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Second Party Opinion

Coltefinanciera S.A.'s Social Framework For Payroll Securitization

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Location: Colombia	**Sector:** Financial services

Alignment Summary

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✕

✓ Social Bond Principles, ICMA, 2023

See Alignment Assessment for more detail.

Strengths

The entity incorporates commitments to review its policies and framework periodically. We view positively the bank's commitment to review its environmental and risk policy on an annual basis and its framework on a biannual basis, which will help advance its sustainability strategy.

Coltefinanciera will report on eligible projects' performance on a monthly basis. In line with the entity's securitization practices, it will report on the projects' financial performance and social impact, which is better than industry practices.

Weaknesses

No weakneses to report.

Areas to watch

The bank's framework incorporates wording for the eventual issuance of green projects that are not covered under the SPO. While the framework incorporates initial guidelines for the development of green projects, these are not yet defined and not covered by the second party opinion. As written, the social framework does not currently allow for green issuance.

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

Coltefinanciera S.A. Compañia de Financiamiento was incorporated in 1980 and is headquartered in Medellin, Colombia, operating as a subsidiary of CGF Colombia Inversiones Diversificadas SL. Coltefinanciera provides a wide variety of banking products and services with a focus on factoring, consumer loans, and payroll loans. Additionally, the company offers savings, investments and foreign trade services. It is supervised by the Superintendence of Finance of Colombia (SFC).

Material Sustainability Factors

Access & affordability

Banks have a significant impact on society and the economy because they enable access to financial services for individuals and businesses, and they ensure the correct functioning of payment systems. These 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 issues, such as low competition, incomplete information, and lack of financial literacy, often result in costly alternatives for small businesses and low-income people. As a result, 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.

Impact on communities

Banks can affect a wide range of community issues by providing access to essential services for economically vulnerable groups, as doing so not only has the potential to alleviate income inequality but also foster upward social mobility. Realizing these objectives hinges on the responsible lending practices of financial institutions, which include transparent contractual terms, financial education programs, and support for borrowers encountering financial hardships. In contrast, when loan terms are obscured or predatory lending practices persist, these issues can exacerbate existing socioeconomic disparities in the customer base. By actively addressing these concerns, banks can access new markets, achieve better financial performance, reduce their cost of capital, attract top talent, and mitigate their reputational and regulatory risk.

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 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, criminals could use stolen data to commit fraud. 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.

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, which, in turn, exposes the banks. While climate change is a global issue, weather-related events are typically localized, so the magnitude of banks' exposure is linked to the geographic location of the activities and assets they finance. Similarly, banks' physical footprint (e.g., branches or ATMs) may be exposed to physical risks, which may disrupt their ability to service clients in the event of a natural catastrophe, amplifying the impact on communities. Banks may help mitigate the effects of physical climate risks by financing adaptation projects and climate-resilient infrastructure, as well as by making investments to support business continuity in exposed regions.

Issuer And Context Analysis

The eligible social projects aim to address some of Coltefinanciera's most significant sustainability risks. Eligible projects under the framework address access to essential services for vulnerable populations in Colombia. These projects aim to promote the financial inclusion of people retired due to either age or disability, with a focus on women and people living in vulnerable areas either in terms of limited availability of financial services or living in areas with average or above multidimensional poverty (which, as defined by the World Bank, is a measure of access to education and basic infrastructure services as well as monetary poverty). In our opinion, this focus will support Coltefinanciera's goal of using its lending operation to improve social outcomes for these groups.

The bank will use the framework's eligibility criteria to select projects for allocation of proceeds from instruments issued, as well as to select portfolios that will be subject to securitization. Coltefinanciera's framework will have a dual purpose. The bank will use it to define eligibility criteria for inclusion of portfolios into its securitizations and will use it to allocate proceeds of social bonds for eligible projects. We expect this securitization strategy to not only bolster the bank's financial stability, but also to improve social outcomes for its lending clients. In addition to using social criteria to select projects to include in the securitization, the company will also consider environmental risk associated with the loans.

Coltefinanciera has established mechanisms to mitigate potential risks linked to its social lending. In Colombia, older adults often have limited access to credit--their access collectively is roughly six percentage points below the national average, based on data from Colombia's Financial Superintendent. This can also result in obtaining access to credit on very unfavorable terms. The bank has developed and deployed a screening process to prevent excessively high debt levels for its clients. These measures, as well as the alignment with Law 1527 (which limits clients to borrowing 50% of their paycheck), can help mitigate risks for clients who have limited financial education and irregular access to credit and other financial services.

While Coltefinanciera's sustainability strategy is still nascent, the entity has developed environmental and social policies that will guide its business activities. The bank's board of directors has approved these policies, which will guide the development and implementation of these products and services. As part of these policies, the bank aligns with international standards, such as the Internacional Finance Corp.'s (IFC) performance standards. The entity now plans to incorporate environmental screening criteria within its lending practices, as well as within its annual reporting, which currently only incorporates information about governance and social responsibility. Additionally, the bank commits to review its environmental and social risk policy on an annual basis and its framework at least every two years. In our view, this will help the company address its own climate risks, which are increasing through its lending activities.

