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PRESENTATION

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

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

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

For the Mexican economy, our economic analysis team posted GDP growth forecast at 0.5% for the year 2025, driven by resilient private consumption amid weaker investment and export dynamics. On the fiscal side, the Mexican government continues with a prudent spending strategy and solid tax revenues which supports 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 teams 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 confirmed 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, a strong governance, a state-of-the-art technological infrastructure, and detailed policies and procedures. Nonetheless, before the US Treasury Department recent action and in response to the US government designation of certain drug cartels as foreign terrorist organizations in February, Banorte Board of Directors requested that we take proactive steps beyond what the bank was already doing to mitigate arising risks.

With the advice of an expert third party, earlier this year Banorte began a revision of this anti-money laundering and sanctions compliance programs, including, among other things: one, reassessing and updating its compliance 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, requiring 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 the slide 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 strategies to balance distribution, the best of our ability during the year and to take advantage of the current 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 sites of 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 bank.

Analyzing the quarterly results by subsidiary on slide 4, the bank's net income expanded 7% sequentially to MXN11.8 billion, supported by dynamic consumer activity in core banking products and shielded balance sheet that is in 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, [255] 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, the expected quarterly reduction as premium origination normalized after the seasonal renewal of the splits in the first quarter. However, on an accumulated basis, we continue to see strong business generation, mostly driven by the bancassurance 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 increasing fees from higher trading operations. Lastly, the sequential performance of the pension fund business was affected by lower yields on financial products.

On slide 5, lending activity adjusted for the government book at 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 this segment is still on hold due to the uncertainty surrounding the ongoing trade negotiations with the USA.

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 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 has enabled Banorte to capture additional business from the market.

By leveraging our hyperpersonalization 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 auto loans which rose 30%, given the resilience 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. Payable 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 has an 8% annual expansion supported by the increased market presence. Thanks to the strategic alliance with key developers together with the optimization of our preformation processes.

Asset quality on slide 7 continues to perform better than expected. In the quarter, the NPA ratio stood at 1.1%, reflecting the 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 rolling ahead of expectation, given our focus on hyperpersonalized 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 effectiveness 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 of the acquiring business, reflecting still strong internal demand. Moreover, as we saw during the first quarter of the year, higher credit origination through the external sales force had an impact on this space in the period, offsetting the positive evolution of charge fees.

Moving on to sustainability on slide 9. We have taken important actions to make our branch network operation more sustainable. During the quarter, we received the EDGE certification for the first 8 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 ongoing progress in sustainability enable us to continue the impact of the important sustainability indexes such as the FTSE4Good 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 Rafa to cover the main financial results of the group, I would like to address a few additional thoughts. First, based on the results from our core operations at IPO structure, we feel confident to 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 effects of foreign interest on 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 constantly adopt global debt practices in this model to protect our operations. And last but not least, regarding [Bineo], we are still evaluating the best actions to date. 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. Rafa, please go ahead.

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

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

If I go to the NII, 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 want to explain that in a bit, but loan to deposits continues 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 unavailable 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 start that because that was not provided in any way when we set of 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 than that.

So that number is not a small number, MXN887 million. Nobody was expecting the peso at the level that is today in that product. We have a very specific strategy to keep containing that, but that was a big surprise for that. And we are going to balance that, I would tell you in a minute, but it's not a small number.

So when you consider the impact on the results of the quarter, you have to take into account the effect that FX has on us. Why? if I go to the loan book, the loan book, 15% of the loan book is in dollar terms. So obviously, we will see more less results from that loan book.

And you go also to the structure of the capital notes that we have, the AT1. We also are receiving less than expected because obviously, even if we have a perfect pitch on the FX to call a policy that we have, obviously, we are paying less interest on that using the capital base. But the total amount of the capital base will be reduced by 30 basis points. That is compared to the total capital number that we have is turning to 21.7%. These are very strong capital numbers on that part.

So the FX affecting 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 front. If you ask me, if there would be more slide on the -- more (inaudible) on the peso side, I don't know. Eventually, our Chief Economist will touch on that one.

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 deposits, okay?

