

# Code of Corporate Governance

BBVA Microfinance  
Foundation  
GROUP

December 2015

Banca  ía

Financiera  
**confianza**

 **BANCO ADOPEM**  
DE AHORRO Y CRÉDITO

**emprende**  
mf  
MICROFINANZAS

**microserfin**

 fe  
FONDO ESPERANZA



# Code of Corporate Governance

BBVA Microfinance  
Foundation  
GROUP

December 2015

© **BBVA Microfinance Foundation**

All rights reserved.

The content of this document is property of BBVAMF and is protected by Intellectual and Industrial Property Laws. It cannot be used, reproduced, distributed, modified, publicized, transferred, transformed or disclosed in any way without express authorization. BBVAMF reserves the right to take legal action against anybody that violates or breaches industrial and/or intellectual property rights.

BBVA Microfinance Foundation

Paseo de Recoletos, 10.- 28001 Madrid (España)

[www.mfbbva.org](http://www.mfbbva.org)

# GENERAL TABLE OF CONTENTS



<b>Chapter I. The Foundation and the Group of members .....</b>	<b>8</b>
Corporate Governance in the BBVAMF Group.....	9
Source materials.....	11
<b>Chapter II. The Group's mission and vision.....</b>	<b>12</b>
1. Mission.....	12
2. Vision.....	12
3. The BBVAMF Group and its stakeholders.....	13
<b>Chapter III. Transparency and conflict management .....</b>	<b>18</b>
1. Transparency in the BBVAMF Group.....	18
2. Related-party transactions and handling conflicts of interest.....	19
<b>Chapter IV. The Group's Corporate and coordinating bodies .....</b>	<b>21</b>
Section I. Corporate bodies in Group entities .....	21
1. Section I. Corporate bodies in Group entities.....	21
2. Board of Directors .....	22
Directors' duties and rights.....	24
Number of members.....	28
Composition.....	29
System for selecting and appointing directors.....	29
Operation of the board of Directors.....	32
Chair and corporate secretary .....	35
3. The Board of Directors' committees .....	37
· Audit Committee .....	38
· Appointment & Remuneration Committee .....	38
· Risk Committee .....	39
· Corporate Governance Committee .....	40
4. Control Functions .....	40
· Risk management .....	40
· Compliance .....	41
· Internal audit .....	43
5. Chief Executive Officer.....	43
Section II. Group-level coordination bodies .....	45
The Strategy Committee .....	45
<b>Epilogue: Measuring what really matters.....</b>	<b>45</b>

The **BBVA Microfinance Foundation** (hereinafter, the Foundation) is a non-profit institution, with a separate legal personality from its founder, Banco Bilbao Vizcaya Argentaria (BBVA). It is independent of BBVA and of the BBVA Group in its governance and management, and subject to Spanish law. It was constituted with a founding charter, granted on 4th May 2007, in the category of “foundation promoting social care and inclusion”, and has been registered with its supervisory body, the Foundation Protectorate, since 5th July 2007.

The purpose of the Foundation is to promote access to a wide range of financial services (loans, deposits, insurance, payments and others) in order to make small-scale productive activities easier to pursue, with the ultimate goal of helping to improve families’ standards of living and contributing to the participative and sustainable development of the societies of which they form a part. The Foundation uses an extended concept of poverty and vulnerability, to mentor all those lower-income people and households that carry out, or have the potential to carry out, a self-employed productive activity.

To this end, it has rolled out its own methodology, “**Productive Finance**”, throughout its Group member institutions, to promote economic and social development effectively, to underpin the support that financial services provide for people’s productive activity. Families excluded from the formal economic system are also given advice and training, in order to furnish them with a robust entrepreneurial and financial outlook. The Foundation’s support helps to develop successful family micro-businesses, so that they can take their place in their communities, by creating a solid entrepreneurial base that creates jobs for the most vulnerable population groups.

The Foundation focuses its activity on **Latin America**, where a broad tranche of the population has no access to institutional financial services. The Foundation is aware that the microfinance sector is highly fragmented, served by institutions with vastly differing legal forms and different levels of sustainability which, between them, only reach a minority of the low-income population. That is why it believes that the priority is to contribute to extending the sustainable social reach of microfinance, which has proven to be an efficient instrument in the fight against financial exclusion, in alleviating poverty and as a powerful lever for development.

The institutions in which the Foundation has a majority stake (hereinafter, the Group) constitute a set of pioneering entities significantly differentiated by their methodology, by their shared culture and by the presence of a corporate governance framework that is continually being perfected. The Foundation, benefiting from the experience of its founder, BBVA, provides the Group with technical expertise to achieve maximum efficiency and seek out synergies and economies of scale to reinforce its competitiveness and its capacity for growth.

The Group has adopted the United Nations Universal Declaration of Human Rights and the International Labour Organization's basic labour standards. It is also fully committed to the eight Millennium Development Goals set by the United Nations in 2000, and particularly to the first ("Eradicate extreme poverty and hunger"), the third ("Promote gender equality and empower women") and the eighth ("Develop a global partnership for development"), to which it contributes directly with its activity. It is equally involved with the Agenda 2030 Sustainable Development Goals, an ambitious, long-term programme to improve people's lives, uniting efforts from countries around the world to achieve prosperity, freedom, dignity and peace.

The core aim of the Agenda 2030 is to eradicate economic, social and environmental poverty. The Group is wholly committed to ending poverty in all its forms, and particularly to item 1.4 of the Agenda, which argues that by 2030 all men and women, particularly the most vulnerable, should have access to the financial services they need, including microfinance, to eradicate poverty, the area in which the Group has been working since it was set up.

### Corporate Governance in the BBVAMF Group

The Group is a firm advocate of having a corporate governance system that shapes the structure and workings of institutions' corporate bodies to further the interests of their customers, of the community in which they operate and, in general, of all stakeholders.

The size of the Foundation's Group and its footprint in countries with different corporate governance standards make it necessary to have a basic code to bring together the guiding corporate governance principles of all the institutions it comprises. This Code of Corporate Governance (hereinafter, the Code) is a document reflecting standards, principles and best practices, which the Group is committed to keeping permanently updated, and which will be developed through guidelines and regulations tailored to the jurisdictions of each institution in the Group.

The Code establishes a framework of fundamental responsibility held by the institutions' organs of governance, designed to create long-term value sustainably for all stakeholders, respecting the integrity and empowering to their full extent the value of their physical, financial, organisational and intellectual capital (in human, structural, relational and corporate terms).

Following generally accepted criteria, good corporate governance is understood as the system of processes and procedures that enables an organisation to be appropriately governed and to remain fully aligned with its mission and vision, monitoring value creation and the efficient use of resources to achieve its long-term sustainability, while mitigating risk insofar as it is possible to do so.

The Group is convinced that **good corporate governance** encourages a clear organizational structure, with well-defined, transparent and consistent lines of responsibility, one that has efficient procedures for identifying, managing, monitoring and communicating existing and potential risk exposures.

In general terms, the Group believes that a **system of corporate governance** also serves the following purposes, although it is not limited to these:

- To provide guidance to the organisation in its main strategic aims
- To improve economic efficiency and guarantee sustainability
- To reinforce trust among investors, regulators and customers
- To manage conflicts of interest or agency
- To promote a culture of ethical and transparent behaviour
- To incentivise the behaviour of all stakeholders in such a way as to encourage the most efficient achievement of the organisation's mission

The Group's corporate governance focuses on achieving an internal management and control system using standardised principles across all the institutions, and a behavioural ethos that imbues efficiency, transparency and responsibility.

The Boards of Directors of the Group institutions are in charge of ensuring that this corporate governance system is applied and they will be accountable for it, monitoring and assessing its efficiency and adopting suitable measures to review and resolve any deficiencies that may arise.

The Group believes that the corporate governance system needs to contain appropriate mechanisms for internal monitoring, including proper administrative and accounting procedures, as well as remuneration and professional development policies and practices that are consistent with suitable and effective risk management.

A governance system that ensures that the institution is managed on a sound and prudent basis and includes appropriate and transparent distribution of roles in the organisation, together with the corresponding levels of accountability. This governance should be a reflection of an outlook that is fully understood by all members of the institution and that prepares the ground for a high standard of governance, encapsulating the principles of openness, participation and accountability, in an environment where people act openly and take responsibility for their actions.

