

Banco de Comercio Exterior de Colombia S.A.

Type of Engagement: Annual Review

Date: May 11, 2023

Engagement Team:

Hrithik Sharma, hrithik.sharma@sustainalytics.com, (+1) 647 951 3309

Saddiqah Adamu, saddiqah.adamu@morningstar.com

Introduction

In May 2018, Banco de Comercio Exterior de Colombia S.A. (“Bancóldex”) issued social bonds aimed at financing projects that are expected to have positive social impacts (the “2018 Social Bonds”). In April 2023, Bancóldex engaged Sustainalytics to review the projects funded with proceeds from the 2018 Social Bonds and provide an assessment as to whether the projects met the use of proceeds criteria and the reporting commitments outlined in the Bancóldex Social Bond Framework developed in 2018 (the “Framework”).¹ Sustainalytics provided a Second-Party Opinion on the Framework.² This is Sustainalytics’ fifth and the final annual review of the projects financed by the 2018 Social Bonds following the earlier reviews in 2019, 2020, 2021 and 2022.

From May 2018 through February 2023, Bancóldex financed 244,923 credit operations towards 219,797 companies with total disbursements of COP 1.9 trillion (USD 398 million). For the period between March 2022 and February 2023,³ Bancóldex financed 8,761 credit operations disbursed to 8,621 companies, for total disbursements of COP 235.1 billion (USD 48 million).

Evaluation Criteria

Sustainalytics evaluated the projects funded between March 1, 2022, to February 28, 2023, based on whether the projects:

1. Met the use of proceeds and eligibility criteria outlined in the Framework; and
2. Reported on at least one of the key performance indicators (KPIs) for each use of proceeds criteria outlined in the Framework.

Table 1 lists the use of proceeds, eligibility criteria and associated KPIs while Table 2 lists the associated KPIs.

Table 1: Use of Proceeds and Eligibility Criteria

Use of Proceeds	Eligible Projects	Eligibility Criteria
Micro and small enterprise financing and financial inclusion	Micro and small enterprise financing	<p>Microenterprises and small enterprises were first defined by Colombian Law 590 of 10 July 2000, which was modified by Law 905, 2004. The size of the enterprise is established based on:</p> <ol style="list-style-type: none"> 1. Number of Employees 2. Total number of assets (in terms of legal minimum wage in force)⁴

¹ The social bonds issued in 2018 are under the Bancóldex’s Social Bond Framework, dated April 2018, available at: https://www.bancoldex.com/sites/default/files/bancoldex_social_bond_framework_ingles.pdf. Bancóldex updated its Framework in October 2020 to include updated criteria for Micro and small enterprises financing and financial inclusion and a new category to help support MSMEs affected by COVID-19, which can be found at: https://www.bancoldex.com/sites/default/files/bancoldex_social_bond_framework_updated_ingles_final_1.pdf.

² Sustainalytics’ Second-Party Opinion on the Bancóldex’s Social Bond Framework dated 2018 is available at: https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/10854_bancoldex_social_bond_second_opinion_english.pdf?sfvrsn=62916151_3.

³ Sustainalytics notes that prior to 2021, Bancoldex reported on its cumulative impact, rather than by fiscal year.

⁴ Bancóldex uses the asset criterion given that the number of employees is too variable, particularly in microenterprises. For Bancoldex a microenterprise is an economic unit which has total assets of up to 500 times the monthly legal wage determined by law; a small enterprise has total assets of between 500 and 5,000 times the monthly legal wage determined by law.

		Year	Microenterprise	Small enterprise
		2017	Assets cannot exceed COP 368,858,500	Assets cannot exceed COP 3,688,585,000
		2018	Assets cannot exceed COP 390,621,000	Assets cannot exceed COP 3,906,210,000
Rural business financing	Rural businesses are those operating in areas defined by the National Department of Planning (Departamento Nacional de Planeación -DNP) and the Mission for the Transformation of the Field (Misión para la Transformación del Campo) as rural municipalities. These include: <ul style="list-style-type: none"> • Municipalities that have fewer than 25,000 inhabitants or; • Municipalities that present intermediate population densities (between 10 inhab/km² and 100 inhab/km²) 			
Women-owned business financing	Female business owners over the age of 18			
Victims of armed conflict-owned business financing	Defined by Colombian Law 1448 of 2011, Law of Victims and Restitution of Lands, article 159. Victims of conflict are defined as all people who individually or collectively have suffered violations according to International Humanitarian Law and International Human Rights Standards and damages as a result of internal armed conflict.			

