

Banco Santander Mexico

Overall score 36/100

ISIN CODE: MX41BS060005

Sector: Retail & Specialised Banks
Emerging Market

Information rate: 75% (Sector average: 54%)
Company cooperation level: Not responsive *

General information

Banco Santander Mexico SA is a Mexico-based financial institution. The Company was founded in 2004 and is headquartered in Mexico City, Mexico. The Bank offers personal and corporate loans, saving accounts, deposits, credit cards, mutual funds, lease financing, investment facilities, and business consulting services. Banco Santander Mexico operates as a subsidiary of Banco Santander.

Main Economic Segment**	Turnover 2017
Retail Banking	85.9 %
Corporate Banking	14.1 %

CORPORATE GOVERNANCE	
100	2018
75	
50	
25	
0	
Score	36
Allegations	No
Rating	=
Risk management	Limited

Key issues

Sound corporate governance is required to oversee a company's strategic direction, including the CSR strategy. Directors are 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). Executive remuneration is assessed for transparency and alignment with the interests of company's shareholders and other stakeholders (CGV4.1).

Company performance

- Banco Santander Mexico's performance in the Corporate Governance domain is limited in absolute terms.
- The Board is 11.7% independent, which is less than the recommended level and CSR issues do not appear to be reviewed regularly at the board level. The Audit Committee has a comprehensive role and the internal control systems cover some CSR issues, including business ethics and consumer privacy. The Company respects the one share - one vote principle, but an explicit anti take-over device is identified. Finally, there is a lack of transparency on rules guiding the allocation of executives' 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

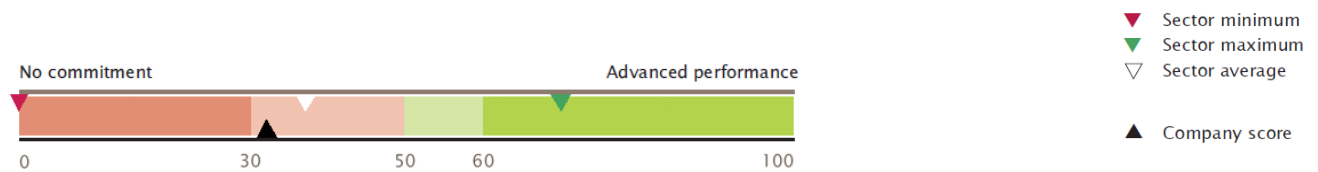
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Corporate Governance

Score : 36

CGV1.1 Board of Directors

(score: 32, 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 five-member Corporate Practices, Nominating and Compensation Committee is considered independent.

Independence of the Board Chairman

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

Responsibility allocated over CSR issues

The Head of CSR department/functions reports directly to the CEO/Board.
The Sustainability Committee reports to the executive committee. The sustainability policy is reviewed annually by the Board of Directors.

Share of independent shareholder-elected Board members

The Board is between 0 and 20% independent, which might raise concerns. Two members of the 17-member Board are considered independent.

Diversity of the skills and backgrounds of the Board

- The Board of Directors diversity appears to be partial:
- At least 30% of directors are women
 - At least 40% of directors are women
 - Employee representative(s) sitting on the Board
 - Board members with demonstrated professional experience in the company's sector of activities
 - Board members with demonstrated expertise on CSR issues

Training and expertise provided to board members

Training is provided upon joining the Board.
The Company provides training to its independent members at the moment of joining to the Board.

Regular election of Board members

Board members are eligible for re-election every year.

Evaluation of Board's functioning and performance

Performance is not evaluated regularly.
The Company does not have a evaluation system for the Board.

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.

- Business ethics
- Human capital
- Responsible customers relations
- Climate change
- Social and environmental considerations in lending and investments
- Tax policy
- Financial inclusion

Regularity of and attendance at Board meetings

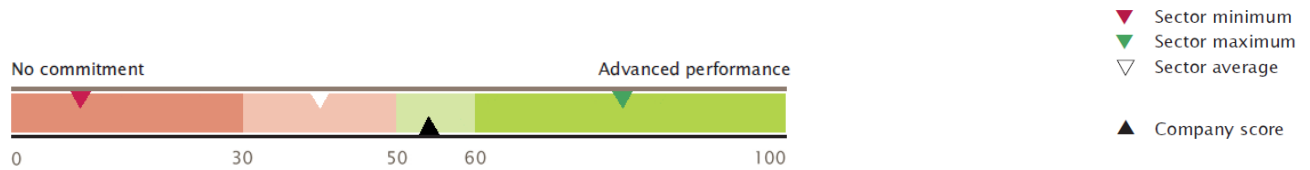
Regular meetings are held, and attendance rates are disclosed, but these are below 90%.
Four Board meetings were held during 2017 and the attendance rate was above 70%.

