



**SOCIEDADES
BOLIVAR**

SOCIEDADES BOLIVAR S.A.

INTERNAL CONTROL SYSTEM

GENERAL GUIDELINES FOR

COMPANIES OF THE BOLIVAR GROUP

SEPTEMBER 2009

1. Environment of Application of this Document

This document constitutes the frame of action on the subject of compliance with the provisions that on Internal Control are provided by External Circular 14 of 2009 issued by the Financial Superintendence of Colombia, for companies of the Bolivar Group supervised that this entity. Nevertheless, given the importance and the conviction that in this respect the Group parent company has, Sociedades Bolivar S.A., it is expected that this document will also serve to the other companies of the Group, as guide within their projects for implementation of Internal Control standards, maintaining the benefit/cost ration, referred to by the mentioned Circular 14 of 2009.

2. Internal Control System Background

In the past few years the Bolivar Business Group has been developing different Internal Control policies as a function of the needs and conditions that each Group Company has identified in the activities carried out in compliance of its corporate object. This development, at the level of Sociedades Bolivar S.A. has been evidenced in different documents such as the Corporate Governance Code, the Regulations of the Board of Directors, the Audit Committee Regulations, the Internal Audit Code and the General Risk Management and Internal Control Policy.

Based on that background, Sociedades Bolivar S.A., in order to comply with the requirements provided in the mentioned External Circular 14 of 2009, defines the following guidelines and policies that will constitute the framework of action of the



companies that form a part of the Bolivar Group, on the subject of adoption and compliance with the Internal Control System – SCI, for its initials in Spanish¹:

3. Implementation of the Internal Control System

The Bolivar Group companies must have an SCI integrated by principles, policies, rules and procedures intended to provide higher transparency and security to the different Stakeholders of each company.

The adoption of the SCI, following the guidelines contained in the COSO² report, must contemplate the need for the high management of each company and the rest of the organization, to fully understand the transcendence of internal control and the incidence of same on the results of their performance, considering as a set of activities integrated to the operating processes of the Companies.

4. Objectives of the Internal Control System

The following will be the objectives of the SCI of the Companies of the Bolivar Group:

- 4.1 Improve the efficiency and efficacy in the operations of supervised entities.
- 4.2 Prevent and mitigate the occurrence of frauds³, originated within or outside the Companies
- 4.3 To carry out an adequate risk management, according to the Company's nature.
- 4.4 To generate trust to the stakeholders with which the Companies interact.
- 4.5 To comply with the regulation applicable to each Company.

5. Principles of the Internal Control System

The adoption and compliance with SCI by the Bolivar Group Company, must be carried out following the principles of self-control, self-regulation and self-management.

5.1. Self-control: Understood as the capacity of all officers to evaluate and control their work, detect deviations and made corrections in the exercise and fulfillment of their duties, as well as to improve their tasks and responsibilities. In addition, it refers to the

¹ Article 7.2. of Circular 14 of 2009 establishes in its second paragraph: "Supervised entities that have the condition as parent companies must see that their subordinates (either affiliates or subsidiaries) have an adequate SCI, for which they must issue minimum general guidelines which in their opinion they must apply, in conformity with the nature, extent and other characteristics of same."

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

³ Circular 14 of 2009 defines fraud as an intentional act committed to obtain an illicit gain and bad conduct such as infringement of laws, regulations or internal policies. See Article 7.7.1.2.1 of the mentioned Circular.



duty of the officers to try to obtain the fulfillment of the objectives outlined by management, always subject to the limits established by it.

5.2. Self-regulation: Understood as the capacity of the Company to apply methods, rules and procedures that will permit the development, implementation and improvement of the SCI, within the framework of the legal provisions that are applicable to it.

5.3. Self-management: It is the capacity of the Corporation to interpret, coordinate, perform and evaluate effectively, efficiently and efficaciously its operation

6. Elements of the Internal Control System

The Bolivar Group Companies must have a SCI that has as a minimum the following elements, which will be applied according to the characteristics proper of each Company:

➤ Control environment

The control environment refers to the awareness of the members of the Bolivar Business Family about the existence and operation of a control system, as part of their organizational culture, which is consolidated as of the definition of institutional behavior institutional behavior principles and rules, such as ethics, transparency, continuous improvement and generation of trust of Stakeholders, which are contained in the Code of Ethics of the Bolivar Group and in the Corporate Governance Code of each company and their complementary regulations⁴.

The definition of these principles and the strategic and organizational orientation of the Group is defined by Sociedades Bolivar S.A. in its capacity as parent company. From this definition arise the recognition of the objectives and the planning of strategies and actions of the Organization. In a coherent manner, said planning is disclosed to the different Companies where, according to their particularities, an individual planning is made which responds to the needs and objectives proper of each company. This planning is characterized by the search for a continuous improvement of the Group and of the Companies individually considered.