Table 2: Key Performance Indicators

Use of Proceeds	Eligible Projects	Key Performance Indicators
Micro and small enterprise financing and financial inclusion	Micro and small enterprise financing	<ul style="list-style-type: none"> • Number of micro and small enterprise companies financed • Amount disbursed to micro and small enterprise companies
	Rural business financing	<ul style="list-style-type: none"> • Number of rural business owners financed • Amount disbursed to rural business owners
	Women-owned business financing	<ul style="list-style-type: none"> • Number of women-owned business financed • Amount disbursed to women-owned business
	Victims of armed conflict-owned business financing	<ul style="list-style-type: none"> • Number of victims of armed conflict-owned business financed • Amount disbursed to victims of armed conflict-owned business

Issuing Entity's Responsibility

Bancóldex is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, amounts allocated, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of the use of proceeds from the 2018 Social Bonds. The work undertaken as part of this engagement included collection of documentation from Bancóldex employees and review of documentation to assess conformance with the Framework.

Sustainalytics has relied on the information and the facts presented by Bancóldex with respect to the Nominated Projects. Sustainalytics is not responsible, nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein due to incorrect or incomplete data provided by Bancóldex.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,⁵ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of the 2018 Social Bonds, are not in conformance with the use of proceeds and reporting criteria outlined in the Framework. Bancóldex raised a total of COP 400 billion (approx. USD 83 million)⁶ through the 2018 Social Bonds. Of this, COP 300 billion (approx. USD 62 million) was raised on a three-year term and paid back to the investors as of May 2021. Bancóldex has disclosed to Sustainalytics that the outstanding value of the bond as of May 2023 is COP 100 billion (approx. USD 21 million). The bond is set to mature in May 2023.

Detailed Findings

Table 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the 2018 Social Bonds between March 2022 to February 2023 to determine if projects aligned with the use of proceeds criteria outlined in the Framework.	All projects reviewed complied with the use of proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the 2018 Social Bonds between March 2022 to February 2023 to determine if impact of projects was reported in line with the KPIs outlined in the Bancóldex Social Bond Framework.	All projects reviewed reported on at least one KPI per use of proceeds criteria.	None

⁵ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

⁶ Bancóldex has communicated to Sustainalytics that the exchange rate used is as of 28 February 2023: COP 4,808.14 per USD. In its disclosures, Bancóldex has expressed the unit "billion" as "thousand million" to address regional considerations in financial units.

Appendices

Appendix 1: Allocation and Impact Reporting by Eligibility Criteria

Bancóldex has reported the annual allocation and impact of the companies financed through the 2018 Social Bonds from 1 March 2022 to 28 February 2023.

Use of Proceeds Category ⁷	Use of Proceeds and Eligibility Criteria Category	Allocation by category and the social Impact
Micro and small enterprise financing and financial inclusion⁸	Micro and small enterprise financing	<ul style="list-style-type: none"> 8,235 micro and 386 small enterprises⁹ financed. A total of COP 235.1 billion was disbursed, with COP 184.9 billion to micro enterprises and COP 50 billion to small enterprises. The average loan term was one year while the average loan amount was COP 26.8 million. The average amounts of the loan provided to microenterprises and small enterprises were COP 22 million and COP 127.2 respectively.
	Rural business financing	<ul style="list-style-type: none"> COP 19.9 billion was disbursed to 795 businesses through 807 credit operations. Out of 1,122 municipalities in Colombia, Bancoldex financed companies are located in 579 municipalities. Of the 579 municipalities, 270 are considered rural and dispersed municipalities. 884 benefitted enterprises located in municipalities categorized as PDET and ZOMAC through 899 credit operations. The average amount of loan provided for enterprises located in rural municipalities was COP 24.6 million.
	Women-owned business financing	<ul style="list-style-type: none"> COP 100 billion was disbursed to 5,285 women-owned businesses through 5,380 credit operations. The average amount of the loan provided was COP 18.6 million.
	Victims of armed conflict-owned business financing	<ul style="list-style-type: none"> A total of COP 16.6 billion was disbursed to 843 businesses owned by victims of armed conflict through 855 credit operations. The average amount of the loan provided was COP 19.4 million.

⁷ No allocation was made under other categories of the Framework.

⁸ Bancóldex has communicated to Sustainalytics that a total of COP 235.1 billion has been allocated in one category. The allocations noted against each (sub-)category may not add up to COP 235.1 billion due to the classification of some qualifying investments across multiple eligible (sub-)categories. Bancóldex has confirmed no double-counting of projects in the final allocation figure.

