

criteria such as gender, race, marital status, age, religion, and socio-economic status from selection processes.

The companies of the business group also contribute to the achievement of these goals through the implementation of good practices and the support to their suppliers and the local economies where its businesses operate. Regarding our millions of current and potential customers in the region, through our products and solutions, we not only offer financial protection, but we also empower people and companies to grow, achieve goals, make decisions with greater freedom, take advantage of the opportunities of the environment, and be more competitive.

Global leaders in sustainability

As a result of our actions, since 2011 and for the eighth year in a row, we have been ranked among the 317 companies listed on the stock exchange that make up the Dow Jones Sustainability World Index (DJSI). It is one of the most relevant indicators in this area, which assesses the performance in social, economic, and environmental terms and, in our case, it includes the management of Grupo SURA and its affiliated companies SURA Asset Management and Suramericana.

Being part of this global index means that we follow the best international practices and standards of the industry of diversified financial services and capital markets, in which we are the only Latin

American company included in the 2018 DJSI.

In addition, Grupo SURA was included for the eighth consecutive year in the Sustainability Yearbook by the independent firm RobecoSAM and was awarded the Silver Class distinction. These types of distinctions generate trust among our investors and reaffirm our commitment to a responsible and comprehensive management before our stakeholders.

Finally, it is worth mentioning that we adhered to the United Nations Global Compact and signed the Principles for Sustainable Insurance (PSI) of the United Nations Environment Programme - Finance Initiative (UNEP-FI).

102-15 WE MANAGE RISKS AND OPPORTUNITIES

Risk management for SURA Business Group, as part of an Internal Control System (ICS), is a dynamic process that guarantees the soundness of the companies and creates value in the execution of the strategy. An integrated risk management system permeates the different areas of the organization for better strategic, administrative, and operational decisions, by providing more information about the company and the environment.

Internal Control System (ICS)

Every company of the business group has a robust ICS that allows it to achieve its objectives in a legitimate and transparent manner.

These systems consist of three lines of defense:

First line of defense. It is composed of the areas that execute processes in the companies. Their actions are based on self-control and their responsibilities are to identify and manage risks, as well as report them, if necessary.

Second line of defense. It is made up of the risk and compliance areas. Their responsibilities are related to prevention, support to the first line of defense and definition of guidelines.

Third line of defense. It consists of the internal audit area, which evaluates, in an independent way, risk management, among other responsibilities. Additionally, the board of directors, its committees, and the companies' senior management are responsible for articulating risk management within the framework of control architecture.

Risk Management System

As the parent company of the business group, Grupo SURA is exposed to its own risks, as well as to those that may arise from its investments; therefore, it has a Policy Framework for Risk Management, which provides the guidelines that make articulation between companies possible, in order to generate value through interaction. Based on these guidelines established by Grupo SURA, each company develops its implementation framework, which reflects the dynamics of the organization.

As part of the governance of the companies of the business group, there is a structure that supports decision making, management, and control of the risk system. Suramericana and SURA Asset Management have robust teams led by vice presidencies of risks and management teams in charge of specific issues; for its part, Grupo SURA has a risk area that directly reports to the Vice Presidency of Corporate Affairs.

The Vice Presidencies report directly to the Presidents of each of the Companies, and provides regional guidelines, for their businesses, based on a joint strategy, such as the Business Group.

Similarly, the boards of directors and their corresponding committees approve the risk policies, identify and monitor periodically the main risks of the organization, and determine or update the risk appetite, which establishes the amount and type of risk that the companies are willing to take in the development of their activities.

Financial Conglomerates Law

In addition to the current risk management system, the Colombian Financial Conglomerates Law (Law 1870 of 2017) establishes additional requirements in terms of risk management for Grupo SURA as holding of the SURA-Bancolombia Financial Conglomerate, composed by Grupo SURA, Suramericana, SURA Asset Management, Bancolombia, and Protección.

