

Introduction

Banco de Comercio Exterior de Colombia S.A. – Bancoldex is a mixed-capital company of Colombian origin, not assimilated to an industrial and commercial company of the State, associated with the Ministry of Trade, Industry and Tourism, organized as a bank institution and subject to the control, inspection and oversight of the Colombian Financial Superintendent (Superintendencia Financiera de Colombia).

As Colombia's development bank for business growth, Bancoldex provides companies of all sizes, sectors and regions of the country with financial instruments, tools, and knowledge. The institution offers a variety of financial instruments and technical support to foster and strengthen innovation, both in sectors that make up the export division as well as those intended for the domestic market.

Bancoldex mainly operates as a second-tier bank, disbursing credit resources to the business sector through a network of local financial institutions, both overseen and not overseen by the Colombian Financial Superintendent, and through financial institutions abroad that finance the purchase of Colombian products or services or that finance the processes of expansion of Colombian companies overseas. In addition, Bancoldex offers direct credit to companies, and it does so by prioritizing projects or investments of the productive sector that generate a positive impact on the environment, improve the country's productivity and competitiveness, contribute to increasing exports, or that contribute to the modernization of its production process, among other aspects.

Bancoldex has aligned its sustainability strategy with Colombia's National Development Plan 2014-2018 (Plan Nacional de Desarrollo 2014-2018), which highlights the importance of the development of microenterprises and aims to reduce the population gaps regarding income as well as to promote productive financial inclusion through the implementation of effective mechanisms that generate income and employment by permitting access to financial products and services that allow investments and risk hedging.

In accordance with the above, the Ministry of Commerce, Industry and Tourism (Ministerio de Comercio, Industria y Turismo), in its Strategic Sectorial Plan 2015-2018 (Plan Estratégico Sectorial 2015 – 2018), includes a chapter regarding increasing productivity and entrepreneur growth, for Bancoldex this is represented in the strategy of financing instruments, which aims to convert Bancoldex into an entrepreneurial development bank through the supply of specialized products and services (financial and non-financial).¹

As previously mentioned, Bancoldex has had an important relationship with the entities oriented to microenterprise credit (Entities Oriented to Microenterprise Credit - EOCM in Spanish), with the aim to strengthen the network of intermediaries through which microenterprises can access credit. Bancoldex started assisting microenterprises through 26 EOCM and currently works with 67 EOCM, covering approximately 700 municipalities, most of which have very little or no exposure to the traditional financial system.

To achieve this goal, Bancoldex has developed and put in place a rigorous and reliable methodology that allows the Bank to understand the characteristics and forms of operation of this segment, in each of the country's regions.

¹ Strategic Sectorial Plan 2015-2018 (Plan Estratégico Sectorial, Sector Comercio, Industria y Turismo 2015 -2018)

One of the main services Bancoldex offers to the microenterprenurial segment, are tailor made credits that take into account the necessities of this type of enterprises as wells as of the needs of the entities that target this segment as follows:

- Lines of credit launched exclusively for micro and small enterprises, separating them from all other segments that may have a bigger access to credit, to guarantee that the resources actually reach the smallest companies.
- Bancoldex has created a massive financing mechanism that allows microfinancing entities to request important amounts of resources to then disburse them to the microenterprises providing the respective reports to Bancoldex. This scheme facilitates the delivery of the credits allowing the bank to finance more than 10.000 microenterprises.
- It is habitual for Bancoldex to generate lines of credit with preferential conditions for micro and small enterprises that are located in regions that face economic challenges derived from border difficulties, public order problems and natural disasters, in order to avoid the closure of productive activities and also to accompany the normalization of the entrepreneurial activity.

In addition Bancoldex has a Corporate Environmental and Social Management Policy that includes 3 pillars: a) Eco-efficiency, which includes the internal actions that the Bank implements in order to make rational use of resources to generate the least amount of environmental impact in its operations; b) Management of Environmental and Social Risks, through which Bancoldex identifies and classifies the socio-environmental risk of its portfolio; and c) Design of "green" financial and non-financial products that favour investments for the mitigation of, and adaptation to, climate change and that generate social benefits.

Taking into account all of the above, Bancoldex is in the process of issuing a Social Bond that allows it to diversify its sources of funding to finance investments that promote more equal economic growth. The projects financed with the proceeds of this bond will be aligned with the sustainability strategy of the institution and with national priorities. The Bancoldex Social Bond Framework has been developed in accordance with the 2017 Social Bond Principles² and its four pillars (i) Use of proceeds; (ii) Process for project evaluation and selection; (iii) Management of proceeds; and (iv) Reporting. Later sections of this document will explain these pillars in detail.