## Source materials

The following papers and standards have been used as references in order to draft this Code,:

- International standards and good corporate governance practice, generally, and specifically those of benchmark microfinance institutions.
- Corporate Governance of Non-Listed Companies in Emerging Markets (OECD, 2006).
- OECD corporate governance principles, revised in 2008 after the global financial crisis.
- Framework Code of Corporate Good Governance Practice for institutions in the Latin American Financial Sector (*Federación Latinoamericana de Bancos - FELABAN*, 2009).
- European Commission Green Paper: EU corporate governance standards (Brussels, 2011).
- The Practice of Corporate Governance in Microfinance Institutions (Council of Microfinance Equity Funds, 2012).
- Guidelines for a Latin American Corporate Governance Code, written as part of a CAF - Development Bank of Latin America programme (2013).
- Code of Good Corporate Governance for Peruvian companies (Securities Market Authority, 2013).
- European Code of Good Conduct for Microcredit Provision (2013).
- Report by the Expert Committee on Corporate Governance for the National Securities Commission (Spain, 2013).
- Code of Best Corporate Practices - New Country Code - (Colombia, 2014).
- ICGN Global Governance Principles (International Corporate Governance Network, 2014).
- Act 10/2014 on Credit Institution Organisation, Supervision and Solvency (Spain, 2014).
- The UK Corporate Governance Code (Financial Reporting Code, 2014).
- Act 31/2014 modifying the corporate governance provisions in the Corporate Enterprises Act (Spain, 2014).
- Royal Decree issuing the regulations for Act 10/2014 on Credit Institution Organisation, Supervision and Solvency (Spain, 2015).
- Code of Good Governance obligatory for companies listed on the National Securities Market Commission (Spain, 2015).
- Corporate Governance Principles for Banks (Basel Committee on Banking Supervision, 2015).

### 1. Mission

**We define our shared mission as: “Driving the economic development of disadvantaged people in society in a sustainable and inclusive way”.** To achieve this, we make it possible for low-income people to access financial products and services.

The Group endeavours to pursue this goal among people in the lowest-income bracket possible, using financial strategies that are mainly, although not exclusively, designed to empower customers' entrepreneurial and wealth creation potential.

The Group seeks to be financially sustainable; however, profitability is not our number one priority, rather a prerequisite for ensuring long-term sustainability.

Seen from this perspective, and although the Group's microfinance institutions were set up as under mercantile company law, they remain true to their community mission, focused on fighting exclusion and poverty to drive development.

### 2. Vision

**We share a single vision: “Creating opportunities for sustainable and inclusive economic and social development using Productive Finance”.** **Productive Finance** means providing access to financial products and services that enable people to develop a productive activity on a self-employed basis which generates revenues after paying costs, including interest and fees.

The Group works for a better future for disadvantaged people, with the greatest efficiency possible, extending the reach of its actions and creating greater linkage as far as is economically viable. This has enabled us to consolidate a notable leadership position within the microfinance sector.

The Group strives to bring the highest levels of innovation, technological expertise, transparency and rigour to its management, maximizing compliance with our mission.

The Group also wants to extend the scope of our activity to its fullest extent, so that our products and services can be of use to as many people as possible. We aim to become the microfinance industry leader.

### 3. The BBVAMF Group and its stakeholders

Corporate Governance represents the model of ethical behaviour that shapes relationships between shareholders, directors, administrators, associates and all the other stakeholders, in turn influencing the relationships of all these with customers. Corporate governance is also an intrinsic component in managing those conflicts of interest that may arise, in line with the internal procedures set out in each Group entity's statutory regulations.

The Group understands the relationship with its **stakeholders** as a 360° commitment to quality, service and maximum value creation, listening and endeavouring to provide the best response to their expectations, in strict compliance with the law and applying the most rigorous levels of integrity and transparency.

This commitment covers all dimensions of our activity (legal, economic, human, social and environmental) and is aligned with our aspiration for excellence in everything we do. All member institutions must build this commitment into their core strategy and all their lines of action. Thus, it can feed into the Group's overall sustainability and promote sustainable development in the communities in which we all operate.

For the Group, our stakeholders are all those natural or legal persons who, individually or collectively, have a significant impact on our activity. Particularly important among these are:

- **The Customers**

The institutions' customers lie at the very centre of the Group's mission, which is to help customers optimize their business activities in order to improve their standards of living by means of products and services appropriate to their activity and situation. The Group's accountability towards them is understood through three commitments:

a) Firstly, **to focus preferentially** on people in low-income brackets and very small companies (micro enterprises), with special outreach to women.

b) Secondly, the commitment to **serve our customers**. This means:

- Offering a service that creates value, with the highest quality possible, in response to their needs, at the lowest cost possible, provided this is compatible with the sustainability of the entity;
- Preventing all discrimination on grounds of race, nationality, religion, social background, gender, or others;
- Scrupulously respecting legal provisions and conditions agreed;

- Meeting customers' expectations and dealing with their complaints appropriately;
  - Providing rigorous, clear and transparent information, with no misleading advertising, about products and services;
  - Adhering to the highest standards of customer protection;
  - Ensuring there are robust safety criteria in place for customers on our premises;
  - Guaranteeing personal data protection and confidentiality in line with each country's legal provisions and with demanding standards of integrity; and
  - Driving the optimisation of all channels for customer communication with their institutions, whether these be online, call centres, e-mails or others; adapting them to the latest technologies, so that interaction between institutions and customers becomes progressively more straightforward. Mechanisms for the speedy resolution of complaints and queries will be established on these channels, so that claims can be dealt with expeditiously.
- c) And, in third place, the commitment to have an **ombudsman to defend customers' interests**, chosen in compliance with legal regulations, who will act as customers' or users' spokesperson with the institution. By law, this ombudsman must be kept informed of, and resolve, objectively and free of charge, individual complaints presented about services offered or supplied, and their quality. This role demonstrates the Group institutions' determination to respect customer rights, going above and beyond current regulatory requirements.

- **Staff**

Members of staff are indispensable to the mission, and play a decisive role in serving customers correctly, as well as in generating value for the Group.

Responsibility vis-à-vis this set of people is one of the key dimensions of any company's corporate responsibility. It must focus on consolidating relationships that generate the highest achievable shared value, based on strict respect for human rights, integrity and ethical values, creating the conditions for the greatest professional and personal development of everyone working in these institutions.

Relationships should focus especially on ensuring a good working environment, respect for contract conditions, non-discrimination on grounds of race, nationality, social background, religion, gender or other diversity; equal opportunities; assessment of merit and results, with channels being established to achieve transparent, open and participatory communication and dialogue. Selection criteria must be transparent and objective, attach major importance to training, solid health and safety systems in the workplace, mechanisms for achieving work/

life balance, the possibility of social benefits on top of wages, while rigorously respecting for trade-union rights.

The Group's institutions are firmly committed to training their staff and to this end encourage regular participation in the courses imparted and designed by prestigious institutions.

The Group defines training as a planned and continuous process that matches its associates' knowledge and skills to the activity they carry out, improving and keeping them up to date with the abilities, approaches and skills that help them to give their best.

Group institutions spend a very significant proportion of their budgets on training staff, in the knowledge that professional career development and talent retention also requires a well-designed training plan tailored to professional and personal needs, which will redound to the benefit of our customers.

The Group also runs programmes across divisions and departments so that talent can move between institutions, as well as promoting training programmes that are industry benchmarks and open to the rest of the sector.

Members of staff in the Group's entities are part of a specific culture, with a particular style of leadership, the product of the fusion of the best principles and values residing in each of the institutions in the Group, which together consolidate a unique and differentiated corporate identity.

- **The Shareholders**

Good corporate governance requires the resolutions adopted at the heart of the institutions to take into account the interests of minority shareholders, marking their decisions with the stamp of clarity, consistency and ethics, so that critical issues such as fairness, truth, transparency and acknowledgment that these minorities are valid interlocutors are not ignored.

Shareholders' obligations to the institution take the form of their duty of fidelity to its corporate interests; as such, they shall exercise their rights in accordance with this interest, refraining from making declarations, manifestations or acting in any way that might injure the institution's reputation or credit. They must also abstain from using their condition as shareholders to promote their own interests, in related-party transactions or in competitive situations with a competitor, supplier or customer of the institution.

In accordance with the Group's mission, our key responsibility towards our shareholders lies in the creation of the greatest value that is sustainable over time, provided this is compatible with our mission, in which profitability and profits are seen as a means to an end: they should be subordinate to achieving as much expansion and linkage as is feasible within the scope of the institutions' activity.