Now if I now move into fees. In fees, again -- the next one, please. When you go to the NIM, you see that there's 6.4% of the NIM has to be explained. And let me just try to see why the NIM continues to be very resilient. And that means once you add the MXN800 that I just mentioned about the FX, that means it's 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 built based upon the fixed rate and the continuous downward trend on the funding cost allow us to have an effect performing 4 basis points on the spread. That's extremely, extremely relevant, and that will continue to benefit in the coming months as the downward trend in the rates continue to happen.

If I now look at the banking fees. The banking net fees, as Marcos explained, you have to remember that we have a very strong growth in the mortgage book and in the car loans. Part of that mortgage book is sell by the branches online, on the digital capabilities. But still, some of that happens with the alliances that we have with 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 happened 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 continue to do so, we 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 fee side is that everything that is on the digital side continue to expand very, very nicely.

So if I move to the next one. The sensitivity on the balance sheet is only MXN20 million. So that shows exactly the good work that the bank has been doing 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 lack of certainty. And most of the loans in the dollar books are in variable rate, not in fixed rate. So we have to be much more flexible on the dollar book. But as I already told you, it's 15% of the book.

If I move now to the profitability of the bank, Marcos already touched on this, but I would like to stress one thing. On the ROA, we continue to expand. The ROA, 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% on return on equity with our strong capital base and taking into account that we are the least leveraged bank in the system in that part. 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 that effect that sometimes the 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 it will -- some of you will say that it's 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's 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.

If I go to the asset quality, and some of you called yesterday about that, and I will ask Gerardo in a minute to go on this. But there's something that some people say, well, there's some pickup on some of the -- look at the NPLs. But you have to look at this in an overall piece.

And some of you are asking about specifically the SME, I will touch that. SME as you know, we had a very low number of NPLs coming down as low as 1.1% 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 have been taken there to address that. You will see that a continuous downward trend, but you will see the full effect or 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 Rappi joint venture, we have 1.6%. So it's growing better than expected, write-off because many people sometimes think that Banorte has the policy that immediately to write-off when we see a spike in the portfolio. We never do that. As you can see that, it's a very, very level trend on that part.

Credit provisions also going down, notwithstanding that we are growing the consumer portfolio, but you know that that requires a lot of provisions on day one.

So I will turn to Gerardo to try to address things about the risk that you were concerned about yesterday.

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

Thank you, Rafa. 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 great and effective 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 increased, 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 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 and 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 a robust reserve buffers with coverage ratios that are appropriate given the credit quality and expected recoveries of the portfolio.

Overall, and finally, to just end my commentary, while credit quality trends warrant 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.

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

Thank you, Gerardo. 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 book that already has been growing that I think is in a quite important way, is with a very disciplined 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 even on price, but never on the risk. And that has allowed us to sustain a permanent growth from the consumer book because some people have asked us that if you see a market that basically is not growing based upon a very lack of growth on the economy, how Banorte is growing at the pace that is growing on the loan book, 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 on the digital evolution 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 growing the consumer book and also the commercial and the corporate 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 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 tell you a number. When we set up on the guidance at the beginning of the year, we set up the guidance that we will be on a 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 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, instead of the two digit that we have been experiencing in the past few years, to go down to one digit. It 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 have been asking us about the effect that we're 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 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 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's when the full effect of all the actions taken will 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 fourth quarter, we set up for the dividends that we pay in May. So that reduced for 13.2%, then regaining 14.4%, and now we are back around 14% on the quarter one.

The total capital ratio is 21.7%. As we mentioned, the effect on the FX on the capital ratio is around 70 basis points, well above any requirements that the authorities have.

One another 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 sent 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 on the red line, trading gains for us is a flat line. But based upon the position and the size of the balance sheet, if you compare what was the effect of the 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 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. Obviously, we have 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 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 double-digit cost number because that will drop substantially in the fourth quarter to have a full year at only one single-digit number.

With that, I close my remarks.

QUESTIONS AND ANSWERS

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

Thank you, Marcos and Rafael. (Event Instructions)

Tito Labarta, Goldman Sachs.

Tito Labarta *Goldman Sachs Group Inc - Analyst*

I guess my question is, I guess, on the NII, I guess, two parts. First, on the FX. I think you mentioned you expect to end of the year around 19.50%, but it's still a little bit stronger than that.

