one, the dollar book is being basically hedged on the way that you have the funding and you basically use the tools that you have to hedge the funding base.

But honestly, it's more and a direct effect on this part. And as Marcos mentioned I think honestly and Alejandro that is our Chief Economist could give us more view about the, if you want.

A - Alejandro Padilla {BIO 6837329 <GO>}

Yes, for sure. Thank you, Rafael. Thank you for the question, Tito. This is Alejandro, Chief Economist. Well, as Marcos and Rafael were mentioning before, we think that there are some conditions that support our view that the Mexican peso should go back to a more normal level. Indeed, I would like to mention that our real exchange rate models and other type of models that we have suggest that the fair value of the Mexican peso should hover around MXN19.20 million and that's why in our trajectory of the FX for the rest of 2025 and for 2026, we have figures covering around that number.

And by the end of the year, we need to take into account that Banqui [ph] most likely will continue cutting rates. And currently, we are in a very tight spread between the interest rate in the US and Mexico. And we are forecasting 100 basis points of rate reduction in Mexico and only 50 basis points in the US. So the spread between Mexico and the US will continue declining and that will put a bit of pressure to the FX by the end of the year -- that's our main scenario.

And the other one is that we have to take into account that by the end of this year, Mexico will be closer to the US in terms of the revision of the USMCA, although the revision will start in 2026, the process or the initial process is likely to start by the end of this year and that will put also a bit of pressure in terms of all of the threats that President Trump will put into Mexico in order to have better negotiating conditions.

So all in all, I think that from the macro perspective, although the actual performance of the Mexican peso is explained by a strong deterioration of the US dollar. I think that by year end, we could reach something closer to MXN19 or MXN19

Q - Unidentified Participant

Which are at levels suggested by our models.

Q - Tito Labarta {BIO 20837559 <GO>}

And hopefully yeah.

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

Of your other question, Tito, in terms of the economy, well, as Marcos was mentioning, well, some of the figures for the second-quarter of this year suggests that we will be growing between 0.2% to 0.4% on a quarterly basis. This -- the preliminary number will be released on is July 30, but we think that the second-quarter will be similar or slightly better than the first-quarter.

And thinking about the second-half of the year, I think that private consumption associated with services mainly will continue to be part of the main drivers of the economy. So-far, we have been observing manufacturing goods performing relatively well, supported by the idea that US firms they are putting some orders ahead. They are accumulating inventories in order to avoid the effect of the tariffs from President Trump.

So-so far, I think the second-half of the year will be very similar to what we have been observing in the last months. So that's why we are maintaining our GDP forecast for the entire 2025 of 0.5%.

Q - Tito Labarta {BIO 20837559 <GO>}

That's very clear, very thorough. Thank you for that. If I can then just one quick follow-up on the loan growth because I think, Marcos, you mentioned, you still have -- you still expect the government portfolio to grow, right? It's come down quite a bit this quarter. But as that government portfolio starts to grow again, could that put any negative pressure on margin just from a mix perspective?

Just to understand between the different segments, how that could impact NIM also? Thank you.

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

No, no, no, remember that that the effect on the margin there will be benefit by our lower funding cost. So we don't see any effect because if we grow the book on the government side, I don't see a real material effect on the margin. I think the margin will continue to be quite strong and sustainable the way they are through 6.4%, 6.5%, 6.6%. No, and the effect of the government book, it starts to grow will not affect the margin in that way.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. That's very helpful. Thanks, Rafael. Thanks, Marcos.

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

Thank you, Tito.

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

We'll now go with Yuri Fernandes from JP Morgan. Go-ahead, Yuri.

Q - Yuri Fernandes

Thank you, Tomas, and good morning Rafael, Marcos. I will go back to the coverage and Gerardo and already provide some good Color on these on why the COVID was down and the collaterals. But just trying to understand here, like your view here is that the NPLs will go down and coverage ratio will actually go up or this is the new level for coverage here that you're comfortable given. You are not seeing a major worsening on asset quality. I just would like to understand a little bit more because even the economy is weaker and this was not only on the corporate side, this was SMEs as that and also a little bit of credit cards. My concern here is that a weaker economy will continue to drive like not major but marginal NDPL worsening and you already consumed a lot of coverage. So just trying to understand a little bit more, if you can provide more details, I would appreciate it. Thank you. Thank you, Yuri.

