

# Banco Banorte Mexico

Overall score 41/100

ISIN CODE: MXP370711014

## Sector: Retail & Specialised Banks Emerging Market

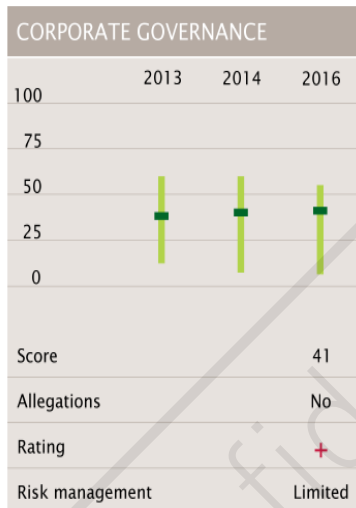
Information rate: 73% (Sector average: 47%)  
Company cooperation level: Proactive \*

Companies in sector panel: 78

### General information

Grupo Financiero Banorte (Banco Banorte), head-quartered in Monterrey, Nuevo León and founded in 1899, is the third largest bank in Mexico and the largest financial group controlled by Mexican investors. Through a network comprised of more than 1,200 branches, 7,000 ATMs, over 5,300 third-party correspondents and more than 162,000 POS terminals, it currently serves over 13 million customers in the banking sector throughout the country. Banorte provides a wide range of financial products and services including savings and investment accounts, checking accounts and money market deposits.

Main Economic Segment**	Turnover 2014
Banking Sector	69.0 %
Long Term Savings Sector	21.0 %
Brokerage Sector	6.0 %



### Key issues

Sound corporate governance is required to oversee a company's strategic direction, including the CSR strategy. Vigeo's framework has been adapted to capture the level of integration of CSR topics at Board-level, supplementing traditional signals on efficient governance practices. Directors are notably evaluated on their level of diversity and experience with operational, financial, and CSR topics (CGV1.1). The audit and internal controls system is examined regarding the efficiency and reach of its risk management (CGV2.1). Shareholders are expected to have fair voting rights and access to all relevant information on material CSR issues (CGV3.1). Executive remuneration is assessed for transparency and alignment with the interests of company's shareholders and other stakeholders (CGV4.1).

### Company performance

- The Company's performance in the Corporate Governance domain is limited in absolute terms.
- The domain's score has remained stable compared to the previous review.
- The 'Board of Directors' has reached the recommended level of independence as

more than half members are independent. Nomination, Remuneration and Audit committees are in place, on which the last one has a comprehensive role. It seems that the audit firm not receive non-audit fees and the internal control system covers some CSR risks. The Company respects "one share – one vote" but shareholders can not vote on executive remuneration, anti-takeover devices have been identified and major restrictions to convene an EGM are in place. However, room for progress remain as regards the rules determining executive remuneration.

\* On a 4-level scale: proactive, responsive, partially responsive, not responsive

\*\* See detailed economic indicators in Selected financial data section

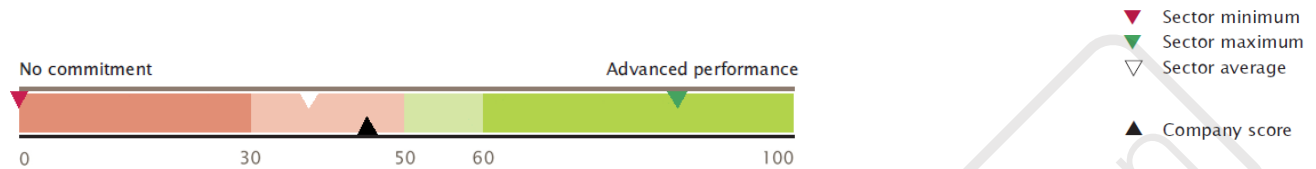
\*\*\* Based on the most recent Index at the date of publication

## Corporate Governance

Score : 41

### CGV1.1 Board of Directors

(score: 45, weight: 3)



#### [LISTED COMPANIES] Existence and independence of Nomination Committee

No executive is a member of the committee, but half or fewer are independent. *No member of the three-member Nomination Committee is considered independent. Banco Banorte names the Nomination Committee as Designation Committee.*

#### Independence of board Chairman

The roles of Chairman and CEO are separated, but the chairman is not considered independent.

#### Responsibility allocated over CSR issues

*The executive director of social responsibility and sustainability reports directly to the CEO.*

#### Share of independent shareholder-elected Board members

*In accordance with standards advocated by Vigeo, the Board is more than 50% independent. Eleven members of the fifteen-member Board are considered independent.*

#### Diversity of the skills and backgrounds of the Board

*The Company's Board of Directors diversity appears to be partial: - Board members with demonstrated professional experience in the Company's sector of activities*

#### Training and expertise provided to board members

Information obtained from company and public sources regarding training provided to board members is insufficient.

#### Regular election of Board members

*Board members are elected at least every 3 years, and these elections are not staggered. The Board Members may be appointed for defined periods of 3 years, with the possibility of reelection.*

#### Evaluation of Board's functioning and performance

Information obtained from company and public sources regarding the evaluation of board functioning and performance is insufficient.

