



Merger Agreement with Grupo Financiero Interacciones

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Welcome

Ursula Wilhelm

Head of Investor Relations, Grupo Financiero Banorte

Good morning, everyone. Welcome to our webcast where we will be discussing with you the transaction that we announced yesterday afternoon. I am Ursula Wilhelm, Head of Investor Relations, and with me are Marcos Ramirez, Chief Executive Officer, and Rafael Arana, Chief Financial Officer, who will give details into the proposed acquisition of Grupo Financiero Interacciones. Marcos, please go ahead.

Transaction Review

Marcos Ramirez

Chief Executive Officer, Grupo Financiero Banorte

Proposed Key Transaction Terms

Good morning, Ursula and good morning to all of you. As you know, yesterday afternoon, we announced the signing of the binding merger agreement with Grupo Financiero Interacciones. Today, we want to comment details and rationale of the transaction. Principally, I would like to start by pointing out that the closing of the transaction is subject to shareholders' approval. [Inaudible] presents a unique opportunity is part of our [inaudible] to present to our shareholders opportunities that will enhance value creations and increase return on capital.

Key details

I will start focusing on the key terms of the open transaction. Interacciones will receive a combination of a cash payment Ps\$13.71 billion and 109.7 million shares of Banorte, which represents approximately 4% of our current shares outstanding. The number of shares to be issued is calculated based on a fixed stock exchange ratio of 0.465 times Banorte shares for each share of Interacciones.

Structure and valuation

At the same time, the merger of Banorte and Interacciones will take place. As a result, GFNorte will become the second largest financial group in Mexico in terms of total assets, in terms of loans and in terms of customer deposits. The price of the transactions value is approximately Ps\$26.5 billion pesos based on the Banorte share price as of October 24, 2017.

Additional terms

Interacciones controlling shareholders will provide indemnification for Banorte, indemnification to Banorte and establish two escrow trusts for such purpose. I want that to be clear.

Approvals and timing

Banorte requires the affirmative vote of a majority of all shares issued and outstanding to approve the merger. It will publish a shareholder meeting in early November to take place in early December. The closing date is expected to be in the mid-2018, after regulatory authorizations are received.

Transaction Merits

Now, many of you are wondering why we are acquiring Interacciones.

Strategic

Strategically are the bigger six items that I have here.

1. It is an attractive standalone bank with consistent performance.
2. It has a successful and unique infrastructure financing business with relevant expansion potential.
3. It provides a complementary government lending platform to Banorte.
4. It will consolidate our competitive position in Mexico.
5. It offers a significant synergy potential.
6. It presents a low integration and execution risk.

Financial

Now, let me talk about the financial reasons.

1. We achieve an attractive valuation for the transaction.
2. We expect it to be accretive to the EPS in 2018 and high single-digit accretive for the first full year of the ownership in the year 2019.
3. It preserves and reinforces our 2020 ROE targets.
4. The combination of stock and cash minimizes ownership dilution for our existing shareholders while enhancing EPS accretion.

Interacciones Business Model Overview

Interacciones is focused in low-risk segments, primarily sub-sovereign government clients and infrastructure financing. Its government business is highly complementary to Banorte's government business, which is more oriented to the federal government. So, there is not a lot of client overlap. Even more important, Interacciones has been able to successfully transform the state and municipality grade book into essentially federal-graded risk. 93.5% of its total loan portfolio is guaranteed with federal funds.

It shows a superior risk-return profile versus a solid Mexican campaign. And, it has proven to be a resilient and profitable business model across cycles.

Consolidates Banorte's Competitive Position

Furthermore, this transaction consolidates our competitive position in Mexico, whereby Banorte becomes, as I said, the second player as measured by assets and loans and deposits.

Significant Synergies

Now I would like to focus on the synergies potential. On the operating cost side, we have estimated annual savings to be between Ps\$1.5 billion and Ps\$1.6 billion in the year 2018 or 5% of the combined company cost base. On the funding side, we face a substantial reduction of 40-56 basis points, or Ps\$200-800 million by the year 2016. Finally, we believe there are cross-selling opportunities to capitalize our proven cross-selling capabilities and the new client base.

We are confident of our ability to achieve synergies. As Interacciones' has a branchless model, it will be relatively straightforward to Banorte systems and corporate infrastructure. We have developed strong integration capabilities in a series of prior acquisitions.

Transaction Valuation

The package value that Interacciones shareholders will receive is equivalent to Ps\$98.4 per share, based on the last share price of Banorte on 24 October 2017. The value implies a price to book ratio of 1.7. The transactions implied share exchange ratio is below the profit shares ratio as of 24 October 2017 and also the three-year trailing markets average ratio. Also, Banorte is issuing shares at strong valuation levels, which together with the cash component, lowers the ownership dilution for Banorte's shareholders.