Name of Board member	Role	Executive	Non executive	Employee representative	Nomination	Audit	Remuneration	Former executive	> 9 years on Board	Stock options	Paid > 1/2 executive salary	Represent > 3% company's shares	Other	Independency
Marcos Martínez	Chairman of the Board, Member of the Risk Management Committee		X					X	X			X		
Héctor Grisi	Member of the Risk Management Committee	X										X		
Rodrigo Echenique			X					X				X		
Vittorio Corbo			X									X		
Fernando Borja		X										X		
Ángel Rivera		X										X		
Guillermo Güemez	Chairman of the Risk Management Committee		X									X		
Joaquín Vargas	Member of the Risk Management Committee		X						X			X		
Juan I Gallardo			X									X		
Antonio Purón	Chairman of the Corporate Practices, Nominating and Compensation Committee		X		X	X	X					X		

Name of Board member	Role	Executive	Non executive	Employee representative	Nomination	Audit	Remuneration	Former executive	> 9 years on Board	Stock options	Paid > 1/2 executive salary	Represent > 3% company's shares	Other	Independence
Gina Díez Barroso			X									X		
Jose Carredano			X		X	X	X		X			X		
Jesús Reyes			X		X							X		
Fernando Ruíz	Chairman of Audit Committee		X		X	X	X		X					
Alberto Torrado	Member of the Risk Management Committee		X		X				X					
Enrique Krauze			X											X
Guillermo Vogel			X											X

CGV2.1 Audit & Internal Controls

(score: 54, weight: 3)



[LISTED COMPANIES] Existence and independence of Audit Committee

No executive is a member of the committee, but half or fewer are independent.
No member of the three-member Audit Committee is considered independent.

Skills and backgrounds of Audit Committee members

Members appear to have financial and/or audit 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.

- Business ethics: non-compliance, tax avoidance, corruption
 - Consumer privacy & data security
 - Environmental & climate change risks in credit decisions & other banking activities
 - Social & human right risks in credit decisions & other banking activities
 - Inclusion, retention & development of staff
 - Tax avoidance/evasion
- Business ethics: the Company has a Communication and Control Committee are to monitor the Bank's money laundering and fraud prevention systems and to determine whether activity is suspicious and should therefore be reported to the authorities. The Committee also approves the norms and procedures governing money laundering and fraud prevention, reviews special projects and annual plans relating to money laundering and fraud prevention, analyses operations for suspicious activity and engages in other monitoring activities.
- Consumer privacy & data security: the Company has integrated in its factor risks the cyber security breaches.
- Inclusion, retention & development of staff: the Company considers as a risk factor the success in recruiting, retaining and developing appropriate senior management and skilled personnel for its business strategy.

Governance of risks

The company adopted only some of the recommended measures for a sound risk management:

- No executive is part of the Board Risk Committee
- The Board Risk Committee is composed by a majority of independent members
- The Chairman of the Audit Committee is a member of the Risk Committee
- The Chief Risk Officer (CRO) is at par level of Chief Financial Officer (CFO)
- The CRO has direct access to the Board Risk Committee (including attending committee meetings)

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

Although the company has set up some measures, it has not gone beyond that to integrate CSR risks in its overall strategy.

- Balanced scorecard
 - Risk-related training
 - Monitoring of key risk indicators
 - Reporting system to the Board
 - Risk mapping/materiality assessment
 - A board committee (with no executive part of it) overseeing CSR risks
- materiality assessment: the Company reports its materiality matrix with sustainability issues in its sustainability report.

Supervision of material risk-takers

Information disclosed on this subject is insufficient or not relevant.

Leverage ratio of the bank

The leverage ratio of the bank is above 7%.
At December 2017, the unweighted leverage ratio of the bank (Equity - (goodwill + intangible assets))/ Total assets was 7.4%

Independence of the firm's external auditors

The audit firm receives non-audit fees, but these represent only 25% or less of total fees.
Non-audit fees represented 20.1% of total fees paid to PwC in 2017.

Inclusion of CSR issues in the company's reporting

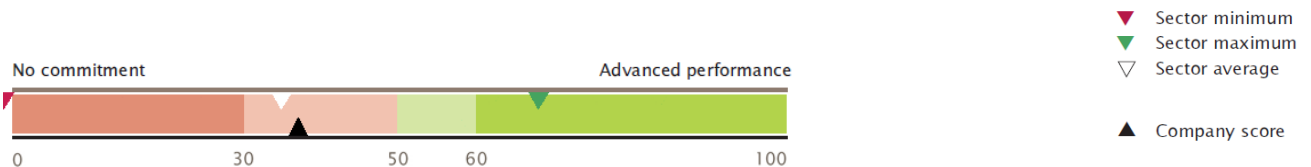
The company publishes significant CSR reporting on key material issues, with an independent third party assessment of the reliability of key performance indicators, with limited/moderate level of the assurance.
The external review made by PwC, with limited level of the assurance is based on ISAE 3000.

