

# Grupo Financiero Banorte Overall score 39/100

ISIN CODE: MXP370711014

**Sector: Retail & Specialised Banks  
Emerging Market**

Information rate: 70% (Sector average: 55%)  
Company cooperation level: Responsive \*

## General information

Grupo Financiero Banorte (Banco Banorte), head-quartered in Monterrey, Nuevo León and founded in 1899, is a 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 Point of sale (POS) terminals, it currently serves over 13 million customers in the banking sector throughout the country. Banorte provides financial products and services including savings and investment accounts, checking accounts and money market deposits.

Main Economic Segment**	Turnover 2016
Banking Sector	71.0 %
Trading Sector	23.0 %
Long Term Savings	4.0 %

CORPORATE GOVERNANCE				
	2013	2014	2016	2017
Score				39
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 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). Executive remuneration is assessed for transparency and alignment with the interests of company's shareholders and other stakeholders (CGV4.1).

### Company performance

- GF Banorte's performance in the Corporate Governance domain is limited in absolute terms which is consistent compared to the previous review.
- On the positive side, the Board of Directors is more than 50% independent, and also some members has demonstrated CSR expertise. Besides, the governance of risks adopted most of the recommended measures for a sound risk management and the Audit Committee has a comprehensive role. However, there is a lack of transparency on rules guiding executives' remuneration and Anti-takeover devices and restriction to convene an EGM have been identified.
- Overall, GF Banorte ranks in line with its peers

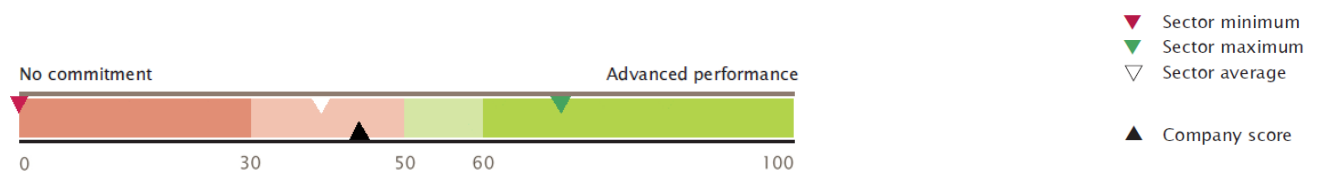
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## Corporate Governance

Score : 39

### CGV1.1 Board of Directors

(score: 44, weight: 3)



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

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

#### 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 Direction of Sustainability and Responsible Investment was left in charge of Mariuz Calvet Roquero, who reports to the Executive Direction of Relations with Investors.*

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

*In accordance with standards advocated by VigeoEiris, the Board is more than 50% independent. 10 members of the 15-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
  - Board members with demonstrated professional experience in the company's sector of activities.
  - Board members with demonstrated expertise on CSR issues: Mrs. Patricia Armendáriz serves as General Director of Sustainable Finance, Sociedad Financiera Popular dedicated to financing projects for micro-entrepreneurs and is Managing Partner and Founder of Valores Financieros, a consultancy firm for banking systems.

**Training and expertise provided to board members**

Training is provided upon joining the Board.  
Recently elected Board Members by the Shareholders' Assembly, receive an induction and orientation program, with presentations on GFNorte's and subsidiaries' acting framework for Members.

**Regular election of Board members**

Board members are eligible for re-election following three-year terms.

**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.

- 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**

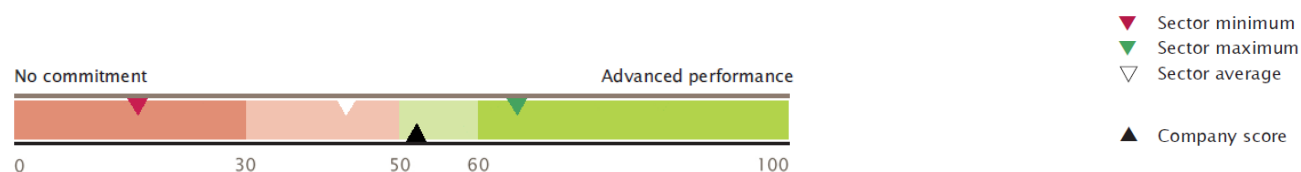
Regular meetings are held, and attendance rates are above 90%  
Four Board meetings were held during 2016, and the attendance rate was 98.3%.

