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CHANGE CONTROL					
VERSION	DATE	MODIFICATION	DRAFTED	REVISED/APPROVED	DISCLOSURE
1.0	10/28/2011	Document creation	Jose Luis Gallón A. Analyst PYP	Alejandro Cardeñoso Concepts Director Affiliates and Staff	DPYP - 1802
1.1	08/27/2013	Division of information in the main document in Conglomerate Risk and Conflicts of Interest and Management of Privileged Information	Ana Marcela Gil V. Analyst PyP	Alejandro Cardeñoso Concepts Director Affiliates and Staff	DPP-APY-895
1.2	09/03/2014	Inclusion of definition, identification, treatment, monitoring and control of operations with Linked and Related parties.	Diana Carolina Rodríguez D. Analyst PyP Ana Marcela Gil V. Analyst PyP	Alejandro Cardeñoso Concepts Director Affiliates and Staff	DPP-APY-1257
1.3	04/16/2015	Inclusion of the following items corresponding to Linked and Related Parties 3.5 Neutral Operations Process 3.6 Commission Waiver Procedure and 3.7 Purchase and Sale of Foreign Currency and Opening of Forwards	Ana Maria Cifuentes. Analyst PyP	Julio Cesar Guzman Credit Vice-President Alejandro Cardeñoso Concepts Director Affiliates and Staff Martha Saa Gallego Dir. Credit Control Maria Isabel Tobar Director Exonerations	DPP-APY-770
1.4	05/31/2017	Item 3.3 se adds the clarifying note for printing the results of this consultation (If the Client is linked or related party OR NOT).	Adriana Salazar Analyst PyP	Nelson Dario Ramirez Director Offices Network	DPP-CAP-1347
1.5	10/26/2016	Changes made for inclusions and modifications to the following items: General aspects, liability transactions with linked and related parties consolidation and reporting of treasury operations with related parties 3.3.1 Identification of Linked Customers and related Parties: modified to specify the change of the person responsible for sending the consolidated report, of Linked and Related Parties, which will be carried out from now on by the Directorate of Exonerations and SAE's – Division Analysis and Budget, the item was modified.	Diana Carolina Rincón García Analyst PyP Christian García Analyst PYP Ángela Campaña Legal Director Staff and Affiliates.	Juan Carlos López Rojas Director Credit Risk Claudia Lorena Tascon Ramirez Manager Division Treasury Risk Martha Inés Becerra Peña Director. Credit and Operational Risk Milton Fabián Villegas Manager, Compliance Division Pedro Alejandro Cruz Rodriguez Manager, Bank and Information Safety	
1.6	09/29/2017	The following items are updated for suppressing the physical printing of the list and its file on the client's file, taking into account the projects' massification virtual file:	Carolina Londoño García Analyst PyP	Martha Saa Gallego Credit Control Manager Marlon Quintero Physical Channel Coordinator	DPP-CAP-1448

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		3.2 lending operations with linked and related parties: 3.3 borrowing operations with linked and related parties 3.5 process of neutral operations with linked and related parties / 3.6 process of exonerations of commissions with linked and related parties		Diana Carolina Baquero Analyst Physical Channel Gustavo Bedoya Banking Safety Coordinator	
1.7	02/28/2018	Transfer of items 3.3 borrowing operations with linked and related parties 3.4 consolidation and report of treasury operations with linked and related parties 3.5 Processes of Neutral Operations 3.6 Processes of Exonerations of commissions and 3.7 Purchase and Sale of Foreign Currency and Opening to MAN-COL-431 Items 3 to 13 are added in accordance with the policies of GRUPO AVAL described in the manuals “FRAMEWORK OF REFERENCES OF INSTITUTIONAL RELATIONSHIPS” and M AR 01 “corporate policy for integral risk management”	Esteban Tróchez Analyst PyP Sergio Antonio Paez Sarmiento Analyst PyP	Martha Saa Credit Control Manager Maria del Pilar Villegas Companies' Credit Manager Ruth Carrillo Processes Auditor Maria Camila Pedraza Director of Concepts and Staff Affiliates Contracts Andres Felipe Torres Compliance Director Martha Ines Becerra Operational and Continuity Risk	DPP-APY-1953

DISTRIBUTION LIST	
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ANNEXES AND REFERENCES	
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1. OBJECTIVE AND SCOPE

The objective of this manual is to document the policies and/or procedures that the Bank shall observe in view of potential risk situations that arise due to the Bank's relationships with its affiliates and other entities that form part of the conglomerate. The herein manual is authorized by the Board of Directors through Minutes No. 1306 dated January 11, 2013, as amended by Minutes No. Of [].

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2. GENERAL ASPECTS

The organizational structure of Banco de Occidente, hereinafter "the parent", and its affiliates have mechanisms that allow the relationships between the boards and committees of the different entities belonging to the Bank's Conglomerate. Likewise, the Bank has staff areas in charge for knowing, compiling information and attending different processes, which allow risk mitigation and complying with the current regulations regarding the relationships maintained with Affiliates, Linked Entities and Related Parties of the Bank.

The mechanisms or means which Banco de Occidente has to manage different conglomerate risks are: Active participation of the Senior Management of Banco de Occidente in the Boards of Directors of affiliates; the participation of the Members of the Board of Directors and Senior Management of Banco de Occidente in the Audit and Risk Committees of the Bank's affiliates and the creation of bases of Linked Entities and Related Parties to act in accordance with the regulations in force.

The following are Bank's affiliates:


- Fiduciaria de Occidente (hereinafter FO)
- Ventas y Servicios S.A. (hereinafter VYS)
- Occidental Bank (Barbados) Ltd. (hereinafter OBB)
- Banco de Occidente (Panama) S.A. (hereinafter BOP)

The parent company of Banco de Occidente is the corporation Grupo Aval Acciones y Valores S.A. (hereinafter "the Bank's parent company").

CREDIT RISK

Affiliates Abroad:

- The credit risk analysis of the transactions carried out by the affiliates abroad is carried out by the credit area of the Parent, without prejudice to the decisions being taken by the respective bodies of each affiliate.
- For the purpose of assessing exposure limits, the client's direct and indirect operations (Group) with the Bank and its affiliates shall be taken into account.
- The Parent, depending on the amount requested and the financial and operational indexes of the requesting customers, recommends or not the operation to the respective bodies of the Affiliate, who ultimately make the decision.
- Due portfolio reports, portfolio evolution and portfolio ratings are carried out which are regularly reported to the Board of Directors and that allow knowing the volume and evolution of the operations carried out with its affiliates.
- The minutes of the Board of Directors or of the respective body explicitly attest to the approvals of compliance of the aforementioned credits with the current regulations relating to

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exposure limits and to the fact that the client is a linked or related party of the Bank.

- For purposes of assessing exposure limits, indirect and direct (Group) operations with the Bank and its affiliates are accounted for.
- As part of the monitoring and Risk Management, the Parent also carries out the following activities relating to its affiliates:

Reports:

- Report of BOP to the Board of Directors presenting the evolution of the total portfolio, due portfolio, portfolio with risk and indexes of due portfolio and portfolio at risk (default greater than 30 days with respect to total portfolio) as well as provisions as of the cut-off date.
- Report of OBB to the Board of Directors presenting the evolution of the total portfolio, due portfolio, portfolio with risk and indexes of due portfolio and portfolio at risk (default greater than 30 days with respect to total portfolio) as well as provisions as of the cut-off date.
- Reports of the Audit Committee for OBB and BOP, including the main tasks carried out by the area during the last months.
- Reports of the Risk Committees for OBB and BOP, including the definitions or modifications in credit policies; subsequently these will be approved in the Board of Directors of each Affiliate.
- Portfolio classification of OBB regarding Weighted assets according to risk level, which is utilized as an input for calculating the Solvency index.

Note: The Policies and Procedures relating to Credit Risk matters are found in the following manuals:


- MAN-OBB-014 Credit Risk Management Policies Manual
- MAN-OBB-019 Credit Risk Management Procedures Manual

Methodology

- The methodologies for Granting and Portfolio Follow-up (Rating and Provision) are analyzed and defined by the parent company.
- Attention of requirements of the Banks Superintendence Panama, Central Bank of Barbados and statutory audit.

Affiliates in Colombia:

- While carrying out transactions different than those of the corporate purpose of the Bank, the same develop and structure their own risk assessment of businesses as well as operations

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management.

Linked and Related Parties

- Credit operations with Bank Related and economic Linked Parties, or changes in credit conditions, shall be analyzed in the Credit Division and have the approval of the Board of Directors, with the prior recommendation of the Credit Committee of the General Directorate, regardless of the amount of the transaction or indebtedness level. Likewise, according to Article 122 of the Structural Law of the Financial System, assets' transactions entered into by the bank with its shareholders holding five% (5%) or more of the subscribed capital, its managers, as well as those they enter into with the spouses and relatives of their partners and managers within the second degree of kinship, affinity, or sole civil relationship shall require for approval, the unanimous vote of the members of board of directors attending the respective meeting
- Prepare reports which shall be submitted quarterly to the Board of Directors, for allowing knowing the volume and evolution of the operations carried out with Related and economic Linked Parties of the Bank, as well as the greatest exposures of clients with the Bank and its affiliates.