A - Unidentified Speaker

I think Dr. Sala [ph]. Thank you. Thank you, Marcos, Yuri, you're right. What we have learned from past cycles from empirical patterns is that in India -- in the retail side of the loan book, you could see some sensitivity to slow growth or even a recession and that is considered high in SME loans, medium to high in credit cards, medium in auto loans, low to medium in payroll lending and also lower in mortgages unless there is a housing crush, which is not part of our central scenario.

So a very good question remains, if we keep up with the loan growth that we have talked about. You will see that the main reasons for that expectation even in low growth GDP conditions are mainly four factors during. One is that GDP is not equal to credit demand directly at least. That is, credit demand can still rise due to liquidity needs, refinancing or working capital pressures even if economic output goes slightly lower growth or even contracts.

The second reason for this expectation is that there is an opportunity to gain market share we can see that in these type of cycles, some weaker or more conservative competitors tightened lending, opening space for well capitalized banks to expand carefully. The third reason is that we could encounter some segment level divergence. Some sectors and households may remain resilient or even behavior as countercyclical. That type of

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

Behavior could be found in segments like healthcare or food, payroll back, lending among others. And the last factor that we support these are loan growth scenario is flight-to-quality and that's important because customers mainly risk lenders or fintechs referring stable banks with a track-record given loan growth without loosening credit standards.

So that are the four main premises that support that loan growth expectation. And also we are very well aware of what we expect in different segments of the loan book that could eventually behave in the way just -- I just mentioned at the beginning of this comment.

Q - Yuri Fernandes

No, super clear. And I guess the Mexican, overall -- you're always low leverage, right, even growing in the past maybe to three years, I think leverage is still low 46%, right?

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

Yeah.

Q - Yuri Fernandes

If I may, just a second one-half on the expenses, something that we noted here was decreasing a lot, the G&A, personnel fees and like personnel expenses. If you can comment on Banorte, like this is also part of your guidance on expenses to go to the single-digits by year-end.

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

Rafael

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

No, I think Banorte is just part of the overall effort that we have on the expense line. I think the expense line has been a continuous effort that if you look at the recurrent base of the expense ratio of Banorte, the recurrent base has been quite steady at 6% to 7%. When you start reducing the effect of of Rappi and Tarjetas, you start getting some benefits about this, but also a lot of other initiatives that have been taken in-place.

I mean, automation is coming easing to the Bank because all the investment that we have been doing in technology. So when you look at the ratio of the administrative expenses and operational expenses to total revenue or net income, that continues to trend down. So that's also another very important source of the way that we are reducing the cost.

And taking advantage also of the dollar weakness we are taking advantage of that on the payments on the software base that we have. So it's a lot of actions, not just and A1 and Rappi.

Q - Yuri Fernandes

No. Thank you. Thank you, Rafael. Thank you, Marcos.

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

Thank you Yuri.

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

Thank you. Now we will continue with Ernesto Gabilondo from Bank of America. Ernesto, please go-ahead.

Q - Ernesto Gabilondo {BIO 16384492 <GO>}

Thank you, Tomas.

Q - Unidentified Participant

Hi, good morning, Marcos and Rafael, and thanks for the opportunity to ask questions. I have a follow up also in terms of OpEx you mentioned it could be favored by FX by [ph]. But can you give us some other examples of some of the expenses that you have anticipated or some of the expenses that you can cut, especially in the last quarter? And then I have a second question in terms of asset quality, you mentioned there were some isolated cases in the commercial portfolio that show higher NPL ratios. And I know that you cannot disclose the names, but can you share which type of industries were related to those loans? Thank you.