#### Review of CSR issues at Board meeting

*Information obtained from company and public sources regarding the review of CSR issues at Board meetings is insufficient.*

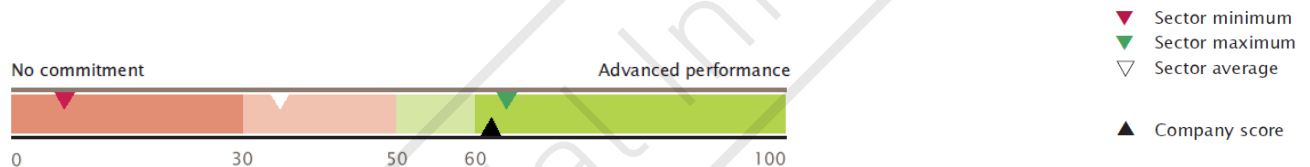
**Regularity of and attendance at Board meetings**

Regular meetings are held, but no attendance rates are disclosed.  
*Four Board meetings were held during 2014.*

Non-independent board members (excl. employee representatives)	Role	Current or Former Executive	More than 9 years on board	Stock options or warrants	Paid >1/2 executive salary	Owens or represents >3% company's shares	Other
Carlos Hank González	Chairman. Member of the Nomination Committee.	X					Former Deputy General Director
David Villarreal Montemayor			X				Considered non-independent by Company
Juan Antonio González Moreno	Member of the Nomination Committee.	X	X				Considered non-independent by Company
José Marcos Ramírez Miguel	Member of the Nomination Committee and Risk Committee.	X				X	GFNorte's CEO

**CGV2.1 Audit & Internal Controls**

(score: 62, weight: 3)



**[LISTED COMPANIES] Existence and independence of Audit Committee**

All members are independent non-executive directors.  
*All four members of the Audit Committee are considered independent. Two of them are independent and alternate Board members.*

**Skills and backgrounds of Audit Committee members**

*Members appear to have financial experience and relevant operational experience.*

**Operational and CSR risks covered by the company's internal controls system**

*The internal control system covers the standard issues related to financial, operational, and legal risks. In addition, the system covers some of the CSR risks inherent to the company's business operations:*

- Environmental risks in credit decisions & other banking activities
- Social risks in credit decisions & other banking activities

**Governance of risks**

*The company adopted most of the recommended measures for a sound risk management:*

- The Board Risk Committee is composed by a majority of independent members
- The CRO has direct access to the Board Risk Committee (including attending committee meetings)
- The Chairman of the Audit Committee is a member of the Risk Committee

**Role of the Audit Committee in overseeing internal and external controls**

*The Audit Committee has a comprehensive role that includes:*

- *Oversee internal audit and internal controls*
- *Review accounting policies and be responsible for updates*
- *Nominate the statutory auditor*
- *Oversee the work of the external auditor*
- *Approve the type of audit and non-audit services provided and fees paid to the external auditor*

**Management of the CSR risks**

*Limited processes dedicated to management of CSR risks appear to be in place:*

- *Risk mapping/materiality assessment: the company with the support of an external consulting firm, conducted a study of materiality to identify its state based on diagnosis of economic, social and environmental aspects.*

**Supervision of material risk-takers**

Information disclosed on this subject is insufficient or not relevant.

**Leverage ratio of the bank**

*At December 2012, the unweighted leverage ratio of the bank ((Equity - goodwill and less tangible assets)/ Total assets)) was 6.86%. Data for 2014 is not disclosed.*

**Independence of the firm's external auditors**

*As of December 2014, the audit firm does not receive any non-audit fees, in accordance with standards advocated by Vigeo.*

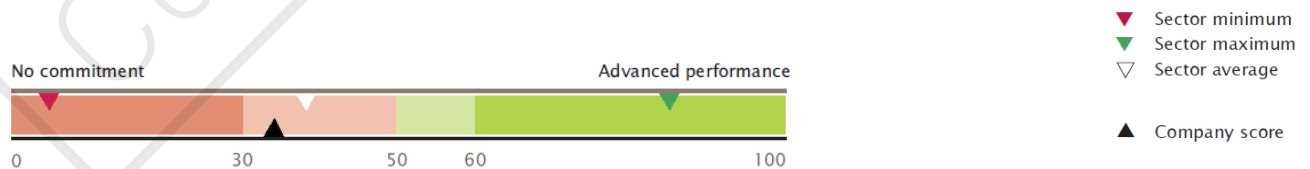
**Inclusion of CSR issues in company reporting**

The company publishes significant CSR reporting on key material issues, with an independent third party assessment of the reliability of key performance indicators, with limited/moderate level of the assurance.  
*External assurance is being performed by the consultancy company Deloitte.*

**Reliability of the company's internal controls system**

A review of stakeholder sources did not reveal any allegations for internal control failures against the company during the period under review: stakeholders' feedback is neutral.