OPERATIONAL RISK

The Parent develops a series of activities regarding its affiliates, such that it can carry out an accompaniment to the same regarding the methodology applied and the monitoring of risk management. Due to the foregoing, the consolidated (Bank and Affiliates) risk profile is reported to the Board of Directors, as well as the principal operational risk events (Bank and Affiliates).

Affiliates Abroad:

- OBB: the management, analysis, monitoring and risk control is assumed directly by the parent company, taking into account the regulations of the Central Bank of Barbados as well as the policies established by the Parent and by the Bank's Parent company.
- BOP: the management, analysis, monitoring and risk control is carried out with the participation of the risk specialized area of the parent company, which provides a resource on site with dedication to management of such risk. Such resource depends administratively on the General Manager of Banco de Occidente Panamá and operationally reports the Operational risk area of the parent company. Due to the foregoing, total synergy and alignment exist with the practices implemented in the parent and in the Bank's parent company. The Operational and Technology Vice Presidency (OTV) through the Management of Operations, of Portfolio, International and Treasury (MOPIT), attends the operation of both affiliates.
- Ata technological level, support is provided in areas such as: Information Technology Solutions, infrastructure for processing, storage, telecommunications and desktop. Likewise, the Vice Presidency of Operations and Technology of the MOPIT Management attend invited to the Board of Directors.

Affiliates in Colombia:


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- FO: In addition to the participation in the Risks Committee, work is carried out side by side with the affiliate for aligning policies, procedures and methodologies harmonization. Likewise, a follow-up of the risk profile and event recording is carried out.
- VYServices: The best practices are shared and a follow-up as well as an indirect supervision of the operational processes of Sales and Services is carried out, wherein the members of the board of directors are officers of the Bank’s Senior Management.

MARKET RISK AND LIQUIDITY

Affiliates Abroad:

- The entities are based on Risk Manuals (SARM and SARL Manuals, among others) in force in the Bank and its affiliates, for analyzing such risks.
- The Treasury Risk has an active participation in different fora within which the following are highlighted:
 - Board of Directors (Periodicity every four months): Monitoring and control of policies and limits of treasury operations, as well as the result of measuring market and liquidity risks.
 - Financial Risk Committee (Quarterly Periodicity): Proposals for amending, creating or eliminating policies and limits, as well as presenting special topics on market risk and liquidity.
 - Finance Committee (Weekly Periodicity): The monitoring and control of policies and limits of treasury operations follow-up is carried out, as well as the presentation of relevant topics occurring during the week.
 - Internal Audit Committee (Semi-annual periodicity): The management report relating to Treasury Risks is submitted, as well as the evolution of key processes related to the area.
 - Ethical Treasury Committee (Quarterly Periodicity): Presentation of relevant cases relating to conduct and ethical follow-up of treasury operations.
 - In addition to the committees mentioned, periodical reports are drafted for the senior management, containing the supervision and control of the policies and limits relating to Market and Liquidity Risks.

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- Regarding indebtedness control levels, Treasury Risk is in charge of setting parameters, monitoring and control of the allocations granted by the Credit Division.

Affiliates in Colombia:

- A consolidated liquidity risk report is periodically submitted to the Bank’s Board of Directors.
- The Risk Committee of Fiduciaria de Occidente periodically revises the liquidity risks; some officers of the Bank’s Senior Management form part of such committee.
- The Treasury Manager participates in the FO’s Investment Committee.
- Does not apply to VYS since it is a Technical and Administrative Services Corporation.


Linked and Related Parties:

- On a monthly basis, during the Board of Directors meeting, the Treasury Risk Division presents the report of Treasury operations with linked and related parties pursuant to Chapters VI and XXI of the Basic Accounting and Financial Circular Letter 100 of 1995. This report reviews that the transactions appear at market prices. Linked and related parties are provided by the Credit Control Division.
- Through "Monitoring and Control of Treasury Operations Levels " all the purchase and sale operations of securities carried out by the treasury are reported, including transactions carried out with related parties.
- All liquidity operations carried out by the Treasury with its affiliates are reported daily in the "Daily Foreign Currency Report" report.

COMPLIANCE RISK

Affiliates Abroad:

- The Compliance Officer submits quarterly to the Bank's Board of Directors, a report of its compliance management, which includes the Matrix, BOP, OBB. and FO.
- The BOP and OBB Affiliates follow the guidelines of the parent company, taking into account the specific regulations of the jurisdictions where they are established.
- At OBB, the Bank's Compliance Division carries out the documentation of Policies and Manuals, Monitoring, Profiling, Customer Ratings and supports the Training process, and it also performs AML/CFT risk management. The parent provides the structuring of the presentation to the Board of Directors and to the Compliance Committee.

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- At BOP, the Compliance Division of the parent establishes the guidelines for documenting the Policies and Manuals, Monitoring, Profiling, Customer Ratings, Training processes and Laundering risk management. The parent company participates in the Compliance Committee.

Affiliates in Colombia:

- The Compliance Officer of Banco de Occidente determines the guidelines and oversees the implementation of SARLAFT. FO performs the function of monitoring, training processes, profiling, customer ratings and policy and manual documentation. The Compliance Officer submits its management report quarterly to the Board of Directors of Fiduciaria and participates in the Compliance Committee.
- VYS, being a non-financial entity, bases its System of Self-Control and Risk Management of Money Laundering and Financing of Terrorism (LA/FT), as established in External Circular Letter 100-00005 of June 17, 2014 of the Superintendence of Corporations.


CORRUPTION RISK

Currently Banco de Occidente has an anti-fraud and anti-corruption policy, through which it rejects dishonest practices and corruption in all its forms, consequently it prohibits giving, promising or offering a public officer, directly or through a third party, a benefit or valuable thing, for the purpose of influencing the addressee to obtain an undue advantage or to induce the same to taking or refraining from taking any official action, for benefitting the Bank or its Affiliates.

Affiliates Abroad:

- The FCPA Leader of the Parent Company acts as FCPA Leader of Affiliates OBB and BOP.
- In OBB and BOP, the parents company Banking Safety Division, in accordance with the guidelines of Grupo AVAL, communicates with and accompanies the affiliates during the implementation of the FCPA program, which includes the establishment and documentation of policies and procedures, training programs for officers and third parties and monitoring activities in charge of an affiliate for preventing corruption risks.
- In OBB and BOP at least once per semester, the FCPA Committee meets with the purpose of verifying the implementation and compliance of FCPA policies with Affiliates.
- In OBB and BOP the identification, measurement and control of corruption risks is in charge of the Affiliate and works with the support of the Banking Safety Division and the Operational Risk Unit, both of the parent company.

Affiliates in Colombia:

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- Affiliates FO and VyS have within their organizational structure, a FCPA Leader, in charge of the implementation and monitoring of the FCPA program, including the documentation of policies and procedures, assessment, measurement and control of corruption risks, as well as training sessions for officers and third parties, all the foregoing taking into account the parent company's guidelines as well as those of Grupo AVAL
- The FCPA Leader of the parent company participates as a permanent guest of the DCPA Committee of Affiliates FO and VyS

AUDIT

The Internal Audit area of the Bank shall carry out, within its audit tasks, the assessment of risk controls of the conglomerate established by the Bank so it may oversee its compliance.

Affiliates Abroad

- Internal Audit functions of BOP and OBB are in charge of the Internal Audit Management of the Parent, supported by the following legal regulations in force:
 - Article 8 of Agreement No. 005 dated September 20, 2011, of the Banking Superintendence of Panama.
 - Item 8.4 of the Guidelines regarding Corporate Governance, issued by the Central Bank of Barbados, in February 2013.


Affiliates in Colombia:

- In Colombia, the internal audit function is contemplated within the organizational structure of each entity. However, the Internal Auditor of the parent interacts with the auditors of such affiliates for sharing best practices and discloses the guidelines issued by the parent or the Bank's parent company.
- Furthermore, the parent's Internal Auditor participates as permanent guest in the Audit Committee of the Board of Directors and in the Internal Control Committee of Fo and in the Internal Audit Committee of VYS.

CONTRACTING

- The Bank shall analyze, document and follow-up on contracts entered into with its counterparties belonging to the conglomerate. Likewise, it shall follow-up such contracts in order to verify the enforceability of the conditions set forth therein, and update the same if necessary and feasible, which shall be administered by the Administrative Resources Division of the Parent.

Note: The contracts at the Bank are centralized by the Administrative Resources area, the procedures and those responsible for these activities are specified in MAN-APY-018.