Could there be just further impact from that if the currency stays at around this 18.60% level or even appreciate 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 depreciate, 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 up. 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.

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

Thank you, Tito. The first one, you are right. The FX continues to strengthen. Obviously, we will produce the 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, 19.60%, and we already swallowed all the FX problem, but it's not a problem there, the next reality. So if it returns to 20 -- 20 or something, yes, we will reverse that, and we will learn more and we will explain that. And it goes to, I don't know, 17 something or 18, yes. It will hit us a little bit more. But on my point of view, we already took the hit and this is it. That's my point.

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

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

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

No, I think I would touch on the first one, Tito. The FX, you have to split the effect on that. On the dollar growth, it hit us on a direct way -- I mean, on that front. We have funding in dollars and that funding in dollars go 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 hedge to call on day one. 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 quarter of 30 basis points 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 in a very important way. We don't need to hedge more the AT1. The AT1s are hedged on day one. If by contrary the peso weakens more, then you have a pickup on the capital base because of the value of the AT1s. But the AT1s are perfectly hedged.

And the other one, the dollar book has been 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 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 peso if you want.

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

Yes, for sure. Thank you, Rafa. Thank you for the question, Tito. This is Alejandro Padilla, 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 19.20. And that's why in our trajectory of the FX for the rest of 2025 and for 2026, we have figures hovering around that number.

And by the end of the year, we need to take into account that Banxico most likely will continue cutting rates. And currently, we are in a very tight spread between the interest rate in the US and Mexico. 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, it could reach something closer to 19 or 19.50, which are at levels suggested by our models.

On 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. The preliminary number will be released on 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 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%.

Tito Labarta *Goldman Sachs Group Inc - Analyst*

Very clear, very thorough. Thank you for that. If I can get just one quick follow-up on the loan growth because I think Marcos, you mentioned 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 on NPLs. Thank you.

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

Go ahead, Rafael.

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

No. No, Tito. Remember that the effect on the margin will be benefited by a 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 to 6.4%, 6.5%, 6.6%, and the effect of the government book starts to grow will not affect the margin in that way.

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

Yuri Fernandes, JPMorgan.

Yuri Fernandes *JPMorgan Chase & Co - Analyst*

I will go back to the coverage, and Gerardo and Rafael already provided some good color on this on why the coverage 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 go up? Or this is a 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 you said and also a little bit of credit cards. My concern here is that a weak economy will continue to drive like not major but marginal NPL 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. Thank you.

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

(spoken in foreign language) Thank you, Marcos. Yuri, you're right. What we have learned from past cycles, from empirical patterns is that in the retail side of the loan book, you could see some sensitivity to slow growth or even a recession 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 crash, 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, Yuri. 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 tighten 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 behavior could be found in segments like healthcare or food, payroll-backed lending, among others.

And the last factor that we support this loan growth scenario is flight to quality. And that's important because customers may leave riskier lenders or fintechs referring stable banks with a track record, given Banorte 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 to expect in different segments of the loan book that could eventually behave in the way I just mentioned at the beginning of this comment.

Yuri Fernandes *JPMorgan Chase & Co - Analyst*

No, super clear. And I guess the Mexican overall -- you remain overall with low leverage, even growing in the past two to three years, I think leverage is still [low], right?

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

Yeah.

Yuri Fernandes *JPMorgan Chase & Co - Analyst*

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

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

I think Bineo is just part of the overall effort that we have on the expense line. I think that the expense line has been a continuous effort. If you look at the recurring base of the expense ratio of Banorte, the recurring base has been quite steady at 6% to 7%. When you start reducing the effect of Rappi and Bineo, 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 into the bank because of all the investments that we have been doing in technology.

So when you look at the ratio of the administrative expenses and operational expenses to take out total revenue and 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 Bineo and Rappi.

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

Ernesto Gabilondo, Bank of America.

Ernesto Gabilondo *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

I have a follow-up also in terms of OpEx. You mentioned it could be favored by FX by Bineo, but can you give us some more 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. I know that you cannot disclose the names, but can you share which type of industries were related to those loans? Thank you.