- **The Suppliers**

Group institutions undertake to maintain relationships with their suppliers based on the requirements of quality and efficiency, respect for law and for contractual conditions, but also with the criteria of objectivity, transparency and equal opportunities. Selection processes will take into consideration suppliers' labour, ethical, social and environmental practices.

Institutions also assume the commitment of being aware of and taking into account suppliers' opinions and expectations of each institution, with the aim of making continuous improvements.

Suppliers of financial resources (other than customer savings and shareholder equity) deserve special mention: domestic and foreign, public-sector and private-sector financial institutions and investors (both institutional and individual). With all of these, group institutions will apply the principles and criteria listed above, with a degree of rigour commensurate with the importance of the suppliers, providing them with clear, rigorous and transparent information, paying careful attention to their specific information requests and their complaints, opinions and expectations, and respecting fully the contract conditions agreed with each.

- **National regulators and official bodies**

The Foundation is working towards an outcome in which all Group entities are, wherever possible, regulated or pursuing the transformation processes necessary to reach regulated status; this means that the pertinent regulators and national public bodies constitute a critically important stakeholder.

Within its overarching framework of respect for law, integrity and accountability, the Group upholds its commitment to comply fully with the standards, guidelines and indications established by regulators, as well as with any other applicable legal requirement. It makes available to regulators or any other public body such information as it may be asked to provide, in a timely and transparent fashion.

Thus, the Group declares its unwavering determination to harness all the resources within its power to prevent and avoid fraud, corruption, money laundering, financing of terrorism and any other criminal use of its infrastructure, systems, products or services.

- **Foreign and international financial and development agencies**

The Group upholds its commitment to accountability with multilateral agencies or agencies from other countries (particularly financial and development agencies) operating in the microfinance market, whether to accept suggestions, recommendations and knowledge transfer, or through training, technical and financial help, as both donors and suppliers of financial resources.

All Group institutions must endeavour to maintain relationships with these bodies that are grounded in integrity and accountability, paying full heed to their indications.

- **Society and social agents**

The Group's corporate responsibility extends to the surroundings in which it operates. Institutions not only have an impact on –and are conditioned by– people, institutions and specific differentiated groups, but also have a fundamental relationship with the societies in which they operate and very particularly with the local communities in which they pursue their activities.

This commitment is also made to social agents (the media, consumer associations, social and environmental organisations, etc) that give voice to these communities' interests and work on their behalf.

Furthermore, in line with good corporate governance practices and the most important international commitments, the Group is firmly committed to the protection and preservation of the natural environment in the societies and communities where it operates.

One of the attributions of the Boards of Directors of Group institutions, and one that cannot be delegated, is that of formulating and approving their corporate responsibility policies, in order to define a model for growth and sustainability that entails efficient use of environmental resources, protection of biodiversity, pollution prevention and appropriate management of the waste generated by the Group's activities. All this must be conducted in strict compliance with national and international environmental legislation.

---

1 UN Global Compact, UNEP-Finance, "Equator Principles, Principles for Responsible Investment", among others.

### 1. Transparency in the BBVAMF Group

The Group understands **transparency** in corporate information as a cornerstone of governance for all its member institutions. As such, it upholds the commitment to provide its stakeholders with the information they need to form their own criteria when making decisions, and to understand and monitor the work of the institutions and the effectiveness of their governance bodies.

It views this commitment as a basic dimension of its corporate responsibility and as an essential component in safeguarding its own integrity, promoting trust in the markets in which it participates and making accountability to its stakeholders easier to achieve.

A commitment that needs a high degree of professional diligence on the part of those people in charge of looking after information processes and systems. Thus, the Group institutions will have to set up procedures and action templates to ensure that the requisites for conserving documents and records are met in their respective jurisdictions.

Group institutions are committed to publishing information that is useful, timely and relevant for all their stakeholders, and to ensuring that this information is regular, accurate and accessible.

The Group is aware of the importance of **corporate websites** as a channel for its relationships with its stakeholders. These websites must provide reliable information, with contents that are structured, standardised and organised under concise, explanatory headings, such that users can have swift and direct access, free of charge, to each of them. They will take particular care that the titles are clear and the language appropriate to the customer, avoiding the use of acronyms and unnecessary jargon.

The Group's institutions will make the following information, among other matters, available to its shareholders, investors and, in general to its remaining stakeholders:

- Information identifying the institution, its composition, activity, how it functions and its corporate governance system.
- Information about the social impact of Productive Finance on the social and economic development of the institutions' customers.
- Financial information, according to legal requirements and applicable accounting standards<sup>2</sup>, audited annually by an internationally recognised firm.

<sup>2</sup> *International accounting standards (IAS), or generally applicable accounting standards (GAAP) in each country will be used to prepare and present the financial statements.*

- Information about material events, particularly for securities issuers, with procedures ensuring that information is disseminated as necessary and appropriate for the market to interpret the transactions correctly.
- Information on transactions by related parties.
- Selection processes for the members of the Board of Directors.
- The key features of the remuneration system applied to members of the Board of Directors.
- Information on the management committees supporting the Board of Directors and about the meetings held throughout the year.
- Information about the corporate policies on sustainability and the environment.

In any event, the use of **channels of communication and dialogue** that encourage engagement with stakeholders will be promoted in order to reach a balance between the institution's values and social expectations.

## 2. Related-party transactions and handling conflicts of interest

The Group believes that a well-communicated internal procedure should be embedded in corporate culture, one that allows the conflicts of interest that arise in the course of its business dealings to be dealt with, and one that defines the course of action expected from all parties involved.

Normal business dealings may give rise to related-party transactions between the institution and its directors, managers, employees and associates. Transactions that, in some cases, may be financially beneficial and create value for the institution, and others that may entail a potential financial loss but that, in any event, may represent a risk to its institutional reputation.

Related-party transactions are those which a Group institution or institutions conducts with directors, major shareholders, managers and top executives, employees, or people related<sup>3</sup> to any of these. "Transactions" will be understood as transfers of assets, resources, services or obligations, with or without consideration.

Each institution in the Group will prepare its regulations on how it handles related-party transactions and conflicts of interest, taking into account certain shared principles:

- **Identifying the circumstances that give rise, or could give rise, to a conflict of interest that imperils the institution's interests.**

The identification of such circumstances will be the responsibility both of the individuals (shareholders, directors, managers, etc) and the organisational unit involved.

---

3 See the IAS 24 definition of "related parties".

In the case of directors, managers, top executives and employees of Group institutions, a **conflict of interest** will be deemed to exist in all those transactions or decisions in which the interest of the Group institution or institutions directly or indirectly clashes with the personal interest of the directors, managers, top executives and employees, or of parties related to them.

In the case of the institution's shareholders, a conflict of interest will be deemed to exist and they will not be able to exercise their voting rights when the matter is about adopting a resolution that favours their condition as a shareholder to the detriment of the other shareholders or the institution itself.

To better handle conflicts, all members of Group institutions must keep their list of related parties up to date.

- **Specifying procedures and measures for dealing with such conflicts**

The Secretary of the Board or the Compliance Department will analyse the circumstances specific to each conflict, and prepare the subsequent report, as per internal regulations, to be submitted up to the corresponding authority (General Meeting of Shareholders, Board of Directors or Ethics & Disciplinary Committee) for their resolution.

In the case of shareholders, directors, managers and top executives, and unless there are specific provisions to the contrary in the pertinent legislation, the authorisation of the Board of Directors will not be required for related-party transactions that form part of business as usual, fall within limited values and are conducted under market conditions.

- **Establishing the rules for recording conflicts of interest and making these transparent**

The institutions will adopt procedures so that the Board of Directors is kept informed, in the manner and frequency they determine, of all conflicts handled.

The Corporate Secretary's office will keep a record of related-party transactions and of conflicts handled, for the purpose of publishing this information in the Annual Activity Report. The Compliance Department must report related-party transactions and the conflicts of interest that have been handled to the Corporate Secretary's office, with the regularity laid down in internal bylaws.

This Code differentiates between two types of **organs of governance** in the Group:

- **Corporate bodies** in Group entities: these are necessary to manage each entity. They are the highest organs of decision-making, representation, administration, oversight and management in each institution.
- **Coordinating bodies** in the Group: these are constituted by consensus among Group institutions for the purpose of analysing and coordinating issues affecting more than one Group institution, or affecting areas in all or some institutions across the Group.

### SECTION I. CORPORATE BODIES IN GROUP ENTITIES

#### 1. General Meeting of Shareholders

Good corporate governance practices require institutions to provide their shareholders with the opportunity to exercise their rights to information and vote.