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2.1 DEFINITIONS

2.1.1 Affiliate (Pursuant Article 260 of the Code of Commerce)

“A corporation shall be subordinate or controlled where its decision-making capacity is subject to the will of another or other persons who shall be its parent or controlling entity, either directly, in which case it shall referred to as an affiliate or with the participation or through the subordinates of the parent company, in which case it will be called subsidiary.”

2.1.2 Linked Party (pursuant to Decree 2555 of 2010 Item B.7.3.1.1.2)

- Shareholder(s) or beneficial owners ¹ of 10 per cent (10%) or more of the shareholding interest of the intermediary.
- Legal persons wherein, the intermediary is a beneficial owner of ten per cent (10%) or more of the shareholding interest.
- The securities intermediary’s parent and **its** affiliates and subordinates.
- The intermediaries’ administrators, those of its parent and of its affiliates or subordinates.


2.1.3 Related Parties (according to Accounting and Financial Basic Circular Letter Chapter VI)

Are those are natural or legal persons, who have with all or some of the entities comprising the Financial Conglomerate, or with the individual entity monitored in case it does not form part of a Financial Conglomerate (set of entities under surveillance of the Financial Superintendence of Colombia and its affiliates and subsidiaries abroad that perform financial, stock exchange and/or insurer activities, among whom there are property links for having the same controlling beneficial owner), with administration links owned directly and indirectly equal to or greater than 5% and corporations wherein any of the persons listed above has a direct or indirect shareholding of 10% or more.

¹ Beneficial owner is understood as any person or group of persons who, directly or indirectly, by themselves or through a third party, by virtue of contract, agreement or otherwise, has with respect to a share of a corporation, or may become an the owner of bonds compulsory convertible into shares, a decision-making capacity; namely, the capacity to vote in the election of directors or representatives, or to direct, orient and control such vote, as well as the capacity or power to alienate and order the alienation or encumbrance of the share.

For purposes of the herein decree, a beneficial owner is comprised by the spouses or permanent companions and the relatives within the second degree of kinship or affinity, sole civil relationship, except when independent economic interests are evidenced, circumstance which could be declared through oath before the Financial Superintendence of Colombia with exclusively evidentiary purposes.

Likewise, parent corporations and their subordinates constitute beneficial owners.

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2.2 DEFINITION OF TYPE OF OPERATIONS

2.2.1 Lending Operations

Lending operations are those placements with its own resources or resources of third parties among the public, or said differently, the granting of credits (i.e. mutual, discounts, credit cards).

2.2.2 Borrowing Operations

Borrowing operations are those through which resources are obtained from the public for their subsequent placement (i.e. Savings deposits, rediscounts).

2.2.3 Neutral Operations


Are those services rendered by the Bank in exchange of remuneration (i.e. Safety boxes, remittances).

3. INTRA-GROUP OPERATIONS

3.1 PRINCIPAL ACTIVITY AREAS AND EVENTUAL BUSINESSES AND COMMON SERVICES

The organization's strategic objectives include developing and capturing synergies between Bank of Occidente and its affiliates through the rendering of shared services within the entities. The foregoing with the purpose of attaining savings and a greater competitiveness in products, services, processes and costs, through the following activities:

- Unification of processes and corporate applications guaranteeing that the entities comprising the Organization have the best technological resources for designing modern products and services, cost-effective and that may be offered time-to-market.
- Centralized corporate negotiations of hardware, software, and other goods and services seeking savings in costs per volume.
- Design and implementation of processes, through third parties or entities of Grupo AVAL, for allowing competitiveness in the market through scale economies between affiliates.
- Centralization in design of products and services which generate a positive impact, modern and innovative for the image of affiliates.
- In addition to the rendering of shared services, affiliates of Banco de Occidente may eventually enter into operations inherent to their financial activity among themselves, including credit

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operations, exchange intermediation operations in the stock market, always provided the same are not contrary to legal prohibitions.

3.2 CRITERIA FOR DETERMINING THE PRICE AND CONDITIONS OF BUSINESSES AND COMMON SERVICES


During the rendering of shared services for the benefit of Banco de Occidente and its affiliates, the determination of the prices and conditions of intra-group business and services shall be carried out under schemes and philosophies of fairness, proportionality and respect for the minority shareholders of entities comprising the Organization. For determining the prices applicable to this type of transactions, criteria relating to the volume of transactions, number of customers and processing capacity used in the product, service or process, among others, shall be taken into account.

On their part, during the entering into intra-group operations relating to the financial services and products offered, the entities comprising the Banco de Occidente group and its affiliates shall all times strictly comply with regulation policies and procedures governing such operations. In particular, regarding the establishment of counterparty quotas, exposure limits applicable by type of transaction, and obligation to carry out such transactions in economic terms and prevailing market conditions, as well as the need for disclosures to the market through the mechanisms provided for said purpose, such as their inclusion in the financial statements and the publication of relevant information where appropriate.

3.3 GUIDELINES FOR DEVELOPING INTRA-GROUP OPERATIONS

In order to take advantage of synergies and carrying out operations between companies, Banco de Occidente and its affiliates shall act under the premise of respect toward its minority shareholders and other groups of interest. In such sense, intra-group operations shall include the following guidelines, oriented towards regulating this type of transactions and generating an adequate balance between the best interest of Grupo AVAL and that of the minority shareholders of the entities comprising the Organization:

- Banco de Occidente and its affiliates shall perform a permanent registration of operations carried out with entities of Grupo AVAL, identifying the type of operation, its purpose, economic conditions and authorizations received, as the case may be.
- Banco de Occidente and each affiliate shall establish indebtedness or exposure limits as well as constant monitoring of intra-group operations, observing for such purpose the restrictions existing in applicable provisions.
- All intra-group operations shall be fully identified in the accounting of the respective entities. The accounting, as well as the respective disclosure in the financial statements shall be verified, in compliance with the applicable regulations
- Significant transactions shall be identified and supported as a function of their significance.
- Authorization levels shall be defined within the governance and control structures, assigned in accordance with the magnitude and transaction type, keeping the evidence of such

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authorizations.

- Intra-group operations shall be verified for a valuable consideration, at market prices and conditions, maintaining a financial balance between the relationships of entities participating in the operation and avoiding that the same affect the capacity of any of the entities for timely compliance of their obligations.

3.4 MECHANISMS FOR RESOLVING POSSIBLE CONFLICTS OF INTERESR IN INTRA-GROUP OPERATIONS


Whenever it is deemed that carrying out any intra-group operation could represent possible situations of conflicts of interest between participating entities, the following guidelines shall be accounted for:

- Bank of Occidente and its affiliates, through the members of its Senior Management shall inform their Board of Directors about the interest of the entities carrying out the respective transaction, stating its elements, reason for its justification, the need of the operation and the considerations to be taken into account for analyzing the feasibility of such transaction.
- The Boards of Directors of each entity participating in the operation shall assess the transaction as well as the elements representing possible situations of conflicts of interest and the same shall state their approval of the operation, or if the entities shall refrain from its development, or if it may be carried out subject to the consideration of their respective General Shareholders' Meetings.

In the event that the decision of the Boards of Directors of the entities participating coincides with the need to submit the operation to their General Shareholders' Meetings, the General Shareholders' Meetings shall be summoned, clearly informing with sufficiency the subject matter of the summoning. For such purpose, they shall provide their General Shareholders' Meetings with sufficient and clear information on order to generate an informed opinion and proceed in accordance with the decision made by such bodies.

Banco de Occidente and its Affiliates, in accordance with their activities and businesses, shall identify situations that represent or may represent potential conflicts of interest. Without prejudice to the aforementioned, the following are some possible situations of conflicts of interest between those that may generate the need to implement the abovementioned mechanisms:

- Operations outside the normal course of business.
- Operations that could imply taking risks beyond the risk policies of the respective entity.
- Operations at prices different than those of the market.

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4. DOCUMENTARY ARCHITECTURE OF THE RISKS MANAGEMENT SYSTEM (RMS) OF THE ORGANIZATION

The guidelines directed towards orienting the RMS At level of Banco de Occidente and its affiliates are organized pursuant to the following levels:

- **Level 1 – Policy for Integral Management of Risks of the Conglomerate:** The general guidelines are established for the risk management systems at a corporate level (MAN-APY182 and MAN-COL-431).
- **Level 2 – Corporate Policies for Risk Management:** Specific guidelines are established for each risk management system at a corporate level. (SARO, SARLAFT, SARC, SARM, SARL, SOX, FCPA).
- **Level 3 – Individual Policies for Risk Management:** Guidelines are established for each risk management system for each entity. These shall be aligned with what has been established for Levels 1 and 2.


5. RISK MANAGEMENT SYSTEM (RMS)

The RMS contains policies and frameworks for processes for defining the criteria and ways in which the Banco de Occidente and its affiliates shall identify, assess, assume, rate, monitor, control and mitigate their risks. For such purpose, the management, administration and control bodies of the entities shall align their policies and special mechanisms for an adequate administration, not only from the perspective of coverage through a system of provisions or other risk mitigating elements, but also through the management of the entire value chain of each process.