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

Yeah. Thank you, Ernesto. The first one is one example is that all the dollar denominated payments that we need to do for this year instead of waiting until the end of the year, we are paying that in advance now. And that's why you will see that this always happened all the years that this step in the cost line is going to be reduced and that's why we are -- we feel comfortable that it's going to below 10 the total expenses.

One big one is the dollar denominated assets that we are taking already doing it since now and you will see it there. And all the -- we -- as we said, we don't have any sector and geographical problems. We have two minor problems with specific companies, I don't know if we can take the sector only. Yeah. This is really a very mixed selection of our economic activity. One of the cases is really non-bank financial intermediary, which is small to medium size. Another case is related to energy or oil and gas, which is a very specific project that good represent problems on his own. There is not a sectorial explanation for these low credit risk low, low risk quality performance.

But there are just two examples, Ernesto, that those sectors are not related do not belong to the same geographic zone in which they operate and that will give you some color regarding asset quality and NPLs cases.

Q - Ernesto Gabilondo {BIO 16384492 <GO>}

Bloomberg

Very fair enough. Thank you so much. And just one last one in terms of the potential special dividend When can we expect any announcement on this in the next quarter? And if it could be similar to the one you paid last year?

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

We are running the numbers. We still don't know. It depends on everything. But yes, it would be announced in next quarter. We already have the permission. If this feasible, we can do it and it's only a matter that we -- the numbers are right for us and for you and that's it, Rafael.

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

So as you say, Marcos, in the third-quarter, it will be announced.

Q - Ernesto Gabilondo {BIO 16384492 <GO>}

Excellent. Thank you so much.

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

Okay. Thank you.

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

We'll now go with Renato Meloni from Autonomous. Go-ahead, Renato.

Q - Renato Meloni {BIO 19012073 <GO>}

Hi, everyone. Good morning. Thanks for taking my questions here. So I would like to go back to asset quality, but particularly in consumer, right, there was another deterioration here on Stage three loans for credit cards. And I wonder if you could comment a bit on that. But then further and connected to this, I'm wondering here, how do you expect to keep growing in consumer lending at the same pace?

But we think the same -- with the same-asset quality, right? I think going back to your earlier comments, you're saying that your competitors are tightening credit. Does that imply some adverse selection here for you?

So, yeah, thank you.

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

We will start with the second one with Rafael, please.

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

Now remember if you look at the information from the CMBB, Banorte has a very specific way that we compete in the market. First, we compete by individual. We don't compete by a general offer to the market. The second one is that we are very strict in risk. So the way to avoid a negative selection is that if you look at-the-market and the people that this work because of the risk, they will always get the best deal in.

So that really a takeaways the possibility of negative selection. We never played the game that high-interest rates that we charge on the loan will eventually cover the losses. We never follow that policy in that part. But we go is -- we look at the client, we see the risk of the client, what's the value of the client, the potential value of the client, the relationship that the client has with us and the relationship that the client has with other banks and then we set-up the offer for them. But the main issue is -- has to be that we like the risk.

That's the way we avoid negative selection. So don't think that we are getting market-share because we are are pushing the peril by getting clients no is because

A - Unidentified Speaker

We have better processes, better offers to the clients on a one-to-one basis. And also if you look at the NPS that we have at the bank, at the branches and the digital offering that we have, NPAs are around 85%, 87%. So all that allow us to capture market share, not because we go for the silly policy that put the high interest rates and that will cover the losses. We never did that.

A - Gerardo Cuitlahuac Salazar Viezca {BIO 16248253 <GO>}

I would like to add on what Rafael, just said is that if you run the numbers, data is going to back what he said. It is not a subjective point of view in of any kind. We can demonstrate that the duty by provisions by the average size of the loan book by product or even by the total loan book our closest competitor has a 39% more volatility making provisions that we do. And that speaks a lot of what Jose, Rafael, said. And taking on the other question regarding asset quality on the consumer -- in the consumer book or even credit cards, I will tell you that we are constantly differentiating goods from bad provisions.