I. Use of Proceeds

Eligible Projects

Eligible investments for Bancoldex include all credit operations in which the beneficiary is considered a micro or a small enterprise (MSE)³, as well as those credits directed to business owners located in rural areas, women business owners, or victims of armed conflict business owners. For portfolio categorization please refer to Appendix I.

The Projects to be financed or refinanced with the proceeds from the issuance of the Bancoldex Social Bond may be originated before, from January 1st 2016, or after the

² The Social Bond Principles 2017. Available at <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/SocialBondsBrochure-JUNE2017.pdf>

³ Bancoldex defines MSEs as either a "natural or legal person"

issue. The refinancing could participate with 100% of the proceeds at the time of the issue. The Projects must fulfill one or more of the following eligibility criteria:

Project Category	Eligible Projects and target group	Eligibility Criteria	Sustainability Objectives									
MSE financing and financial inclusion	Micro and small enterprise financing	<p>Microenterprises and small enterprises were first defined by Colombian law 590 of July 10th 2000, which was modified by Law 905, 2004.</p> <p>The size of the enterprise is established based on:</p> <ol style="list-style-type: none"> number of employees, total number of assets (in terms of legal minimum wage in force)⁴. <table border="1"> <thead> <tr> <th></th> <th>Micro enterprise</th> <th>Small enterprise</th> </tr> </thead> <tbody> <tr> <td>2017</td> <td>Assets cannot exceed COP \$368.858.500</td> <td>Assets cannot exceed COP \$3.688.585.000</td> </tr> <tr> <td>2018</td> <td>Assets cannot exceed COP \$390.621.000</td> <td>Assets cannot exceed COP \$3.906.210.000</td> </tr> </tbody> </table>		Micro enterprise	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	<ul style="list-style-type: none"> • Generate income and increase employment; • Reduce income inequality; • Promote financial and workforce inclusion; • Support local economic activation;
		Micro enterprise	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										
	<p>Rural business financing</p> <p>Women-owned business financing</p>	<p>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:</p> <ul style="list-style-type: none"> • Municipalities that have fewer than 25 thousand inhabitants; or, • Municipalities that present intermediate population densities (between 10 inhab/km² and 100 inhab/km²) <p>Female business owners over the age of 18</p>	<ul style="list-style-type: none"> • Promote the integration and employment of groups at risk of social exclusion; • Promote gender equality and empower women; • Reduce the gender pay gap. 									

⁴ Bancoldex 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.

	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.	
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For extended definitions of the above eligibility criteria, please see Appendix II

Exclusionary criteria

Projects that meet one or more of the following criteria will not be able to use the proceeds coming from the Bancoldex Social Bond:

- a) Projects that have been previously financed by Bancoldex through international development banks proceeds.
- b) Existing loans with the date of the first disbursement prior to January 1st 2016.

In addition to this exclusion criteria specific to the issue, all Bancoldex activities comply with an exclusion list included in its environmental and social management policy (Section F of the Environmental and Social Information Form available (in Spanish) at: <https://www.bancoldex.com/documentos/4603 Formato de información ambiental y social.pdf>)

II. Process for Project Evaluation and Selection

Objectives of the Social Bond

Projects financed with the proceeds of this Social Bond will support the efforts made by the Colombian Ministry of Commerce, Industry and Tourism, in its strategic sectorial plan 2015-2018 and in accordance with the objectives established in the 2014 - 2018 National Development Plan. This financing aims to facilitate access for vulnerable populations to formal credit, reduced costs and improved investment perspectives.

The issuance of the Social Bond is aligned with Bancoldex’s sustainability strategy, which seeks to respond to the following elements:

- The need to generate value through sustainable economic models;
- The opportunities to penetrate new markets, increasing the standards of productivity and competitiveness of Colombian companies; and
- The adoption of sustainability standards in the development of cities.

Through this Social Bond, Bancoldex follows its sustainability mandate of boosting micro and small business growth, therefore increasing productivity and competitiveness of the Colombian business sector through the productive insertion of smaller size economic activities.

Social Bonds Committee

The Social Bonds Committee will be coordinated by the Bank's Financial and Administrative Vice-Presidency and will be attended by representatives from the following areas: Treasury Department, Special Operations Management and Office of New Products and Services. Likewise, the Committee will be composed of a representative of the Commercial Vice-Presidency who will have participated in the structuring of the corresponding operation.

All potential operations to be financed with the proceeds from the social bond will be evaluated by the Bancoldex Social Bond Committee, in order to determine their alignment with eligibility and exclusionary criteria.