⁹ Small and micro companies are defined in accordance with the Colombian Law 590 of 10 July 2000, modified by Law 905, 2004 and June 2019, by the Ministry of Trade ("MInCIT"). The MInCIT established criteria for classifying companies according to their annual ordinary income of the immediately preceding year under Decree No. 957. For the reporting period the following definitions apply as of 2021: i) small companies with annual sales between COP 855,525,404 and COP 7,442,958,460 for manufacturing companies, COP 1,197,728,304 and COP 4,790,876,908 for service companies and COP 1,625,472,852 and COP 15,655,864,368 for commerce companies; and ii) micro companies with annual sales up to COP 855,525,404 for manufacturing companies, up to COP 1,197,728,304 for service companies and up to COP 1,625,472,852 for commerce companies. As of 2022, the following apply: i) small companies with annual sales between COP 895,488,252 and COP 7,790,629,980 (manufacturing companies), COP 1,253,675,952 and COP 5,014,665,804 (service companies) and COP 1,701,401,076 and COP 16,387,172,784 (commerce companies) and (ii) micro companies with annual sales up to COP 895,488,252 (manufacturing companies), up to COP 1,253,675,952 (service companies) and up to COP 1,701,401,076 (commerce companies).

Total allocation of net proceeds from issuances between May 2018 and February 2023 (COP billion)	100 ¹⁰
Total allocation raised from issuances (COP billion)	100 ¹¹
Percentage of bond allocation (%)	100%
Balance of unallocated net proceeds from issuances (COP billion)	0

Appendix 2: Case Studies

Bancóldex has reported the impact of its social bond through case studies from its portfolio of financed projects between May 2022 and February 2023. See below a summary of the reported impacts for two case studies.

Case Study	Use of Proceeds and Eligibility Criteria Category	Social Impact Reported by Eligibility Criteria
Photo Shop (Photography)	Victims of armed conflict-owned business financing	<p>Jasbleidys opened her photography business approximately 27 years ago. At the beginning, she ran the business in her home. Over time, as the business expanded, Jasbleidys moved the business to a location on the main avenue of the town.</p> <p>Jasbleidys takes photos for documents, social events (quinceañeras, weddings, schools, kindergartens) and filming. She also customizes advertising items such as flyers, banners, buttons, mugs, among others.</p> <p>On a day-to-day basis, Jasbleidys works alone on the business. However, for large events she can hire up to two more people.</p> <p>Jasbleidys requested a USD 1,975 loan to Mi Banco for several purposes: i) payment of suppliers; ii) purchase of photographic umbrellas; and iii) purchase of inventory for the school photography season.</p>
Traditional Dishes (Food & Restaurants)	Woman-owned business financing	<p>For over 25 years, Mónica has been preparing traditional dishes from the San Andres and Providencia islands, such as pepper sauces and sweet treats. She started selling her products under a tent, until she managed to get her premises.</p> <p>After hurricanes Eta and Iota hit the islands, just after the COVID-19 pandemic restrictions were lifted, Mónica's business was impacted. Therefore, she sought financing of USD 2,079 from Banco Agrario to rebuild her food stand.</p> <p>While the reparations took place, she attended to her costumers on her backyard.</p>

¹⁰ Pro-rata computation on proceeds to COP 100 billion given that a total of COP 1,917.6 billion was allocated by Bancóldex to assets (re)financed between May 2018 and February 2023, which includes allocation of COP 235.1 billion between March 2022 and February 2023 in Appendix 1.

¹¹ Bancóldex raised a total of COP 400 billion through the 2018 Social Bonds. Of this, COP 300 billion was raised on a three-year term and paid back to the investors as of May 2021. Bancóldex has disclosed to Sustainalytics that the outstanding value of the bond as of May 2023 is COP 100 billion. The bond is set to mature in May 2023.

Disclaimer

Copyright ©2023 Sustainalytics. All rights reserved.

The information, methodologies and opinions contained or reflected herein are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data), and may be made available to third parties only in the form and format disclosed by Sustainalytics, or provided that appropriate citation and acknowledgement is ensured. They are provided for informational purposes only and (1) do not constitute an endorsement of any product or project; (2) do not constitute investment advice, financial advice or a prospectus; (3) cannot be interpreted as an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (4) do not represent an assessment of the issuer's economic performance, financial obligations nor of its creditworthiness; and/or (5) have not and cannot be incorporated into any offering disclosure.

These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1500 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com

Or contact us contact@sustainalytics.com