Provisions going up or going down are not always bad or good news in that sense. But I will tell you that good provisions are forward-looking, are of a proven nature and are very proactive. Our three factors tend to explain what I just said. They are always based on expected loss models. We are very consistent making risk scoring and calibrating the models. And also we have a stable and declining cost of risk as you can see. And that's a very important symptom regarding what the coming vintages are of what quality I mean. And I will say to provide some color, Renato regarding asset quality in the consumer loan book.

Q - Renato Meloni {BIO 19012073 <GO>}

No, thanks. That's very clear.

A - Unidentified Speaker

Thank you Renato.

Operator

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

Q - Brian Flores {BIO 16620694 <GO>}

Hi, team. Thank you for the opportunity. I have a question on your NII sensitivity. Maybe Alejandro, could help us here because it is very, very small, right -- given your expectations. I think you mentioned still some reductions for 2025 is in your budget. But could you elaborate a bit on what are you expecting for

Q - Unidentified Participant

For 2026? And if that's the case, how would you position that given that expectation you have internally? And then a quick follow-up on the tax-rate because we saw a high tax-rate in the first-quarter, a smaller one on the second-quarter. So for the whole year, should we expect it to be more on similar levels for the first-quarter or the second-quarter? Thank you.

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

I will start with the second one, which is easy one, the tax-rate we're not changing sometimes during the quarters, we have a mix because we pay on advance or whatever, but it's going to be the one that is in the guide and that's the easy one to know what's going to happen.

And the first one, please Rafael.

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

And thank you, Marcos. Thank you, Brian. Well, that's a very good question because when you see market consensus, the number by the end-of-the year is 7.5% for the interest rates by the end of this year. And what we are forecasting is that Banorte will try to front-load the remaining of the costs in this 2025. Taking into account that the economy is in a weaker position and that when you analyze the rhetoric of most of the members of the Central Bank, they are willing to continue cutting rates.

So that's why we are expecting 7% by the end-of-the year vis-a-vis 7.5% from market consensus but I don't have an additional rate cut in 2026. I have 7% for the entire 2026 and the market is going down to that 7% or even slightly lower than that 7%. So that's the main difference between the market and our forecast.

A - Unidentified Speaker

And I hope this helps to understand also the sensitivity and I don't know Rafael.

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

No, the sensitivities are is the a million dollar question because when you start to doing the position for the potential of high grades. I think we are -- as you know, when we start to doing on the downward trend, we anticipate that. It cost us, we build-up the fixed-rate part of the book on that part and that cost us.

And some people thought that we were crazy, but I think it was a good anticipation because a lot of people, the treasury, the risk people, everybody was involved in the decision, not just one person and we will do the same and remember that we look -- we need -- you need to look for the hedges when the risk is quite low for that occasion to happen and that's when the hedges are very cheap and that's what we usually do.

Q - Brian Morton {BIO 5505307 <GO>}

Perfect. Thank you again.

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

The next question is from Carlos Gomez Lopez from HSBC. Go-ahead, Carlos.

Q - Carlos Gomez Lopez {BIO 23431201 <GO>}

Thank you for taking the question. And going back to the margin, I wanted to clarify this. So the impact of Forex is partially because you have an asset which goes to the income statement, which is the loans and then you have some funding -- part of the funding, which is the AT1, which at least the coupon that you pay on the AT1 will be negative. So you have a positive impact. So in this because the Forex goes down, you have a negative impact on the assets and you don't reflect that on the liabilities.

My question is, should we also see it, therefore when -- first, is this a correct interpretation? And second, should we also see it when the peso depreciates and therefore the margin that we saw, let's say, in the third and fourth-quarter of last year will be a little bit higher-than-normal. Would that be correct?

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

Yeah. Yeah. Yes. That's correct. And you mentioned that very, very well, Carlos. I think you see the effect on the FX on the loan book, that's perfectly clear for that. And then the valuation key costs by MXN887 million. When you go to the AT1s, as you mentioned, the coupon that we are paying from the AT1 is cost us less.