These regulations seek that the conglomerate develop a risk management framework with special emphasis on guidelines to define

DEFENSE LINES OF THE BUSINESS GROUP



the risk appetite and the management of strategic, contagion, concentration, and reputation risks.

During 2018, from the perspective of risks, our work focused on the regulatory decrees issued by the Ministry of Finance of Colombia:

- **DECREE 246:** It describes the criteria to exclude those companies or investment vehicles that do not represent a systemic or contagion risk for the conglomerate.
- **DECREE 774:** It establishes criteria related to solvency or capital adequacy of conglomerates, in addition to the regulations that companies must observe, according to their applicable regime.
- **DECREE 1486:** It determines the affiliated companies, the mechanisms for

administrating and disclosing conflicts of interest, as well as the aggregate limits of concentration and exposure to risks.

Risk management

The business group has defined its risk categories:

Strategic. Internal or external events and trends that may generate a positive or negative deviation on the trajectory of value creation and impact sustainability. They are inherent to the strategy and to its assumptions and attributes.

Functional. Internal or external events that may affect the operation and the expected results of the company.

Emerging. New risks or changes in previously identified risks that have their origin in the trends and that are difficult to understand. They

can become strategic or functional risks, depending on their nature.

Strategic risks

Ten strategic risks were identified in Grupo SURA—five of them shared with the other companies; therefore, they are called strategic risks of the business group:

In that sense, Suramericana and SURA Asset Management made progress in their strategic risk identification and updating exercises, as well as in the development of the following aspects:

- Reputation.
- Human talent.
- Capability to take the value offer to the clients.
- Transformation of businesses.

Grupo SURA prioritized the strategic risks of the business group and made progress in its management, as follows:

Regulation. An analysis of the context was carried out in order to identify risks and opportunities arising from the current situation in Latin America.

Economic, political, social and environmental environment. An analysis of the context was carried out in order to identify risks and opportunities arising from the current situation in Latin America.

Development and management of reputation and brand. The Policy Framework for Reputation Crisis and Risk Management of the business group, as well as the mechanism for reporting the most relevant cases in the affiliated

companies were updated for a better decision-making process based on experiences.

Creation and transformation of the businesses. The SURA Ventures program evaluated 150 companies—of which three were included in the portfolio—in order to identify possible alliances to leverage the transformation of the businesses. Different business

models were also analyzed to be subsequently developed by Grupo SURA and the financial services companies of its portfolio.

Human talent. The companies worked together in the definition of human talent indicators and measurements, with the purpose of identifying an overall risk appetite and connect it to the strategy of the business group.

Strategic risks of Business Group

Regulation: situations and trends deriving from business in highly regulated environments.

102-11 Economic, political, social and environmental context: context situations impacting the business performance, especially in geographies where the Group Companies are present.

Reputation and brand construction and management: situations and trends impacting brand reputation and recognition, based on the perception of stakeholders.

Business creation and transformation: capacity to transform to anticipate solutions, scenarios and to deal with new trends.

Human talent: capacity to understand, attract and retain human talent with the skills of being and knowing, to face new challenges and develop the strategy with the cultural identity of the Business Group.

Strategic risks of Grupo SURA

Business Group: situations and trends that impact value generation, due to the nature of the Business Group.

Market expansion and development: impacts on businesses due to organic and inorganic expansion of the Companies, and to the development of their business plans.

Performance and financial strengthening: impact on the financial soundness of the Companies and their capital structures.

Corporate governance: clarity in the guidelines and structures determining the actions and decision making of the Directors and Administrators.

Business risks: events that compromise the Companies' sustainability.