The resolutions adopted by the AGM following proper procedure are binding for all shareholders, including those not present, those who voted against, non-voting shareholders and abstainers.

As to their powers, structure, operating regime, rights and duties of shareholders, manner of adopting, recording and disseminating resolutions, etc., each institution will comply with the applicable legislation, while ensuring that the following **basic principles** are observed:

- I. To regulate all matters relating to the General Meeting (convening shareholders, preparation, information, attendance) in a set of regulations, which is to be approved by the AGM itself and published on the institution's website.
- II. To endeavour to convene the General Meeting with at least thirty (30) days' notice, publicising the call to meeting as much as possible.
- III. To endeavour to convene the General Meeting with at least thirty (30) days' notice, publicising the call to meeting as much as possible.
- IV. To reinforce transparency and arrange matters so that shareholders can make an informed decision in their voting choices, providing them in due time with full information about all the agenda items at each meeting, in line with applicable legislation.
- V. To hold a vote on the following matters, with each appearing as a separate item on the agenda:
  - Amendment to any clause in the bylaws, or to a group of clauses in the bylaws that are substantially independent of others;
  - Appointment, re-election and termination of any director;

- Directors' remuneration.

VI. Attendance by the members of the Board of Directors and by the Chief Executive Officer or Chair of the institution in question at the General Meeting. The Chair of the Board of Directors will inform the Meeting about the most significant changes that may have occurred in the area of corporate governance since the previous General Meeting.

## 2. Board of Directors

Each institution's Board of Directors is responsible for defending the organisation's mission, purpose and goals, keeping the institution's long-term sustainability secure and helping it to grow in value as much as possible.

Within these terms of reference, the Board of Directors, answering to the General Meeting's policy guidelines, is constituted as the entity's natural oversight and control body.

The functioning and roles of each Group institution's Board of Directors will be regulated by its own bylaws and regulations, which will also establish those Board of Directors powers that may not be delegated:

- To determine the entity's overarching policies and strategies and to propose these to the General Meeting.
- To approve and monitor corporate strategy, annual budgets and the business plan.
- To prepare the annual accounts and present them to the General Meeting.
- To convene the General Meeting, prepare its agenda and propose resolutions.
- To file and approve corporate responsibility policies, which should include the principles that the institutions undertake in their relationships with different stakeholders.
- To propose those transactions which may compromise the availability of the institution's strategic assets, and major corporate transactions.
- To check that the institution's means, systems, structures, organisation and resources are in line with best practices, enabling it to implement its risk management strategy, ensuring that the institution's management mechanisms are appropriate to its strategy.
- To implement and conduct appropriate monitoring of its internal control systems, and to approve the annual internal audit programme.
- To implement and conduct appropriate monitoring of its internal control systems, and to approve the annual internal audit programme.
- To propose a policy on treasury shares or holdings.

- k. To serve as a link between the institution and the shareholders.
- l. To approve information and communication policies for shareholders and other stakeholders.
- m. To organize and oversee the operation of the Board of Directors.
- n. To authorise or waive obligations deriving from the directors' duties.
- o. To have a succession plan in place for the Board of Directors and to ensure that the process for proposing and electing directors is formal and transparent.
- p. To implement resolutions approved by the General Meeting relative to directors' remuneration, within the framework of the bylaws and the remuneration policy, where applicable.
- q. To oversee the effective working of the committees that have been constituted and the performance of the bodies reporting to them and senior executives.
- r. To designate the Chief Executive Officer of the institution, determine his/her salary package, assess and dismiss him/her.
- s. To appoint and dismiss the senior executives reporting directly to the Board of Directors, as well as setting the basic conditions of their contracts, including their salaries.
- t. To consider and, where appropriate, approve related-party transactions and conflicts of interest affecting members of the Board of Directors and the senior management; to be informed about all related-party transactions and conflicts of interest arising within the institution.
- u. To supervise the corporate governance practices in place, and the degree of compliance with standards of ethics and behaviour adopted by the institution, and to ensure that suitable compliance risk policies<sup>4</sup> are adopted.
- v. To promote honesty and integrity throughout the organisation and to build up its corporate culture and values.
- w. To exercise the powers that the General Meeting has delegated to the Board of Directors, unless it has been expressly authorised to sub-delegate these.

As a result of the special importance for good governance of continuous vigilance over risk levels, the Board of Directors must be constantly on its guard for potential risks within the entity, and will spend a large part of its time identifying and managing these, using its good judgement and expertise in this area. It will assess the potential risks on a regular basis, ensuring compliance with risk-management plans and specifying the nature and extent of the exposure the institution is prepared to accept in order to achieve its strategic goals.

---

<sup>4</sup> Compliance risk is regulatory and/or reputational risk deriving from non-compliance with the legal provisions, rules, standards adopted and codes of conduct applying to an organisation.

The Board of Directors will adopt formal and transparent resolutions that determine the manner in which the principles of corporate reporting, risk management and internal control should be applied. It will also ensure that the institutions' relationship with their external auditors remains appropriate at all times.

The overarching principle is to act in good faith, ethically and with respect for law, regulations, internal bylaws, customs and generally accepted good practice.

In all their roles, and in line with the goals of the Code, the Board of Directors will uphold excellence in the treatment of its customers, employees, suppliers, local community and other stakeholders that may be impacted by the Group's activities, and due regard to their interests.

## DIRECTORS' DUTIES AND RIGHTS

Members of the Board of Directors will exercise the roles inherent to their respective positions on the Board or the committees of which they are members, in line with each country's legislation, internal bylaws, each institution's Board of Directors' regulations and this Group Code of Governance.

The **duties and rights** expected of the members of the Group's Boards of Directors are described below:

### I. Duties

#### I. DUE DILIGENCE

##### a. **Due diligence and the business judgment rule**

Given their fiduciary responsibilities, Board members must ensure that the institution fulfils the duties required of it by law, its own bylaws, regulations and codes of conduct with diligence. To this end, they must ensure that the regulations governing the Board of Directors, the General Meeting and all the committees are adapted to comply with the best practices and principles laid out in this Code of Governance, which will be regularly updated. Furthermore, they should enforce the institution's robust compliance with the specific regulations over the sector established by its supervisory authorities.

Board members, once elected, represent the institution's interests. They must carry out their duties in good faith, objectively and independently, with due diligence and care, in such a way that their decisions are made always in the best interests of the institution.

Their performance and actions are governed by this Code of Governance and by the rules for its implementation. Each must act with due diligence according to their profile, carrying out the part proper to each director in his/her capacity as a member of the Board's supporting committees.

Protecting entrepreneurial discretionality is essential in order to encourage a culture of innovation and an environment in which risks can be recognised, accepted and managed wisely. Thus, with respect to strategic and business decisions, the standard of diligence will be deemed achieved when the Board member has acted in good faith, with no self-interest in the matter being decided, with sufficient information and within the framework of an appropriate decision-making process.

b. **Duty to exercise the post effectively**

It is particularly important that directors perform their roles and act diligently, so that the Board of Directors can carry out its functions properly. To achieve this, they should:

- Dedicate the time and effort necessary to monitor issues affecting the institution's administration
- Analyse the Board of Directors' agenda before the meeting and, if required, ask for additional items to be included.
- Prepare Board meetings sufficiently, in order to bring an informed perspective to their deliberations.
- Participate and actively contribute to discussion and debate at the Board meeting.
- Monitor the execution of resolutions that are adopted and verify their compliance.

II. **DUTY OF LOYALTY**

Board members must consistently and faithfully serve the corporate interests of the entity, with the aim of complying with both the financial and social aspects this may entail.

Similarly, they must in good faith pursue the interests of the institution, with the honesty and rigour to be expected of a well-organised professional. They may not use the institution or the post they occupy in it to conduct transactions on their own behalf or for related parties, nor may they use their powers for aims other than those for which they have been appointed.

Board members may not make investments or any transaction vis-à-vis the institution, on their own behalf or for related parties, in those cases where they have access to information in the pursuit of their duties.

Furthermore, they may not receive any kind of remuneration for signing contracts between the institution and its suppliers, nor when the institution provides services to third parties.

**a. Duty to report transactions that may generate conflicts of interest**

Board members must report any direct and indirect related transactions and conflicts of interest that they or people close to them may have. In short, they must avoid situations that are not in the interests of the institution.

Any Board member contravening the duties laid down in this Code may be considered liable for the damages caused to the institution and may be dismissed by the Board of Directors or by the General Meeting, when this is proposed by any shareholder or board member, following the procedures stipulated in each country's own legislation.

