



GRUPO BOLÍVAR S.A.

INTERNAL CONTROL SYSTEM

**GENERAL GUIDELINES FOR
BOLÍVAR GROUP COMPANIES**

SEPTEMBER 2009

1. Scope of Application of this Document:

This document provides the framework for action on enforcement of the provisions related to Internal Control as provided in External Circular 14 of 2009 issued by the Financial Superintendence of Colombia for the Bolívar Group Companies supervised by this entity. However, given the relevance and the belief this matter represents for the parent company of the Group, Grupo Bolívar S.A., it is expected that this document will also serve for other Group Companies as a guide in their implementation of projects on Internal Control standards, keeping the cost/benefit ratio, as set out by Circular 14 of 2009.

2. Background of the Internal Control System.

In recent years, the Bolívar Business Group has developed different Internal Control policies based on the needs and conditions that each Group Company has identified in the activities performed in fulfillment of its corporate purpose. This development, at Grupo Bolívar S.A. has been reflected in various documents such as the Corporate Governance Code, the Rules of the Board of Directors, the Audit Committee Rules, the Internal Audit Statute and the Managerial Policy on Internal Control and Risk Management.

Based on this background, Grupo Bolívar S.A. to comply with the requirements provided in the subject External Circular 14 of 2009, defines the following guidelines and policies that will form the action framework for the Companies encompassing Grupo Bolívar, as regards to the adoption and compliance with the Internal Control System - ISC¹:

3. Implementation of the Internal Control System.

¹ Article 7.2. of Circular 14 of 2009 provides in its second paragraph: "Such entities under surveillance having the condition of parent companies shall procure that their subordinates (affiliates and subsidiaries) have an adequate ICS, for which they must issue minimum general guidelines to apply accordingly, in line with the nature, extent and other characteristics thereof."



The Bolívar Group Companies must have an ICS integrated by principles, policies, rules and procedures to provide greater transparency and security to the different Stakeholders of each Company.

The adoption of the ICS, following the guidelines contained in the COSO² report, should include the need for the senior management of each Company and the rest of the Organization to duly understand the relevance of internal control and the effects thereof on the management results, considering the same as a set of activities integrated to the Companies' operating processes.

4. Objectives of the Internal Control System.

The following are the objectives of the Bolívar Group Companies' ICS:

- 4.1. Improving the efficiency and effectiveness in the operations of supervised institutions.
- 4.2. Preventing and mitigating the occurrence of fraud³, arising within or outside the Companies.
- 4.3. Adequate management of risks, depending on the nature of the Company.
- 4.4. Building trust among stakeholders that interact with the Companies.
- 4.5. Complying with regulations applicable to each Company.

5. Principles of the Internal Control System.

The adoption and compliance with the ICS by the Bolívar Group Companies should be made in accordance with the principles of self-control, self-regulation and self-management.

5.1. Self-control: Understood as the ability of all staff to assess and monitor their work, detect deviations and make corrections in the exercise and performance of their functions and improve their tasks and responsibilities. It also refers to the duty of officials to ensure compliance with the goals set by management, but subject to limits established by the same.

5.2. Self-ruling: Understood as the Company's ability to apply methods, standards and procedures for the development, implementation and improvement of the ICS, within the framework of the applicable laws.

5.3. Self-management: The ability of the Company to interpret, coordinate, implement and evaluate its operation on an effective and efficient manner.

6. Elements of the Internal Control System

The Bolívar Group Companies should have an ICS, which shall include at least the following elements, applicable in accordance with the specific characteristics of each Company:

- Control environment.

² Committee of Sponsoring Organizations of Treadway Commission, National Commission on Fraudulent Financial Reporting.

³ Circular 14 of 2009 defines fraud as a willful act committed to obtain an illegal profit and an improper behavior in violation of laws, regulations or internal policies. See Article 7.7.1.2.1 of the subject Circular.



The control environment refers to the awareness of the members of the Bolívar Business Family on the existence and operation of a control system as part of its organizational culture, which is consolidated from the definition of principles and rules on institutional behavior, such as ethics, transparency, continuous improvement and building trust of the stakeholders, which are contained in the Code of Ethics of Grupo Bolívar and the Corporate Governance Code of each company and its supplementary rules⁴.

The definition of these principles and organizational and strategic direction of the Group is defined by Grupo Bolívar S.A. in its capacity as parent company. This definition gives rise to the recognition of the objectives and planning of strategies and actions of the Organization. Consistently, such planning is disseminated to the various Companies where, according to their particularities, an individual planning is made in response to the needs and objectives of each company. Such planning is characterized by the constant search for continuous improvement of the Group and the Companies individually considered.