**CGV3.1 Shareholders**  
(score: 34, weight: 2)



**Nonexistence of voting rights restrictions**

The company respects the "one share - one vote" principle.

**Nonexistence of anti-takeover devices**

Anti-takeover devices have been identified.  
*The company has set limitations on its share ownership for no Mexican financial entities, insurance & bonding institutions and mutual funds controlled by financial entities. Also, when an individual or a company intend to directly or indirectly acquire more than 5% of the paid capital stock of the company, he shall previously obtain the authorization of the official Mexican financial authorities.*

**Ability to add items to the agenda of the AGM and to convene an EGM.**

Major restrictions have been identified to convene an EGM.  
*Shareholders with voting rights wish individually or jointly make up 10% of the company's equity will have the right to call a General Shareholders' Assembly at any time.*

**Access to voting at General Meetings**

There are no major restrictions on shareholders' ability to vote, however there is no possibility of voting through online services.

**Ability to vote on relevant issues in separate resolutions at AGM**

Not all major items are put to a shareholder vote.  
*In particular the following items are not put into vote:*  
- Board fees  
- Executive remuneration

**Presentation of CSR strategy to shareholders and investors**

*Information disclosed from the entity and public sources regarding the presentation of CSR strategy to shareholders and investors is insufficient.*

**Board's attitude towards CSR-related shareholder resolutions**

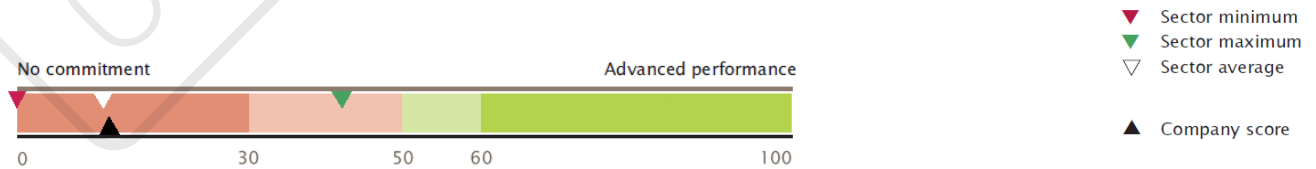
Information obtained from company and public sources, regarding the Board's attitude toward legitimate CSR related shareholder resolutions is insufficient.

**Feedback from shareholders and other stakeholders on the company's corporate governance performance**

A review of stakeholder sources did not reveal any allegations against the company during the period under review: stakeholders' feedback is neutral.

**CGV4.1 Executive Remuneration**

(score: 12, weight: 2)



**Disclosure of the remuneration of executives and material risk takers**

*Executive remuneration is disclosed, but on a collective rather than on an individual basis.*

**[LISTED COMPANIES] Existence and independence of Remuneration Committee**

A specific committee is in place, but at least one executive is part of it, which might raise concerns.

*One member of the seven-member Remuneration Committee is considered independent. Banco Banorte names the Remuneration Committee as Human Resources Committee.*

**Link between Short Term Incentive Plans and the performance of the company**

Bonuses are linked to predetermined and disclosed economic and/or operational performance indicators. In addition, the actual quantified targets are disclosed, in accordance with standards advocated by Vigeo.

*Granting of the annual performance bonus is subject to the minimum compliance of 80% of the institution's annual profit target, in addition to complying with 80% of the expected profits from the business area. In addition, the deferred annual bonus percentage to be paid in each period for each position depends on the results of the risk assessment, so that if the assessment score obtained is greater than 8, full deferred portion of the annual bonus corresponding to the evaluated period is paid. Otherwise, only a proportion of the annual bonus' deferred portion is paid.*

**Link between the main Long Term Incentive Plan and the economic performance of the company**

Information on the rules and performance conditions guiding the allocation of long-term incentives to senior executives is insufficient.

**Link between variable remuneration and CSR performance of the company**

*Some relevant CSR performance objectives are considered in the determination of variable remuneration of senior executives, but information on performance targets are not disclosed. Banco Banorte's annual bonus contemplates a performance assessment by Human Resources in order to evaluate the candidate in topics: Commitment, Development and Retention..*

**Severance pay for senior executives**

Information obtained from company and public sources regarding severance pay for senior executives is insufficient.

**Evolution of CEO-to-employee compensation ratio**

Information obtained from company and public sources regarding the compensation of CEO and the average employee salary is insufficient.

*Of note, the company reports that the ratio that executive directors' salaries have with respect to the average salary of the rest of the staff is 8.0 times the base salary.*

**Risk alignment of remuneration of top senior executives**

Less than 60% of the variable remuneration component is deferred.

*Forty percent of the bonus paid to executives is variable with payment deferred for three years, with 20% linked to performance and 80% subject to risk indicators.*

**Risk alignment of remuneration of material risk takers**

Information on risk adjustments of remuneration is insufficient or not relevant.

**Stakeholders feedback on the company's executive remuneration**

A review of stakeholder sources did not reveal any allegations against the company during the period under review: stakeholders' feedback is neutral.

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## Contacts

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