Conflicts of interest in facing members of the board must be recorded in the Board of Directors' Annual Activity & Self-assessment Report.

**b. Non-competition requirement**

Directors of Group institutions may not conduct activities, either for themselves or for others, which effectively entail competing against the institution.

In particular, they may not provide professional services to companies that compete with Group institutions, nor may they accept positions to collaborate with, lead or administer such institutions, unless they have express prior authorisation from the Board of Directors (and providing that the local legislation allows it), or unless they have been providing or performing this service before joining the Board and duly reported this when appointed. Nor may they carry out activities similar to those of the institution on their own behalf or for others. This duty extends for two years beyond the end of a Director's term of office on the Board.

Without prejudice to legislation in force, members of the Board vacating their post may not be appointed to a similar role nor may they offer professional services in a different financial institution, nor begin a similar business activity for two years starting from the date of termination, unless they have express authorisation from the Board of Directors of the Group institution from which they are resigning.

**c. Duty of confidentiality**

The issues dealt with during Board meetings are confidential. In consequence, directors must keep their deliberations secret, as well as all information to which they have been privy in the course of carrying out their duties, information that they shall use solely for the performance of those duties and will safeguard with all proper care.

The requirement of confidentiality shall continue to apply even after the expiry of their term of office.

**d. Duty not to use corporate assets**

Members of the Board of Directors may not use corporate assets for personal purposes, nor may they make use of their position in the institution for personal gain other than that corresponding to their remuneration for their services, unless they have paid market value compensation and the service is a standard one.

**II. Rights**

**a. Right to information**

In order to correctly pursue their duties, members of the Board of Directors may request information about the matters that are to be deliberated in order to come to informed decisions; they may assess whether there is enough information or whether more needs to be collated.

Directors have the right to receive and the duty to demand the appropriate information necessary to be able to carry out their role and fulfil their functions. Obtaining and analysing this information is critical if their performance is to be diligent and so that they can adopt the measures and resolutions needed for the good governance of the institution.

In general terms, they have the authority to collate information about any aspect of the institution, look into its accounts, records, documents, contact the various heads of department and visit the facilities, provided that the correct performance of their role requires this, unless the information is particularly confidential, provided the entity's Senior Management is available. Each entity's Corporate Secretary Department is responsible for managing information requests from members of the Board.

**b. Right to bring in expert help**

Members of the Board, in the exercise of their responsibilities, may bring in internal experts from within the institution, and also propose to the Board the hiring of external advisors for those matters upon which they must deliberate, where the particular importance of these requires it.

**c. Right to remuneration**

The remuneration of the members of the Board is governed by the practices and orders of magnitude in the market in which they are operating, and also by the institution's bylaws, the applicable regulations and the resolutions adopted by the institution's organs of government, after the Appointment & Remuneration Committee has proposed them.

Remuneration must be reasonable, in line with the entity's economic situation and the functions and responsibilities given to them, appropriate to the post they are filling on the Board of Directors and the committees. The system of remuneration must be designed to promote the institution's long-term profitability and sustainability.

Remuneration must be approved by means of a proposal made by the Appointment & Remuneration Committee, which will make a recommendation on the remuneration policy for the members of the Board of Directors, before submitting this to the AGM. The AGM will approve the remuneration policy as a separate item on the meeting agenda.

**d. Right to public liability insurance**

Every Group institution will take out a professional Directors & Officers liability policy with an insurance company to cover the responsibilities that members of the Board of Directors may incur while discharging their duties.

The policy will cover expenses in advance, including legal advice, bail and services that may arise from any civil, criminal or administrative proceedings lodged against the directors. Its cover will continue for two years after they have left their posts.

In any event, all Group institutions will hold directors harmless from any claim that may arise from actions taken in the rightful exercise of their duties.

**e. Right to induction and training**

Directors, once appointed, must receive suitable induction into the reality of the institution, its complexity and the key issues it faces, such that they can build up a well-informed view as quickly as possible and familiarise themselves with the entity's real situation and that of the local microfinance sector.

Likewise, institutions will endeavour to carry out training sessions on certain issues surrounding the microfinance sector, given by experts and specialists from outside or from within the institution.

Senior Management will present updated reports on the macro- and micro-finance environment so that the directors remain continually abreast of the latest developments.

## NUMBER OF MEMBERS

Efforts will be made to ensure that Group institutions' Directors' Boards satisfy the institution's governance and administration needs satisfactorily. An optimal minimum and maximum number of members will be set, preferably an odd number.

When defining the number of members, the size of the governance body must be consonant with

efficient decision-making, enabling its members to be distributed over the various committees according to their professional profiles, experience and skills.

Similarly, it should be possible to rotate the members of the Board among positions on the various committees so that they acquire a fuller and deeper understanding of the whole institution and the sector.

## COMPOSITION

The independent directors of the Board, appointed because of their professional and personal capabilities, are key to good corporate governance. They are expected to perform their duties without being influenced by relationships with the institution, its shareholders or its senior management.

When electing members to the Board, a balanced mix of professional profiles, experience, qualifications and independence among its members is desirable so that they can carry out the wide range of tasks required and their specific responsibilities. “Professional profiles, experience and qualification” is understood to mean that the composition of the Board of Directors will be balanced with respect to technical skills.

In all cases effort will be made so that the members elected demonstrate their pro-activeness, good judgement, team spirit, entrepreneurial transparency and can dedicate enough time to fulfil their responsibilities.

In addition, in order to sit on the Board of Directors, members may not fall into any of the categories disbarred or incompatible with their directorship under law.

The selection procedures for members of the board will promote gender, experience and skillset diversity, and avoid implicit bias that might imply discrimination and put obstacles in the way of selecting female directors.

## SYSTEM FOR SELECTING AND APPOINTING DIRECTORS

### 1. Selection and appointment

Directors are appointed by the General Meeting and in those cases in which jurisdictional laws allow, the Board of Directors may co-opt members when vacancies occur.

In any case, individuals nominated for appointment to the Board must meet this Code’s specifications and fulfil the requirements laid out in the legal provisions in force at the time, in the specific regulations applicable to financial institutions, and in the institution’s bylaws.

The Appointment & Remuneration Committee will vet individuals nominated for appointment to the Board of Directors, which will consider the candidate's personal and professional characteristics, together with the needs of the institution's governing body at the time, informing the Board of Directors of its opinion.

The Board of Directors' or Appointment & Remuneration Committee's regulations should include a procedure for selecting Board members; this will in any event consist of the following stages:

- Identification of the Board of Directors' needs in terms of professional profiles and technical qualifications
- Search for candidates for each directorship
- Assessment of candidates
- Nomination of candidates to the General Meeting
- Election of directors

The proposal to appoint a member to the Board of Directors must contain a supporting report, with an in-depth assessment of their curriculum vitae, and will be attached to the Minutes of the General Meeting that appoints the candidate.

Where the country legislation so specifies, the appointment of members of the Board will also be subject to the approval of the regulatory or supervisory authority.

As a general rule, the directors can be classified as:

- Executive or internal directors: who perform management roles within the institution or group.
- Non-executive directors, who in turn may be:
  - Proprietary directors
  - Independent directors
  - Other external directors

The calibre of directors required is described in the Board of Directors' internal bylaws.

Boards of Directors in Group institutions comprise a majority of independent directors, since they have the important task of overseeing good communication between the controlling groups and the minority shareholders, and also between the controlling groups and management.

In all cases, the characteristics of members of all the institutions' Boards of Directors will meet their respective legislative requirements.

Proposals for director appointments submitted by the Board of Directors to the General Meeting will have been approved, in the case of independent directors, subsequent to proposals from the Appointment & Remuneration Committee; in the case of all other directors, this Committee will provide the General Meeting with a report on the candidates.

II. *Incompatibilities inherent to the position*

In the performance of their duties, members of the Group and the Group institutions' Boards of Directors will be subject to the incompatibilities set out in the applicable regulation, and also to those in this Code of Corporate Governance.

Thus, members of the Board may not hold political posts or conduct any other activity that might have public repercussions or in any way affect the reputation of the institution or of the Group, unless this has previously been authorised by the Board of Directors, except if they were providing or performing this service before joining the Board and informed the body of this when they were appointed.

The Board of Directors' bylaws will set out the maximum number of boards on which directors may sit.