Another of the elements that supports that organizational culture, is the recognition of the regulation and supervision activity by the Colombian State, and based on it, the definition of a policy of compliance with the regulations that rule the actions of the

⁴ Complementary regulations to the Corporate Governance Code are: the Regulations of the General Stockholders' Meeting, the Regulations of the Board of Directors and the Manual of Conflict of Interest and use of Proprietary Information.



different Companies. Likewise, the Group recognizes the role of its Companies as generators of development and wellbeing from the private sector for the different Stakeholders with which it interacts and reaffirms the application of such principles as citizens awareness, social responsibility and vocation to serve.

All these principles are ruled by a postulate of coherence, according to which there must be harmony between the statements of the organizational culture and the actions of the Companies and of the officers that form a part of them. Thus, the definition of ethical rules and good governance does not limit to the formation of postulates, but is focused on the performance of same, transferring them from the formal definition to the daily duties of the officers. The above is possible, through different forms of disclosure and sensitization, and of the follow up to the compliance with those commitments, with those directly responsible, where the Boards of Directors have an outstanding role, even, if necessary and through competent instances even, imposing penalties in the terms established in the respective internal work regulations.

Concreteness of postulates of organizational culture is achieved through the adoption of human talent policies and management style⁵ which strengthen the positive and responsible attitude of officers. Accordingly, it is necessary that each company will maintain job definition processes and personnel selection, training, evaluation and promotion activities to be able to hire and retain people capable of performing their tasks in a competent manner, all of which according to the regulations that on Internal Control and, particularly the provisions contained in Circular 14 of 2009. These policies must entail that officers will know their duties and the responsibilities that they have in the compliance of objectives, and the company goals individually, and in the same manner as members of the Bolivar Group.

Along this line and in order to reach optimum levels of continuous improvement of the good organizational climate that characterizes the Group, the Companies must promote motivation, training, encouragement, wellbeing and occupation health that will permit to generate identity and feeling of belonging in each one of the members of the Bolivar Family.

➤ Risk management

Through the risk administration, the Group Companies must contribute efficiently to the identification, measurement, analysis, treatment, communication and monitoring of business risks, in order to preserve the efficacy, efficiency and effectiveness of its

⁵ The Standard Internal Control Model (MECI, for its initials in Spanish) for State entities defines the management style as the form adopted by management to guide and orient the actions of the entities toward the fulfillment of their mission.



performance and the operating capability, as well as the safeguard of the resources that they manage. In order to reach said objective, each Group company must have an adequate risk administration system, which will respond to the regulations that on this subject exist for each one of them.

The high management of each Company must identify the risks directly related to critical processes in which various areas of the organization are involved, assigning priorities of review to the activities with higher risk probability and establishing the measures that are considered timely, preventing or avoiding their materialization or mitigating their impact. This exercise must permit each company to prevent, estimate and face the future scenarios that may affect the normal development of processes and the compliance with the Company's objectives.

➤ Control activities

The Companies of the Bolivar Group, through each Board of Directors and High Management, must establish policies and procedures intended to the prevention and neutralization of risks. Part of this function is performed through the approval and implementation of the different internal organization manuals of the Companies (the Financial Risks Administration Manual – MARF, the manuals of the Money Laundering and Terrorism Financing Risk administration – SARLAFT, the manuals of the Operating Risk Administration, are highlighted), whereby the policies and internal controls related to the processes, activities and products of each one of them are established⁶.

It is necessary to bear in mind that, in application of the self-control principle, the SCI of the Group Companies must contemplate in all levels of the Organization the existence of control responsibilities, and establish procedures aimed at obtaining that officers will know individually the duties that they are in charge of, and for this purpose it must be explicit regarding each of them⁷.

The Companies of the Bolivar Group must establish control activities within their own areas, operations and processes, considering the benefit/cost ration and their potential effectiveness to mitigate the risks that affect the achievement of institutional objectives. Following are some, but not all, of the control activities that can be established by each company⁸:

⁶ In this aspect, the indications of the Self-regulator of the Stock Market – AMV in respect to control activities are gathered in the Internal Control Guide in the Intermediation of the Stock Market, published on May 21, 2008.

⁷ Clarity expressed by the COSO report in respect to the control activities.

⁸ This part of the document has been prepared based on the COSO – Committee of Sponsoring Organization of Treadway Commission, National Commission on Fraudulent Financial Reporting – Report



- Analyses made by management. Periodical reviews on the performance of the Company in aspects such as budgets, forecasts, previous periods and competitors. These analysis are made in order to analyze and monitor the progress of the entity and adopt the necessary corrective measures.
- Verification of operations regarding their accuracy and conformity with Company procedures. Relevant assets and operations can only be authorized and executed by officers who act within the environment of their competences.
- Timely and adequate recording of the acts and operations. The acts and operations and the circumstances that affect a Company must be recorded immediately and must be duly classified in order to guarantee their relevance and usefulness.
- Security devices to restrict the access to assets and records. The access to the resources, assets, records and vouchers, must be protected by security mechanisms and limited to authorized people.
- Performance indicators. Every company must have performance measuring methods that will permit the preparation of indicators for their supervision and evaluation.
- Segregation of duties. It is recommendable that the responsibilities will be divided among different officers in order to minimize the risk of error or of improper actions. The responsibilities to authorize, execute, record and verify an operation, it is convenient that will be clearly differentiated and assigned to different people.