Social Risk Management Process for Onboarding and Evaluation of Operations

There are two main groups of intermediaries that participate in the financing of micro and small enterprises in Bancoldex. The first group is composed of entities overseen by Colombian Financial Superintendent (Superintendencia Financiera de Colombia) and includes Banks, Financing Companies and Financial Cooperatives. The second group is constituted by the entities not overseen by the Financial Superintendent such as multiactive cooperatives, employees' funds, and compensation chambers, among others. It is important to highlight that these entities are in fact supervised by other Superintendents and NGOs in the case of microenterprises.

In all cases, Bancoldex completes an evaluation process in which members of the commercial VP can corroborate that the entity has the experience required to provide credits and manage the loan portfolio of the micro or small enterprises. This first step includes the onboarding documents and risk evaluation information. After this, there is the performance of a complete due diligence regarding compliance with sanction lists in terms of Anti-Money Laundering and Terrorist Financing (AML/TF). Finally, the Risk Department performs a visit to the entity and after evaluating all the information establishes a limit amount and the guarantees required to be approved by the high management of Bancoldex. The follow-up for this type of companies is performed quarterly.

There are also different approaches for credit operations for each of the groups mentioned above. For the overseen entities the main approach is through rediscount lines of credit, which implies the endorsement of a Promissory note from the entity to Bancoldex. The disbursements for microenterprises are regularly in local currency (Colombian Peso). There is not a limited amount by beneficiary in the traditional rediscount lines of credit, however in the cases where a government entity provides resources a limit amount per beneficiary may be established in order to confirm a higher coverage for microenterprises. The rediscount lines of credit include different tenors and financial conditions.

For this group of entities Bancoldex also has in place a "Direct Credit" mechanism which allows the banks and financing companies to finance very high volume of small amounts. In this case, the entity requires an amount to be disbursed by Bancoldex in order for it to attend the possible demands of the microenterprises in the period of the next two or three months following the disbursement.

The eligibility of the projects will be guaranteed through the use of an internal statistical tracking system connected to the Bancoldex banking core that allows the bank to validate the information of each credit operation.

III. Management of Proceeds

The proceeds of the Social Bond will be managed by the Bancoldex Treasury Department and will be used to finance existing or new loans. The proceeds pending of disbursement will be exclusively held in cash or other instruments with high liquidity and low risk, and in any case will not be used to finance projects other than eligible social projects.

The processes outlined above will apply throughout the life of the Social Bond.

IV. Reporting

Allocation reporting

Bancoldex shall annually disclose the use of the proceeds from the social bond issuance, indicating the number of beneficiaries, the average value of the loans, the disbursement by social project category and the regional distribution of resource use, through the annual report on "The Use of Social Bond Proceeds," which must be published in the following media: (i) the bank's website: www.bancoldex.com; (ii) the National Registry of Securities and Issuers, available in the Relevant Information section of the website of the Colombian Financial Superintendent www.superfinanciera.gov.co; and (iii) the website of the Colombian Stock Exchange www.bvc.com.co.

The use of the Social Bond proceeds shall be audited by an external party.

Impact reporting

In addition to financial information in the "Use of Social Bond Proceeds" annual report, Bancoldex will also disclose the projects' positive social impacts, selecting up to 4 representative cases in terms of financing used and social impact, which significantly contributed to the bond objectives.

The indicators used shall be selected from the list below, depending on the cases chosen.

Project Category	Eligible Projects	Proposed key-performance indicators
MSE 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
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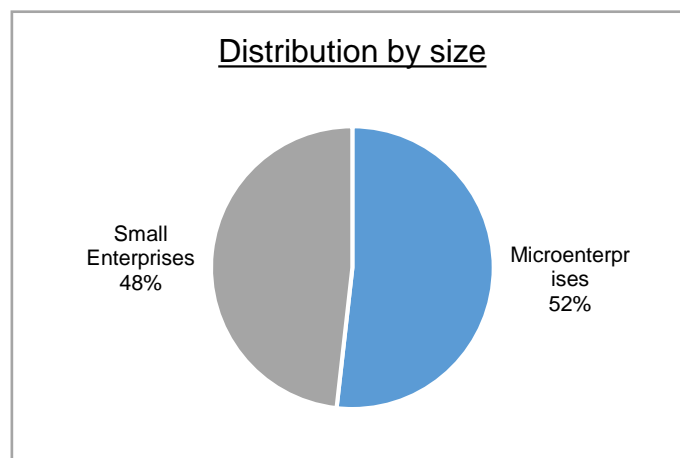
Appendices

Appendix I: Portfolio Categorization

Bancoldex has a portfolio composed of several lines of credit with specific eligibility criteria including the size of the companies (micro, small, medium or large). Some of these lines are directly related to the objective of the Bancoldex Social Bond, for example: (i) *Line of credit for the support of victims of the armed conflict in Colombia* and (ii) *Line of credit for high potential companies*. Others include a broader set of investments that could fall within the scope of the bond, for example: (iii) Lines of credit oriented for micro and small enterprises and victims of the armed conflict in Colombia.