III. *Re-election of members*

The gradual, organic renewal of organisations is generally viewed as good governance practice. It is critical that the re-election system does not allow individuals to remain in their posts in perpetuity, so that institutions can benefit from new ideas and abilities. The renewal of Group institutions' Boards of Directors will take place for terms of office that prevent posts being renewed ad infinitum, although this does not preclude re-election.

Proposals formulated to re-elect members to the Board of Directors must be preceded by a report from the Appointment & Remuneration Committee. The Committee will assess their performance, their dedication and any other circumstances that might condition the advisability of their re-election, and will make its recommendation to the Board of Directors.

The resolutions adopted by the Board on this matter, together with their deliberations, will be conducted without the attendance of the member whose re-election is being proposed; if they are present, they must leave the room.

IV. *Directors' term of office*

Group institutions' Boards of Directors have the power to dismiss their members at any time, even before their term of office is completed.

Thus, members of the Board must offer their resignation to the Board of Directors or to the

General Meeting, in line with each country's legislation, and accept the decision adopted as to whether to continue or not, and are obliged in the event of the latter to present their resignation in any of the following circumstances:

- a. When they may be implicated in any of the categories of incompatibility or disbarment specified in the Group's corporate governance framework, the institution's internal bylaws or applicable legislation.
- b. When there are significant changes in their professional situation or in the quality by virtue of which they were designated as members.
- c. In the case of dereliction of duty as a member of the board.
- d. When serious harm has been done to the entity's assets as a result of actions taken by the individual in their capacity as board member, or if they have lost the commercial and professional probity required to hold the office of Board member, in the opinion of the Board of Directors.
- e. In those circumstances in which remaining on the Board of Directors could have a negative effect on the institution, its credit rating or reputation, or could endanger its interests, in the opinion of the Board of Directors.

When a member of the Board leaves their position before the end of their term of office, whether by resigning or on any other grounds, they must give their reasons in a letter which is to be sent to all members of the Board of Directors or to the institution's shareholders, in line with each country's laws. Their departure will be reported as a significant event, in the case of regulated institutions, and will figure in the annual corporate governance report.

## OPERATION OF THE BOARD OF DIRECTORS

If the Board of Directors is to operate effectively, the directors must dedicate time and be directly involved in the institution's most important decisions about its activity. To this end, it is important to reserve for their knowledge and oversight core decisions affecting the institution's management and supervision.

The Board of Directors will convene at least as often as stipulated in the institution's regulations, bylaws and standards. Nevertheless, it may do so as many times as its Chair, or the person filling that role, deems necessary, at the request of a majority of its members, or as laid down in the applicable regulation.

The Board will review and monitor implementation of the resolutions it adopts. Likewise, it is essential it follow up the recommendations made by the supervisory body and by the External

Audit that are pending or in the process of being implemented and have over-run their deadlines, endeavouring to inculcate a culture of compliance and rigour throughout the organisation.

The rules for convening meetings, their frequency and the procedures for how to conduct them will be laid out in a set of regulations for the Board of Directors, which each Group institution's Board of Directors will approve.

A work plan will be made for each year. At least one or two meetings a year should focus on reviewing the strategy defined by the Board of Directors and to what degree the resolutions adopted are aligned with furthering the institution's strategic objectives.

The Board of Directors must evaluate the effectiveness of its work, whether its rules are reasonable and its members' dedication and performance at least once a year.

#### 1. *Calling meetings and the Agenda*

The Board of Directors' meeting will be convened by its Chair or by the person authorised to do so in the institution's bylaws or by law. Thus, the Chair will convene the Board when two or more Directors, or the Chief Executive Officer request this, unless legal provisos exist to the contrary.

A meeting schedule will be prepared every year.

At the indication of the Chair, the Corporate Secretary will send directors call to meeting with sufficient notice. The call can be effected by any type of remote communication, the same method being used to cancel the meeting.

The call to meeting will include the agenda, and may include other business if the Chair of the Board deems this to be in the interests of the institution; the Chair may also decide, even after the meeting has been convened, that certain matters will not be dealt with during the session.

Members of the Board may propose further items on the agenda that were not originally listed, provided all attending members are in agreement.

In order to make the participation of Board members as pro-active as possible, the call to meeting must enclose sufficient background material and information to enable those attending to form a judgement, so that Board members can take well-informed group decisions backed up by facts.

The Board of Directors will also be considered quorate if all its members are present and unanimously decide to hold a meeting.

II. *Quorum and adoption of resolutions*

Group institutions' Board meetings will be considered quorate when half plus one of its members, or the percentage established in the bylaws if this is different, are present or represented.

Resolutions will be adopted by an absolute majority of votes, present or represented, unless the law or the institution's bylaws stipulate otherwise.

III. *Holding meetings*

Meetings of the Board of Directors will be held in the place and at the time indicated in the call to meeting, and will follow the agenda set by the Chair, who will formulate the proposals being submitted for resolution by the Board of Directors and who will also moderate deliberations and debate.

If the Chair is absent, the sessions will be chaired by the person determined in the bylaws or in the Board of Directors' regulations. The institution's rules will provide for the replacement of the Secretary when absent.

The Chair will encourage members to take an active part in Board meetings and debate and will submit agenda items to a vote when they are deemed to have been sufficiently discussed.

If the Chair so wishes, corporate executives and other people whose presence is considered helpful in order to deal with the matters under consideration by the Board of Directors may join the sessions.

Remote sessions of the Board of Directors will only take place when fully justified on grounds of need and urgency.

IV. *The Annual Report on the Self-assessment and Activities of the Board of Directors and its Committees*

The Annual Report on the Self-assessment and Activities of the Board of Directors and its Committees provides a platform for giving thought to the contribution made by the governing bodies, so that a culture of continuous learning and striving for excellence can be extended throughout the institution from the highest levels of the organisation.

Once a year, the Chair of the Corporate Governance Committee, if one exists or else the Secretary of the Board, will present the Annual Activity and Self-assessment report to the Board of Directors for their information and approval, and will subsequently report on it to the General Meeting.

In line with the latest corporate governance trends, it is expected that the Board will be assisted from time to time by an external consultant to conduct this self-assessment, so that it can benefit from contributions from outside the institution.

On the basis of the outcome of the self-assessment, the Board of Directors will have to propose an action plan to correct the weaknesses spotted therein.

The documents comprising the report and self-assessment will be made available to directors, once seen by the Board of Directors, on each institution's corporate information platform.

#### V. Corporate Information Platform

Group entities have adopted an additional system for communicating and engaging with their Board members, using a cloud-based information platform model, in order to ensure easy access to material, and with high levels of confidentiality, bypassing the need to send information to directors' professional and private emails.

This online platform enables remote access to corporate contents through mobile devices. The application enables users to consult all the contents produced by the General Meeting, the Board of Directors and its committees: back issues of meeting minutes, supporting documents for these sessions, annual accounts, balance sheets and budgets, articles of association, regulations, codes, etc.

Likewise, it makes it easier for directors to stay in contact with the institution and to follow up the resolutions adopted while promulgating a culture of transparency and rigour initiating at the highest levels of the organisation and permeating through it. Furthermore, it is particularly helpful for directors wishing to assess their performance and that of managers by consulting corporate documents.

## CHAIR AND CORPORATE SECRETARY

### Chair

The Board of Directors will appoint a Chair from among its external members, ideally independent, to lead the board and chair its meetings. It may also appoint a Deputy Chair if the bylaws or the Board of Directors' regulations provide for this.

The Chair of the Board of Directors has ultimate responsibility for the efficient running of the board. The Board of Directors will delegate to the Chair all the powers laid out in the corporate bylaws and those contained in this Code of Governance as well as the authority inherent to the post, so that the Chair can exercise effective leadership of the Board. The following are particularly important:

- Informing the General Meeting of the most important changes in corporate governance issues since the previous General Meeting.
- Calling and chairing the Board of Directors meetings, setting the agenda for these and moderating discussion and deliberations.
- Chairing the General Meeting, unless the corporate bylaws specify otherwise.
- Ensuring that directors receive sufficient information before the Board meetings so as to be able to deliberate on the agenda items.
- Enforcing the efficient identification and implementation by the Board of the institution's strategic direction, and ensuring that the necessary time is given to debating these issues.
- Driving the governance of the institution, acting as a link between shareholders and the Board of Directors.
- Acting as the institutional representative of the entity, in coordination with the Chief Executive Officer.
- Agreeing on and reviewing the directors' skills training programmes.
- Organising and coordinating the regular assessment of the Board of Directors and of their supporting committees.

As a general rule, the Group's microfinance institutions will not designate the same person to carry out the duties of both Chair of the Board of Directors and Chief Executive Officer.

