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## Second Party Opinion

# Banco de Bogotá's 2024 Sustainable Bond Use Framework

July 15, 2024

**Location:** Colombia

**Sector:** Banks

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## Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Social Bond Principles, ICMA, 2023
- ✓ Sustainability Bond Guidelines, ICMA, 2021

See [Alignment Assessment](#) for more detail.

## Strengths

**Banco de Bogotá (BdB) has implemented internationally recognized standards as eligibility criteria for many of its project categories.** BdB has committed to international best practices in its screening criteria, many of which go beyond current jurisdiction requirements.

**BdB follows government criteria for its affordable housing projects.** In our view, this provides transparency to the market about the target population and helps increase home ownership for the vulnerable population that could not get access to financing through other government programs.

## Weaknesses

No weaknesses to report.

## Areas to watch

**The bank has another green transaction that includes projects outside the scope of this framework.** We think it's key that the bank keeps separate management of proceeds to avoid double-counting between different transactions.

**Some green eligible projects have no minimum performance thresholds.** While this is not unusual for frameworks with extensive lists of projects, it limits the insights about their overall environmental impact.

**BdB is developing its climate transition risk strategy.** As a member of the Net Zero Banking Alliance, the bank has already measured the bulk of its financed emissions, but still has to develop its decarbonization pathways and publish interim targets, which we expect it to release by June 2024.

## Eligible Green Projects Assessment Summary

Eligible projects under issuer's green finance framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

### Sustainable Construction Medium to Light green

Green buildings--including housing, social housing, and commercial buildings--certified with IFC EDGE, LEED Gold, or higher with a demonstrated 20% energy efficiency improvement, or Casa Colombia Very Good or higher.

### Renewable Energy Dark green

Non--fossil-fuel renewable energy source projects: wind, solar PV, and thermal solar energy with less than 10MW, solar or wind pumping systems of less than 10MW, ocean energy, and small-scale hydropower. (below 5MW of installed capacity and reservoirs with power density >4W/m<sup>2</sup>)

Modernization of projects above (for hydropower, modernization does not include increasing the size of the reservoir/dam).

### Energy Efficiency Medium green

Heat recovery for hot water (from air conditioning systems, heat pumps, or refrigeration).

Repair or replacement of leaking steam traps.

Automation improvements, lighting efficiency improvements, and motor upgrades;

Lighting upgrades from incandescent to LED or fluorescent to LED or T8/T5 bulb types.

Air conditioning and refrigeration equipment upgrades introducing very low GWP refrigerants; and

Efficient machinery and equipment not included in the previous categories that improve energy efficiency by at least 20%.

(See Analysis of Eligible Projects section for further details.)

### Sustainable Transport Dark green

New electric vehicles for company fleets.

Public electric vehicles.

Personal electric vehicles.

Micromobility vehicles with zero emissions or vehicles with assisted electric motors or that are non-motorized that meet Ministry of Transport criteria.

(See Analysis of Eligible Projects section for further details.)

### Water Efficiency Medium green

Rainwater collection, storage, and distribution.

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Water recovery systems with treatment for 100% reuse (industrial, agricultural, or commercial).

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Conversion from open and canal irrigation systems to drip irrigation systems, related system components, and installation.

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Projects not included in the previous categories that improve water efficiency at least 20%. Efficiency is calculated as water consumption before the project (baseline) minus water consumption after the project.

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**Circular Economy**

 **Light green**

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Waste recovery: resource recovery models that recycle waste into secondary raw materials, thus avoiding their final disposal and the extraction and transformation of virgin natural resources.

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Circular models that reduce the demand for long-term resource extraction by replacing traditional material inputs derived from virgin resources with bio-based, renewable, or regenerated materials.

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Models that extend the shelf life of existing products, thereby slowing down the flow of constituent materials through the economy and reducing the rate of resource extraction and waste generation.

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Products-as-a-service models that market services rather than products. This transfers the risks of product operation from users to suppliers and encourages maintenance and eco-design (product can be disassembled for improvement, maintenance, and/or reuse/remanufacturing of materials at the end of its life).

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Technology platforms with sharing models that increase the use of normally underused products and therefore reduce the demand for new products and the raw materials they require. Platforms that contribute to resource efficiency must be aligned with the principles of the circular economy (waste disposal, circulation of materials, or support for regenerative systems).

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(See Analysis of Eligible Projects section for further details.)

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See [Analysis Of Eligible Projects](#) for more detail.

## Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

### Company Description

BdB was founded in 1870 and is the oldest financial institution in Colombia. In the local market, the bank provides financial services such as commercial loans (65% of total credit portfolio), consumer loans (24%), mortgages (11%), and microcredit (0.3%). Although it recently spun off about half of subsidiary BAC International Bank's total assets, BdB remains one of the largest banks in the Colombian banking sector, with presence in over 1,020 municipalities. The bank is the main subsidiary of Grupo Aval, and it's listed on the Colombian Stock Exchange (BVC).

### Material Sustainability Factors

#### Climate Transition Risk

Banks are highly exposed to climate transition risk through their financing of economic activities, which affect the environment. Banks' direct environmental impact is small compared to financed emissions and stems mainly from power consumption (e.g. data centers). Policies and rules to reduce emissions could raise credit, legal, and reputational risks for banks with large exposures to high-emitting sectors, such as oil and gas, metals and mining, real estate, or transportation. These medium- to long-term risks are significant and will be proportional to the impact of climate change on the economy. Positively, financing the climate transition offers a growth avenue for banks through lending, debt structuring, and other capital markets activities.

#### Physical Climate Risk

Physical climate risks will affect many economic activities as climate change will increase the frequency and severity of extreme weather events. Banks finance a wide array of business sectors that are exposed to physical climate risks, exposing banks to through their financing activities. However, while climate change is a global issue, weather-related events are typically localized, so the magnitude of banks' exposure is linked to the geographical location of the activities and assets they finance. Banks may contribute to mitigate the effects of physical climate risks by financing adaptation projects and climate-resilient infrastructure, as well as by investing in solutions that support business continuity in exposed geographies.

#### Access And Affordability

Banks' large impact on society and the economy stems from their role in enabling access to financial services to individuals and businesses, and in ensuring the correct functioning of payments systems, which are cornerstones of economic development and stability. In most countries, unbanked and underserved population segments are still meaningful, although the access gap is most acute in emerging economies. Market imperfections such as low competition, incomplete information, and lack of financial literacy, often result in costly alternatives for small businesses and low-income people, so ensuring affordable access to financial services, especially to the most vulnerable population, remains a challenge for the banking industry. New technologies will, however, increasingly enable banks to close this gap through cost efficiencies and product innovation. While structural issues such as poverty, informality, and lack of financial literacy partly limit access to financial services, banks have large opportunities to support economic development through financial inclusion.

## Biodiversity And Resource Use

Banks contribute to significant resource use and biodiversity impact through the activities they fund or invest in. For example, the construction sector--which is a major recipient of bank financing--is a large consumer of raw materials such as steel and cement. Similarly, bank-financed agricultural activities can have material biodiversity impacts.

## Privacy Protection

Banks rely heavily on IT systems, using digitization (or computer processing of information) extensively. Growing use of client data collection, data mining, and artificial intelligence (AI) have brought significant efficiency gains and facilitated financial access. However, this has increased banks' exposure to the risk of IT infrastructure failures, cyberattacks, and other quickly evolving risks. The resulting disruptions (such as client data leakage, data theft, or AI-related unintended or biased use of private personal data) could subject banks to higher and unpredictable risks given their large number of customers and business partners. In addition, stolen data may be used by criminals to commit various types of frauds. We see privacy protection risks rising and evolving as cyber hackers become more sophisticated, but most banks have strong risk governance and controls in place to prepare for these risks.

## Issuer And Context Analysis

**All project categories directly address some of BdB's material sustainability factors.** Projects such as renewable energy, energy efficiency, and sustainable transport aim to address climate transition risks. Water efficiency and circular economy projects contribute both to biodiversity and resource use. In addition, eligible social projects such as MSME (micro, small, and midsize enterprise) lending and affordable housing seek to contribute to access and affordability and the economic empowerment of targeted populations. Physical climate risks are relevant risks in the framework since some eligible projects cover the construction of buildings and infrastructure.

**BdB has been advancing its sustainability strategy with sustainable financing.** The bank has developed lines of action that are incorporated within its product offerings, specifically in its sustainable loan portfolio, which it has financed with its green bond issuance in 2020 and its subordinated sustainable bond issuance in 2023. Going forward, we view positively that the certifications included in the new framework will help advance against local standards, such as sustainable construction certifications. The company also incorporates a public exclusion list for eligible projects within the framework. While we view this as positive and in line with sector standards, the exclusion list does not incorporate any limits on high-emissions industries, which could further strengthen the bank's environmental considerations and project eligibility.

