
POLICY FOR THE IDENTIFICATION, COMMUNICATION, ADMINISTRATION AND CONTROL OF CONFLICTS OF INTEREST OF AVAL FINANCIAL CONGLOMERATE

GRUPO AVAL ACCIONES Y VALORES S.A.

15/03/2020



AVAL
LISTED
NYSE



1. INTRODUCTION

Law 1870 of 2017 (hereinafter, "Financial Conglomerates Law") and its regulatory decrees introduced important changes in the structure of the Colombian financial system and in particular on the companies that act as financial holding companies of their conglomerates.

In the case of Grupo Aval Acciones y Valores S.A. ("Grupo Aval") and its subordinate financial entities, the Finance Superintendence of Colombia (hereinafter, "SFC") through Resolution No. 0155 of February 6, 2019, identified Grupo Aval as the financial holding company of *AVAL Financial Conglomerate*. Additionally, the SFC identified in the referred Resolution the entities that are part of such conglomerate.

Likewise, as a result of the entry into force of the Financial Conglomerates Law, on February 6, 2019, Grupo Aval, as the financial holding company of its conglomerate became subject to inspection and surveillance by the SFC, and in such capacity must comply with the duties and responsibilities established by the regulations applicable to financial conglomerates.

As part of such duties and responsibilities, Article 1 of Decree 1486 of August 6, 2018 which regulates the Law on Conglomerates and adds Title 3 to Book 39 of Part 2 of Decree 2555 of 2010, in Article 2.39.3.1.4 imposes on financial holding companies, *"through their Board of Directors"*, the obligation to *"...determine general guidelines for an adequate identification, disclosure, administration and control of conflicts of interest that arise or may arise in the transactions carried out by the entities that integrate a financial conglomerate and its related parties, including those carried out with resources that come from the activity of administration of third party resources..."*¹.

2. OBJECTIVE

In accordance with the above clarifications, the purpose of this document is to establish the general guidelines to be submitted to the Board of Directors of the financial holding company and which, when approved by it, must be applied to the entities that make up the *AVAL Financial Conglomerate* to comply with the provisions of Article 2.39.3.1.4 of Decree 2555 of 2010.

3. POLICY SCOPE

This policy applies to transactions carried out *"between the entities that make up the financial conglomerate (AVAL), between these entities and the entities and persons linked to the financial conglomerate and between the administrators and persons with decision-making capacity of said entities. Administrators are understood as those defined in Article 22 of Law 222 of 1995."*²

In this respect, it is specified that this policy has scope over the transactions carried out with own resources, as well as those carried out with resources coming from the administration activity of third-party resources.

4. APPLICABLE DEFINITIONS

In the implementation of this policy, the following definitions shall apply:

¹ Decree 1486 of August 6, 2018 "Whereby Decree 2555 of 2010 is amended as regards to the criteria to determine the quality of related parties, exposure limits, risk concentration and conflicts of interest of financial conglomerates, and other provisions are issued."

² idem

Conflict of Interest: A conflict of interest is understood as that situation that arises or may arise for one or more persons who may make decisions, or influence the adoption thereof, when contrary and incompatible interests are identified with respect to an act or business.

AVAL Financial Conglomerate or "CF AVAL": It is formed by the entities identified by the SFC through Resolution No. 0155 of February 6, 2019 as members of the CF AVAL, or through subsequent Resolutions or communications issued by the SFC in this regard.

CF Aval entities that manage third party resources: Corresponds to trust companies, pension and severance fund management companies, and brokerage firms, or any other type of financial entity that is part of the CF AVAL whose corporate purpose allows it to manage third party resources. Such entities shall observe the guidelines set forth in this policy both when carrying out transactions on their own account and when carrying out transactions with third party resources.

Financial Holding Company of CF AVAL: Corresponds to Grupo Aval Acciones y Valores S.A. or "Grupo Aval" entity identified as Financial Holding Company of CF AVAL.