The term of office for the Chair of the Board of Directors will be in line with that stipulated for members of the Board of Directors.

Should the Chair be indisposed or unavailable, their duties will be performed by the person stipulated in the bylaws or in the Board of Directors' regulations.

#### Corporate Secretary

The Secretary to the Board of Directors, given the importance of their role as guarantor of compliance with legal, bylaw and regulatory obligations, will be appointed at the proposal of the Appointment & Remuneration Committee. Should they leave this position, a report will also be required from the same committee.

The Secretary must help the Chair in his/her tasks. As well as the special duties assigned by the Board, and provided that the legislation allows it, the Secretary will also act as the Secretary of the General Meeting and work on a permanent basis with the Chief Executive Officer, so it is important that the person is given powers to perform their duties and that their position within the institution is stable.

The bylaws and the Board of Directors' regulations must lay out the Secretary's duties, which include the following:

- To ensure compliance with all formal and legal requirements laid down for convening and constituting meetings and the decision-making process, as well as due respect for the institution's procedures and rules of governance.
- To check that the actions of the Board of Directors comply with the bylaws and that orders issued by regulatory bodies are complied with and that their recommendations, if given, are taken into account; also to ensure that the principles and criteria of corporate governance undertaken by the institution are observed.
- To ensure the formal and material legality of actions taken by the Board of Directors, and guarantee that their procedures and governance rules are respected and regularly reviewed.
- To help the Chair in ensuring that Board Directors receive the information they need to carry out their duties, with enough advance notice and in an appropriate format.
- To help the Chair in ensuring that Board Directors receive the information they need to carry out their duties, with enough advance notice and in an appropriate format.
- To record related transactions and the management of conflicts of interest deriving from these, prior to including this information in the Annual Report.
- To ensure that the corporate information platform is maintained and kept up to date.

### 3. The Board of Directors' committees

In order to better perform its duties, the Board of Directors may set up committees as it sees fit to help it deal with questions arising in areas for which it is responsible. These must be created and shaped in response to needs or legal requirements and from time to time the Board may delegate the analysis of certain matters to them.

The committees are internal bodies with the purpose of informing and for consultation; they provide information, advice and proposals within the scope of their activity, but have no executive function.

Both the decision as to the number of committees, their titles and their functions will be resolved by the Board of Directors, which will also designate and revoke the appointments of their members, as well as appointing and revoking their respective Chairs.

The regulations governing the Board of Directors should make provisions for the committees to keep it permanently informed about their progress on matters within their scope. These dispositions

should also define the procedures and frequency with which information is supplied by the Chairs of each committee to the Board of Directors.

Each committee should have its own set of regulations, which must be approved by the Board of Directors. The regulations in question will cover the manner in which meetings are called, the requirements to declare them quorate, their functions, the minimum frequency of meetings and all other conditions governing how each committee should work.

Following general good governance principles, Board of Directors' committees should be chaired by an independent director, and it is preferable that a majority of its members be independent. The institution's executives, as well as third parties, may be invited to provide information to the committee on a regular or sporadic basis.

Positions will be renewed after the period decided upon by the Board of Directors.

The Board of Directors will always be informed of the business dealt with and the recommendations made by the committees. Committee minutes must be made available to all their members, as also to all members of the Board. The Chair of each committee will report on the outcome of meetings to the Board of Directors.

Some recommended committees, according to common practice in corporate governance, are listed below. It is up to the Board of Directors of each Group entity to set up the committees they consider useful (always provided the corresponding legal requirements are met), and to distribute the duties among the different committees. .

- **Audit Committee**

The main job of the Audit Committee will be to help the Board of Directors in its tasks of oversight, by assessing accounting procedures, the relationship with the External Auditor, and the review of the institution's control architecture.

Its roles will be assigned by the Board of Directors, in compliance with local practices and each country's legislation.

The Internal Auditor will take part in committee meetings whenever so requested and at least once a year the External Auditor, who will be chosen by this committee, will do so. The committee will also participate in the process of hiring the External Auditor and deciding on their fees.

- **Appointment & Remuneration Committee**

The main responsibility of the Appointment & Remuneration Committee will be to help the

Board of Directors to appoint, re-elect, dismiss and pay the members of the Board and the institution's senior management.

The committee will also be tasked with defining and organising succession or substitution planning in the event of the Chief Executive Officer's dismissal, resignation, incapacitation or death, and that of other senior management and key executives, and will formulate proposals to this end to the Board of Directors. It may define how to achieve an equal gender balance and will prepare guidelines on how to increase the numbers of the under-represented gender.

Its duties will be assigned to it by the Board of Directors, in compliance with local practices and each country's legislation.

The committee may request the attendance at its meetings of people within the organisation who have roles that may be deemed necessary in order to make an informed judgment about the areas it covers.

The Appointment Committee will have to work together with the Risk Committee in order to evaluate whether the system of remuneration is in line with the risk policies approved by the entity.

- **Risk Committee**

Oversight and supervision of risk management in financial institutions is the responsibility of the Board of Directors, which in the final instance is in charge of approving and regularly reviewing the institution's risk policy strategy.

Handling an institution's risk management and safeguarding its financial resources requires the Board to be focused on the configuration of a risk profile and active tracking of quantifiable risk exposure by using a map of value at risk and expected losses, and the monitoring of non-quantifiable risk.

The need for regular analysis and tracking of investment and risk management within the scope of activity of the institution's organs of administration makes it advisable to have a Risk Committee, which will be able to make an in-depth analysis, within its remit, of the handling of risk throughout the institution and the part it plays in the Group's global policies, as well as the financial resources needed to do business.

Additional duties will be assigned to it by the Board of Directors, in compliance with local practices and each country's legislation.

The Risk Committee must communicate and coordinate on a continuous basis with the Audit Committee, to facilitate the exchange of information and the effective cover of all risks to which the institution is exposed.

- **Corporate Governance Committee**

The Corporate Governance Committee will support the Board of Directors in bringing to its attention and reviewing all matters relating to the institution's corporate good governance, including compliance with the provisions in this Code.

The Committee will have a key role in the procedure for managing related-party transactions and conflicts of interest. In the case of shareholders, directors and senior executives, it will analyse the information submitted by the Secretary or the Compliance department, and make its recommendation to the Board of Directors, so that the Board can adopt a resolution on each transaction on its merits.

The Committee will support the Board of Directors in those of its functions having to do with managing compliance risk.

Other duties may be assigned to it by the Board of Directors, in accordance with local practices and each country's legislation.

The Committee may request the attendance at its meetings of people within the organisation with remits deemed necessary in order to make an informed judgment about the areas it covers.

#### 4. Control functions

- **Risk management**

Group institutions must create, implement and uphold efficient risk management procedures that enable them to manage, control and communicate the actual and potential risks stemming from their activities, in line with the global and specific risk levels established.

Institutions must have a unit or body performing the risk management function, and its size and composition should be proportionate to the nature, scale and complexity of the institution's activities.

The head of the risk management function will be an independent senior executive, who is not involved in the entity's operational business<sup>5</sup> and will take on the specific duty of risk management. Thus, they must have access to any information needed to carry out their job properly and may not be removed from their post without the prior approval of the institution's Board of Directors.

---

<sup>5</sup> *Operational business covers all activities involving executive or management responsibilities in the institution's business lines or areas.*

They will report directly to the Board of Directors (or to the Risk Committee, as appropriate) and will have full access to this body. Their duty is to interpret and articulate risk in a clear and comprehensible manner in order to encourage effective dialogue between members of the Board and Management.

The function of risk control and management will include but will not be limited to the following:

- a. Ensuring the proper functioning of the risk control and management systems.
- b. Identifying, quantifying, managing and notifying all major risks appropriately.
- c. Participating actively in preparing the institution's risk strategy and in all important risk management decisions.
- d. Ensuring that the risk control and management systems mitigate risks appropriately, within the framework of the risk policy defined by the Board of Directors.
- e. Reporting directly to the Board of Directors (or the Risk Committee) about the range of risk to which the entity is exposed, and about the behaviour of particular risks that affect or could affect the institution.
- f. Reporting immediately to the Board of Directors or the people designated by them any non-compliance, incident or anomaly that appears to be especially important.

- **Compliance**

Group institutions must have a unit or body that performs the compliance function, in charge of identifying and managing compliance risks to ensure, as far as is reasonable, achievement of business targets.