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
Carlos Hank	Chairman of the Board[[SC]] Chairman of Nomination Committee		X		X			X				X		
Juan A González			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
David J Villarreal			X						X			X		
José M Ramírez	CEO	X			X							X		
Everardo Elizondo	Member of the Risk Committee[[-SC]] Chairman of Human Resources Committee		X		X		X							X
Carmen P Armendáriz			X			X								X
Héctor Reyes-Retana	Chairman of Audit Committee[[-SC]] Member of the Risk Committee		X			X								X
Eduardo Livas	Member of the Risk Committee		X				X		X					
Alfredo Elías			X											X
Adrián Sada			X											X
Alejandro Burillo			X											X
José A Chedraui			X		X									X
Alfonso de Angoitia			X		X									X
Olga Sanchez			X											X
Thomas S Heather	Member of the Risk Committee		X		X	X								X

## CGV2.1 Audit & Internal Controls

(score: 52, weight: 3)



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

All members are independent non-executive directors.  
*All members of the three-member Audit Committee are considered independent.*

### Skills and backgrounds of Audit Committee members

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

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

The system covers the standard issues related to financial, operational, and legal risks.

- 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*

**Governance of risks**

The company adopted most 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**

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

- 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 updated the materiality study to validate it and make adjustments. From the diagnosis of the economic, social and environmental aspects, the Company can identify the state of the organization in terms of policies and procedures, specific business risks and the perception of stakeholders.*

**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 2016, the unweighted leverage ratio of the bank (Equity - goodwill and less tangible assets)/ Total assets) was 8.78%*

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

Information obtained from company and public sources regarding the independence of the firm's external auditors is insufficient.

**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.

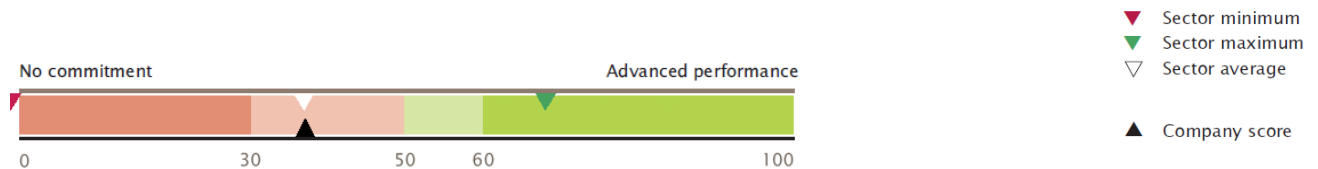
*The Company's report on CSR issues was audited by Deloitte with limited level of assurance.*

**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 12/2017, Grupo Financiero Banorte 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.  
*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.  
*Holders of voting shares, even with limited or restricted vote rights, which individually or jointly hold at least ten percent of the capital stock of the Company, shall be entitled to require at any time to call a general shareholders meeting.*

**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:*  
- Selection of external auditors  
- 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.

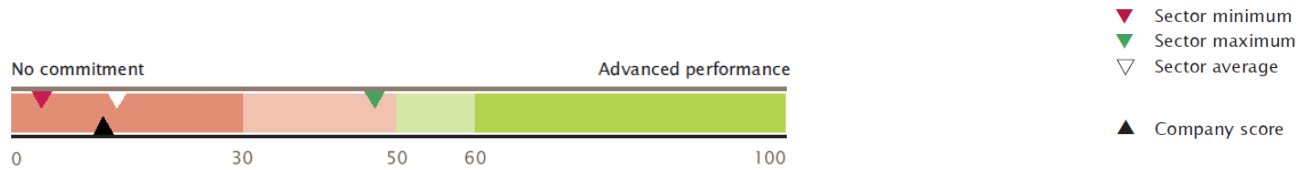
- Climate change
- HRT and ENV issues in lending and investments
- Human capital
- Responsible customer relations
- Business ethics
- Tax policy
- Financial inclusion

**Stakeholders' feedback**

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**CGV4.1 Executive Remuneration**

(score: 12, weight: 2)



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

No executive is a member of the committee, but half or fewer are independent. *One members of the two-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. Of note, the Company states to the answer to Vigeo Eiris' questionnaire that due to the issue of insecurity Mexico faced in the past decade or more, information about the CEO compensations and Executive remunerations has not been published as a precaution for our CEO and the members of the Executive Management team.*

**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. However the actual quantified targets are not disclosed. *The Bonus Plan for each business area evaluates estimated profit for that particular business, as well as an evaluation of individual performance, which takes into account the achievement of each participant's goals and objectives. The bonus for certain departments is also adjusted based on operational risk evaluations carried out by the Control Department.*

**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**

Variable remuneration is said to be linked to CSR performance objectives, but these are not disclosed.

- 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**

Less than 60% of the variable remuneration component is deferred. *For senior management, the annual bonus is covered in 60% and the remaining 40% is covered in three annual installments of 13%, 13% and 14% respectively.*

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

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

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**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 CEO remuneration is not disclosed.*

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**Stakeholders' feedback**

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## Contacts

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