Transactions Purpose of this Policy: This policy covers transactions carried out: a. between entities belonging to CF AVAL, b. between entities belonging to CF Aval and those related to it and c. between the administrators of the entities of CF AVAL and the persons with decision-making capacity of said entities. In this regard, it is specified that this policy applies both to transactions carried out with own resources, as well as those carried out in the administration of third-party resources.

Related to CF AVAL or "Related Parties": Each of the entities identified by Grupo Aval in accordance with the criteria set forth in article 2.39.3.1.2 of Decree 2555 of 2010 shall be considered Related Parties of CF AVAL. The list of those related to CF AVAL shall be periodically updated by Grupo Aval, which shall communicate such updates to the entities that make up CF AVAL. Since their scope and purposes are different, the definition of the term "related party" provided in the regulation that must be observed individually by the various entities that make up CF AVAL shall not be applicable for the purposes of this policy.

5. REGULATORY FRAMEWORK

Law 1870 of September 21, 2017: By virtue of which rules are issued to strengthen the regulation and supervision of financial conglomerates and other provisions are established.

Decree 1486 of August 6, 2018: Whereby Decree 2555 of 2010 is amended in relation to the criteria to determine the quality of related parties, exposure limits, risk concentration and conflicts of interest of financial conglomerates, and other provisions are issued.

6. CONFLICT OF INTEREST MANAGEMENT

The following are the general guidelines for the management of conflicts of interest to be applied by the entities that make up CF AVAL to achieve an adequate **i. Identification, ii. Communication, iii. Administration, and iv. Control**, of conflicts of interest that may arise in the Transactions purpose of this Policy.

6.1. Identification

Whenever an entity or person covered by the Policy's Scope (see 3. POLICY SCOPE) intends to enter into a Transaction purpose of this Policy, it must evaluate whether the same may present contrary and incompatible interests with respect to the same. For purposes of the foregoing, the following are some of the criteria under which this type of situation could arise, which in some cases are expressly prohibited by law:

- The transaction is carried out outside market conditions.
- The transaction is outside the ordinary course of business of the participating entities.
- Inexperience or lack of suitability of any of the parties.
- The transaction implies the use of privileged information.
- Any of the procedures required to carry out the transaction is being ignored.
- There could be a detriment to the interests of the shareholders.
- In the case of resources managed for third parties, a purpose other than the best interest of investors and/or affiliates could be put forward.

Although the identification of such situations is not always evident, it is expected that the officers of the entities that make up CF AVAL, act with due diligence and judgment in accordance with the provisions of this policy and the internal policies of each entity of CF AVAL.

6.2. Communication

Officers who identify or are part of a potential or apparent Conflict of Interest, or who have doubts about the configuration of the same, must refrain from carrying out the transaction, participate in making the decision or influence the decision to be adopted, and may only carry it out when they have the necessary authorizations, as provided in this Policy and in the corporate governance documents of their respective entity.

In consideration of the above, once the potential or apparent existence of a Conflict of Interest has been identified, or in case of doubt as to the configuration of such situation, it is the duty of the person aware of it to disclose it in a timely manner to the competent governance bodies within each entity, providing sufficient information regarding the terms of the transaction to be carried out, so that the body in charge, in accordance with the provisions of this Policy and the corporate governance documents of the respective entity, has the necessary elements for its proper administration.

6.3. Administration

CF AVAL entities shall have competent governance bodies to manage the Conflict of Interest situations reported to them. The following shall be considered competent governance bodies to deal with these situations: i. the Conflicts of Interest Committees, or any other committee that fulfills such function, ii. the Boards of Directors and iii. the Shareholders Assemblies. Each of these bodies, depending on the situation and its materiality, shall make the corresponding decisions in accordance with the guidelines set forth below.