➤ Information and communication

The SCI of Group Companies must respond to an information component that will facilitate the organization and computerization of institutional information, its conservation, security, reliability and availability in order to support the timely making of decisions, following the policies established in respect to information management and disclosure.

The information system must be controlled in order to guarantee its correct operation and secure its reliability, in such a way that it permits to direct and control the business in an adequate manner and handle the internal data of Companies and those received from third parties.



It is necessary that each company will evaluate the system incorporated, seeking that the same will be flexible and susceptible of quick modifications that will permit to face the changing needs in a dynamic environment of operations.

Likewise, the system must have security mechanisms that cover or include input, processes, storage and output of information.

Companies, in turn, must develop the Communication component, supported on the information systems adopted, that permit to strategically process the institutional information in order to keep the officers informed and motivated in order that they will contribute with their work to the achievement of the corporate objects. People must know on time the matters related to their management and control responsibilities. To that end, it is necessary to establish communication models that promote the communication to make reality the organizational culture of the Bolivar Group, intended to generate identity, sense of belonging and effectiveness in the work, based on the search for a strategic alignment of individual efforts.

In addition, externally, the handling of information by Bolivar Group Companies must be transparent, timely and focused on maintaining a good institutional image and a high degree of trust of Stakeholders, in terms of good corporate governance. In the same sense, the information must be made available to those groups in an updated, clear and exact manner and in equal conditions, through the means authorized by high management for its disclosure⁹.

➤ Monitoring

It is the duty of the high management of Group Companies to guarantee the existence of an appropriate and efficient internal control structure, as well as mechanism that permit its periodic review and update. In this manner, evaluation procedures of the system control activities must be established, in order to determine their efficacy and identify those aspects susceptible of improvement.

With this purpose, Group Companies may establish automatic controls or alarms both in automated and in manual systems, as well as to adopt management and performance indicators that contribute to monitor the SCI. The deficiencies or weaknesses of the internal control system detected through the different supervision procedures that will be adopted must be communicated in order that the corresponding adjustment measures will be adopted. According to the impact of the deficiencies and

⁹ The Board of Directors of Sociedades Bolívar S.A. approved in October 2008 a series of policies related to the management and disclosure of the Companies' information, which form a part of the Corporate Governance Code available in the web page www.sociedadesbolivar.com



the materiality of the matter, the addressees of the information may be both people responsible for taking corrective actions on the function or activity implied, as the Board of Directors of the Company.

➤ Independent evaluations

The Group Companies must make independent evaluations on the effectiveness of the SCI, in order to adopt corrective and improvement measures and make the control exercised within the organizations independent.

According to the provisions of the Financial Superintendence, these evaluations will be made by the internal auditors and the statutory auditors of the Group Companies, notwithstanding that, as a good governance practice, Boards of Directors choose to make the external audits to review the effectiveness of the SCI. These controls and internal and external audits must contribute to obtain that the officers will improve the processes, optimize resources and renew their institutional commitment. Likewise, SCI improvement plans must be defined and put into practice through them.

7. Control Bodies of the Internal Control System

Although the Group Companies must have bodies in charge of watching for the correct operation of the SCI, the responsibility for its adequate implementation and operation fall first on all officers of every level of the Organization.

Based on the above, the Bolivar Group Companies must have internal and external control bodies of the SCI. Among the internal bodies are: Board of Directors, Audit Committee, Legal Representative of the Company, Compliance Officers and in the cases in which it is applicable, Internal Audit. Among the external bodies are the Statutory Auditor and in the cases in which it is applicable, the Regulatory Controller.

8. Independence and objectivity of the internal audit activity

The Group Companies must adopt criteria of independence and objectivity of assurance¹⁰ and consultation¹¹ for the exercise of the internal audit activity, which will have as one of its missions to evaluate the efficacy, sufficiency and appropriateness of all systems and procedures that are part of the SCI.

¹⁰ Circular 14 of 2009 in its Article 7.7.1.4.1 states that the assurance must be understood as the objective examination of evidences in order to provide an independent evaluation of the risk, control and government management processes of an organization.

¹¹ Circular 14 of 2009 defines consultation as the assurance and related services activities, provided to customers which nature and scope are related to same and are intended to add value and improve government processes, risk and control management. See Article 7.7.1.4.1.