1.1 ELEMENTS COMPRISING THE RMS

The different risk management policies shall include at least the following basic components:

- Risk management policies and dissemination of risk-control culture.
- Government guidelines including assignment of roles and responsibilities.
- Risk management processes.
- Risk management maps.
- For applicable risks, internal or reference models for estimating or quantifying expected losses.

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- Provisions system, where available, to cover Risk.
- Internal control system.

6. PRINCIPLES WITHIN THE ORGANIZATION

In addition to the regulatory framework applicable, the risk management policies of the Organization shall be governed by the following Principles generally accepted at an international level, as good practices for an effective framework of application and risk control.

6.1 THE COOPERATION, COORDINATION AND INFORMATION EXCHANGE BETWEEN BANCO DE OCCIDENTE AND ITS AFFILIATES SHALL BE PERMANENT AND TIMELY

Entities shall communicate downwards and horizontally, the culture, philosophy and risk policies (control environment). For developing such principle, Banco de Occidente and its affiliates shall aim to generate effective mechanisms for reporting information upwards (towards the Board of Directors and Senior Management), which is trustworthy, understandable and comprehensive, so to provide an effective support for the administration.

For such purpose, a process agreed by consensus has been established between Banco de Occidente and its affiliates for each of the key risks with corporate monitoring, for confirming the roles and responsibilities of each one, in the process, and for guaranteeing an efficient and effective information exchange according to the parameters defined (for each risk), as well as to the control by Banco de Occidente as a parent company.


6.2 PRUDENTIAL REGULATIONS AND COVERAGE

Banco de Occidente has established and implemented, jointly with its main affiliates, the regulatory framework for each of the key risks through the establishment of Corporate Policies based on current prudential rules issued by supervisory and control Authorities, as well as market best practices in the market; for such purpose it provides guidelines through Manuals, Policies or any kind of pronouncement deemed as necessary. Corporate Policies set forth the framework for each of the key risks

6.3 FOLLOW-UP AND CONTROL

Internal Audits are responsible for developing and maintaining a sound understanding of its operations, requiring any corrective timely actions deemed necessary and/or for guaranteeing compliance of the prudential framework, through the development of audit activities deemed pertinent, in accordance with their criterion and with the characteristic Independence, focused on generating cohesion within the Organization for the existence of the Control Architecture.

6.4 ALL ENTITIES SHALL HAVE CONTROL SYSTEMS

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While designing scenarios for identifying risk events or situations, each entity shall consider the risk profile of its clients and/or its own, based on Methodologies allowing risk assessment, as well as on information obtained from knowledge work regarding its clients, sector herein it operates, macroeconomic environment, among others.

6.5 CONTINUOUS FOLLOW-UP

A continuous follow-up is AN ESSENTIAL ASPECT OF A SOUND AND EFFICACIOUS RISK MANAGEMENT. For such purpose, each entity shall manage its resources efficiently thanks to the knowledge of financial/operational activities of its clients and counterparties, as well as the operation of processes, products and markets where it operates.

6.6 SELF-CONTROL

The RMS shall seek self-control, understood as the capacity of those participating in different processes, of considering control as inherent to their responsibilities, fields of action and decision-making, assuring the implementation and documentation of the controls for mitigating the risks to which the entities are exposed. The methods and procedures for assessing control implementation may be integrated as part of the daily responsibilities (assessment or continuous monitoring) or implemented in a specific manner (periodic testing of controls) through independent tests.

For developing such principle, those participating in the different processes (Senior Management included) shall be responsible of identifying, assessing, measuring, controlling, monitoring and reporting the risks, defining methodologies and assuring that risk management is consistent.


With continuous manual and automatic assessments, they monitor the presence and operation of internal control components during the ordinary course of business management. They can be carried out by the direct supervisor of the person performing the corresponding operations or functions. These collaborators shall be competent professionals, with sufficient experience and knowledge to understand the matters assessed.

In the same sense, self-control can include independent tests, which are not necessarily integrated within the business, but are extremely useful for assessing the internal control system; including observations, consultations, reviews, among others, and may be carried out by staff independent of the day-to-day operation, but duly trained on the operation of the activities subject to assessment. Entities may use collaborators from different operational or functional areas for carrying out the assessments.

6.7 CAPITAL

Banco de Occidente shall oversee:

- I. To maintain an **adequate capital** at a group scale and an individual level consolidated within the financial establishments, so it acts as a buffer regarding the risks associated with its activities.

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- II. Las técnicas de evaluación de la adecuación del capital y su medición (en los riesgos que aplique), consideren los dobles o múltiples apalancamientos.

The amount at risk (VAR) of each of the risks of a Subordinate Entity and its impact is taken into account in the economic capital. For such purpose, its effect shall be weighted regarding the Technical Equity and the Solvency index.

6.8 LIQUIDITY

Those entities under the regulatory obligation of having Liquidity Risk Management Systems (SARL) shall have mechanisms and procedures for identifying, measuring, monitoring and controlling their liquidity risks. Banco de Occidente as a parent company shall follow-up the liquidity in each of the affiliates with the aim of monitoring the adequacy of the same for attending liquidity needs in normal times and during periods of stress.

6.9 RISK MANAGEMENT FRAMEWORK

Affiliates of Banco de Occidente shall draft their own policies (level 3), independent, exhaustive and efficient for each risk, according to law or to what has been established by Banco de Occidente. For such purpose such affiliates shall observe the minimum parameters enshrined under the provisions in force, as well as in the corporate guidelines issued by Banco de Occidente for each risk.

6.10 RISK MANAGEMENT CULTURE

Banco de Occidente and its affiliates shall have their own processes and procedures for generating a risk management culture at a group level.

6.11 RISK TOLERANCE LEVELS AND RISK APETITE POLICY


Banco de Occidente and each of its affiliates shall establish individual and consolidated risk tolerance levels within its management policies, as the case may be, approved by the Senior Management or its Board of Directors, as applicable.

6.12 AGGREGATE RISKS

In its capacity as Parent Company, Banco de Occidente shall carry out a follow-up of the risks, as part of the herein Integral Risk Management Policy, for which effect it shall aggregate the same to the extent reasonable or feasible.

6.13 STRESS TESTS AND EVALUATION OF SCENARIOS

Stress tests carried out periodically by Entities shall observe the following “Stress Testing Principles” issued by the Basel Committee, applying the proportionality criterion as a function of size and Complexity of each Entity,

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as well as for those risks for which the testing applies:

6.13.1 The use of Stress Tests and its integration with good risk governance

- I. Stress tests shall form integral part of the general culture of good governance and risk management. The tests shall be binding, in such a way that their results shall influence the decision-making processes of the Senior Management, including the strategic decisions of the Board of Directors, as the case may be.
- II. The entities shall utilize a stress testing program for promoting risk identification and control, offering a risk perspective complementary to other risk management tools and for improving capital and liquidity management, as well as the internal and external communication.
- III. Stress testing programs shall include the opinions of the pertinent areas of the entities and shall cover different perspectives and techniques.
- IV. The policies and procedures governing the stress test program shall be documented in writing and its operation shall be properly documented.
- V. Those entities legally obliged to apply the EPR in accordance with the Financial Superintendence of Colombia shall have an infrastructure proportional to their business profile, robust and sufficiently flexible for accommodating and changing diverse stress tests with an appropriate level of segregation.
- VI. The entities shall maintain and periodically update the stress testing framework. The program's efficiency, as well as the robustness of its principal components shall be assessed regularly and independently.

6.13.2 Stress Tests Methodology and Selection of Scenarios

- I. Stress tests shall cover a number of risks and business areas. Entities shall be able to effectively and significantly integrate their entire range of stress testing activities in order to provide a complete picture of the risk assumed by the entity as a whole.
- II. Stress testing programs shall cover a variety of scenarios, including prospective scenarios, and attempt to consider system-wide interactions and feedback effects.
- III. Stress tests shall include a wide range of events, including those liable of causing more damage, either due to the size of the loss or to the impairment to reputation. The stress testing program shall also determine which scenarios might threaten the bank's feasibility (reverse stress tests), thus discovering hidden risks and interactions between risks.
- IV. In their overall stress testing program, banks should take into account pressures that simultaneously affect financing markets and asset, as well as the impact of reduced market liquidity on exposure valuation.

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- V. The stress testing program shall explicitly cover complex and custom-designed products, such as securitizations. Tests on securitized assets shall take into account underlying assets, their exposure to systematic market factors, relevant contractual clauses and their activation criteria, as well as the impact of leverage, in particular according to the level of subordination of the issue.
- VI. Entities shall refine their stress testing methodologies to reflect the effect of reputational risk. They shall also integrate the risks of off-balance sheet vehicles and other related structures into their program.
- VII. Entities shall refine their stress tests for highly leveraged counterparties considering their vulnerability to certain types of assets or to market fluctuations as well as assessing the potential risk "wrong way" associated with risk reduction techniques.