No matter that, you see an effect of about on the risk-weighting assets that goes into the capital base about 30 basis basis-points and I will talk about this again. The effect on the AT1s on the side are perfectly covered on vegetable on Pay 1. So the fact of that is that it cost us -- the capital is paying less pesos because of the hedging that we had on the AT1s. So right now.

Q - Carlos Gomez Lopez {BIO 23431201 <GO>}

Okay. And if I can add a totally different subject. We have had these three interventions that you addressed them early-on and you've been very proactive from the beginning and talking to the market about it. Do you have any interest at all-in some of the assets or some of the business that is coming out-of-the three companies, which are the subject of these sanctions?

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

It's a difficult question. We are not interested in buying a package or something like that, no. But as we are big and everybody trust way to say there are some assets that they are coming to us now. So we will be happy to see what's going on and take a lot of regulation into account. But it seems to us that we are going to grow, but not directly because we are going to buy assets, but the other way and directly because

A - Unidentified Speaker

These assets, they are coming to us naturally, that's what we are seeing. But we are not looking for making offers or buying assets in like the package, no.

Q - Carlos Gomez Lopez {BIO 23431201 <GO>}

Very clear. Thank you so much.

A - Unidentified Speaker

Thank you, Carlos.

Operator

Now we'll continue with Pablo Ordonez from GBM. Pablo, please go ahead.

Q - Pablo Ordonez {BIO 23001775 <GO>}

Yes. Hi, good morning, Marcos, Rafael and Gerardo Cuitlahuac from solid results. I have a couple of questions. First, on your auto loans, they continue to show a great performance growing 29% year-over-year, also with great asset quality. My question here is how sustainable is this trend and would you expect some normalization ahead for this business segment? And the second question would be a quick follow up on asset quality, more structural question. Some participants have mentioned that they have served some deterioration in the credit broad data from Mexican consumers and households after the significant supply and increasing credit cards from fintechs and new participants. Do you think that this is making more harder the underwriting of credits on your consumer segment and what levels of growth rates for the consumer segment and NPLs should we expect ahead? Thank you.

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

Thank you, the first one, obviously, we cannot [ph] this bike. We signed a lot of contracts with dealerships, new companies and that's why we now -- we have this base. And now the base is bigger and it's not so easy to move, but we expect to grow it in the future at, let's say, it's now around two days. That sounds reasonable with the new base. And now going to the asset quality again if this [ph].

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

Thank you, Marcos. Pablo, you are making a great question. But we will disclose it as soon as it comes. We don't have this scenario on the horizon yet, but we are being very cautious regarding asset quality because in the moment, we start making bad provisions. Let me underline bad provisions of a reactive nature that responds to deterioration or to signal and underwriting or recovery processes witnesses will let you know immediately.

But now this is not the case. Some of the symptoms regarding that kind of a scenario again, which we did not expect will be a provision spike that follows, deterioration. We have not seen that or another one will be a declining origination quality. Early non-performing

A - Unidentified Speaker

Immune signals do not point to that as a scenario. We are not expecting it, but it could happen, we are very aware of that. And we are saying this with all possible humility. And also, if we start to see an increasing cost-of risk that it is sustainable throughout months or quarters, you will see that and we will disclose it as it is.

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

And if I may add to Gerardo, remember on the guidance, we set-up the cost-of-risk well-above what we currently are to 2.2. So we were perfectly clear that when we set-up the guidance and the budget for the Bank, there will eventually potential issues concerning the GDP.

The fact is that by not taking a very negative selection in the market and the models that we use and the discipline that we have on the Group allow us to have a very early warnings of everything-- anything that happens like we had on the SME and immediately action was taken on that part.

So remember one thing, it's not that Mexico is disappearing, you still have a quite active economy. If you look at the labor numbers. The labor numbers continue to be quite sustainable. And if you look at the evolution of the payroll loans that are not reaching double-digit for us, but we are growing and getting market-share from that. The payroll loans have been quite steady on the NPL ratio and on the cost-of-risk.