6.3.1. Conflicts of Interest Committees

The Conflicts of Interest Committees, or any other committee that performs such function, shall evaluate the characteristics of the transaction and conclude whether it is indeed a transaction that presents Conflicts of Interest. In the event that such body concludes that there is no Conflict of Interest situation, it shall inform its conclusion to the officer in charge of carrying out the transaction, so that he may proceed with it. On the contrary, if said Committee concludes that the proposed transaction configures a situation of Conflict of Interest, it shall proceed as follows:

- If the Committee establishes that it is a transaction of a recurring nature and typical of the ordinary course of business of its entity, carried out under adhesion agreements, general framework agreements, or whose conditions are perfectly standardized, it is carried out under market conditions, and its amount is not material for the respective entity (see 7.2 Materiality), the Committee may approve the execution of the respective transaction.

- ii. If the Committee establishes that the transaction does not fall within the above criteria, it shall refrain from approving or rejecting the transaction and shall submit it to the consideration of the Board of Directors of the entity.

The Committee shall keep a record of the transactions that were subject to its approval and report on them to the Board of Directors of its entity on a regular basis.

6.3.2. Boards of Directors

If, as a result of the situation brought to its attention, the respective Conflicts of Interest Committee establishes that the transaction in question represents a Conflict of Interest, and the decision on the same goes beyond its scope of competence, the Committee or body performing such task shall bring it to the attention of the Board of Directors of its respective entity.

The Board of Directors shall evaluate the elements that constitute the Conflict of Interest and, in accordance with its legal and statutory powers, shall issue a reasoned decision, indicating: i) its agreement with the transaction, ii) whether the entities shall refrain from carrying it out, iii) whether it may be carried out subject to the modification of certain conditions, or iv) whether the transaction shall be submitted to the consideration of their respective General Shareholders Assemblies. The criteria as to which transactions may be decided by the Board, and which transactions may be decided by the Assembly, shall include, among other matters deemed relevant by each entity, materiality criteria (see 7.2 Materiality).

The Board of Directors shall keep a record of the transactions that were subject to its approval and, in compliance with the duty of disclosure set forth in Article 2.39.3.1.4 of Decree 2555 of 2010, shall report on them in the year-end accountability report submitted to the General Shareholders Assembly.

6.3.3. Shareholders Assemblies

In the event that the Board of Directors establishes the need to submit the transaction to the consideration of its Shareholders Assembly, it shall first establish whether the correct opportunity is the regular annual meeting or whether it is necessary to submit such matter through a special meeting to specifically address the matter under consideration. Once this decision has been made, the meeting shall be called, clearly and sufficiently informing the matter of the call. The entity shall provide its Shareholders Assembly with sufficient and clear information to enable them to provide an informed opinion.

The above guidelines for the management of conflicts of interest shall be applicable to CF AVAL entities in the transactions they carry out on their own account. For their part, CF AVAL Entities that manage third party resources, when acting in this capacity, must comply with the requirements established in the specific regulations applicable to their transactions, as well as the investment policies and internal procedures, complying in all cases with the approval process by internal committees and Boards of Directors provided for in the aforementioned regulations.

6.4. Control

The officers of the entities that make up CF AVAL must comply with the requirements established in the specific regulations applicable to their transactions in terms of control, and likewise, apply self-control and self-regulation criteria as a fundamental tool to *identify, communicate and manage* situations of Conflicts of Interest that arise or may arise in the execution of the Transactions that are the purpose of this Policy.

Likewise, the managers of each of the entities that make up CF AVAL have the obligation to provide their officers and responsible areas with adequate tools for the *identification, communication, management and control* of the conflicts of interest that are the purpose of this policy.

The compliance or risk areas of the entities that make up CF AVAL are responsible for ensuring that the general guidelines set forth in this policy are developed within each of its entities and adequately disclosed to ensure effective compliance.

The internal audit areas of the entities that make up CF AVAL shall include in their annual work plans, programs aimed at validating the existence and effectiveness of procedures for the management of conflicts of interest in the Transactions that are the subject of this Policy. The results of the evaluations carried out by internal audits shall be presented to the Audit Committee of each entity, which shall verify compliance with policies regarding the identification, communication, management and control of conflicts of interest.