**Although the bank has advanced in measuring its financed carbon footprint, it is still developing its climate transition risk strategy.** In 2022, BdB became a member of the Net Zero Banking Alliance, committing to the decarbonization of its portfolio by 2050. However, it still has to develop its decarbonization pathways and publish interim targets, which we expect it to release by June 2024. The bank has already accounted for the emissions from 72% of its commercial portfolio using PCAF's (Partnership for Carbon Accounting Financials) methodology and considers its most material financed sectors such as oil and gas, steel, energy generation, and cement. However, so far, the actions taken by the bank to reduce emissions only incorporate direct emissions.

**BdB has developed a sector-specific methodology to assess physical climate risks in its portfolio, with support of a specialized third party.** This process is already integrated into the company's environmental and social risk system. The assessment is based on data points from 40 geographic locations in Colombia obtained from georeferencing software.

**BdB continues to provide financing opportunities to MSMEs and the lower-income population.** The bank has increased its social housing offering with the reactivation of the "Mi Casa Ya" government program. In addition, BdB offers social housing to customers who are unable to participate in "Mi Casa Ya" program because of funding limitations, broadening its range.

Furthermore, BdB continues to promote the integration of women in the economic sector through its MSMEs lending.

## Alignment Assessment

This section provides an analysis of the framework's alignment to the Social and Green Bond Principles and the Sustainability Bond Guidelines.

### Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Social Bond Principles, ICMA, 2023
- ✓ Sustainability Bond Guidelines, ICMA, 2021

#### ✓ Use of proceeds

All the framework's green project categories are shaded in green and all social project categories are considered aligned with the Principles. The issuer commits to allocate the net proceeds issued under the framework exclusively to eligible green and social projects. The company commits to disclosing the share of financing versus refinancing in its allocation of proceeds. The maximum look-back period is six months, in line with market practice. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental and social benefits and risks for the expected use of proceeds.

#### ✓ Process for project evaluation and selection

The framework outlines the process to select and evaluate the green and social projects. BdB's sustainable finance team is responsible for the technical environmental assessment. The company has dedicated working groups (asset technique department and interdisciplinary committee) who will review eligible projects. Eligible projects will be subject to the company's due diligence process, and BdB will assess environmental and social risks in accordance with its Environmental and Social Management System and related policies. The company also details eligible certifications for project categories and the process for eligibility based on their risks, including its exclusion criteria.

#### ✓ Management of proceeds

The framework outlines net proceeds will be monitored by the bank's treasury department, which will keep a record of assigned eligible assets. All bond proceeds will be allocated within a two-year period from the issuance date. While issuances are fully allocated, proceeds will be kept in cash or other highly liquid and low-risk instruments. Furthermore, the bank commits to reassign resources to new projects within six months in case of full payment or repayment of the loan, or if the loan no longer meets eligibility criteria.

#### ✓ Reporting

BdB commits to publicly disclose the annual report on its website until all funds have been fully assigned. The initial report will be released within 90 days following the conclusion of the calendar year in which the bond was issued, and subsequently annually until the bond reaches its final maturity. The report will include the allocation of net proceeds, a brief description of financed projects, and the remaining balance of unallocated proceeds. In addition, the company commits to disclosing the expected environmental and social impacts of financed projects, where feasible.

## Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the Shades of Green methodology.

Over the 24 months following issuance of the financing, BdB expects to allocate 100% of proceeds to eligible social and green projects, with a six-month lookback period. BdB is not in a position to share the expected allocation to each project category, given the extensive list of green and social project categories.

The framework includes an exclusion list in line with the bank's environmental and social risk management policy, which includes illegal activities, activities related to fabricating and selling weapons and ammunition, gambling, harm to wildlife, illegal fishing, hazardous waste materials exports or imports, harm to indigenous and Afro-Colombian communities, and forced labor, among others. This exclusion list is publicly available.

### Green project categories

#### Sustainable Construction

##### Assessment

 **Medium to Light green**

##### Description


Green buildings, including housing, social housing, and commercial buildings, certified with IFC EDGE; LEED Gold or higher with a demonstrated 20% energy efficiency improvement, or Casa Colombia Very Good or higher.