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

The first one, 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. And that's why you will see that this always happen all the years that this step in the cost line is going to be reduced. And that's why we feel comfortable that it's going to be below 10, the total expenses.

Big one is the dollar-denominated assets that we are already doing it since now, and you will see it there. And as we said, we don't have any sectorial or geographical problems. We have two minor problems with specific companies. I don't know if we can take the sector only.

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

Yeah. This is really a very mixed selection of economic activity. One of the cases is related to 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 could represent problems on his own.

There is not a sectorial explanation for this low credit risk, 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.

Ernesto Gabilondo *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

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?

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

We are running the numbers. We still don't know. It depends on everything. But yes, it would be announced next quarter.

We already have the permission. It is feasible. We can do it. And it's only a matter that the numbers are right for us and for you. And that's it. Rafael, I don't know if -- something you want to add.

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

As you say, Marcos, in the third quarter, it will be announced.

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

Renato Melone, Autonomous.

Renato Meloni *Autonomous - Analyst*

So I would like to go back to asset quality, but particularly in consumer. There was another deterioration here on Stage 3 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 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.

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

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

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

No, no. Remember that if you look at the information from the CNBV, 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 always strict in risk.

So the way to avoid negative selection is that if you look at the market and the people that is work because of the risk, they will always get the best deal in Banorte. So that really take away 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.

What we do 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 pushing the pedal by getting clients. No, it's because 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 at the digital offering that we have, NPS are around 85%, 87%. So all that allow us to capture market share, not because we go for the Sealy policy that put the high interest rates and that will cover the losses. We never do that.

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

I would like to add on what Rafa 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 of any kind. We can demonstrate that if you divide provisions by the average size of the loan book by product or even by the total loan book, our closest competitor has 39% more volatility making provisions that we do. And that speaks a lot of what just Rafa 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 good 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 prudent nature, and are very proactive.

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.

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

Brian Flores, Citi.

Brian Flores *Citi - Analyst*

I have a question on your NII sensitivity. Maybe Alejandro could help us here because it is very, very small, 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 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 in 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.

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

I will start with the second one, which is an easy one. The tax rate, we are 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.

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

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 rate by the end of this year. And what we are forecasting is that Banxico will try to frontload the remaining of the cuts 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. And I hope this helps to understand also the sensitivity.

And I don't know. Rafael?

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

No, the sensitivity is the million-dollar question because when you start doing the position for the potential high rates, I think we are -- as you know, when we started 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. 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 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.

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

Carlos Gomez-Lopez, HSBC.

Carlos Gomez-Lopez *HSBC Securities (USA) Inc - Analyst*

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?

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

Yes.

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

That's correct. And you mentioned that very well, Carlos. I think you see the effect on the FX on the loan book, that's perfectly clear for that. Then the valuation, it costs by MXN887 million. When you go to the AT1s, as you mentioned, the coupon that we are paying from the AT1 cost us less. No matter that, you see an effect of about on the risk-weighted assets that goes into the capital base about 30 basis points.

And I will talk about this again. The effect on the AT1s on the hedging side are perfectly covered on hedge on day one. So the fact of that is that it cost us -- the capital is paying less pesos because of the hedging that we have on the heavy ones.

Carlos Gomez-Lopez *HSBC Securities (USA) Inc - Analyst*

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 in 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?

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

It is a difficult question. We are not interested in buying a package or something like that. But as we are big and everybody trust Banorte to say, there are some assets that they are coming to us. So we will be happy to see what's going on and take a lot of the 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 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 like a package.

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

Pablo Ordóñez, GBM.

Pablo Ordóñez *GBM - Analyst*

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 segment?

And the second question would be a quick follow-up on asset quality but more structural question. Some participants have mentioned that they observed some deterioration in the credit data for Mexican consumers and households after the significant supply and increase in credit cards from fintechs and new participants. Do you think that this is making more harder the underwriting of credit on your consumer segment? And what levels of growth rates for the consumer segment and NPLs should we expect ahead? Thank you.

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

Thank you, Pablo. The first one, obviously, we cannot go this way. We signed a lot of contracts with dealerships, new companies. And that's why 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, two digits, around two digits. That sounds reasonable with the new base.