Attractive Financial Impact, Enhancing KPIs

The financial impact for the transaction is attractive to GFNorte and it enhances the key performance indicators of the group. For example, increasing earnings per share is positive even without synergies for the years 2018 and 2019. Increases that we estimate with synergies is about 3% in 2018 and between 8.5-10.5% in the year 2019. These 2018 estimates are net of the one-time cost to achieve the synergies and we expect that the one time-cost expenses will be incurred in calendar year 2018. Also, it preserves and reinforces our ROE target of 20% by the year 2020.

We also estimate that the CET1 capital ratio will be within our stated 12-12.5% capital range at the end of the year 2018. And we will continue generating organic capital in the following years.

Corporate Governance Standards

Now, let me refer to a few corporate governance matters that are important. First of all, again, let me remind you that the decision to approve the transactions rests solely with Banorte shareholders as per our bylaws. Because the transaction is a stock transaction merger, the transaction will only occur if it is approved by the shareholders in an extraordinary shareholders' meeting, for which a 75% quorum is required on first call and a majority of the total outstanding shares, not just a majority of the shares represented at the meeting, must vote in favor the transaction.

If the transaction is approved, the Hank family will have a confirmed ownership of 2.6% in Banorte, while the Gonzales family will have a pro forma ownership in Banorte of 10%, down from its current 10.4%. The transaction will have no impact on the allocation of Board seats, nor will it have a meaningful impact on insider's ability to influence the outcome of the voting at the shareholder meeting.

In line with corporate best practices and [inaudible] to the majority of the minority voting threshold commonly involved in related party transactions, Banorte's Chairman has informed his intention to recommend to the firm which owns the majority that the trust should vote its shares in line with the majority of all unaffiliated shares. It is important to note, however, that the Chairman does not have the power to direct how the Trust will vote. But, he has committed to abstain from voting on any Trust decision other than to approve his recommended action.

Transaction Timeline

Now, on the timeline, we expect to call for a shareholders' meeting in early November. Generally, an extraordinary shareholders' meeting will take place in early December. Regulatory approvals are expected to take up to 180 days with the first expected transaction to close by mid-2018. The Chairman of the Board of Directors of Banorte issued a letter to shareholders permitting[?] them control[?] in the transaction. You can see it on our website.

Summary

To finalize before we open to questions, I would like to mention a few key takeaways again. First, the transactions that we are proposing will be taken to a shareholders' vote and it is their decision to approve it or not. Second, we believe this is the right time for pursuing this acquisition, based on Banorte's [inaudible], which, despite the belief that there is still further room for our share price, the relative position[?] makes an acquisition very accretive to our shareholders. Third, Interacciones business model brings comparable expertise in a specific segment that has shown sustainable profitability and growth. And given their portfolio is 93+% guaranteed by federal sources, we are really taking on sovereign [inaudible]. Fourth, the potential for significant synergies with a relatively low execution risk, makes this transaction even more attractive, with accretion for the first full year close to 10%. Finally, the transaction, as structured, allows Banorte to maintain a very [inaudible] and does not affect our capacity to pursue other active opportunities that may arise from time to time.

With this, I conclude my comments and now I want to open the call to Q&A. Thank you very much.

Q&A

Carlos Macedo (Goldman Sachs): Thank you. Good morning, Marcos, Rafael and Ursula. A couple of questions. The first question is you talked about synergies on the expense side, Ps\$1.5-1.6 billion. As you said, there is not an overlap. There are no branches to close. There might be an overlap in back office and things like that. Total expenses for Interacciones for 2016 were Ps\$2.8 billion. You are talking about cutting over 50% of the expenses. Can you talk a little bit about where that is going to come from and where you are going to cut? Is it going to be headcount? Is it going to be back office? Where are you actually going to achieve that savings?

Second, could you give us a little bit more color on how this is going to affect your capital ratio? It is not tight by any means, but you are putting on around a half a book value there of Interacciones in good will that should lower your tier one capital ratio. Can you talk a little bit about that? Thank you.

Marcos Ramirez: Thank you, Carlos. The first one is it will grow all the board. Also remember that the cost of the funds is going to be cheaper and that is why. Rafael will help us to define that and also the capital ratio.

Rafael Arana: Carlos, as you mentioned, if you go on a line-by-line basis, there is a lot of redundancy based upon the back offices, and on the technology side and the operational side. There is a lot of value in specific positions at Interacciones that are end to end pretty good machinery to build up our infrastructure projects. So, we already identified specifically what

is going to be the case, but I can say that only redundancy in the back offices, all the technology pieces will be integrated. A lot of the basic functions of the entity will be absorbed by the scale of Banorte. We will be really taking and fibrillating the specific business unit that produces the value for the company.

On the personal side, there are specific numbers on professional fees that could be absorbed easily into the infrastructure of Banorte. Tax and duties, as soon as you start reducing all the overall size of the company, you also pay less value-added taxes. Also, a lot of small expenses that are related to software technology licenses will be fully integrated into Banorte. In addition, as you know, the cost of funds of Banorte is around 3.1 at this point in time, compared to 7.2 of Interacciones. We will not, obviously, integrate fully into that, because we have to fund more on the side of Banorte. However, we have a lot less funding cost than Interacciones, so since day one there will be a very significant reduction in the cost of funds for the transaction that we will be funding for Interacciones. So, that is in addition of the synergies.