Another element that supports this organizational culture is the recognition of the regulatory and supervisory activities of the Colombian state, and based on the same, the definition of a policy of compliance with regulations governing the actions of the different Companies. Similarly, the Group recognizes the role of its Companies as generators of development and welfare from the private sector for different stakeholders with which it interacts, and reaffirms the application of principles such as public awareness, social responsibility and commitment to service.

All these principles are governed by a principle of consistency, according to which there must be harmony between the statements of organizational culture and the actions of the Companies and the officials being part of them. Thus, the definition of ethical standards and good governance is not limited to the formalization of principles, but are specific in performing them, moving them from the formal definition to the day-to-day work of the staff. This is possible through various forms of outreach and awareness and the monitoring on compliance with these commitments, with directly responsible individuals, where the Boards of Directors play a significant role, coming even when necessary and through the competent authorities, to impose sanctions under the terms established in the respective internal labor regulations.

The realization of the principles of organizational culture is achieved by adopting policies of human talent and leadership style⁵ that strengthen the positive and responsible attitude of the staff. In this regard, it is necessary for each company to keep job design processes and activities related to recruitment, training, evaluation and promotion in order to hire and retain people capable of performing their jobs competently, all aligned to standards on Internal Control and in particular to the provisions contained in Circular 14 of 2009. These policies should lead the staff members to know their roles and responsibilities in meeting the objectives and goals of the company individually, and the same as a member of the Bolívar Group.

In this regard, and in order to achieve optimal levels of continuous improvement of good organizational climate that characterizes the Group, the Companies should promote measures of

⁴ The regulations supplementary to the Corporate Governance Code are: the Rules of the General Assembly of shareholders, the Rules of the Board of Directors and the Conflict of Interest and Use of Privileged Information Manual.

⁵ The Standard Model of Internal Control (*Modelo Estándar de Control Interno – MECI*) for State entities defines the direction style as the form adopted by the management to guide or lead the actions of the entity to the accomplishment of its mission.



motivation, training, encouragement, welfare and occupational health to generate identity and sense of belonging in each of the Bolivar family members.

➤ Risk management.

Through risk management, the Group Companies must contribute effectively to the identification, measurement, analysis, processing, communication and monitoring of business risks, in order to preserve the effectiveness, efficiency and efficacy of their management and operational capacity, and the safeguarding of resources being managed. To achieve this goal, each Group company must have an adequate risk management system that responds to the regulations applicable on this subject for each.

The senior management of each Company must identify the hazards directly related to the critical processes involving the various areas of the Organization, by assigning priorities to review the activities with chances of major risks, and establishing the measures deemed appropriate, preventing or avoiding their materialization or mitigating their impact. This exercise should allow each company to anticipate, assess and address future scenarios that may affect the normal development of processes and compliance with the objectives of the Companies.

➤ Control activities.

The Bolívar Group Companies, through each Board of Directors and the Senior Management, should establish policies and procedures to comply with the instructions aimed at preventing and neutralizing the risks. Part of this is achieved through the adoption and implementation of the various internal organization manuals of the Companies (highlighting the Financial Risk Management manual - MARF, the manuals of the Risk Management system for Money Laundering and Terrorism Financing - SARLAFT, the manuals of the Operational Risk Management System, among others), which provide policies and internal controls related to the processes, activities and products of each⁶.

It should be noted that in application of the principle of self-control, the ICS of the Group Companies must look at all organizational levels to the existence of control responsibilities, and establish procedures so that the employees are familiar with their individual functions, which requires the explanation of each of them⁷.

The Bolivar Group Companies must establish control activities within their areas, operations and processes, considering the benefit/cost and potential effectiveness in mitigating the risks that affect the achievement of corporate goals. Following are some of, but not all, the control activities that can be set by each company⁸.

- Analysis made by the management. Periodical reviews on the performance of the Company in areas such as budgets, forecasts, prior periods and competitors. These

⁶ In this regard, reference is made by the Security Market Self-Regulator –AMV regarding the control activities, in the Internal Control guide at the Security Market Intermediation, published in May 21 2008.

⁷ Clarity expressed by the COSO report regarding control activities.

⁸ This part of the document was prepared based on the COSO Report - Committee of Sponsoring Organizations of Treadway Commission, National Commission on Fraudulent Financial Reporting.



analyses are conducted to revise and monitor the progress of the entity and take the necessary corrective measures.