#### Analytical considerations

- The issuer confirms that only new construction will be financed under the framework. The construction of green buildings can support climate change mitigation by improved energy efficiency and can lead to additional environmental benefits, such as reduced water consumption, which are needed to achieve low carbon-built environments, in line with the 2050 Paris Agreement.
- For this purpose, BdB has selected recognized international certifications and included requirements for minimum levels to enhance the environmental benefits stemming from the certification process, in line with has been practiced in the region. The bank also adopted an additional layer of screening for LEED-certified buildings by setting a 20% energy efficiency improvement criterion. However, we note that the baseline for the 20% improvement was not provided. Moreover, certifications in scope are points-based, which does not guarantee that the building is low-carbon. On the other hand, we expect that the minimum certification level requirements set by the bank will provide stronger environmental considerations compared to the local building stock. In addition, the regulatory context is still advancing in the country and currently sets thresholds for water and energy efficiency according to Colombia's climate zones under Resolution 0549 of 2015 for sustainable construction.
- Although embodied emissions (meaning emissions from the upstream stages of a product's life) represent a key aspect when assessing new construction, we highlight that not all the certifications in scope ensure their reduction. This factor supports the presence of a light green component in our assessment. Nonetheless, we view positively that the local certification in scope, developed by the Colombian Council for Sustainable Construction (CCCS), requires projects to follow a first layer of mandatory practices, such as measuring embodied emissions for a 60-year period based on ISO 14044, ISO 14040, and EN 15978 standards to quantify specific types of embodied and operational carbon emissions. To advance in the certification levels, the projects are scored according to the achievement of strict milestones such as reducing embodied carbon footprint by 10% or more. Moreover, IFC EDGE also requires 20% savings in embodied energy in materials.
- The framework does not include criteria to exclude heating from fossil fuel sources, but heating is not as common in Colombia as in places with colder climates. Although some heating systems in Colombia are electric, which we view favorably considering renewable sources comprise more than 75% of the country's installed electricity capacity, some gas-powered heating can be found in commercial buildings and touristic areas in colder periods.

- Buildings are generally highly exposed to physical climate risks. In Colombia, exposure to natural disaster risks mainly relates to earthquakes, floods, landslides, and volcanic eruptions. BdB has included the risks as part of its due diligence selection process, as described in the Issuer Sustainability Context section. Still, this assessment is not performed on an asset level, which we see as a limiting factor for a darker shade.


## Renewable Energy

Assessment	Description
 <b>Dark green</b>	<ul style="list-style-type: none"> <li>• Wind energy (residential, commercial, and industrial).</li> <li>• Solar photovoltaic (PV) systems of less than 10 megawatts (MW) (residential, commercial, and industrial).</li> <li>• Solar thermal energy of less than 10 MW.</li> <li>• Solar or wind pumping systems of less than 10 MW.</li> <li>• Ocean energy including ocean currents, waves, and ocean thermal energy.</li> <li>• Small-scale hydropower generation for fuel substitution, below 5 MW of installed capacity. In the case of reservoirs, the power density should be less than 4 watts per square meter (W/m<sup>2</sup>).</li> <li>• Modernization of projects above (for hydropower, modernization does not include increasing the size of the reservoir/dam).</li> </ul>

### Analytical considerations

- Renewable energy, like solar, wind, and hydro, is key to the low-carbon transition and represents a Dark Green shading. However, hydropower can entail significant emissions from construction and water reservoirs. BdB is mitigating this by limiting the scope to small-scale plants, with power density of less than 4 W/m<sup>2</sup> and installed capacity below 5 MW. Although this threshold differs from sources adopted in the region, such as the Climate Bonds Initiative (CBI) and the EU Taxonomy, the issuer clarifies that the power density requirement was based on the United Nations Framework Convention in Climate Change's requirements under the Clean Development Mechanism (CDM). All the other activities under this category are considered eligible under the Colombian Green Taxonomy, which strengthens our assessment.
- Ocean energy projects include ocean currents, waves, and ocean thermal energy. However, to be considered eligible, projects must achieve an 80% reduction in emissions when compared to the fossil fuel alternative, which is in line with the criteria set by CBI.
- Power purchase agreements (PPAs) could be financed under the framework and BdB confirms they could serve both grid and off-grid purposes. Given the significant share of renewables in the country (more than 75% of installed electricity capacity), we believe PPAs that serve the grid are consistent with a Dark Green shading. Additionally, BdB has set an exclusion criterion to address potential risks related to financing carbon-intensive activities, which states that off-grid projects that belong to companies that derive more than 15% of their revenues from the exploitation of fossil fuels and/or thermal coal will not be considered eligible under the framework. We note that BdB's exposure to such activities is currently low, representing approximately 0.2% of its portfolio. Even so, BdB is committed to reducing financing to clients that get more than 15% of their revenues from thermal coal from 2030 onward and to a total phase-out starting in 2040.
- The framework considers physical climate risks as part of their overall SARAS (Spanish for Environmental and Social Risk Management System) using a sector-specific approach, as explained for other project categories.