Stakeholders' feedback

A review of stakeholder sources did not reveal any allegations against the company during the period under review: stakeholders' feedback is neutral
As of 08/2018, Banco Santander Mexico did not appear to be involved in any controversy related to this sustainability driver.

CGV3.1 Shareholders

(score: 37, 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.
According to the bylaws, there are 2 types of Shares, F Shares and B Shares. The F shares never can be less than the 51% of the company. In addition, the F shares in 100% of Grupo Santander Mexico and only can be acquired by Grupo Santander Mexico or Banco Santander S.A. (Parent Company).

Safeguards on transactions with major shareholder(s)

Less than half of the board is independent. However, there are other safeguards in place to monitor transactions between the company and its major shareholder(s).
Articles 73, 73 Bis and 73 Bis 1 of the Mexican Banking Law regulates and limits loans and other transactions pursuant to which related parties may be liable to a bank. Transactions covered under the Articles are deposits, any type of loans, restructurings and amendments to such loans, net derivatives positions and investments in securities other than equity securities.

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

Information obtained from company and public sources, regarding the ability to add items to the agenda of the AGM and to convene an EGM, is insufficient.

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.
The following items are not put to a vote at the AGM:
- Board fees
- Executive remuneration

Presentation of CSR strategy to shareholders and investors

The company has presented to shareholders and investors its CSR strategy but this covers a limited part of the most relevant CSR issues.

- Climate change
- HRT and ENV issues in lending and investments
- Human capital
- Responsible customer relations
- Business ethics
- Tax policy
- Financial inclusion

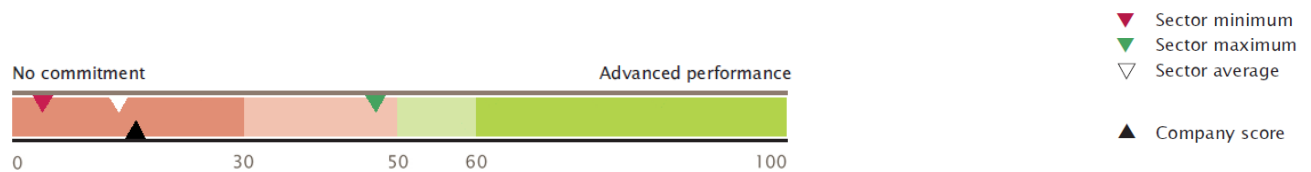
- *environmental considerations in lending: The CEO in his annual report made to the shareholders reported that Banco Santander Mexico has been recognized as leader and referent in financing wind farms Energy Projects in Mexico.*
 - *Financial inclusion: The CEO reported to the shareholders that Banco Santander Mexico has issued a financial inclusion programme for low-income individuals. Its purpose is to generate a measurable social impact via productive microcredits, an account of digital savings, its own branch network, staff, ATMs, POS terminals and electronic banking.*

Stakeholders' feedback

A review of stakeholder sources did not reveal any allegations against the company during the period under review: stakeholders' feedback is neutral
As of 08/2018, Banco Santander Mexico did not appear to be involved in any controversy related to this sustainability driver.

CGV4.1 Executive Remuneration

(score: 16, weight: 2)



[LISTED COMPANIES] Existence and independence of Remuneration Committee

No executive is a member of the committee, but half or fewer are independent.
None member of the three-member Remuneration Committee is considered independent.

Disclosure of senior executives' individual remuneration

Executive remuneration is disclosed, but on a collective rather than on an individual basis. The Company states that the remuneration of executives officers in 2017 was 416 millions (Mexican Pesos).

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

Bonuses are said to be linked to predetermined economic and/or operational performance indicators, but these are not disclosed.

Link between the main Long Term Incentive Plan and the 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

There is no disclosure on the links between variable remuneration of executive and the CSR performance of the company.

- Business ethics*
- Customer relations*
- Contribution to social development & financial inclusion*
- Indirect environmental and human right impacts*
- Human resources development*

Severance pay for senior executives

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

Risk alignment of remuneration of top senior executives

At least 60% of variable remuneration of top senior executives is deferred over a period which is between three to five years.

The Company gives a 40% as immediate payment of its variable remuneration, while the 60% is deferred to five years.

Risk alignment of remuneration of material risk takers

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

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.

The compensation of the CEO is not disclosed.

Stakeholders' feedback

A review of stakeholder sources did not reveal any allegations against the company during the period under review: stakeholders' feedback is neutral
As of 08/2018, Banco Santander Mexico did not appear to be involved in any controversy related to this sustainability driver.

Contacts

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