6.14 INTRA-GROUP TRANSACTIONS AND EXPOSURES (TEI's)

Intra-group transactions and exposures may facilitate synergies within different parts of the conglomerate and consequently lead to sound and maximum profitability, improvements in risk management, and more effective control of capital and financing, provided that any eventual contagion that complicates their resolution is avoided.

Affiliates shall monitor relevant and important intra-group transactions and exposures in a timely manner.

Each entity shall establish guidelines of conduct and ethics for orienting the acts of employees, including provisions regarding information confidentiality, management of privileged information and conflicts of interest.

Banco de Occidente and its affiliates adopt and implement effective systems and processes at the Corporate or Individual Policy levels to manage and report risk concentrations at the group level; as well as intra-group operations and exposures and implement mechanisms to ensure that they are carried out at market prices and conditions.


7. STRUCTURE AND GOVERNANCE FOR INTEGRAL RISK MANAGEMENT

7.1 GROUP STRUCTURE

Banco de Occidente, as parent company shall carry out a consolidated follow-up to the integral risk management of the organization, aiming to have a functional and transparent management structure, consistent with its strategy and global risk profile.

Banco de Occidente and its affiliates are characterized by the following:

- Total autonomy in their operations, having independent administrative structures.
- Resources allocation decisions are made by the Presidents and Boards of Directors of each entity.

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- The accounting is handled independently and public information is disclosed separately to the stock market.


7.2 DEFENSE LINES REGARDING RISK

Affiliates shall structure their functions and responsibilities regarding their risks, following the three-lines scheme of defense, namely considering (i) management for each line of business, (ii) an independent management risk function, and (iii) and independent review.

7.2.1 First Line of Defense

The first line of defense is each of the areas or collaborators within the affiliates that manage the business (activities for the public and with direct contact with customers). This means that such areas or collaborators are first and foremost responsible for identifying, assessing, managing, monitoring and reporting the risks inherent to the products, activities, processes and systems for which they are responsible. Those who form part of this line of defense shall know their activities and processes, and have sufficient resources available to effectively carry out their tasks. For such purpose each of the entities that form the Organization shall:

- Clearly specify in writing the policies and procedures for risk management and inform the same to all collaborators.
- Include a clear description of the obligations of the collaborators and the instructions to follow, as well as guidance so that the activity of the Entity complies with the regulations, policies, procedures and guidelines comprising its integral risk management architecture.
- Implement internal procedures for detecting and informing risk operations.
- Having adequate policies and processes for selecting their present and future staff, for guaranteeing high ethical and professional standards.
- Implement personnel formation programs so that the collaborators are properly trained for applying and developing the risk management policies of the entity.
- Adapt the programming and content of the training for staff in the different areas according to their needs and the risk profile of the entity under the premise that: training needs vary depending on the roles of the employees and the responsibilities of the various positions, as well as of seniority. The organization and materials of the training courses shall be adapted to the specific responsibility or function of each collaborator in order to assure that the same has sufficient knowledge and information to effectively implement policies and risk procedures. Pursuant to the above:
 - New collaborators shall receive adequate formation as soon as possible after joining the organization.

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- Updating courses shall be offered for guaranteeing that the staff maintains updated knowledge of their obligations and for keeping their skill up-to date. The scope and frequency of such formation shall adapt to the risk factors to which the collaborators are exposed in accordance with their responsibilities and the level and nature of the risk present in each entity of the Organization.

7.2.2 Second Line of Defense

This line of defense assigns responsibilities to the risk areas of each entity or equivalent area in charge of such functions which shall continuously follow-up compliance of all Risk obligations of such entity. This includes verifying compliance with the regulations and policies of the entity to inform the Senior Management of the respective entities. For such purpose, it shall challenge the business units using appropriate risk management tools, carrying out risk measurement activities and using risk information systems.

As part of the second line of defense, the risk leader shall be:


- Responsible for the management and monitoring of risks on its charge, alerting the senior management or the Board of Directors and/or the respective Support Committee if it is deemed that the management is not implementing risk management procedures in a responsible manner.
- The contact point for all matters required by internal and external authorities, including supervisory authorities or judicial authorities.

Commercial interests of the entities should not oppose the effective performance of the above-mentioned capacities of the risk leader. Regardless of the size of the entity, potential conflicts of interest should be avoided. Thus, in order to allow fair trials and to provide impartial advice to management, the risk leader should not assume attributions within the lines of business or in the operational context of data protection or in the internal audit function. In the event of any conflict between business lines of business and the responsibilities of the risk leader, there shall be procedures in place for ensuring that risk issues are given an objective consideration at the highest level.

The risk leader may also serve as Compliance Director or its equivalent, if allowed by law. Such officer shall report directly to the Senior Management and/or the Board of Directors and/or their respective Support Committees. In the event of separation of tasks, the relationship between the aforementioned officers and their respective roles shall be clearly defined and known.

7.2.3 Third Line of Defense

The third line of defense plays an important role in independently assessing risk management and controls, as well as the processes and systems of the entities, reporting to the Audit Committee. Those in charge of internal audits shall carry out these reviews shall be competent and properly trained and shall not participate in the development, implementation and operation of the risk/control structure. Such review may be performed by the audit personnel or by staff independent of the process or system under review, but may also involve duly qualified external actors.

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Within the Organization, risk monitoring is carried out independently by the Internal and External Audits (statutory audits) of the different entities, which provide an objective assurance on the effectiveness of risk management to their Boards of Directors and/or Committees and through Banco de Occidente as a parent company, to help ensuring that key business risks are being properly managed and that the internal control system implemented is being effectively operated.

7.3 RESPONSIBILITY REGARDING THE RMS

7.3.1 Responsibility vested on the Head of the Financial Conglomerate


The Board of Directors and/or the Senior Management of Banco de Occidente Foster the existence of a strategy and appetite for risk, for each type of risk, as the case may be through the establishment of the herein Policy for Integral Risk Management of the Organization and through Corporate Policies and specific instructions established for the main risks by the Vice- Presidency of Risk of Banco de Occidente, which affect the activities developed by each affiliate and by the conglomerate; assuring that this strategy is implemented and developed by the different entities comprising the same.

7.3.2 Group Responsibilities as Parent Company

- Manage its risks under its entire responsibility pursuant to the general guidelines, internal policies defined and the applicable regulations in force.
- Oversee the efficient Risk management by its affiliates.

7.3.3 Responsibilities of Subordinate Entities

- Manage its risks under its entire responsibility pursuant to the herein Policy, to Corporate Policies, to the directions and general guidelines of Banco de Occidente, as well as to its own internal policies and the regulations in force of those countries where the affiliates operate.
- Assure that it has information management integrated systems, proportional to its size, organizational structure or complexity, based on criteria of relative importance and on risks, for providing certain safety guarantees to the business units (for example, relationships managers) and those responsible of risks and compliance (including the research staff).
- Inform the Board of Directors and/or the Audit Committee on a timely, complete, understandable and precise manner, the information regarding risk assessment, in order to provide input for informed decision-making.

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7.3.4 Responsibilities of the Boards of Directors, Audit Committees and or Senior Management of the Organization

Generally, the Board of Directors has the following responsibilities:

- Know and approve the policies regarding risks.
- Assure that the management has implemented an adequate policy for integral risk management.
- Assure the coordination and an effective communication with those responsible of risk management, for allowing the Board of Directors to take the measures it deems appropriate.

The Audit Committee has, among others, the following general responsibilities:

- Be informed and have the understanding about the processes and activities developed by Senior Management during the administration and management of the risks of the Entities, which shall comply with the relevant standards and requirements included in the herein Policy and in the Corporate Policies of each Risk.
- Question the Senior Management about the structured process for identifying, periodically assessing and reporting risks, the fact that there are controls appropriately designed to mitigate the same and that these operate effectively.
- Require and receive information from the Senior Management regarding risk management and, as the case may be, suggest adjustments or take action on those aspects that in its criterion have not been considered.
- Supervise the periodic financial reporting process implemented by the Management and review the annual financial statements prior to publication.
- At the time deemed convenient, request information from the Audit Committees of the Subordinate Entities.
- Receive information about the main fraud reports identified and reported in the Entities or the Group and evaluate the follow-up given by the Senior Management and the effect it may have on the Internal Control System.
- Have a Financial Expert, who is responsible for understanding in detail the financial operation of the Entities, their internal control and the implications of failure thereof.
- Analyze the progress compliance report of internal control assessment of the Sarbanes - Oxley Act and give recommendations thereof.
- Review the conclusions of the Internal Control assessment of Internal and External Auditors and of Management and consider whether the recommendations made have been

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implemented.

- Obtain periodical reports from the Entity’s Management regarding compliance matters with a material impact on the company’s financial statements, strategies, operations or reputation.