Credit line operations directed only at social projects, such as those mentioned in (i) and (ii), are automatically eligible if their approach is one of the eligibility criteria explained in the previous section.

Larger lines of credit, such as the one mentioned in (iii), will be classified accordingly if the beneficiary is considered a micro or small enterprise.

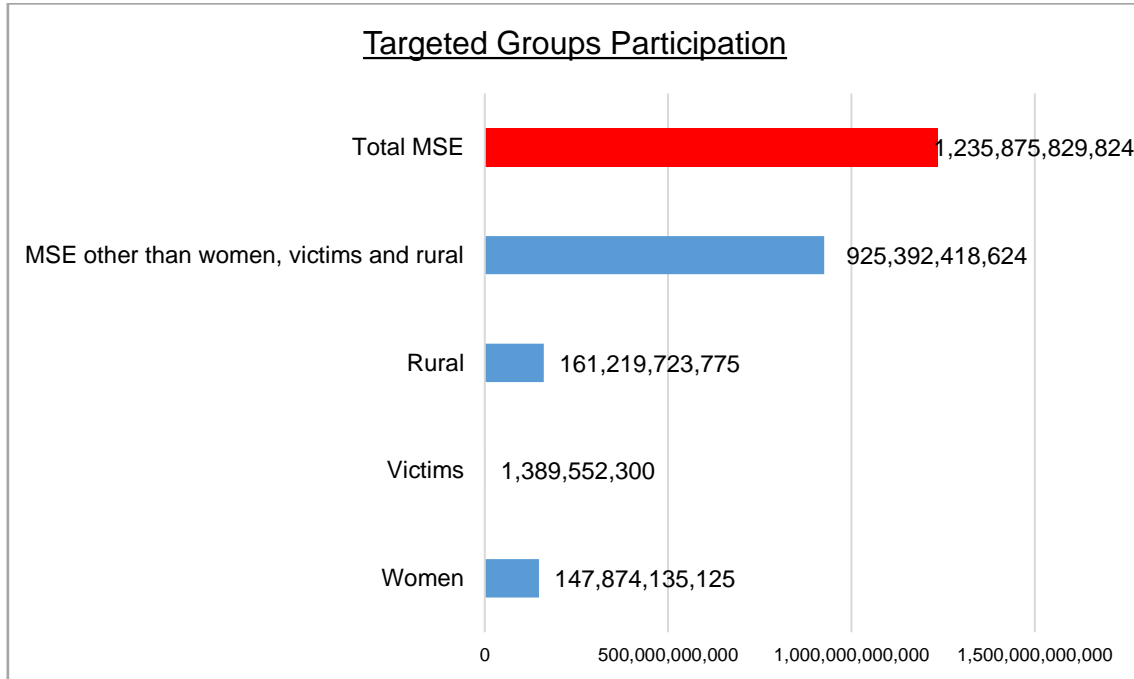


In summary, all operations financed with current or future Bancoldex credit lines, either through the re-discount mechanism or through direct credit, may integrate the Social Bond, provided they comply with the criteria of eligibility, categorization and other evaluation and selection processes set out in this document. These operations may be disbursed by Bancoldex through all the financing mechanisms available to the Bank.

Current Eligible Social Portfolio

Considering the eligibility and exclusion criteria, Bancoldex's social portfolio (as of January 31, 2018) is composed of 16.446 operations to be refinanced with the Social Bond proceeds. The current balance of these operations, all disbursed to Micro and Small Enterprises, amounts to USD 429.3 MM (COP 1.235.876MM), on average USD 26.101 (COP 75.1 MM) per project.

It is important to highlight that 13.04% of the total amount of this portfolio was disbursed to finance rural business owners for approx. USD55.9 million (COP 161.219 MM) and 0.11% was directed to finance victims of armed conflict-owned business for approx. USD486.642 (COP 1.389 MM). In terms of gender, it is important to state that enterprises can be classified as a “Natural Person” or a “Legal Person”. Only taking into account the amount disbursed to “Natural Persons”, the percentage disbursed to women-owned business is of 12% for approx. USD51.4 MM (COP147.874MM), This percentage increases to 28.6% if both “Legal” and “Natural” persons are taking into account.