Regulatory and reputational risk resulting from non-compliance with legal provisions, rules, standards adopted and codes of conduct applicable to the organisation, is defined as compliance risk.

The scope of the Compliance function should involve the management of:

- Risk of money laundering, financing of terrorism and organised crime
- Compliance with the Code of Conduct (ethical integrity)
- Compliance with customer protection policies (policies and complaints)
- Personal Data protection
- Regulatory risk (identification and coordination of how this risk is managed in the organisation)
- The organisation's reputational risk (identification and coordination of how this risk is managed in the organisation)

The person in charge of the compliance function will be an independent senior executive, with a direct line to the Board of Directors (or to the management committee that reports to the Board). This person should be granted sufficient authority, independence, resources and access to the Board of Directors. Management must respect the duties of the position and not interfere in its task.

The compliance function will include but not be limited to the following:

- a. Safeguarding the execution of the compliance risk function under the principle of independence from the areas or units being supervised.
- b. Promoting compliance policies, preparing or promoting the preparation of internal regulations on compliance matters and driving the second-line implementation that the various areas or units have to define and execute to ensure they are applied effectively.
- c. Annually defining and presenting the Compliance Plan to the Corporate Governance Committee for its approval, taking as the starting point the latest regulatory changes, the risk assessment carried out by the corresponding business and support units and the action plan scheduled by the business units for the year. The compliance unit will provide this Committee with regular progress reports on the plan.
- d. Preparing the general methodology for detecting and assessing compliance risk, in line with existing policies in this area.
- e. Verifying, in coordination with the Control units, at least once a year that the affected areas and units, within their respective remits, provide a channel for detecting and assessing compliance risk and that they have suitable measures in place for handling these properly.
- f. Coordinating, supervising and taking part if required in the development of such communication and training actions as may be needed for the proper understanding of the policies and codes of conduct.
- g. Regularly, and at least once a year, reporting to the Board of Directors and the Corporate Governance Committee about the suitability of measures for mitigating this risk in the institution. For this purpose, indicators and other relevant information will be taken into account, as will the reports and actions of the corresponding supervisory authorities.
- h. Reporting in an opportune fashion to the Board of Directors and Corporate Governance Committee about any serious irregularity, in the view of the unit itself, which the unit is aware of with regard to compliance issues, and the action being taken to remedy it.
- i. Setting up and executing internal controls as part of the compliance function's responsibility, to guarantee appropriate compliance risk management.

- **Internal audit**

Group institutions must have a unit or body in charge of the internal audit function, to ensure the correct functioning of the information, internal control and risk-management systems, and support the Board of Directors and management in protecting the institution and its reputation.

The person in charge of the internal audit function will be an independent senior executive, who will report directly to the Board of Directors (or to the Audit Committee, as appropriate).

The internal audit function should be granted sufficient authority, independence, resources and access to the Board of Directors; its independence must be upheld and promoted.

The internal audit unit will have to prepare and keep updated an annual supervisory programme, approved by the Board of Directors. The programme will identify areas for review, and will assess the real and potential levels of risk in the institution. It will obtain evidence to substantiate its opinion on the sufficiency, efficiency and effectiveness of the institution's control system, so that it can issue recommendations to help improve the control systems and procedures.

## 5. Chief Executive Officer

In line with good corporate governance best practice, this Code advocates a clear separation of roles between the administration of the institution, represented by the Board of Directors, and its day-to-day management, the responsibility of the Senior Management, in order that each can perform with optimal efficiency.

Thus, members of the Board of Directors are in charge of general strategy, supervision, governance and control, and should not interfere in the operation of the Senior Management, to which the institution's day-to-day management functions have been delegated.

Nevertheless, the separation between management and governance or administration should never lead to the management bodies adopting or taking key decisions or adopting key measures without oversight from the Board of Directors.

### 1. Appointment, dismissal and succession

In any event, and without prejudice to each country's laws, the **appointment** of the Chief Executive Officer should be in line with the rules and requirements for proposing members to the Board of Directors. It is subject to an in-depth selection process which is conducted when the Appointment & Remuneration Committee so proposes.

The Chief Executive Officer may be dismissed by the Board of Directors, if the Appointment & Remuneration Committee so proposes, at any time and on grounds not necessarily established for terminating members of the Board.

**Succession** planning for senior management is the responsibility of the Board of Directors.

To such end, a Succession Plan will be prepared, identifying potential candidates for the posts in question to cover any eventuality. Once the Plan has been prepared, the Board of Directors will study the potential candidates proposed, and will look at all possible contingencies, such as the retirement of the Chief Executive Officer at an appropriate age, the Chief Executive Officer's decision to leave his/her post after serving out notice, medical emergencies (the Chief Executive Officer's illness or temporary absence) or death.

#### II. *Functions and responsibilities*

The Chief Executive Officer is the institution's representative for legal, judicial and non-judicial purposes. He/she is in charge of executing the corporate guidelines and strategies approved by the Board of Directors, is accountable to it, and must accept inspection from the board-level committees.

The post carries the functions and powers established by law and the institution's own bylaws, and, in any event, the bearer must fulfil the functions that are entrusted to him or her by delegation from the Board of Directors or the Chair, in addition to the duties inherent to the position.

#### III. *Remuneration of the Senior Management*

The Board of Directors is in charge of setting the Chief Executive Officer's remuneration, following a proposal from the Appointment & Remuneration Committee, benchmarked against market parameters within a similar remit, bearing in mind the professional and personal qualities of the person holding the post. Remuneration and any additional emoluments received by the Chief Executive Officer should be written into the job contract.

If there is a variable part to the remuneration, this should not be structured with a short-term perspective, but rather as an instrument for aligning the Chief Executive Officer's interests with those of the institution. The methods used for designing such incentives should prioritise long-term value creation.

The remuneration policies applied to Senior Management should set the guidelines and formal procedures to be followed in order to create remuneration, compensation or indemnities that can incentivise reporting and exposure of risks that are not in line with defined policies or the commission of potentially illicit actions.

A benefit component should be specified, to include appropriate welfare and insurance provision, together with corporate insurance.

#### IV. *Information and training for Senior Management*

As with the members of the Board of Directors, once the Chief Executive Officer has been

designated, he/she should follow an induction programme, prepared by the Board, designed to familiarise the Officer with the institution and its procedures. The Board of Directors should provide whatever information the Officer needs in order to carry out the job effectively.

#### V. Incompatibilities

The section of this Code covering incompatibilities inherent to membership of the Board of Directors will be applicable.

## **SECTION II. GROUP-LEVEL COORDINATION BODIES**

### **The Strategy Committee**

A Strategy Committee has been set up with the aim of tackling goals transversal to all Group institutions and to inculcate a single, shared working culture.

The Committee's central purpose is to define projects that take on transversal goals which drive the achievement of more ambitious aims than could be reached by each institution on its own.

It makes recommendations about projects that the governing bodies of each of the Group institutions can adopt, and commends their management to one or several of its members, leveraging the skills and specialist knowledge of each Committee member in the subject or area concerned.

The Committee monitors Group programmes, evaluating their progress and deciding such adaptations and/or changes as may be required.

The Strategy Committee is made up of the Foundation's Chief Executive Officer, and the Chief Executive Officers and Deputy CEOs of the microfinance institutions in the Group at the time, together with the General Secretary of the Foundation. The Foundation's CEO will chair the Committee and may designate a deputy chair, who may be a member or not of this Committee, and will exercise the functions of the Chair should the Foundation's CEO be absent. The Secretary to the Committee will be the Foundation's Secretary.

The Committee will meet every four months although it may convene on as many other occasions as the Chair wishes.

Guests whose presence is necessary or advisable because of their knowledge and experience may be invited to Committee meetings to discuss specific matters.

The Committee's recommendations will be the outcome of internal consensus and will be recorded in the minutes, signed by the Committee Chair and the Secretary. The minutes will be distributed for filing and safekeeping to the General Secretary's department of each of the institutions in the Group.

A methodology with two central tenets has been defined to achieve the key transversal goals of all Group activities, based on the close cooperation between all its member institutions. The first tenet is to establish a Group-wide information system, for regular analysis of key performance indicators for our customers, their businesses and their families. This is a dynamic process, which enables us to build up a robust, clear and reliable data source.

The second is the construction of metrics that make it possible to measure delivery against our mission. Such metrics must be regularly consolidated, analysed and refined within the information system, in order to optimize a set of indicators that sit right at the core of the Group's institutions.

This methodology is used to measure the impact that Productive Finance has on economic and social development for the Group's customers.

## Productive Finance