As you mentioned, we are aiming to look at numbers of 50-65% synergies advantage in the transaction. Why? Because the execution cost and the execution risk are pretty low for the transaction, so there is a lot of potential in the synergies.

I think that you should look at this transaction in a way that basically the net income of Interacciones will stay as is, and improve a little bit since we can build up a lot of cross-sell on the transactions. But mainly, what you will see is that we will be keeping the net income and reducing significantly the costs to generate that net income.

I can give you an example. Interacciones currently runs at a 41% cost to income ratio. Due to all the synergies and the integration and things, that same operation can be running around 12% cost to income ratio. So, it is pretty significant, the numbers that we are looking at in this part.

In the capital ratio, as you saw, we will basically do[?] the transaction in two portions. The first one is 50% will be coming from cash and the second one will be shares that will be issued by Banorte. The capital ratio of Banorte, as you know, has been always pretty good in building up capital through the year. Our loan growth is around 12-13% and the EPS growth and the net income growth has been ranging from 18-21%. So, we have been pretty strong builders of capital and the architecture of the group that is basically more and more recurrent base and very efficient in the use of capital. In the insurance business, [inaudible] and all those who are the ones who are always building capital for the group will remain as they are. We will see that they will see a small reduction in the capital tier one. If you do the transaction today, the tier one capital of the bank will be around the 11.4-11.5%. But since this will be close by during May/June next year, if all the approvals go and the Assembly approves the transaction, you will be again – the core tier one jumping to 12-12.2% in less than a year, speaking from today.

Carlos Macedo: Okay, Rafael. I have just one follow-up here. The timetable for the cost synergies, is it three years? Is it two years? How quickly can you achieve them?

Rafael Arana: No. For the cost synergies, we have a very specific, detailed plan to be achieved in six months.

Carlos Macedo: Six months. Thank you.

Philip Finch (UBS): Good morning, everyone. Thank you for the presentation. My first question really is timing on this announcement. I think it has caught a lot of people by surprise. I do not think it was anticipated by many people. I just want to ask what is driving (a) the decision, but secondly (b) is there any specific reason for announcing it yesterday? Is there any strategic rationale behind that? The second question is just in terms of the merger, assuming it takes place, what is going to be the combined market share of loans to the government sector? And are you confident there will not be any issues with the competition regulator that may result in the deal being blocked? Thank you very much.

Marcos Ramirez: Thank you, Philip. Regarding the first one, we do not have a specific day, whether it was today or tomorrow. I do not know. We needed the corporate governance to work properly and we did that thoroughly. Now, we have the deal and that is why it is today. But it is not done on this specific day, because it was today. That is the program.

Going to the combined market and the competition regulator, I will ask Rafael to respond.

Rafael Arana: Thank you, Philip. In addition to what Marcos said, that is a question that we have been getting. Why are you doing this transaction and why you are doing it at this time? As you have seen, the value of the share of Banorte, the currency of Banorte has been going up and up. If you see some numbers of the transaction, we have been looking to really be able to use our capital in a more efficient way. We have been increasing the payout ratio and we will continue to do so. But there were always opportunities in the market. We are always looking for that.

The currency that Banorte started to have was very attractive for us to do and look for potential transactions. When we were looking, we looked for at least three or four potential targets. The key one that we really saw, that had a very low execution rate and was accretive since day one and we could use the power of the currency of Banorte, was Interacciones. We started to look at Interacciones basically to try to buy some loans from them, because we know they are tight on the funding side.

In the meantime, we started looking at the way they structure their deals, because we were pretty accepted[?] that this was a recurring business or not. What we found is that it is a very rich business in the fee side, in the way they structure the deals and the way they are able to match the needs of the specific states and municipalities related to infrastructure. And also tie that up with the potential money that is sitting on the federal budget that should be used for infrastructure. But, they cannot use those monies if that is not structured properly under the new law of transparency and the financial regulation for the states and municipalities.

Basically, what Interacciones is doing is complementing a void in how to use the money that is sitting on the federal government and has to be applied to schools, roads, treatment plans and everything. But, there is not enough, I would say, capacity or capabilities in all the states to really be able to structure the product in the way that it should be structured. And also to follow-up on the project to assure that the execution of the project really comes in the right time and at the right cost.

That is exactly what we found. We were also very skeptical of those pieces and the more we went deep into the process, the more we liked the process. Instead of looking at the specific buying of some loans that we were interested in, we were really more and more interested in seeing if we could really integrate a specific business unit that could really enhance the capabilities that we already have on the government side; and be of use in order to help the states and municipalities to really improve how they can build up infrastructure that is so needed in Mexico.

It is important to notice that Interacciones only covers 8% of the infrastructure needs of the market. So, there is a huge market. There is a huge need in Mexico. So, when we saw that, the strategic capabilities that we could add and the specific capabilities in the process management, project structuring, and this way to tie up the needs and the offers that they have on the federal budget, really started to make us look at this more in depth. The more we looked, the more we liked it.