- Verification of operations for accuracy and compliance with Company procedures. The relevant acts and operations can only be authorized and executed by officials acting within the scope of their powers.
 - Timely and adequate record of the acts and operations. The acts and operations and circumstances that affect a Company must be registered immediately and should be properly classified in order to ensure its relevance and usefulness.
 - Safety devices to restrict access to assets and records. Access to resources, assets, records and vouchers, must be protected by security mechanisms and limited to authorized people.
 - Performance Indicators. Every company must have performance measurement methods that allow the development of indicators for monitoring and evaluation.
 - Segregation of duties. It is recommended that the responsibilities are divided between different officials in order to minimize the risk of error or inappropriate actions. The it is convenient that the responsibilities to authorize, execute, record and verify an operation, are clearly differentiated and assigned to different people.
- Information and communication.

The ICS of the Group Companies must respond to an information component to facilitate the organization and systematization of institutional information, preservation, safety, reliability and availability to timely support decision-making, in compliance with established policies on the management and dissemination of information.

The information system must be controlled in order to guarantee proper operation and ensure its reliability, to allow directing and controlling the business properly and managing internal data of the Companies and those received from third parties.

Each company needs to evaluate the system, seeking that it is flexible and capable of rapid changes to cope with changing needs in a dynamic environment of operations.

Similarly, the system should have security mechanisms that cover or include inputs, processes, storage and output of information.

In turn, the Companies must develop a Communication component, supported by information systems adopted, which enables strategically managing corporate information in order to keep the staff members informed and motivated to contribute with their work so as to achieve the corporate objectives. People should timely become aware of the issues concerning management and control responsibilities. To this end, we must establish communication models that promote communication to implement the Bolívar Group's organizational culture, aimed at generating identity, sense of belonging and work effectiveness, based on the search for a strategic alignment of individual efforts.



Likewise, in the external field, the management of information by the Bolivar Group Companies should be transparent, timely and aimed at keeping good corporate image and a high degree of confidence of stakeholders in terms of good corporate governance. In the same sense, the information should be available to such stakeholders on an updated, clear, precise manner and under equal terms, through the means authorized by the senior management for dissemination⁹.

➤ Monitoring.

The senior management of the Group Companies should ensure the existence of a suitable and efficient internal control structure, as well as mechanisms for periodical review and update. Thus, there should be procedures for assessing the control activities of the systems to determine their effectiveness and identify those areas for improvement.

To this end, the Group Companies can set automatic controls or alarms in both the manual and automated systems, and adopt management and performance indicators that help monitor the ICS. The deficiencies or weaknesses in the internal control system that may be detected through the various monitoring procedures to be taken must be reported for the purposes of adopting appropriate adjustment measures. According to the impact of deficiencies and the materiality of the matter, the recipients of the information can be both those responsible for taking corrective action on the function or activity involved, and the Board of Directors of the Company.

➤ Independent evaluation.

The Group Companies must make independent assessments of the effectiveness of the ICS, in order to take corrective and improvement actions and disaggregate the control performed within the organizations.

In accordance with the provisions of the Financial Superintendence, these assessments are to be conducted by internal auditors and statutory auditors of the Group Companies, notwithstanding that, as a matter of good corporate governance, the Boards of Directors may choose to perform external audits to review the effectiveness of the ICS. These controls and internal and external audits should help the officials to improve the processes, optimize resources and renew their institutional commitment. Similarly, improvement plans to the ICS should be defined and implemented through them.

7. Control Bodies of the Internal Control System.

Although the Group Companies must have bodies to ensure the proper progress of the ICS, the responsibility for its proper implementation and operation falls in the first instance to all staff at every level of the Organization.

Based on the foregoing, the Bolivar Group Companies must have internal and external bodies for ICS control. The internal bodies are: the Board of Directors, the Audit Committee, the Legal

⁹ The Board of Directors of Sociedades Bolívar S.A. approved in October 2008 a number of policies related to the management and dissemination of information of the Companies, which are part of the Corporate Governance Code available at the website www.sociedadesbolivar.com.



Representative of the Company, the Compliance Officer and where applicable, the Internal Audit. The external bodies are the Statutory Auditor and where appropriate, the Regulatory Comptroller.

8. Independence and objectivity of internal audit.

The Group Companies must adopt criteria of independence and objectivity of assurance¹⁰ and consulting¹¹ for the exercise of internal audit, which one of its missions is to evaluate the effectiveness, adequacy and appropriateness of all systems and procedures being part of the ICS.

¹⁰ Circular 14 of 2009, Article 7.7.1.4.1 states that assurance should be understood as the objective examination of evidence to provide an independent evaluation of the risk management, control and governance processes of an organization.

¹¹ Circular 14 of 2009 defines consulting as the activities of advice and related services provided to clients which nature and scope are related thereto and aimed at providing value and improving the governance, risk management and control processes. See Article 7.7.1.4.1 of the Circular.