Functional risks

These risks related to the operation are identified and managed by each company, in accordance with the guidelines of the business group:

Suramericana

- Reinsurance
- Joint management of assets and liabilities
- Investment portfolio
- Capital and asset allocation
- Liquidity
- Reserves
- Internal solvency model
- Processes
- Business continuity and crisis management
- Money laundering and financing of terrorism
- Fraud and corruption
- Technology
- Information security

SURA Asset Management

- Insurance
- Joint management of assets and liabilities
- Investment portfolio
- Business profitability
- Liquidity
- Market
- Credit
- Management of third-party assets and fiduciary role
- Business context
- Compliance
- Processes
- Business continuity
- Information security
- Technology
- Fraud and corruption

Progresses in the management of the functional risks of each company are mentioned below:

Grupo SURA. During 2018, progress was made mainly on four fronts:

- **Internal risks:** The methodology was updated seeking to develop a more robust system

and standardize the way of addressing exposure to risks in functional areas (see diagram on page 79).

- **Business continuity:** A business continuity manual was prepared and progress was made in the closing of the gaps identified during the business impact analysis.

- **Compliance:** A compliance area was created within the Vice Presidency of Corporate Legal Affairs, with the purpose of strengthening the process of identification, evaluation, and design of improvement plans and report of conduct and compliance risks.

- **Fraud and corruption:** The employees of Grupo SURA and its affiliated companies received training in corporate governance, fraud prevention, money laundering and financing of terrorism, personal investments, conflicts of interest, and commercial and competitive practices.

Suramericana. This subsidiary, specialized in insurance, trend, and risk management, focused its efforts, on these aspects:

- **Business continuity and crisis management:** Companies geographically exposed to more catastrophic events updated the business impact analysis for critical processes. The necessary requirements were adjusted to guarantee operation and the recovery strategy was updated. In addition, the

risks and vulnerabilities of the main facilities were assessed and disaster-response and risk-identification protocols were defined for critical facilities.

- **Fraud and corruption:** Anti-fraud and anti-corruption guidelines were shared with the affiliated companies. The risk of fraud in the affiliated companies was diagnosed in order to prioritize the work plans.

- **Reinsurance:** Management of reinsurance contracts was carried out with a more granular knowledge of the risks that, articulated with the use of efficient frontier models for different insurance solutions, made it possible to manage and cover the risk management needs. The Reinsurance Control Board (counterparty management tool) allows decisions to be made based on risks.

- **Joint management of assets and liabilities:** It was possible to make joint decisions among the different areas to guarantee resilient and flexible operating models that enable new responses to changes in the environment. During 2018, this philosophy was shared with the affiliated companies, structuring the pillars of the system: governance, processes, people, tools, and information. The efficient frontier model, based on the internal solvency model, was implemented in the operations in Chile, El Salvador, Mexico, and Uruguay, in order to make investment decisions

connected between assets and liabilities and generating efficiencies in returns and risks.

- **Liquidity:** Affiliated companies were encouraged to understand the variables that produce movements in cash, according to the operating capacity of the business; and tools such as the executed and projected cash flow model were implemented to anticipate and mitigate possible effects on liquidity.
- **Internal Solvency Model:** Adjusting the model makes it possible to consider and manage, in a more efficient way, some company's risks such as credit risk for premiums receivable, asset quality, and reinsurance credit risk. Mechanisms that optimize exposure were implemented in each risk and leveraged by the consolidation of the model as a risk measurement tool.

SURA Asset Management. Specialized in pensions, savings, and investment, this affiliated company worked mainly in the following functional risks during the last year:

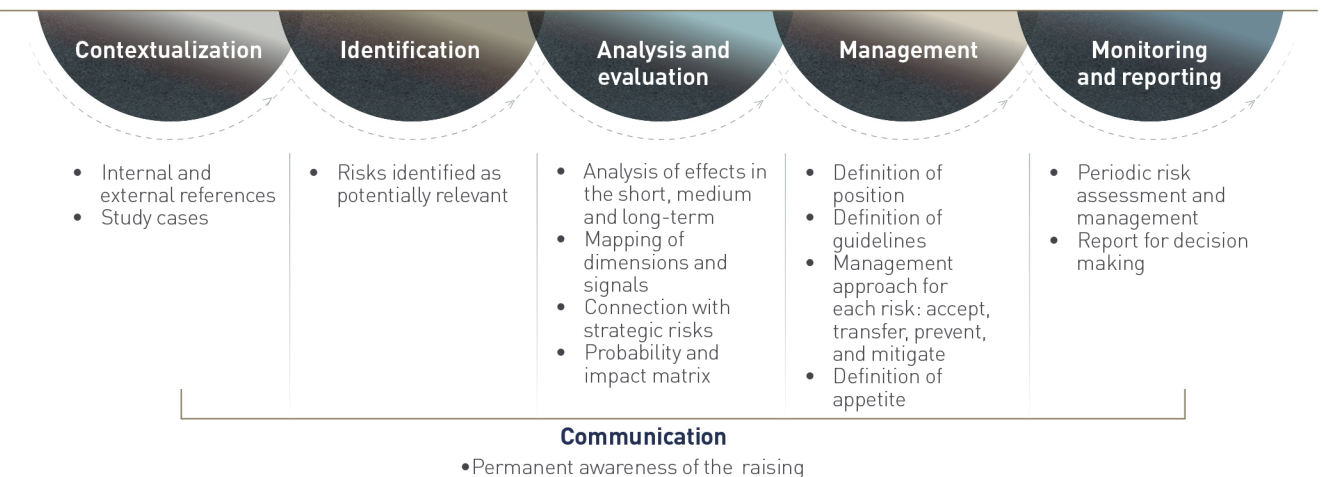
- **Business profitability:** Progress was made in the analysis of impact on the risk profile, when evaluating new business initiatives, mergers, and acquisitions.
- **Management of third-party assets and trustee role:** Absolute risk indicators were used for the entire portfolio and/or per type of instrument, as well as relative risk measures in some cases, compared to the peer group or benchmark. The methodology, limits and/or alerts, and the frequency of calculation are established in accordance with the regulations applicable to each of the countries in which the company is present. The risk profile of the portfolios is also taken into account.
- **Business context:** The impact of strategic planning on the

business risk profile was analyzed by means of a quantitative or qualitative model, as applicable. The qualitative model analyzed the deviations between the company and the markets in which it operates, in four dimensions: products and services, investment strategy, advisory model, and distribution channels.

- **Operational stability:** Progress was made in the identification of generating causes, factors, and classification of associated risks, following the organization's process reference framework.
- **Compliance:** Different sources of local and regional regulatory issuance were permanently monitored for regulation compliance; all employees of the region were trained in matters of corporate governance, code of conduct, money laundering, fraud, and corruption.

Emerging risks
In 2018 Grupo SURA updated the

METHODOLOGY OF INTERNAL RISKS OF GRUPO SURA



emerging risks, based on an analysis of global trends. The Management of Trends and Risks (abbreviated GTR in Spanish) exercise conducted by Suramericana was used, and aspects related to the nature of Grupo SURA were studied. Twenty-four trends were identified in total: five megatrends, nine business trends, and ten consumer trends (see diagram).

The subsidiaries also advanced in the management of some specific emerging risks.

Longevity. It is the result of technological advances in health and life conditions; people age more and have greater life expectancy. This trend becomes a risk, with challenges and opportunities in the pension, insurance, and health sectors, and the possible impact will be on the products and services that they offer.

Therefore, organizations must rethink and transform themselves to meet the new needs of people and remain sustainable. In 2018 SURA AM conducted a study on longevity trends to understand longevity evolution and simplify decision-making. Based on information on some variables and assumptions, possible impacts on the company were quantified internally in the face of the materialization of this risk.

Cyber risks. There has been a high penetration and adoption of digital technologies, and connectivity has increased massively. This causes profound cultural transformations in how relationships operate.

Hyperconnectivity and digitalization demand greater care of the customers' and users' information, which means that companies must improve their security systems. The

impact of poor management could even lead to reputation and legal compliance risks.

During 2018, Suramericana conducted cybersecurity tests at the affiliated companies to identify gaps and evaluate the effectiveness of the controls in the critical platforms of the companies. Grupo SURA gave two courses on cyber risk and security of information to the board of directors and the risk teams of the business group.