Also, that was not the only target that we were looking at. This target will give us a specific unit that we do not have. It is unique. It is very rich in the field. There is a lot of potential in the synergies side in the cost of forms, in the cost of reducing costs and also allows us to really play in a part that we were not playing in the past. That is infrastructure for states and municipalities, that requires a very specific set of skills that no one has, but this bank has developed in the past.

The fact that there will be some concentration on some states, I think that, as you will see, there is only very specific ones that could be considered that there is some concentration. That will have to be looked at by the regulators. But, we also are aiming to see – and this is very important to understand – that most of these loans that Interacciones has are the same as Banorte has and are guaranteed by federal transfers. So, the credit risk is also very low, as you can see in the MPL for Interacciones. And we really do very specific diligence on that to really verify that the numbers are the right ones. So, we have a very low risk transaction in execution risk, a lot of synergies. We add specific capabilities for the bank that has a huge market to be filled. There is potential [inaudible] concentration that has to be sorted out with the authorities.

Another thing that is very important to understand in this transaction is that Banorte usually gets a return on equity in some of the relationships that we have with the government when we provide most of the services and benefits, plus the loans. These are very good returns on equity. What we are basically getting here, as Marcos mentioned, is sovereign type of debt. We will have much better return than the UMS is giving to the market. So, we see this as a very attractive financial transaction. The accretiveness of the transaction, we will be reaching in the full year of the transaction close to 10.5%, including all the synergies and all the benefits on the funding side.

Overall, as you say, why now? Because the currency of Banorte at its peak. There was a potential opportunity that we saw, and that was a unique opportunity with a very low cost of execution and a very low risk of execution. There is no redundancy in branches. There are specific redundancies that we have to take care of, but it is very efficient the way we can integrate this transaction.

The other part is also, why now and why? In the past, since the integration of the Chairman[?], why Interacciones? [Inaudible] integrated into Banorte. As you know we always said, 'No, until the bylaws were changed.' Now, the possibility for this transaction to go forward is fully and solely dependent on the shareholders. The bylaws are in line with the best practices in corporate governance. It is up to the shareholders. We, as management, as Marcos mentioned, we think this transaction creates value for the shareholders and creates a permanent and sustainable value also for the benefit of how the structure in Mexico should be built under the new laws and new regulations. With the skill of Banorte, we could really enhance and speed up building up this needed infrastructure in the country with very reasonable returns. I would say that is basically what is driving this transaction today, Philip.

I am open for more questions.

Philip Finch: Okay, thank you, Rafael. Maybe just a quick follow-up on that. Can you just clarify, again, what happens is we need extraordinary shareholders' meeting probably in early December, where you need a quorum of 75% and the majority of shareholders to vote in favor of the deal. Am I correct in understanding?

Marcos Ramirez: Yes, that is correct Philip.

Philip Finch: Okay, great. Thank you very much indeed.

Tito Labarta (Deutsche Bank): Hi, good morning. Thanks for the call. I guess I had a question following up a little bit in concerns of the timing, or more the need to do the acquisition. If we look at your recent history, you have had a very good performance in terms of improving your profitability. You have ROE back to pre-global financial crisis levels. So, you have been really executing on your strategy and I think that is part of what is contributed to the expensive currency that you now have. What we see from the market yesterday, you kind of lost a bit of that premium. One, did you need to do this to reach the 20% ROE target for 2020? Could you not have done it organically? Will you need to do any more acquisitions to do that? Secondly, could there be any changes in the agreement given the reduction in the stock price that we saw yesterday? Or is it just the number of shares that you are going to be giving to Interacciones? Thank you.

Rafael Arana: Thanks for your question. To first one is that no, we do not need this to achieve the 20% return on equity. This is addition to the 20% that we commit to the market. We always commit to the market that we will reach the 20% on organic growth and on efficiencies that we were providing. The profitability, as you say, has been assured and is ongoing. What happened yesterday, yes, there was a big drop on the share. I think it was important that the shareholders have all the information to make the right decision about this transaction. They will see that the accretiveness of this transaction is there. It is not affecting anything, and it is not related to the 20%. What we are really adding to the institution is an additional capability for the long run to be fully involved in the building up of infrastructure of the country in a very specific way, with very skilled capabilities, that will allow Banorte to have an ongoing and a very rich business, based upon the demand that we have in Mexico.

As you say, the currency is based upon the performance that we have been showing to the market and that performance will continue. We are very confident, as we mentioned in the past call, that we are very confident that we will achieve the high end of the guidance that we

have. There is no effect on the capital ratio that cannot be immediately recovered in the next four to five months. I think it is a transaction that benefits the shareholders because the dilution of the shareholders is quite small. Also, the EPS that we are adding to the shares is around 10%, so it is a pretty rich financial transaction. And also gives us a very rich business to continual recurring fee base, is a very efficient use of capital, that we will benefit from the scale and funding of Banorte. So, this will be adding to the 20%.