## Energy Efficiency

Assessment	Description
 <b>Medium green</b>	<ul style="list-style-type: none"> <li>• Heat recovery for hot water (from air conditioning systems, heat pumps, or refrigeration).</li> <li>• Repair or replacement of leaking steam traps;</li> </ul>



- Automation and control of electrical and mechanical systems, such as improved lighting controls (e.g., occupancy sensors), improved heating controls (e.g., timers), variable speed drives on motors, installation of automatic shut-off switches, switch to induction heating, and critical system components related to any of the above.
- Air conditioning, refrigeration equipment upgrades that introduce very low global warming potential (GWP) refrigerants and energy-efficient equipment.
- Change of electric motors of 8 horsepower or less from those that rewind and/or with efficiency equal to or below the standard efficiency (NEMA, IEC IE1, CEMEP EFF3) to motors with higher efficiency (IEC IE3).
- Efficient machinery and equipment not included in the previous categories that improve energy efficiency by at least 20%.

**Analytical considerations**

- In general, energy efficiency projects help mitigate climate change by reducing the amount of energy used, and therefore scope 2 greenhouse gas emissions. Eligible projects include energy efficient technologies and/or products that are not powered by fossil fuels. Additionally, we view positively that the issuer references international efficiency standards, such as IE3 for electric motor systems. Moreover, the list of projects also includes heat recovery, but we don't expect major risks related to this because it isn't linked to carbon-intensive industries.
- BdB applied a 20% improvement in energy efficiency criterion to screen for additional projects that demonstrate adequate levels of energy efficiency improvement but were not captured by the list provided above. We view this favorably, given that energy efficiency projects are numerous, and an exhaustive list could limit the potential for financing equally or more beneficial energy efficient technologies. However, we note that the lack of energy efficiency quantitative references for all the remaining projects reduces our visibility on how they will exceed local standards.
- While production of equipment for energy-efficient projects is crucial, climate and environmental risks can arise during production and are not expressly addressed in the criteria list, for example through limits on production emissions.

**Sustainable Transport**

**Assessment**

 **Dark green**

**Description**

- New electric vehicles for company fleets;
- Public electric vehicles;
- Personal electric vehicles; and
- Micromobility vehicles (electric skateboards, hoverboards, segways, electric skateboards) that are zero emissions or vehicles with assisted and nonmotorized electric motors that meet the criteria of speed, weight, and power established in Resolution 160 of 2017 of the Colombian Ministry of Transport.

**Analytical considerations**

- Eligible projects are key to lowering the carbon emissions of the transportation sector. Transportation is the largest contributor (41%) to energy-related greenhouse gas emissions in Colombia. According to data from ANDEMOS (Colombia's National Association for Sustainable Mobility), by 2022, electric vehicles accounted for 0.12% of vehicles in Colombia. BdB's financing of projects related to electric vehicles will help provide cleaner solutions to the population through private and public vehicles, which we view positively.
- We believe BdB's eligible projects, as well as local incentives from the Colombian government, can help further develop and incorporate electric vehicles into the country's fleet. According to ANDEMOS, Colombia is the second country to incorporate electric vehicles to its fleet in Latin America.
- Colombian authorities and municipalities have implemented measures to improve infrastructure to benefit and promote use of electric vehicles, such as the electric vehicle law that aims to have at least five charging stations in all municipalities (except for Buenaventura and Tumaco). According to data from Electromaps, so far, the country has 218 charging stations, mostly located in

bigger cities like Bogotá (45 stations) and Medellín (30). Lack of infrastructure can limit the effects of efforts to promote electric vehicle use.

## Water Efficiency

### Assessment

 **Medium green**

### Description

- Rainwater collection, storage, and distribution.
- Water recovery systems with treatment for 100% reuse. (industrial, agricultural, or commercial).
- Conversion of open and canal irrigation systems to drip irrigation systems, related system components, and installation.
- Projects not included in the previous categories that improve water efficiency at least 20%. Efficiency is calculated as water consumption before the project (baseline) minus water consumption after the project.

