

OPERATIONAL RISK MANAGEMENT SYSTEM
ADMINISTRATIVE REPORT (SARO) - 2017

BANCO DE BOGOTA (NASSAU) LTD.

This Administrative report on the Operational Risk Management System (SARO) shows progress on the principal aspects of the Operational Risk Management, such as the tools used and results achieved.

Operational Risk is defined as “the possibility of incurring losses due to deficiencies, failures or inadequacies of human resources, processes, technology, infrastructure or due to the occurrence of external events; this definition includes legal risk, reputational risk and strategic risk.

The Bank has an adequate Operational Risk Management that clearly defines the responsibility and degree of dependence and relationship among the different areas of the Bank.

The classification of the operational risk events is detailed as follows:

- Internal fraud
- External fraud
- Labor relations and security in the workplace
- Practices related to clients, products and the business
- Damage to material assets
- Changes in activity and system failure
- Execution, delivery and processing

The Bank has defined procedures and methodologies for the identification, measurement, control and monitoring of operational risk, and has documentation and defined procedures for the registration of events, thus guaranteeing the necessary infrastructure to analyze and evaluate operational risk events. This methodology is the responsibility of Head Office’s Risk Manager and SCI, and it is this Management who can propose the necessary changes or

adjustments to it, which must then be approved by the Board of Directors and Comprehensive Risk Management Committee.

All employees must report any situation that they know of in their area or another area that is, or could be, considered operational risk or an operational risk event, in accordance with the methodology defined for it.

Tools for Operational Risk Management

Among the tools used by the Bank for Operational Risk Management, we have:

- Process maps
- Risk and control matrices
- Treatment plans (opportunities to improve and associated action plans for critical risk management)
- Training for Operational Risk Systems and Awareness Plans
- Operational Risk Event Reports
- Information divulged in periodic reports

Organizational Structure

Comprehensive Risk Management Committee

For Operational Risk Management, the governance model must include active participation from the different actors within (user areas, control entities and operational risk management, among others), to enrich their operation and functioning: The functions and roles are documented in Bank Manuals.

Risk Administration Unit

One of the functions of the Unit is the management of the OPERATIONAL RISK MANAGEMENT SYSTEM, subject upon which valuable work has been done, and that support from Headquarters' Operational Risk Management and Internal Control Systems has

been key, since there has been a wealth of experience on the subject and has included the Operational Risk Manager.

The Risk Unit is in charge of coordinating the comprehensive management of the Bank's risks, through the centralization of measurement reports, as provided by the different areas; participation as part of an adequate operational risk management in the business continuity plan tests; performing maintenance of the parameters of the application used to register operational risk events, and by divulging the procedure for registering events from all areas involved; performing analysis and investigation of operational risk events to generate the corresponding reports; identification of possible controls and future improvement opportunities. At the same time, it must ensure that all responsible areas provide the necessary information for risk matrices and that these are available.

Risk Managers

Risk Managers manage the risks derived from the processes in his area of responsibility and monitor the corresponding risk map, execute and manage controls while taking into account the corresponding variables and considering the applicable technology or personnel requirements. In addition, Risk Managers verify compliance with controls, execution, design and efficacy in dealing with risk (Autocontrol).

Operational Risk Training

The Risk Unit periodically trains Bank personnel in subjects related to operational risk management, internal controls, Sarbanes Oxley Law. Among the most important training given, we have:

Given to Banco de Bogotá (Nassau) Ltd. personnel

SARO Awareness: training was provided to all personnel related to operational risk management, operational risk report management.

Training to Managers and Process Owners: workshops were given related to process analysis/risk/failure and establishment of controls.

Taken by Risk Officer

SARO Methodology training by Head Office: there was training on the updated risk catalog, updated criteria on risk ratings, SARO Management Alignment With Systems Management for Affiliates and Foreign Agencies, where it concerns process updates; among other aspects.

Operational Risk – Achievements

Below we present the different approaches to activities carried out:

- ✓ Integration of instructions given by the AVAL Group of Policies, rules procedures and guidelines that constitute the basic regulatory framework through which the risk activities and processes are regulated.
- ✓ Strengthening of the reporting system of Operational Risk Management to Head Office for the consolidation of the Group, including among other aspects, the ranking of controls, risks, materialized losses.
- ✓ As opportunities to improve processes, a new tool, "Team Foundation Server" is generated for the follow-up and review of incidents and events.
- ✓ Approval of the methodology with Head Office regarding the catalog of generic risks of Money Laundering and Financing of Terrorism.
- ✓ Participation in the new Parent Company Subsidiaries Committee in matters of Business Continuity.
- ✓ Synergy with other management systems: Money Laundering and Terrorist Financing Risks, AFAC (Anti-Fraud – Anti-Corruption).

2018 Work Plan

For the year 2018, it is expected to make a tour through all processes in which the following aspects will be reviewed:

- Review of Operational Effectiveness of SARO Controls
- Action Plan for High Risks
- Follow-up of materialized risk events
- Follow-up of RO Accounting Accounts
- Opportunities for improvement
- Identification of key controls
- Review of High and Extreme Inherent Risks Rating
- Training for all personnel
- Specialized training for the First Line of Defense
- Essays on calculation of Capital Reserves