Appendix II: Extended definitions for Eligibility Criteria

1. Credit or loan operations which final beneficiary is considered a micro or small enterprise according to the following definition:

According to the Colombian Law 590, 2000, modified by Law 905 of 2004, there are four sizes of enterprises in Colombia: microenterprise, small enterprise, medium enterprise and large enterprise. The categorization is based on two variables; the level of total assets, in terms of legal minimum wage in force (salarios minimos legales vigentes SMMLV) and in the number of employees of the enterprise,

For this framework, a microenterprise is an economic unit which has total assets of up to 500 times the monthly legal wage determined by law, and a small enterprise is an economic unit which has total assets of between 501 and 5.000 times the monthly legal wage. This concept of categorization is applied by Bancoldex to rural and urban enterprises. The volume of assets for years 2017 and 2018 are as follow:

YEAR	SMMLV (COP)	500 SMMLV (COP)	5.000 SMMLV (COP)
2017	\$737.717	\$368.858.500	3.688.585.000
2018	\$781.242	\$390.621.000	3.906.210.000

According to the Confederation of Chambers in Colombia (Confecamaras) active enterprises in Colombia amounted to 2.741.397 as of November 2017. From this number, 2.397.572, around 87.5% were microenterprises and 110.957 small companies. From the total number of microenterprises reported, 1.549.629 are natural persons and 847.943 are legal persons.⁵

As stated by the Ministry of Commerce, Industry and Tourism⁶, microenterprises generate around 50.3% of the total employment in Colombia and 6.3% of the country's GDP, there are no such statistics for small companies, however, and they are statistically paired with medium sized companies with which they generate 38.7% of Colombia's GDP and 27% of total added value.

Below there are a list of concepts used by Bancoldex to determine whether the enterprise owned by a beneficiary has a determined condition to be attended by an specific line of credit or if it should be categorized according to its location. These concepts include, Rurality, Women and Victims.

2. Credits to enterprises located in rural areas

One important concept is rurality. 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) have proposed a categorization for Colombian rurality, which identifies the relation between cities and rural locations, aims to identify the targeted population for the implementation of the programs within the rural and agricultural politic, and provides the guidelines for the design of rural differentiated policies.

In this new definition the following relevant aspects were studied: i) demographic characteristics of the population, ii) connectivity levels among municipalities, iii) preponderant economic activities, iv) use of the land, and v) diverse relations with the land (indigenous lands, collective territories, etc).

The final aspects included were: i) rurality within the system of cities, ii) population density, iii) relation between urban and rural population within the following categorization: cities and agglomerations, rurality and dispersed rurality)

Rural definition

- Municipalities that have less than 25 thousand inhabitants
- Municipalities that present intermediate population densities (between 10 inhab/km2 and 100 inhab/km2)

3. Credits to enterprises owned by women

Another significant concept is related to the categorization by gender – feminine and masculine of the owner of the microenterprise; for Bancoldex is able to identify if the final

⁵ **Active Enterprise:** corresponds to a natural or legal person registered to a Chamber of Commerce which state is active.

⁶ Revista Dinero de septiembre 15 de 2016

beneficiary is a woman. This information is included by the financial intermediary that canalizes Bancoldex resources.

4. Credits to enterprises certified as victims of the armed conflict in Colombia.

It is important to highlight that article 159 in Colombian Law 1448 of 2011, Law of Victims and Restitution of Lands, orders the establishment of the National System for the Integral Attention and Reparation of Victims (Sistema Nacional de Atención y Reparación Integral a las Víctimas – SNARIV). This system is integrated by a group of public entities both national and territorial, in charge of executing the plans, programs, projects and specific actions that are directed to the integral attention and reparation of the victims.

In accordance with the above, the same Law defines the condition of victim as all people who individually or collectively have suffered damages as a result of internal armed conflict; due to violations of the International Humanitarian Law and the International Human Rights Standards.⁷ According to the Victims Registry (Registro Único de Víctimas – RUV) the number of victims exceeds 8 million people.

For Bancoldex specific case, besides being a part of the SMARIV, article 129 of the mentioned Law orders the establishment of an annual rediscount line of credit with preferential financial conditions, aimed to finance the loans given by the credit entities to the victims with the final objective of financing the activities required for the victims to recuperate their productive capacity.

It is important to mention that since the launching of the first line of credit in association with the SMARIV, in the year 2012, as of December of 2017, disbursements were made for an amount COP 8.528.900.098 (approximately USD2.9 million). In addition, through Bancoldex other lines of credit the amount disbursed was COP 301.258.432.991 (approximately USD 104.6 million).

⁷ Law 1448 of 2011