### Analytical considerations

- Investments made in rainwater collection, water recovery systems, and conversion to drip irrigation systems help industries better manage and use their water use. These systems can mitigate the need to use water from freshwater bodies and help create reliable supplies for water availability during times of drought. Projects that consider storage and distribution can help mitigate floods by managing water excess and prevent erosion during periods of heavy precipitation.
- According to national water research done in 2022 by the Institute of Hydrology, Meteorology, and Environmental Studies and the Environmental and Sustainable Development Ministry, Colombia's agricultural sector uses 43.2% of water. In addition, an analysis done for the sector by a private company (Revista Portfolio) found that about 40% of water used by the sector is wasted due to lack of investment and maintenance in infrastructure.
- BdB aims to finance projects across different sectors and regions, which limits its capability to address specific technical considerations. However, this is in line with sector practices and is partially mitigated through the application of the bank's SARAS, which carries out an assessment of exposure to environmental, social and climate risk of its portfolio. In addition, the bank's Sustainable Finance department verifies the alignment of projects with Colombia's Green Taxonomy. Moreover, the framework does not consider projects that incorporate livestock, and we see as positive that the criteria includes water projects that aim for 20% efficiency, driving our score for medium green.
- Colombia has vast water resources as the ninth-most water-rich country in the world, according to the World Bank. Regardless, it is still affected by flooding and water stress mainly due to climate change that can cause either droughts or water shortages in specific areas of Colombia. According to the Institute of Hydrology, Meteorology, and Environmental Studies (IDEAM), 391 municipalities face risks of water shortages in the next few years. Recurring climate patterns such as El Niño and La Niña, as well as Colombia's high dependency on natural glacial cycles for water availability, increase these risks.

## Circular Economy

### Assessment

 **Light green**

### Description

Waste recovery models that recycle waste into secondary raw materials, thus avoiding their final disposal and the extraction and transformation of virgin natural resources. These models include:

- Initiatives to collect, clean, transport, and transform recovered materials and reverse logistics (e.g. recycling of plastic, paper, cardboard, and glass). Hazardous materials, those restricted in international trade, and lead-acid batteries are exempt.
- Biomass composting initiatives.
- Symbiosis between companies for use of by-products (waste) and resources (water or waste energy) and/or shared infrastructures.

- Sustainable packaging design.
- Initiatives that transform inedible food by-products and human waste into inputs for new products (e.g. bagasse plates).

Circular models that, by replacing traditional material inputs derived from virgin resources with bio-based, renewable, or regenerated materials, reduce the demand for resource extraction in the long term.

- Eco-design, cleaner production, and process optimization initiatives (e.g. efficient use of raw materials or water). If the project is aimed at reducing water consumption only, the framework sets a minimum water efficiency threshold of 20%. If the project is aimed at reducing energy consumption only, it is addressed in the section on energy efficiency. For efficient use of raw materials, the project must verify that the intensity of the resource per productive unit is reduced and that it replaces nonrenewable resources by renewable resources.
- Initiatives to reuse treated water (e.g. treatment and reuse in irrigation or cooling systems).
- Conservation of water sources (e.g. reforestation of watersheds).
- Regenerative production of food and biomaterials, including agroecology, conservation agriculture, and agroforestry.
- Biomaterials value chains that support regenerating ecosystems, leveraging the knowledge of traditional and indigenous communities and discouraging deforestation.
- Development of circular food products with diverse ingredients, lower-impact ingredients, recycled ingredients, and regeneratively produced ingredients. This includes projects focused on substituting ingredients derived from intensive agriculture with ingredients from lower-impact crops, transforming inedible food by-products into new ingredients, and producing food with positive impacts on nature, soil, and biodiversity. These projects must verify that no additional impacts are generated by additional transformations of land use. Livestock is not included.
- Reverse logistics for the reuse of materials.
- Product and packaging reuse systems.

Models that extend the shelf life of existing products, thereby slowing down the flow of constituent materials through the economy and reducing the rate of resource extraction and waste generation. These include:

- Initiatives for returnable packaging systems.
- Remanufacturing initiatives (e.g., cars, computers, machinery).
- Secondhand market initiatives (e.g., clothing, furniture, bicycles).
- Initiatives that help restore strategic ecosystems (watersheds, wetlands, reforestation of mountains, restoration of deteriorated soils).
- Modular designs that make it easy to repair, remanufacture, and upgrade products.

Products-as-a-service models that market services rather than products. This transfers the risks of product operation from users to suppliers and encourages maintenance and eco-design (product can be disassembled for improvement, maintenance, and/or reuse/remanufacturing of materials at the end of its life). These include:

- Rental of electric or non-motorized means of transport, appliances, clothing, or lighting systems.
- Refrigeration services with low GWP refrigerants or heating strings.
- Steam supply services based on renewable energy.













Technology platforms with sharing models that increase the use of normally underused products and therefore reduce the demand for new products and the raw materials they require. Platforms that contribute to resource efficiency must be aligned with the principles of the circular economy (waste disposal, circulation of materials, or support for regenerative systems). These include:

- Consumer intelligence systems.
- Virtual power plants.
- Virtual warehouses (for example, using digital tools to manage the inventories of different warehouses in order to transfer surpluses between them and minimize losses).
- Platforms that enable sourcing of regeneratively grown ingredients, commercialize circular food products, and redistribute surplus edible food for human consumption.