We do not need this to reach the 20%. But, we are doing it, adding capability that we did not have, and, I will say, at a very reasonable integration and execution risk. What you will see is that Banorte, as we have done in the past, continues to build up an architecture that is more and more efficient in the use of capital. And that will guarantee the returns of capital to the shareholders.

Tito Labarta: Great. Thanks, Rafael. Following up on my second question in terms of the structure of the deal, the 109 million shares, could that change, based on a stock price?

Rafael Arana: No. It is fixed. The number of shares has been fixed and there was specific price when we set up for the deal. Okay?

Tito Labarta: Great. Thanks, Rafael.

Jason Mullin (Deutsche Bank): Thank you very much. My question from a strategic perspective is I understand the attractiveness of the business and the returns. But now, it depends how you measure, but if you look at the CNBV data, it looks like in lending to government, the combined entity would have about 40% market share. Is the intention to keep that market share? And this would now be probably lending to government about 30% of your loan book. Is this where you want to be? Or more at 33%, I think, on our calculation. Clearly sovereign risk is a low risk, but we have a potential change in the government coming. Can you talk about risk to that business with a different administration?

Rafael Arana: Yes. I think it is quite important to make a difference here. The usual lending and tenure of the loans that you give to the federal government to the state can be three to five to seven years, based on the history in the past. The kind of deals that we are talking now when you get into infrastructure and things, these deals are in a much more short term. You can have infrastructure deals that run from a year to a year and a half, depending on the type of project on which we are embarking.

What you will see is a very high turnover in some of these deals. That is what allows you to have all the structuring and the project management and everything, and that is where you basically recover the fees. Therefore, what you will see is maybe the number, as you mentioned, yes, will go up. But the tenure and the mix and the characteristics of the loans will completely change. That portion will be at a very high turnover, because of the characteristics. You are lending to a specific project in this part.

As you mentioned, the sovereign risk, yes, is a low risk, and you have seen the story of the government lending part in Mexico, the big hiccup was Squawilla[?] four or five years ago. Then the laws changed and now the transparency law and all has put everybody in the right track. Therefore, the sovereign risk has not been affected related to the government lending.

If you say that the change in the government could affect, I think the need for infrastructure in Mexico will remain for many, many years. One of the key issues that some people will

worry and also, we were concerned with, is that if Interacciones was working only with a specific political party, but that is not the case. Interacciones has been working with mostly all the states and with all different entities, from the PRI, from the bank, from the PRD, from the PT. So, it is really based upon the needs of the infrastructure of the state. It is not based upon any political party.

Those specific needs need to be fulfilled and that is exactly where Interacciones comes in. If you do not have this type of structure, they will never be able to access the federal funds and really transform those federal funds into specific projects that are usually short-term projects, like one to two years. So, that is a big difference.

You are adding up, yes, sovereign federal transfers that are guaranteed by the government, but it is a completely different business in the way the turnover happens and how frequent and how fast those projects go.

Jason Mullin: Rafael, that is helpful. Just a follow-up on the cost, can you talk and quantify the one-time charges that will be needed to obtain these longer-term cost synergies? And also, just what is the size of the goodwill? How will that be recorded in the balance sheet? Thank you.

Rafael Arana: Yes. The goodwill will be recorded in the balance sheet and the goodwill is going to be around Ps\$8-9 billion. The full restructuring costs will be around Ps\$645 million for the full process.

Jason Mullin: Thank you, Rafael.

Marcos Ramirez: Just to complement what Rafael already said about the change in government, there are two things that I believe are important. Number one, there is no single candidate that does not want [inaudible] public [inaudible]. All candidates are on board with that and I think that is very important. The second one is, let us say somebody wants to put the institutional constraints on the country on a test. Honestly, all the new [inaudible] loss consists for a state and municipality and secondary loss. So, you will need 50% +1 one of the Lower House and of the Senate to change those. In the context of all the guarantees, the environment[?] needs to state for municipalities, it is going to very hard to change that law and I do think that is another important thing to add. Thanks.

Eduardo Rosman (BTD Paschal): Hi, good morning. I have two questions. The first one is a follow-up on the process. I just wanted to know what will be the next steps in the event you are not able to achieve the 75% minimum attendance. That will be question number one. Question number two, in case the deal is rejected, I imagine that you could still do this merger in the future, depending on the conditions. I want to know if there is a legal timeframe that you need to take before eventually proposing a merger again in the future. Is it six months or one year? If you could give us more color on that, it would be helpful.

Rafael Arana: Thank you for the question. I think, to be honest, we are fully concentrated on what we know today. That is, we also called for the assembly, as you know. They have to approve or not. If the shareholders do not approve the transaction, I think then we will have to see a completely different structure on that. We are not thinking in a process of recurring percent in transactions to the Board. I think the shareholders, as you know by the bylaws, all the power for saying yes or no. If they say, 'No,' it is a no. That is the way the bylaws are

set up. What we are doing as management in this process is presenting the shareholders that this is a transaction that makes sense financially and strategically, adds a lot of value and will bring value on a permanent basis to the shareholders. Yes, we think so. But if they say, 'No,' it is no.