The Senior Management has the following responsibilities, among others:


- Oversee the implementation of the policies for each risk, their management, monitoring, control, improvement plans and reports.
- Assign capacities (roles and responsibilities) within the Entities, taking into account the governance structure of the Entity for assuring the effective management of risk policies and procedures.
- Oversee compliance with the Sarbanes-Oxley Act at the Entity level and at the Group level, assuring that controls are designed and implemented, that all defined compliance activities are being carried out and certify the outcome of the evaluation carried out on the Internal Control System.
- Understand the methodology of compliance with this Law and agree about the scope defined by the Senior Management of Banco de Occidente for its application, as well as issuing the certificates required by such standard.
- Analyze progress of risk compliance reports and assure that the remedies required are being implemented in a timely manner.
- Inform the Audit Committee if there are significant deficiencies, material weaknesses or suspected fraud on financial reports, involving the Management.
- Assure that Service Providers Entities with impact on critical processes and accounts have effective risk management systems.

The Management of Banco de Occidente is competent at a Conglomerate level.

7.4 ACTORS OF THE MODEL

Banco de Occidente and its affiliates actively participate in the model, for which each entity has the following responsibilities regarding the corporate model and its own model:

- The Board of Directors of each entity and/or the Senior Management (depending on the legislation in force) are responsible for approving the main policies for risk management. Such policies shall establish the parameters and guidelines applicable by type of risk and the manner in which exposure thereto should be administered.


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- The Audit Committee of each Entity regularly knows and supervises the effective exposure of the Entities to the maximum risk limits defined, and proposes corrective and monitoring actions in case of deviations.
- Senior Management is the owner of the processes and is responsible for risk management, namely of identifying, assessing, measuring, controlling, monitoring and reporting risks, defining methodologies, and assuring that risk management is consistent with the strategy and policies established for the type of risks.
- The Senior Management of the entities has a policy of delegation of hierarchical levels and functions in charge of the direction, and management bodies, and other areas regarding risks, for which it establishes the risk limits that can be managed directly by each level in the entity. Each entity's RMS policies shall include criteria for risk delegation and the attributions assigned to delegated collaborators for managing such risks based on their relevance and magnitude regarding the generation of potential events.
- Without prejudice to the role of Banco de Occidente as a parent company, the Bank and each affiliate are directly responsible for managing its risks as well as the risks of its affiliates and subsidiaries.
- Risk management shall be enforced by each of its Entities pursuant to Law (SFC Circular Letters, among others) and because it is a direct responsibility in accordance with its by-laws.
- Banco de Occidente monitors the results of the entities with the purpose of verifying the cohesion and homogenization of the RMS at the Organization level for the purposes of the integral risk management of the Conglomerate.
- Banco de Occidente coordinates the formation and leads the independent Risk Committees at the Corporate level (at the level set forth in the Chapter of Structure and Governance for Integral Risk Management – Group structure), with the participation of the corresponding risk leaders of the related entities.

8. RISKS

As part of its purposes, the herein Corporate Policy seeks to guide entities towards the standardization of methodologies and tools for Integral Risk Management, assuring that entities observe the principles and regulations established by their internal and external control bodies in order to mitigate, transfer, accept or eliminate, and for maintaining their risks at levels according to their appetite (For the Colombian case these are enshrined under the Basic Financial and Accounting Circular Letter, in the Basic Legal Circular Letter (EC 007/96), both issued by the Financial Superintendence of Colombia – SFC).

Banco de Occidente as a Conglomerate promotes the existence of a Control Architecture with a consolidated formal scope, and covering all affiliates, establishing responsibilities regarding policies and guidelines in this area and defining clear report lines that allow a consolidated view as well as the and adoption of the corresponding control measures.

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Compliance of these objectives should be a permanent purpose in all entities in accordance with the guidelines contemplated in the standards issued by their Supervisory Bodies, as well as those set forth in the herein Policy and other Corporate Policies originating from Banco de Occidente. The implementation and documentation of such procedures is the responsibility of each of the affiliates of Banco de Occidente.

8.1 RISK MANAGEMENT SYSTEMS ADDRESSED

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Compliance Risk:
 - Laundering of Assets and Financing of Terrorism - LA/FT
 - Anti-fraud and Anti-corruption – FCPA
 - Sarbanes Oxley Act – Internal Control of Financial Report
- Others risks defined.


8.1.1 Integral Risk Management System Administration

Each affiliate has its own models for Risk Management. For the Corporate Model it is important to collect the information of the results obtained periodically and in the cases deemed as relevant by the risk leader of each Entity.

If any changes occur in the Corporate guidelines, it is the risk leader who shall orient and develop their implementation within the Entity.

8.1.2 Risk Assessment and Understanding

A sound risk management requires the identification and analysis of the risks present in affiliates, as well as the design and effective implementation of policies and procedures in accordance with the risks identified. When carrying out a comprehensive risk analysis, entities should consider all relevant, inherent and residual risk factors at national and international level where applicable, sector, financial and business relationship, among others, for determine its risk profile and the appropriate mitigation level that will be applied.

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Thus, the policies and procedures regarding customer knowledge, customer acceptance, customer identification and follow-up of business relationships and operations (products and services offered and markets wherein it operates, among others) shall take into account the risk assessment and the resulting risk profile of the entities. These shall have adequate mechanisms in place to document and report risk assessment information to competent authorities.

Entities shall develop a thorough knowledge of the risks inherent to its customer base, processes, products, markets wherein they operate, distribution channels and services offered (including products under development or in the launch phase) and in the jurisdictions in which they or their clients do business, among others.

This knowledge should be based on specific operations data and transactions and other internal information collected by the entities, as well as external information sources, such as national risk assessments and country reports prepared by international agencies. Policies and procedures regarding customer and counterparty acceptance, due diligence and continuous follow-up shall be designed and implemented to adequately control these inherent risks identified. Any residual risk resulting shall be managed in harmony with the Risk Profile of the Entities established on the basis of their risk assessment.

8.2 RISK MANAGEMENT AND ASSESSMENT

Each affiliate shall have a thorough knowledge of all risks associated with its processes, customer products and counterparties, individually or by category (depending on the level of accuracy required by Senior Management), and shall document and periodically update such information, in harmony with the level, nature and appetite of risk.


The staff in charge of compliance and internal audit of the affiliates, in particular their Risk Officers, shall assess compliance of the policies and procedures of their entities.

8.3 RISK MANAGEMENT FRAMEWORK

Entities of Grupo Aval shall develop an independent, comprehensive and effective risk management framework evidenced in Policies; which shall be guided by the minimum parameters enshrined under the rules in force, as well as in the corporate guidelines given by Grupo Aval for each risk. In the event of contradiction, the regulator's specific jurisdiction requirements prevail, provided that it is more rigorous than the group's policy.

8.4 DETERMINING GENERIC RISKS

Banco de Occidente along with its affiliates shall determine the list of Generic Risks. Such risks are the basis for identifying key controls to be included in the risk matrices in the key processes within the business.

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Risk Teams of each entity shall carry out a preliminary selection of a generic Risk Inventory of those causing an impact in each process. Such selection is in turn agreed with the process owners, with whom they shall also document the justifications of risks that were not considered as applicable for each process.

8.5 GLOBAL PROCESS FOR RISK MANAGEMENT

Risk management implies establishing and administering a process for coordinating and applying policies and procedures. Within such context, the design of policies and procedures set forth under this Policy do not seek solely strict compliance of the legislation and regulations in force, but a more general objective of identifying, measuring, controlling, monitoring and mitigating the risks throughout the Organization.

A process shall be established for identifying and assessing the risks liable of potential events with significant impact.

Risk assessment procedures require, among other things, a detailed understanding of the entity, its environment, as well as of its internal control. It also requires the establishment of a process for assessing risks identified, including determining possible sources of potential errors, as well as the probability and magnitude of potential events and findings.

The ability to obtain and analyze information shall be assured in accordance with this policy and with homogeneous procedures that do not suffer impairment as a result of changes in local policies or procedures legally required in each Jurisdiction. In this regard, Banco de Occidente and its affiliates shall have a robust information exchange system between them. Finally, where the minimum regulatory or legal requirements of the countries of origin and reception differ, affiliates located in the host jurisdictions shall apply the strictest rules.


9. RISK MEASUREMENT AND MITIGATION

Documentation of controls and the management assessment process require the use of a "generally accepted internal control framework". Such reference framework defines those elements expected to be present and operating in an effective internal control system. For the effectiveness assessment, the management evaluates whether internal control on financial reporting includes policies, procedures, and activities to cover the elements described by the reference framework.

For such purpose, Grupo Aval selected a Committee on Sponsoring Organizations of the Treadway Commission (COSO) as the internal control framework for its assessment, considering the same to be a good practice, globally recognized and adjusted to such requirements. In addition, the regulation issued by the Financial Superintendence of Colombia (SFC) is based on such a conceptual framework.