### **Analytical considerations**

- Waste recovery projects are key pollution-prevention measures and help avoid harm to human health and local ecosystems. Recycling and reuse programs can reduce greenhouse gas emissions, energy use, and natural resources use. They also contribute to lower greenhouse gas emissions throughout the value chain--recycling avoids carbon emissions that usually result from the use of virgin materials to make new products, and emissions from waste in landfills. According to data from DANE, in 2021 Colombia had a recycling rate of 13.46% for solid and residual waste and has set guidance and strategies to further increase recycling with public-private investments. We think the eligible projects can positively contribute to this goal.
- Eligible projects help reduce and reuse waste, which is compatible with a circular economy as well as the reuse of waste products for energy generation. However, limiting our view is the lack of environmental considerations for potential risks such as greenhouse gas emissions from the recycling process, limiting this assessment shade to light green.
- Symbiosis projects can promote waste recycling and reuse between different companies and sectors. However, the lack of disclosures on the types of sectors and projects limits our view on potential environmental risks from resource use, high-polluting sectors, and types of waste.
- Projects included in the category aim to develop projects across the value chain to promote circular economy for different sectors. The projects show clear environmental benefits and are in line with a low-carbon future. In addition, the incorporation of knowledge of traditional and indigenous communities for projects related to biomaterials value chains may also have positive environmental and social aspects.
- Food systems that consider circular economy practices look to use available biomass and agricultural lands to guarantee healthy diets for humans while considering environmental issues such as land use, greenhouse gas emissions, water use, and phosphorus and nitrogen use. We view positively the exclusion the framework has on livestock for this category since it mitigates any possible risk regarding the emissions from these practices.
- Technology platforms such as consumer intelligence systems, virtual warehouses, and platforms for sourcing are key for a circular economy. These digital solutions enable companies to be aware of customer needs and be able to react more effectively. In addition, these technologies allow data processing to fulfill the demands of circular supply chains, such as demands considered in circular food products and surplus edible food, helping reduce waste and promoting more efficient use of resources across the value chain.
- While projects related to “products-as-a-service” and “shelf-life extension” models such as rental of electric transport and refrigeration services do not have a direct environmental benefit, they do promote efficient use of products. The same applies to projects such as remanufacturing initiatives and returnable packaging initiatives. However, our assessment of these projects is limited to light green by the lack of technical information on how to mitigate possible environmental risks. Still, this is in line with sector practices of banks that finance a diverse group of projects and sectors.

## S&P Global Ratings' Shades of Green

Assessments					
 <b>Dark green</b>	 <b>Medium green</b>	 <b>Light green</b>	 <b>Yellow</b>	 <b>Orange</b>	 <b>Red</b>
Description					
Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects					
 Solar power plants	 Energy efficient buildings	 Hybrid road vehicles	 Health care services	 Conventional steel production	 New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

## Social project categories

### Loans To Micro, Small, And Midsize Enterprises (MSMEs)

- Loans for MSMEs that are women-led or women owned.
- Loans for MSMEs in vulnerable areas.

#### Analytical considerations

- BdB clearly defines its eligibility criteria for MSMEs based on annual sales. The bank further segments this classification to reach underbanked populations such as women-led and -owned MSMEs and businesses in municipalities under the poverty line.
- We view positively that BdB uses clearly defined criteria to classify women-led and women-owned MSMEs, based on the International Finance Corp.'s definition. We also view as favorable that the bank chose a governmental multidimensional poverty index to screen for vulnerable areas where eligible MSMEs can be located. It also presents clear criteria to classify MSMEs, which it adapted from Decree 957 of the Colombian Ministry of Industry and Trade to reflect annual sales, a more homogeneous metric for the commercial transactions carried out routinely.
- The most recent Socioeconomic Atlas of Women in Colombia (2021) shows that while 46.2% of men registered as entrepreneurs in Colombia between 2014 and 2021, women registered in the same category was limited to 39.0%. Given that women's role in entrepreneurial activities is highly connected to their level of financial inclusion, projects that finance women-owned and women-led enterprises contribute to closing a specific and persisting gender gap in the country.
- Banco de Bogota has mitigants in place to minimize social risk derived from its lending practices. These include transparent communication with customers about the terms of the credit and potential consequences of over-indebtedness as well as regular evaluation of customers' payment capacity, including reviewing the debtors' credit history, evaluating cash flows, and evaluating payrolls. The issuer also conducts regular monitoring of delinquency rates by sector and customer. These measures help address relevant concerns that would limit the effectiveness of positive social impacts.