Speaker: But to answer the other question, 75%, if you do not get a quorum on the first call, you can have a second call. And then the quorum would be 50%. But you still need 50% +1 of all the shares to be approved

Rafael Arana: Yes, and also as a reminder to all, we have a very active shareholders' meeting. The average presence of the shareholders has been 78% in the past. We are always very close to our shareholders and investors and everybody, so there is a lot of transparency in how we call for the assemblies, how the assembly is presented, and the time to call the assembly. The shareholders always are very, very active in the participation on the shareholder assemblies.

Eduardo Rosman: Okay, very good. Thank you very much.

George Friedman (Citi): Thank for taking my question. I think most of the points I got already clarified, but I would just like to revisit two different points. First, could you share with us in any way how the controlling families that will be part of the combined entity are expected to vote? Should they follow the majority of the minority shareholders in the decision? This is the first question.

And the second question, I am not completely familiarized with the processes in the Mexican exchange. I understand that with regards to Interacciones, approximately 30% of the shareholders are minorities. I understand as well that given the current share price of Banorte in the proposed structure, the implied valuation of the transaction should be below the market cap of Interacciones. So, my question is, aside the general shareholders' meeting that Banorte is calling, do you think that minorities of Interacciones could in any way block the deal? Thank you very much.

Speaker: In the case of the 10.4% of the shares that the Gonzales family vote, they are all placed in a trust that has its own corporate governance. This trust votes according to the decision of a committee formed by 13 people. The 13 have three members that are independent and the other 10 are part of the family. Our Chairman is one of those 13 members, and what he has accepted is to propose to the Committee to vote according to the majority of the independent shareholders. Now, if the Committee does not agree to do so, he will abstain from the vote. That is the agreement he has reached so far. However, the Committee will meet once the shareholders' meeting is called. That should take place maybe five or six days after we call the shareholders' meeting. So then, we will have their decision on the way they vote but the Chairman will try to have the Committee vote according to the majority.

Rafael Arana: In the second one concerning the valuation and things, remember that it is customary if you look at studies below the market price, well, you have to look also at how this share has been performing in the past. Basically, what we did is we take what we call the unaffected price – that was around Ps\$82 – of Interacciones and we are paying a premium for the control around 18-20%. Basically, the shareholders of Interacciones are now getting is a share that is highly liquid with a very strong potential, and also with a very strong currency. I

do not know what could happen in the Interacciones assembly, but I think the value of the transactions for the shareholders of Banorte and for the shareholders of Interacciones can be explained pretty easily.

George Friedman: Okay, that is perfect. I really appreciate the follow-ups. Thank you.

Marcello Tellez (Credit Suisse): Hello, everyone. Thanks for your time. I have two questions. You do not seem to be worried about revenue overlap in this transaction, but when you look at your market share through state municipalities only, it is going from 28% to roughly 50%. So, my question here is what is different between your lending through states and municipalities? That is just a business of Interacciones. Is it that different?

The other point that I would like to make is that if you look at Interacciones numbers, there has been a trend of declining margins over time, but many are led by fee values[?], which are quite high compared or versus the loans. I would like to hear from you if there is any concern regarding that, any [inaudible] any sort of a reduction in those fees down the road.

And just one additional question that I just remembered. In case the transaction is not approved by shareholders, would you consider buying part of the loan portfolio off Interacciones?

Rafael Arana: Thank you, Marcello. I think the question that you have is exactly the question that we have for many years in our heads. We were competing in the same market and we were competing with the same products. I think there are specific distinctions of this. Banorte, basically if you look at the government level, we usually do the federal pieces and state and very small in municipalities, and use very plain vanilla financing. Large projects are maybe eight to ten years, so large projects with very plain vanilla financing. It is basically you get the margin and you go in because you really want to get all the services around those projects. The cross-selling is what really makes it attractive for us to go into these deals.

From the other side, Interacciones is basically in states and municipalities, and it is a completely different business. The finances are much more oriented, as we mentioned, to specific projects that have to be built up in states and municipalities. They require not only the financing. They require the full structure of the project, the follow-up of the project, to be very attentive to the bidding processes, to have all the requirements in order to comply with the law. So, in the one part of Banorte you have very basic, plain vanilla lending process, plus a lot of potential cross-sell on the services.

In the type of Interacciones, it is completely different. What you do is you go and structure the whole process for the states and municipalities to be able to attain and get the funds from the federal government. That part is what really is unique. It takes engineering[?], it takes a structural list. It takes a bidding process that has to be followed up on the deals to be able to guarantee that the construction has a good quality. It is a completely different business. That is why they are so rich in the fees.

Therefore, if you compare the type of loans that we do – and I will not take the lending part, because for me the lending part of Interacciones is just a very small portion of what they do. We lend to the government in order to help the services. They provide the states and municipalities the full services in order to be able to build infrastructure. In addition, they

form the loan. It is a very complementary and completely different way that the things are structured. That is why they have such high fees.