Within this context, internal control is defined as a process carried out by the entities as a whole, in order to provide a reasonable degree of safety regarding the achievement of objectives within the following categories:

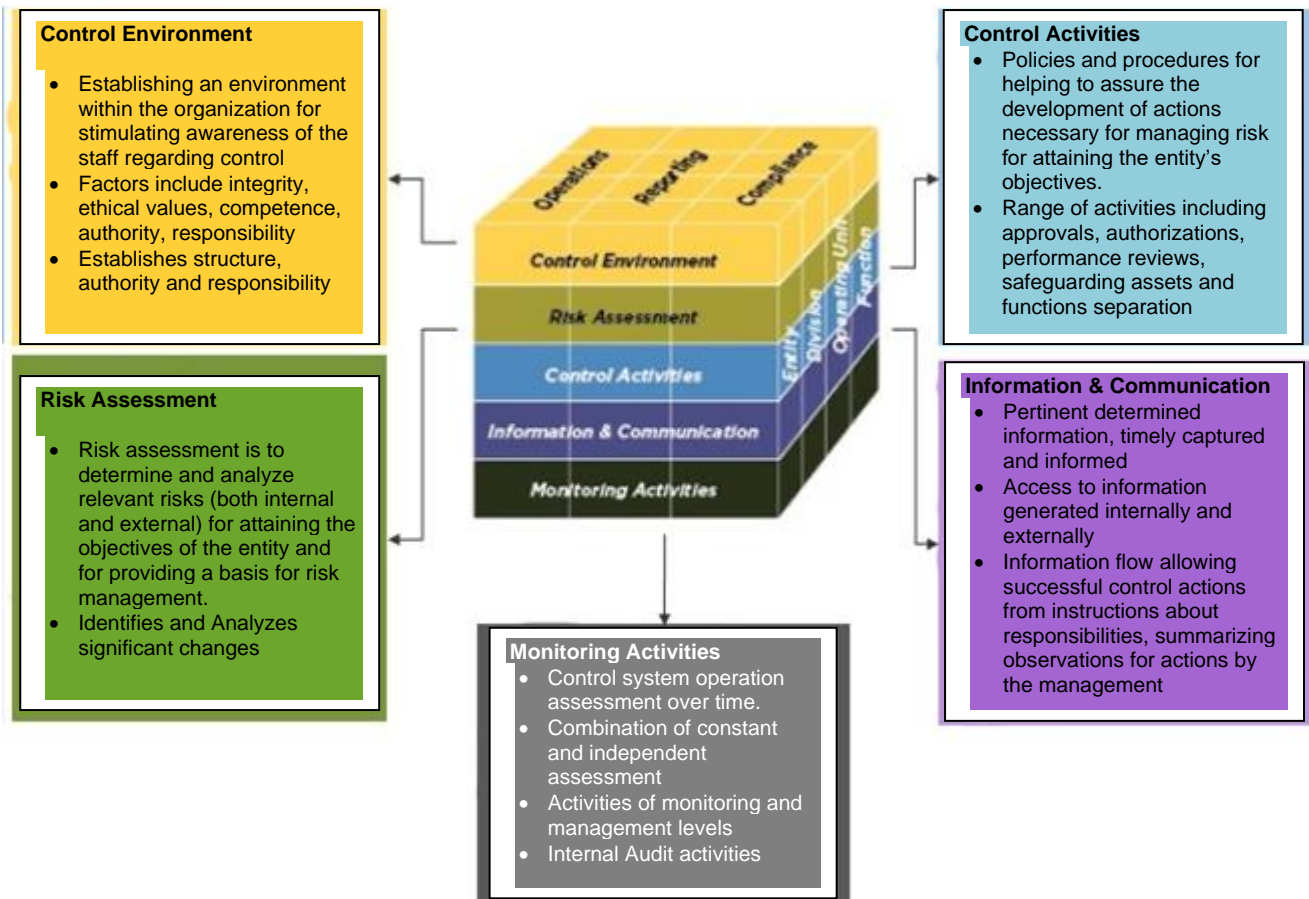
- Efficiency and efficaciousness of operations.
- Reliability of financial information.

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- Compliance with applicable laws and regulations.


The COSO management framework identifies five internal control components that shall exist in an integrated manner for assuring each of the objectives. The 5 components of Internal Control interact with each other, and form a system. This system shall be integrated into the operational activities of the entities. The integration of the Internal Control system with the activities of the entity, increases the chances of success of the entity. All members of the organization are responsible for the implementation and proper functioning of the Internal Control system, as shown in the following figure. Likewise, according to the update of the framework ("COSO 2013"), there are 17 principles distributed in the 5 components, over which the Senior Management of Subordinate Entities shall keep appropriate evidence demonstrating that they are "Present" and "Operating" in an integrated manner.

Figure 1. COSO Principles



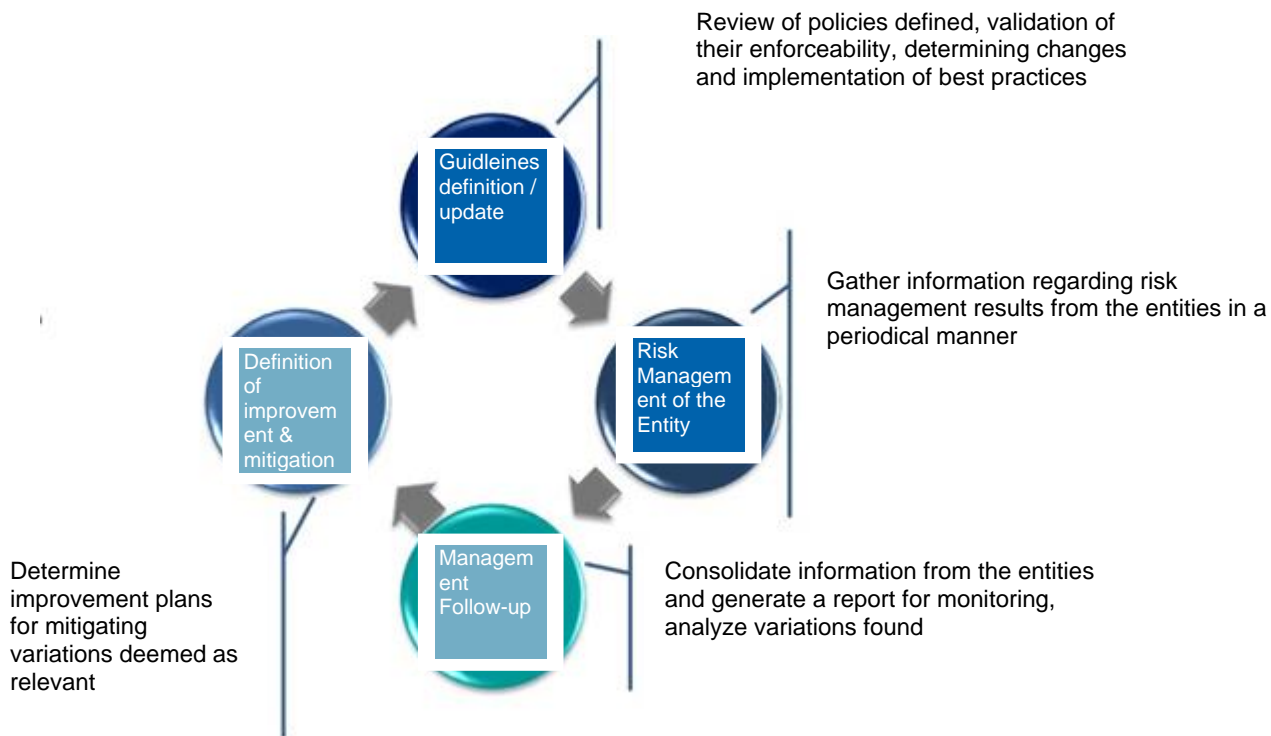
9.1 CORPORATE MANAGEMENT MODEL

The model includes four stages, defined for guiding and unifying risk management criteria of Banco de

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Occidente and its Subordinate Entities, stages related in a cyclical and continuous manner, according to the following figure:


Figure 2. Corporate Management Model



9.2 CONTROLS ANALYSIS

Assess if a control is able to prevent or detect possible events, consisting in obtaining an understanding and assessment of the following, in such a manner to allow reinforcing those aspects that could be considered as weak:

1. If the corresponding control objective is met, including whether it addresses the risks of material errors to the corresponding account statement or significant disclosure.
2. Factors affecting the accuracy of the assessment, including the objective of the review and adaptation of expectations, level of aggregation, and research criteria for identifying potentially material errors.
3. The steps necessary for identifying, investigating and resolving significant differences in expectations.
4. The person(s) carrying out the control, including their capacities and authority.
5. The operating frequency of the controller, namely if the review is often sufficiently carried out for

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preventing or detecting errors.

- The information used in the review, for example, if the analyses include data or information generated by the system.