There was a pickup not this year, but at the end of last year and actions were taken immediately to remediate that. So what Gerardo mentioned about those early warnings, we are quite passed to take action when we see -- when we see loans. And the market that is there to be taken, believe me, the capacity that Banorte gives the best offer to the market is going to be there if we like the risk. And you touched a very important point and I want to address all that.

Yes, it's true that the Fintechs are charging a lot for the credit cards. But many of those clients were not credit-worthy for us. So we were not getting credit to those. But the problem for those clients, and I don't think it's good for financial inclusion, is that they are being sent to the credit bureau at the earlier-stage of the credit line.

So that is something that we don't like and we are addressing that and we will be launching very Very I would say, innovative products to try to remediate that and not to keep sending people to the great bureau that doesn't have the financial I would say, understanding to take the loans in the way that they have to do.

Q - Pablo Ordonez {BIO 23001775 <GO>}

Thank you very much Rafael.

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

Thank you Pablo.

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

Thanks a lot.

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

Yeah. The next question is from Andres Soto from Santander. Go ahead, Andres.

Q - Andres Soto {BIO 15822388 <GO>}

Thank you, Tomas. Good morning, everybody. Thank you for the presentation. My question is regarding your 2026 expectations. You guys have already mentioned a few variables. I'm curious about specifically about GDP. Obviously, multiple uncertainties, including the USMCA renegotiation, but consensus shows an expectation of 1.5% GDP growth for Mexico, which will imply another week -- another year of weak growth for the country.

So my question specifically is, under that scenario, what type of global growth and cost-of-risk will make sense for you guys looking into next year?

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

The first Gerardo talk about it and we will discuss what we're going to happen.

A - Gerardo Cuitlahuac Salazar Viezca {BIO 16248253 <GO>}

For sure, Marcos. Thank you. Thank you, Andres. Well, we have a forecast of 1.8% for GDP next year, which is slightly above-market consensus. As you can notice, it is slightly below a potential GDP in Mexico, which is between 1.9% and 2%. However, when you compare with 2025, it suggests that there will be a recovery of the Mexican economy. I think one of the main drivers for 2026 has to do with the -- I think better conditions in terms of trade because firms will have a better visibility of what's going to happen with the USMCA 2.0.

And also we have to take into account that in 2026, we have the World Cup, although Mexico is not the main host we will have several games and that will increase private consumption in Mexico that will increase tourism. And we think that there are some other industries that have to do with, for example, infrastructure. When you see Monterrey, Guadalajara, Mexico or Mexico City, which are the hosting cities, they are deploying some infrastructure in order to receive tourists throughout the World Cup.

So I think there are several factors that are within that 1.8% that we have for next year.

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

And Andres, it's easier to say to bet who is going to win the World Cup that to give you a full

A - Unidentified Speaker

Forward-looking right now. If we don't have it as soon as we develop next year and the other, we will start to see how it develops. I don't know, Rafael.

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

No, I think this down on a quarter-to-quarter basis we continue to see strong demand of the consumer and continue to see good penetration in the market. But usually, what we see is by the third quarter at the end of the fourth quarter, we have a pretty good idea of what's going to happen next year. At this point in time -- and this, I would be on the chair of the World Bank telling what is going to happen next year if I knew it [ph].

Q - Unidentified Participant

Fair enough. Thank you guys and congratulations on the results.

A - Unidentified Speaker

Thank you.

Operator

Thank you. We have two more questions. One from Edson from Soma Cap. Edson, please go ahead.

Q - Unidentified Participant

Hi, good afternoon. Thank you for taking my questions. My first one is related to the early redemption that you mentioned during the -- during this amount specifically. What was the rationale and if we can expect another additional early redemption for 2025? And my second question is regarding on the brokerage business. And how sustainable is the return on equity? This second quarter was an outstanding number, but just join the dots is -- was related to the market conditions or it's more fundamentally? Thank you.

A - Unidentified Speaker

Please open.

Q - Unidentified Participant

Sorry, on what you mean by early redemption?

A - Unidentified Speaker

I think it was the notes of the treasury and it's part of the constant optimization that the Treasury does have. So that depends on the constant review that the Treasury does. So we cannot tell you they will do all the redemptions in the next quarters or not. It's part of that.