7. APPLICABLE CRITERIA

The entities that make up CF AVAL shall observe the following criteria in carrying out the Transactions that are the purpose of this Policy.

7.1. Transparency

In carrying out the Transactions that are the purpose of this Policy, the entities that make up CF AVAL must ensure and strive for transparency and the conclusion of the same under market conditions and prices, and respect the balance that must exist between their interests, those of the subordinates, those of the conglomerate as a whole, investors and affiliates.

7.2. Materiality

The entities that make up CF AVAL shall have their own materiality criteria, according to the nature of their activities and size of their transactions, by means of which they establish the events in which a transaction may be subject to knowledge and decision by their governing bodies.

Notwithstanding the fact that each CF AVAL entity may establish more limited criteria in accordance with its legal and statutory provisions, for the purposes of the provisions of sections 6.3.1 and 6.3.2, it shall be understood that a Transaction Purpose of this Policy is material and therefore may be subject to decision by the competent body, according to the following ranges:

<i>Range</i>	<i>Competent body</i>
From USD\$0 to USD\$10,000,000.	Conflicts of Interest Committee
From USD\$10,000,001 to USD\$100,000,000	Board of Directors
From USD\$100,000,001 onwards	Shareholders Assembly

In this regard, it is specified that the ranges provided in this policy correspond to minimum criteria of materiality under which each of the corresponding instances shall be considered competent to decide on the situations of Conflict of Interest that are submitted for their consideration. However, such criteria are not intended to modify, nor can they be understood as modifying, the statutory provisions of each entity as to the limits of attribution of its decision-making bodies, nor the legal or statutory powers of its administrators.

Likewise, it is specified that in the case of CF AVAL Entities that manage third party resources, they shall proceed in accordance with the investment policy approved by their Board of Directors and in accordance with the regulatory framework applicable to the transactions that such entities carry out managing third party resources.

7.3. Limits

In carrying out the Transactions Purpose of this Policy, the entities comprising CF AVAL shall have credit and counterparty limits and exposure limits in force, as applicable, for the entities of CF AVAL and for its Related Parties. Such limits shall consider the nature of the transactions, the type of entities participating in them and whether the transactions are carried out with own- or third-party resources. The limits foreseen for the performance of transactions with entities belonging to CF AVAL and those related to it must be based on objective criteria and comparable with those applicable to third parties.

7.4. Information Barriers

The entities that make up CF AVAL must establish information barriers to prevent the Transactions Purpose of this Policy from being carried out based on the exchange of privileged information. These barriers must be translated into physical separation measures, when appropriate, as well as adequate procedures that limit access to sensitive, confidential and/or privileged information only to those officers who should know it because of their duties.

8. ADDITIONAL DUTIES

Without prejudice to the guidelines provided in this policy, it is the duty of each of the entities that make up CF AVAL, according to the nature of their activities and the type of transactions carried out, to develop additional guidelines that allow for proper management of situations that constitute or have the potential to constitute a conflict of interest in the conduct of the Transactions Subject of this Policy.

Likewise, it is the duty of the entities that make up CF AVAL to have adequate policies and procedures to comply with the rules that they are individually obliged to comply with. Such policies and procedures shall, among other aspects, in addition to incorporating the guidelines of this corporate policy, regulate the guidelines of ethics and conduct in those situations in which its officers confront in decision-making their personal interests with those of the entity, its customers, suppliers, shareholders and investors, interfering in their ability to decide objectively and in the best interest of the entity.

9. APPROVAL AND MODIFICATIONS

Pursuant to the provisions of Article 2.39.3.1.4 of Decree 2555, the Board of Directors of Grupo Aval, as the financial holding company of the AVAL Financial Conglomerate, shall be responsible for approving this policy and its subsequent amendments.