And now going to the asset quality again, (inaudible)

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

Thank you, Marcus. Pablo, you're making a great question. 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 underwriting or recovery processes weaknesses, we 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 do not expect, will be a provision spike that follows vintage deterioration. We have not seen that.

Another one will be declining origination quality. Early non-performing signals do not point to that scenario. We are not expecting it, but it could happen, and we are very aware of that. And we are saying this with all humility possible. And also, if we start to see an increase in cost of risk that it is sustainable throughout months or quarters, you will see that and we will disclose it as it is.

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

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 was eventually potential issues concerning the GDP. The fact is that by not taking a negative selection in the market and the models that we use and the discipline that we have on the book allow us to have a very early warnings of 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 have still 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 appraisal 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 fast to take action when we see those.

And the market that is there to be taken, believe me, the capacity that Banorte has to give 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 creditworthy 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 earliest stage of their credit life. So that is something that we don't like, and we are addressing that. And we will be launching very, I would say, innovative products to try to remediate that and not to keep sending people to the credit bureau that doesn't have the financial, I would say, understanding to take the loans in the way that they have.

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

Andres Soto, Santander.

Andres Soto *Santander Osbkinc - Analyst*

My question is regarding your 2026 expectations. You guys have already mentioned a few variables. I'm curious 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 year of weak growth for the country.

So my question specifically is under that scenario. What type of loan growth and cost of risk will make sense for you guys looking into next year?

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

First, talk about the (inaudible) that happen.

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

For sure, Marcos. 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 potential GDP in Mexico, which is between 1.9% and 2%. However, when you compare it 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, 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 boost private consumption in Mexico. That will boost tourism.

And we think that there are some other industries that has to do with, for example, infrastructure, when you see Monterrey, Guadalajara -- 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.

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

And Andres, it's easier to say that who's going to win the World Cup that to give you a forward-looking right now. We don't have it. And as soon as we develop next year and the other year, we will start to see how it develops. I don't know, Rafael.

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

No, I think on a quarter-to-quarter basis we continue to see strong demand of the consumer. We continue to see good penetration in the market. But usually, what we see is by the third quarter or at the end of the fourth quarter, we have a pretty good idea of what's going to happen in the next year. At this point in time, Andres, I would be on the Chair of the World Bank telling what is going to happen next year if I need.

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

We have two more questions. Edson Murguia, SummaCap.

Edson Murguia *SummaCap - Analyst*

My first one is related to the early redemption that you mentioned during this month 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. How sustainable is the return on equity? This second quarter was an outstanding number, but just join the dots was related to the market conditions or it's more fundamentally?

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

Sorry, Edson. What do you mean by early redemption?

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

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

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

It is totally opportunistic. When we do that and based upon the position that we have, but it's not really part of the ongoing day-to-day business of the bank. The brokerage business, as you see, 70%.

And if you look at the numbers for the last year and this year, you continue to see that number pretty -- the reason for that is 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 increase in provisions for the insurance business. And basically, that is related to a wealth management product that we launched that is becoming quite successful. But because the way it's being booked, you have to put down provisions on day one on an important way. But that is a very important product that is moving Banorte 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 it does fully get the benefit of a very strong growth on the consumer side.

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

Nicolas Riva, Bank of America.

Nicolas Riva *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Two questions; two topics. The first one, Marcos, initially, you made some comments regarding the money laundering accusations 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 midsized 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 fund 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 do kind of a recap in terms of funding and capital plans for the future. Thanks.

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

Thank you, Nicolas. The first one is, we haven't seen any disruption in the market. Actually, the rates went down. The FX is stronger, and everything is, obviously is connected, but we have an authority and CNBV, they are looking -- Banxico, they are also monitoring what's going on. And the liquidity is there and nobody is beyond what happened is hurt. The market is in a very good position, I would say that.

So we are happy how it is developing all this. And that's it. There's no anything to say here.

And the second one is very interesting because it's where are we moving to a cheaper one, as you say. Rafa, please.

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

No. Thank you, Nic. As you know, by law, we cannot say that we want to call, but history tells a story of one-off. And the issue about -- as you know, 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 -- 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. 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 clocked on the calling 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.

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

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

DISCLAIMER