Climate change. Global warming and the conservation of resources have become more important in recent years and companies must pay more attention to the impact they have on the environment. From the financial sector, a greater mobilization of capital towards companies, industries, and projects that are aligned with the Sustainable Development Goals is required.

TREND ANALYSIS - GRUPO SURA 2018



MEGATRENDS

- Demographic changes
- Digitization/Hyper connectivity
- Globalization
- Exponential world
- Decentralization/Centralization

BUSINESS TRENDS

- Access/Mobility
- Strategic role of data/analytics
- Reduced intermediation / disintermediation
- Emerging actors
- Automation
- Transparency
- Price pandemonium
- Collaborative models
- New human resources

CONSUMER TRENDS

- Empowerment of the individual
- The experienced buyer
- Immediateness
- Do it together
- With purpose
- Personalization
- Balanced life
- Distrust in the market/system
- Virtual lives
- From property to access

In 2018 the business group updated its Policy Framework for Responsible Investment. Progress was made in identifying investment instruments with an ESG (environmental, social, and governance) approach, as well as in the development of tools to incorporate these criteria in the analysis and building of capabilities within the risk and investment teams.

WE ADOPT PRACTICES RESPONSIBLE IN THE COMPANIES

Grupo SURA seeks to have sustainable and value-generating businesses, based on comprehensive and responsible actions and decisions on a day-to-day basis. How we achieve our results is as important as the results themselves, so we are convinced that coherence is the way to build trust and long-term relationships with each of our stakeholders throughout the region.

Responsible investment

103-1 We are aware of the great responsibility, that the financial sector has, in the mobilization from of capital towards companies, industries, and projects that are aligned with the sustainable development commitments proposed by the global agenda, and that respond to opportunities such as climate change, conservation of resources, inequality, and innovation, among others.

103-2 **103-3** The organization has a Policy Framework for Responsible Investment that seeks to provide

CHALLENGES AND OPPORTUNITIES 2019

- ◆ **Continue with the implementation of the Financial Conglomerates Law. This implies strengthening the risk supervision system of the SURA-Bancolombia Conglomerate, from Grupo SURA as a Financial Holding. In particular, aspects such as: adequate levels of capital, linked, conflicts of interest and concentration of risks will be managed , based on the definition of the risk appetite framework, all connected with strategic risks.**
- ◆ **Generate connections between the Companies, in terms of business continuity, especially in the countries in which operations of both subsidiaries coincide.**
- ◆ **Develop technological systems to meet the new regulatory requirements issued by the Financial Superintendence of Colombia.**
- ◆ **Advance in the development of the strategic risks of Grupo SURA.**
- ◆ **Implement the methodology defined for the functional risk system of Grupo SURA.**
- ◆ **Strengthen the trend and risk analysis exercise with a comprehensive update of the emerging risks that impact Grupo SURA, as the parent company of the Financial Conglomerate.**

general guidelines to incorporate ESG criteria into the investment processes of analysis and decision-making. These guidelines consider three approaches:

- **ESG integration:** It is a systematic and explicit inclusion of ESG factors in the investment processes. The companies of the business group identify relevant ESG matters per sector and evaluate how they affect the financial variables and the risk assessment of a certain security.
- **Screening:** It is an initial mapping that identifies relevant ESG matters, according to the trends and materiality of the sectors. Its purpose is that the companies analyze, in greater detail, those investments whose practices can be considered controversial.

- **Impact investment:** It is expressed through an active allocation of capital in investments that foster solutions for environmental and social problems. Its purpose is that the companies favor this type of investment when the market conditions, the regulations, and the risk profile allow it.

This Responsible Investment Framework Policy was updated in 2018, taking into account the evolution, the megatrends, and the new knowledge, about sustainable investments and the particular realities, of each Company.

With the purpose of implementing the policy guidelines, the companies made progress in the following aspects during 2018:

- Identification of ESG-focused investment instruments.