As you mentioned, and we considered that on the valuation and everything, there has been a reduction on the profitability basically because of the funding side. We have not seen any drastic reduction on the fee side or the structuring side, as that is where the richness of the business is. So, it will be with the funding power of Banorte, you will put an additional margin, because if you look at the numbers of Interacciones, the margin is extremely thin because of the funding. They compensate that on the fee side, because of the whole infrastructure and follow-up of the project. For now, we will have the follow-up of the project, plus a much better, rich funding part on the margin.

Usually, and it is very important to remember this, these are short-term deals that are really tied up with the time that you need to build up the project. When you lend to the state or for the federal government, you go to a specific tenure and very basic financing. Here, you go by specific projects: hospital, schools, roads, waste management plants, water treatment plants. So, there are specific projects that have a specific life and they have to be funded in that process. Also, you get the benefit of the fees, because you follow up the project and you guarantee that the execution of the project is happening the way it should happen.

Even if you look at the additional building up on the loan book, they are a completely different type of loans.

Marcos Ramirez: Actually, they have a name that we do not have, and it is 'sub-national.' Remember when you talk about government, also it is Banorte and [inaudible]. And we have got it together because it is the government and we are happy to have it. But if you see the numbers inside, sometimes it is Banorte, sometimes it is Nacinta[?]. You are right, it is the government and we are very happy to have it.

Rafael Arana: I think, Marcello, as you, we were also very, in the past, to be able we always say we do not understand this business. We understand the business. But the more we get into the way they structured the business, it is really a very powerful and unique way of really transforming federal funds into specific projects in the way those projects should be built.

Marcello Tellez: Okay. Regarding my other question on whether we need to buy loan portfolios in case it is not approved, would that be on the table? Or is it something to be thought about later on?

Marcos Ramirez: We have started that way with a lot of clients and purists, but they are not selling it. But always, we are looking for good portfolios and let us see what happens in the future. The problem is that obviously, they do not want to sell that.

Rafael Arana: You say, can we buy some loans from them? The loans we will be buy in case will be basically the basic loans that we already do. It would be very difficult for us to buy the other part infrastructure, because we are not really buying the loans. You are buying projects and follow-up and a very detailed end-to-end process management way to do things. Yes, we can buy loans in the federal piece and state, but to buy the other part it is impossible to buy the loan. You need to buy the full machinery of the process.

Marcello Tellez: It makes sense. Thank you. Just one final question, if I may. I think at the beginning of the call you mentioned that you would asking Interacciones for

indemnification clause and set aside a trust. I was wondering what is the reason for that. And if there is, what the size of that trust will be?

Rafael Arana: It is customary for us and every time we buy the same happens [inaudible]. We setup a specific escrow account for things that we need to be looked at a much more specific detail. And that will happen from now until the closing. It is not that we see something that we do not like or whatever. For us it is customary to setup a specific trust. Basically, they go unrelated[?]. As you know, if you go to market positions to look at derivatives and everything has to be in order and things. I would say that that is customized for us every time we go into a transaction that we setup a specific escrow account in order to guarantee that if we find something that was not disclosed or anything, we have the confidence that we can cover that for the shareholders of Banorte. If we find something that is way over that part, we just walk out of the deal. That is the way we usually structure with every deal that we do.

Marcos Ramirez: Let me chip in. The indemnity was provided by the controlling shareholders, not Interacciones.

Rafael Arana: That is pretty important what Marcos says. The 68% are the ones who are providing the indemnity. Not the remaining shareholders. That is very important, too.

Marcello Tellez: I see. Thank you very much.

Arturo Langa (ITR VVA): Good morning, Marcos. Good morning, Rafael. Thank you for taking my question. I was just going back a bit on the timing. Are there any implications in your view in terms of a potential NAFTA renegotiation and the infrastructure pipeline that exists in the country? And, how would that be affected in the worst-case scenario in case of a cancellation of NAFTA? Would you expect less investment by part of the government in infrastructure or maybe a delay? What are the risks that you see there, with respect to public infrastructure in Mexico?

Marcos Ramirez: Well, Arturo, those are tough questions. We do not know for sure the answer. We are in this business and we want to be in this business for a long time. Let me give you some numbers. If you look in the Internet, you can find out in the OCDE that Mexico is the 62nd country regarding the infrastructure. In terms of population, it is 12th. Our quanta should be 4%. So, there are a lot of things to do with infrastructure in Mexico, and we want to be here. We do not know what is going to happen with the NAFTA and maybe it is going to be better. Let me skip to the next question. What is going to happen with the next President? We do not know, but we want to be there and for sure, it is a good business for us and for the country. And the more that we are in infrastructure, the more the country has more traction and that is the way we see it. We cannot make numbers there, because nobody knows for sure.

At the end, I think it is going to be good for Mexico, whatever happens.

Ursula Wilhelm: If I also may add, a lot of the infrastructure needs that we are talking about are really basic needs of the population, like roads, schools, hospitals. We are not really thinking about infrastructure that will be related to trade or [inaudible], more just the basic.