### Affordable Housing

- Residential mortgages originated under the Colombian government's "Mi Casa Ya" housing subsidy program that facilitate the purchase of new housing for the most vulnerable households.

#### Analytical considerations

- Eligible projects will be part of the government program "Mi Casa Ya" that aims to increase homeownership for the low-income population. The program clearly defines the target population as those who are classified by SISBÉN IV, a Colombian government system that classifies the population according to their income and living conditions to better focus social program efforts on those who need them the most. In addition to the classification, the projects also consider lack of participation in other social housing programs to best allocate resources and applies subsidies according to the user's level of vulnerability.
- The loans will be offered under market conditions with fixed interest rates throughout the life of the loan following local regulation (resolution 003- 2012 of the Banco de la República). In addition, local regulation limits the maximum interest rates and maximum installments of 40% of net cash flow, which we view positively, because it helps mitigate social risks such as high debt levels.

### Social Housing

This category includes mortgages with the same characteristics as the Colombian government's housing subsidy program. However, the individual or family has not received the subsidy granted by the government.

#### Analytical considerations




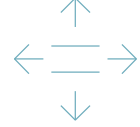

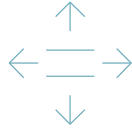


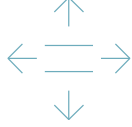

## Second Party Opinion: Banco de Bogotá's 2024 Sustainable Bond Use Framework

- We view positively that the bank follows eligible criteria from the Colombian government's project "Mi Casa Ya" to screen for the eligible population for its social housing projects. It follows SISBEN's classification for population income, and considers other criteria such as home ownership and credit scores.
- These projects will further contribute to reducing housing gaps in Colombia and promoting home ownership when public programs face funding limitations. According to OCDE data, 46.2% of Colombian are homeowners and 35.7% of people leasing their home, which places Colombia behind OCDE members' average of 71.1%.
- The loans will be offered under market conditions with fixed interest rates throughout the life of the loan following local regulation (resolution 003- 2012 of the Banco de la República). In addition, local regulation limits the maximum interest rates and maximum installments of 40% of net cash flow, which we view as positive because this helps mitigate social risks such as high debt levels.

# Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs			
Access to essential services	 <p><b>1. No poverty*</b></p>	 <p><b>5. Gender equality</b></p>	 <p><b>8. Decent work and economic growth*</b></p>	 <p><b>10. Reduced inequalities*</b></p>
Affordable housing	 <p><b>1. No poverty*</b></p>	 <p><b>10. Reduced inequalities</b></p>		
Socioeconomic advancement and empowerment	 <p><b>1. No poverty*</b></p>	 <p><b>5. Gender equality*</b></p>	 <p><b>10. Reduced inequalities*</b></p>	
Environmentally sustainable management of living natural resources and land use	 <p><b>2. Zero hunger*</b></p>			

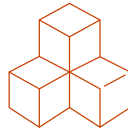


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Sustainable water and wastewater management



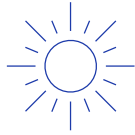
**6. Clean water and sanitation\***



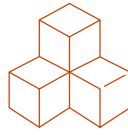
**9. Industry, innovation and infrastructure**

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Renewable energy



**7. Affordable and clean energy\***



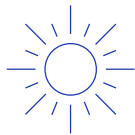
**9. Industry, innovation and infrastructure\***



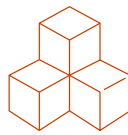
**13. Climate action**

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Energy efficiency



**7. Affordable and clean energy\***



**9. Industry, innovation and infrastructure\***



**13. Climate action**

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Green buildings



**11. Sustainable cities and communities\***



**13. Climate action**

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Clean transport



**11. Sustainable cities and communities\***

Eco-efficient products, production technologies, and processes or adapted to the circular economy



**12. Responsible consumption and production\***

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Adaptation to climate change



**13. Climate action\***

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\*The eligible project categories link to these SDGs in the ICMA mapping.

## Related Research

- [Analytical Approach: Second Party Opinions: Use Of Proceeds](#), July 27, 2023
- [Analytical Approach: Shades Of Green Assessments](#), July 27, 2023
- [FAQ: Applying Our Integrated Analytical Approach For Use-Of-Proceeds Second Party Opinions](#), July 27, 2023
- [S&P Global Ratings ESG Materiality Maps](#), July 20, 2022

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## Second Party Opinion: Banco de Bogotá's 2024 Sustainable Bond Use Framework

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