9.3 ADEQUATE FOLLOW-UP SYSTEM FOR CLIENTS AND TRANSACTIONS

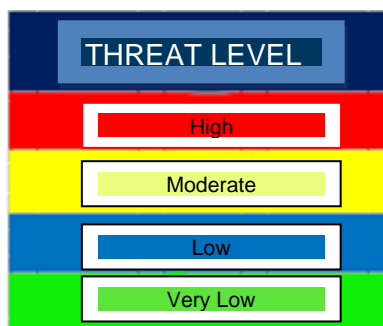
Banco de Occidente and its affiliates shall have a follow-up system according to their size, activities and complexity, as well as the risks present in the entity. When using an information technology (IT) system, it shall include all customer and counterparty accounts and all transactions wherein such customers are payers or beneficiaries. This system shall performing a trend analysis with transaction data and identify anomalous business relationships and transactions. In particular, this system shall be able to provide reliable information to the Senior Management on certain crucial aspects.

Internal auditing should also assess the IT system for assuring that it is adequate and that the first and second lines of defense use it effectively.

9.4 EVOLUTION OF RESISUAL RISKS


Each of the risks reported by the entities is analyzed using the following consolidation matrix for each non-financial risks analyzed:

Figure 3. Classification of Risk Levels



9.4.1 Methodological Guidelines regarding Controls

- Affiliates shall implement a top-down approach. In other words, and undue emphasis on the review tests of controls and of detection controls shall not be applied.
- The methodology requires, among others:
 - A permanent surveillance to confirm that no significant changes have taken place in the processes.

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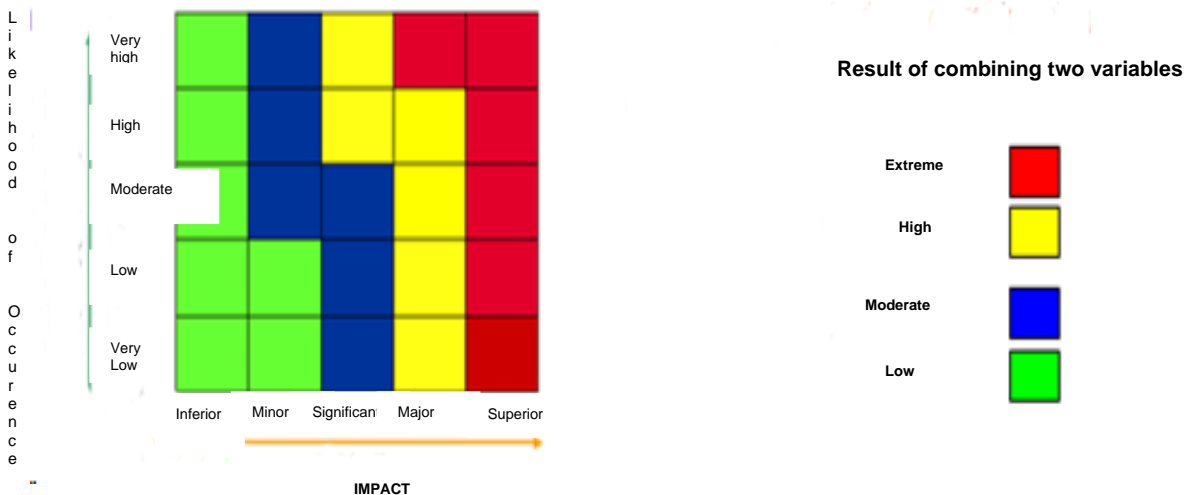
- Reinforce risk understanding through control tests and substantive procedures.
- Perform control walk-through tests.
- Implementing a top-down approach, emphasis shall be made on the preventive controls before than on corrective controls.


For determining the sufficiency of the control scheme it is necessary to validate if the controls, individually or combined, are able to face material risks. Some risks, especially those relating to complex processes or subjective estimates, could require a combination of controls for preventing or detecting errors.

- At a management level, controls for risks when applicable, may be carried out for supervising operations results. Such controls may be:
 - Monthly comparisons of current results with respect to income or budgeted expenses..
 - Comparisons of other indexes.
 - Temporary comparisons of Financial Statements and other reports.
- The main consideration in the assessment of accuracy level is to establish if the control is designed and operating for preventing or timely detecting basic errors that could cause non-detection of unusual operations with potential effects.

Each entity shall distribute Risk Levels or Threats in the parent company in accordance with its risk appetite internally defined for applicable risks. A Matrix example is shown as follows, with a certain composition of threat levels.

Figure 4. Risk Matrix



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10. DEFINITION OF IMPROVEMENT PLANS

According to risk assessment and controls, improvement plans can be established for mitigating high exposure risks. These action plans are implemented in the Entities, according to the schedules defined, for each case considering the regulatory obligations, capacities, structure and nature of each entity

11. RISK MANAGEMENT SYSTEM AT A GROUP SCALE AND IN A TRANSBORDER CONTEXT

When operating in other jurisdictions, Banco de Occidente requires sound risk management, which involves taking into account the legal requirements of host countries. Given the risks, Banco de Occidente applies the policies and procedures of its existing Risk Management Systems in accordance with Colombian legislation at group level, with consistent implementation and supervision throughout the Group.


In turn, policies and procedures in affiliates, even if they take into account local business patterns and host jurisdiction requirements, should support and be consistent with general Group policies and procedures. In cases where the requirements of the host jurisdiction are stricter than those of Banco de Occidente, the Group's policy allows the branch or affiliate to adopt and apply the local requirements of the host jurisdiction.

12. INFORMATION MANAGEMENT

12.1 RECORDS MAINTENANCE

Banco de Occidente shall:

- Guarantee the recording of all information obtained within the context of the client's knowledge system as well as counterparties.
- Develop and apply clear rules on records to be maintained in order to document due diligence performed on customers, counterparties and individual transactions. These rules shall take into account any mandatory privacy measures. They should include a definition of the types of information and documentation to be included in the records, as well as the retention period of those records, which shall be at least five years as from the expiration of the banking-financial relationship or occasional transaction.
- Maintain adequate records for documenting the assessment process regarding the analysis and continuous follow-up as well as the conclusions obtained, in such a manner that they allow demonstrating requirements compliance as well as rating parameters and risk assessment.
- Maintain the information up to date so that the Entity can efficiently monitor anomalous activities, and for allowing preventive controls, or that early alert indicators have the effectiveness expected.
- Be able of demonstrating to the Internal Audit and its supervisors (FSC), at their request, the adequacy of their risk assessment, management and mitigation systems; its policy of accepting customers and counterparties; procedures and policies; its continuous monitoring processes and procedures for reporting risk events, as well as all measures taken in the context of the

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- Timely inform about the risk events present and having a significant impact.
- Follow the guidelines established by the Corporate Risk Committee of Entities of Banco de Occidente, as the case may be.
- Foster trustworthiness of the public and investors; overseeing reputation maintenance, seriousness and transparency of the business.
- Apply the regulations of each risk, enshrined under the Manuals, Policies and Procedures in force in each Entity and those with a corporate nature, and adopt adequate controls for avoiding sanctions that could be imposed by the supervision and control authorities to financial entities or the Group’s collaborators.

12.2 INFORMATION EXCHANGE WITHIN THE GROUP

Entities shall monitor the coordination of information exchange. Affiliates are required to proactively provide the parent with information on high-risk customers, counterparties and activities, relevant for the purposes of global standards (without prejudice to compliance with habeas data, or bank reserve, etc.) and for responding to information requests submitted from the parent, in a timely manner.


Policies and procedures shall take into account aspects and obligations relating to data protection at the local level as well as privacy legislation and regulations. They shall also consider different types of information that can be shared within the group and the storage, retrieval, sharing/distribution, and deletion requirements of such information.

13. PRACTICES FOR SUBMITTING RISK REPORTS

Banco de Occidente and its affiliates base and structure the Corporate Risk Aggregation Policy, which has Principles or are expressions of the Management for a fair and transparent presentation and assessment of risks in the financial statements and other statements of the Managements of Banco de Occidente and its affiliates²:


- Governance and Infrastructure in general.
- Capacities of aggregation of data related to risk.
- Practices for submitting risk reports.

In order to effectively attain its objectives, risk reports shall meet the aforementioned, with the understanding that compliance of some of the same shall not impair the others. Having precise, complete and timely data is fundamental for an effective risk management. However, data itself does not guarantee that the respective Committee and the Senior Management may have qualified information for adopting efficacious decision about

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risks. For an effective risk management, suitable information shall be submitted to the appropriate persons on a timely basis. Reports based on data regarding risks shall be accurate, clear and complete, its content shall be adequate and they shall be delivered to those competent persons for decision making, with sufficient time for allowing an adequate response.

² The Principles hereon considered are those proposed by the Basel Committee in its document **“Principles for effective data aggregation and risk reporting”** of January 2013, including the following four areas closely related, the last of which corresponds to Supervision Entities and is not developed within the herein Policy: (i) Government and infrastructure in general, (ii) Data aggregation capacities regarding risks and (iii) Practices for submitting risk reports.

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The policy on corporate risk information aggregation is shown in detail in a specific document designed for such purpose by Grupo AVAL, wherein, among others, the principles of information quality are defined.