Rafael Arana: Yes. It will be coming from whatever the needs are. So, any federal budget should include these parts. Remember that there are also more and more infrastructure projects that are also being built up by the authorities. So, there is a lot of mix that could go in, but to stop the infrastructure projects in Mexico for the basic needs that also were mentioned, I do not see how. When we did the projections that we did for Interacciones in order to the valuation of the deal, we were, to be honest, quite conservative on the rate of growth of the potential businesses, not just because we think there is going to be less, but in order to be sure that the valuation and the projections that we were giving to the market and we were going on the process were conservative enough to guarantee that even a sensible reduction in the rate of growth still makes this a pretty good deal.

Arturo Langa: Okay, thank you. If I may, with a follow-up, you mentioned during the presentation that you were looking at a couple of acquisition targets and ended up deciding for the one with the lowest execution risk. However, a couple of years prior, in the strategy I believe that you were focused on integrating differing business. Could we assume that you are still looking at other acquisition targets? And is inorganic growth now back on the table, as a way to say it, meaning that you will be active or looking for more targets going forward? How do you see that playing out?

Marcos Ramirez: Thank you, Arturo. Let me be very honest here. It is easy. The first priority for us is the 2020 project[?]. We are very confident with that and we are working on it and we are delivering as you see. That is our goal. To go there and we are very happy. We do not need integrations. We do not need M&A. We do not need that, but our duty is to see what is in the market and if it makes sense, we will go for it. But we do not need it. We are very happy. We are in the sweet spot. We can do whatever we want. We will go, and we are, because we do not need anything. But, we have two years and we will hear whatever is there. In Mexico, there are 52 institutions and from our point of view, maybe some of them in the future it is going to be less. I do not know. Let us see, but we want to be open and our duty is to see what is in the market. But, again, we are in the sweet spot. We do not need anything.

Rafael Arana: What Marco says is quite important. What are we doing this? Because we found a business that we did not have in the past, that is recurring, that has a lot of huge demand in the market, that is unique. The [inaudible] pretty high because you need a very specialized set of processes and there is a very low execution risk. It does not derail off or detain us from the 2020. Synergies, a specific business unit, a unique business unit, very important barriers of entry, huge demand for the product and the most important part, huge synergies to be attained.

Arturo Langa: Okay. Thank you very much.

Mario Pierry (Bank of America Merrill Lynch): Good morning, everybody. Let me ask you three quick questions here. I am sorry if you talked about this, but I joined a little bit late. The first question is on the cash payments, will this be remunerated until the payment is made or is the cash portion of the transaction fixed? Second question is if there are any break-up fees or walk-away fees here, if one of the parties decides not to do the transaction? The third question is related to the composition of the Board and any roles that we should expect Interacciones management to have at the consolidate company? Thank you.

Rafael Arana: The cash payment is fixed, as you know, Mario. There are no break-up fees. There is no change in the Board. There are no [inaudible] additional positions for the Gonzales family to the Board since it remains independent at 73%. So, nothing happens at the Board. It continues to be fully independent. There is, at this point in time, nothing to discuss about the potential roles of the integration. However, we know exactly which parts of the business we will be integrating.

Mario Pierry: Okay, thank you.

Claudia Benavente (Santander): Hi. I have three questions. I was wondering if the recent bond issuance for \$900 million will be used to pay the cash payments. My second question is regarding the structure that will have with integration with Interacciones. Will you handle it like a holding company, or will operations be integrated? My third question is, is the 20% ROE target has that been changed? Or do you believe it can be reached before that year? Thank you.

Marcos Ramirez: I will tackle the third one, Claudia. We have not changed the ROE target. We are doing this transaction because it is on top of the others. We can do it and we want to do it if it is approved. But, we are not changing the 2020 plan at all. We want to become the best bank, financial institution in Mexico and that is our goal. We are aiming to go there I think with some success.

Ursula Wilhelm: On the structure, the idea is that the financial groups merge and after that, the operating procedures of Interacciones is merged in to Banorte. So, the banks would merge. The broker/dealers would merge, and insurance companies would merge, and so forth. Then you would have the ending structure would be the same one as Banorte has today.

Rafael Arana: Claudia, on the \$900 million, as you know, close to \$550 million was used basically to pay out the non-efficient debt that we were holding on the balance sheet. And we changed that for fully compliant additional tier one under Basel III. Of the remaining, there was close to \$250 million already being used to fund the growth in dollars for the loan book. So, no, it is not related.

Natalia Corfield (JP Morgan): Good morning and thank you for the conference. It is just a follow-up on the number that you provided with regards to goodwill. If I understood correctly, I think you said Ps\$8-9 billion. I am reaching something around Ps\$11 billion if I use a share price of Ps\$117. Therefore, I am wondering if you could share with us what exactly is the book value that you are using for Interacciones.

Rafael Arana: It is 1.78. That is the one that we were using.

Natalia Corfield: All right. Thank you.

Marcos Ramirez: Thank you very much to all of you. We would like to see you soon. Thank you. Bye.

[END OF TRANSCRIPT]