Q - Unidentified Participant

(Multiple Speakers)

Opportunistic when we do that and based upon the position that we know, but it's not really part of the ongoing day-to-day business of the bank. The brokerage business, as you will see is 70% and if you look at the numbers for the last year and this year, you continue to see that that number pretty -- so the reason for that is that the insurance business is performing quite well. It's growing 14% for the year. We are growing nicely in everything that is related to the consumer and accompanying the clients on that. And when you see -- and thank you for the question because that allows me to tell some of the questions that were sent to us yesterday that what was the provisions for the insurance business and basically that is related to our wealth management product

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

We launch that is becoming quite successful, but because the way it's being booked, you have to to put down provisions on day-one on an important way, but that is a very important product that is moving more-and-more to the wealth management world in a very important way. So I would say that you will continue to see pretty high numbers on the return-on-equity of the insurance company. We optimize the capital every quarter.

It's a company that is well-managed and well driven and is us fully get the benefit of a very strong growth on the consumer side.

Q - Unidentified Participant

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

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

Thank you

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

Thank you,

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

Now the last question is coming from Nicolas Riva from Bank of America. Go-ahead, Nicolas.

Q - Nicolas Riva {BIO 20589225 <GO>}

Yeah, thanks very much, Jose Luis, Rafael and Marcos for the chance to questions. Two questions, two topics. The first one, Marcos, initially you made some comments regarding the money laundering acquisitions against three Mexican banks. I think you said that at this point, no other banks are under investigation.

I wanted to ask you -- your thoughts regarding liquidity available -- lending available between banks since this event, if you have seen any negative impact in terms of banks lending to each other and particularly to the smaller or the mid-sized banks? And then my second question on funding and capital. If you can do a recap in terms of your thoughts, my understanding is at this point, you're not considering to issue senior bonds in dollars. There's no need to find the dollar loans in the bond market. And then on capital, I think for a while, the base-case has been you're going to continue calling all of the AT1s.

My understanding based on recent investor calls is that you may be looking at issuing Tier 2s to replace some of those AT1s, given that for TLAC, you can issue either -- you can count either AT1 or Tier 2 capital. And of course, it's cheaper to issue Tier 2s. But if you can just to kind of a recap in terms of funding and capital plans for the future. Thanks.

A - Jose Marcos Ramirez Miguel {BIO 4413879 <GO>}

Thank you, Nicolas. The first one is, we haven't seen any disruption in the market. Actually, the rates went down, the tax is stronger and everything is obviously is connected, but we have an authority and CNBB, they are looking at Banorte. They are also monitoring what's going on and the liquidity is there and nobody is beyond what happened is and the market is in a very good position. I would say that normal -- so we are happy how is developing all this and that's it.

A - Unidentified Speaker

There is no -- anything to say what to do to say here no. And the second one is very interesting because it's a matter of where are we moving to now and the cheaper one, as you say Rafael, but at least.

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

No, I think and thank you this -- as you know, by law, we cannot say that we want to call, but history tells a story of Banorte. And the issue about -- as we are in a position right now that we don't need to issue this year anything. The LDR is moving very positive, well below 100 now. And the potential for Tier-2 always that is a question why you want -- I think we always balance out the AT1s against the Tier-2. And based upon the window of opportunity, we will take the best decision that is for the market.

As of today, AT1s has been the best decision that we can have. And that's -- that and on the capital you will continue to see a pretty strong evolution of the capital base. Obviously, AT1s are important part of our capital base, but we have a very disciplined way of when we issue in a way that we don't get blocked on the -- of the instruments on that part. This year is a pretty good example of that. So I would say that we never pressure the issuance because we need to -- we always go into the market when the window is open for us and at the price that we think is fair for us.

Q - Unidentified Participant

Okay. Thanks very much Rafael And Marcos.

A - Unidentified Speaker

We could.

Operator

Thank you very much for the interest in Banorte SAB de CV. With this, we'll conclude our call. Thank you very much.