Alignment Assessment

This section provides an analysis of the framework's alignment to Social Bond principles.

Alignment Summary

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✕

✓ Social Bond Principles, ICMA, 2023

✓ Use of proceeds

All the framework’s social project categories are considered aligned, and the issuer commits to allocate the net proceeds issued under the social framework exclusively to eligible social projects. Please refer to the “Analysis of Eligible Projects” section for more information on our analysis of the social benefits of the expected use of proceeds. The framework’s criteria will be used to select loans that will be securitized, as well as used to allocate funds from any instrument. The issuer commits to allocate the funds for eligible projects within 24 months of the date of issuance. They issuer may assign up to 20% of proceeds to existing loans, with a look-back period of up to two years of the issuance. The bank will only allocate proceeds to existing loans in cases where it is unable to fully allocate proceeds to new projects.

✓ Process for project evaluation and selection

Coltefinanciera’s evaluation team includes members of the operations, risk, internal control, financing, and human management teams. The team selects eligible projects following internal policies. As part of the eligibility process, the evaluation team will assess the projects’ alignment to the framework’s criteria, social and environmental risk management policies, local regulation, and the IFC’s performance standards. Additionally, the entity will identify and address potential risks, including the risk of clients' debt levels, in line with the industry’s practices. The assessment results are presented to the management team to allocate proceeds to selected portfolios or projects.

✓ Management of proceeds

Coltefinanciera’s financial team will manage the proceeds. The entity commits to allocate proceeds to eligible projects within 24 months and expects to allocate 100% to new loans. However, to ensure full allocation, the bank has designated a reserve portfolio that could allocate up to 20% of proceeds to existing loans. This portfolio will also be used to reallocate proceeds if any project becomes ineligible. Following the entity’s internal processes, Coltefinanciera will do monthly and annual monitoring of the payroll portfolio. Pending allocation, proceeds will be held in cash or cash equivalent instruments or in other low-risk, high-liquidity instruments.

✓ Reporting

Coltefinanciera commits to report annually on the allocation of the net proceeds and on the financed projects’ impact until full allocation of proceeds. It will disclose reporting practices to investors and relevant parties through its annual reporting and specific event publications on its website. Reporting will include detailed breakdown of proceeds allocated to new social payroll loans, information on the securitization of payroll loans, and social impact metrics, although these metrics are mostly focus on inputs rather than outcomes. However, we view as positive that the allocation reporting will receive external assurance by an independent auditor.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Over the two years following issuance of the financing, Coltefinanciera expects to allocate all proceeds to eligible social projects under the framework.

The issuer expects the majority of proceeds to be allocated to refinancing projects, while up to 20% of proceeds will be allocated to projects with a look-back period of 24 months.

Social project categories

Access to essential services and socioeconomic advancement and empowerment

Credit aimed at individuals retired due to age or disability:

- Financing of essential personal needs through general purpose loans.
- Refinancing of prior obligations to improve the financial conditions of retirees, offering them more favorable interest rates and reducing their financial burden.
- Investment credits that allow retirees to access goods and services that contribute to their quality of life.

Analytical considerations

- The U.N. expects that by 2050, one in every five people will be aged 60 or older in developing countries. According to the Organization for Economic Cooperation and Development, the risk of financial hardship and poverty increases as individuals age. In addition, factors such as lack of digital and financial literacy, living on a fixed income or pension, and limited financial infrastructure can contribute to the exclusion of older people from the formal financial system. In our view, projects that promote financial wellbeing across generations, especially in countries with increased vulnerability, are essential to driving financial inclusion and socioeconomic development.
- Coltefinanciera has established clear eligibility criteria for this category under its framework. To be eligible for inclusion, beneficiaries must be pensioners due to age or disability and be located between the stratums 1 and 4, according to the government's official municipal stratification that helps identify communities' socioeconomic level.
- Coltefinanciera aims to allocate at least 95% of its proceeds to support people within an income level between 1 and 3.5 times the minimum living wages. The framework also allows the bank to grant loans to people with an income from 3.5 to 5 times the minimum living wage, and the bank expects to allocate a maximum of 5% of proceeds to this population.
- Eligible projects must comply with a minimum of 51% of loans granted to women. We think this could help improve retired women's economic outcomes, alleviate existing debt, and promote their independence.
- Forty percent of eligible projects will be granted to people located in a geographic area that is equal to or above the national average in the Multidimensional Poverty Index established by Colombia's National Statistic Administrative Department. They also can be eligible if they live in areas that are equal or below the national average of the Financial Inclusion Index, according to the latest data from the "Banca de Oportunidades" program developed by Bancoldex. We believe this approach will provide more and better financing opportunities to individuals living in regions with high levels of multidimensional poverty or where access to the banking system and other financial services is limited.
- In addition, the framework lists exclusionary criteria for people who are considered by law "politically exposed people," who are-working on the administration of public resources or who have significant public power. This measure is used in Latin American countries to guarantee that assets go to the target population in need and avoid money laundering, bribes, and corruption.
- In Colombia, most payroll-deductible loans are used to repay debt as a means of household debt management because this product typically offers better conditions than other unsecured retail lending. However, lending to economically

vulnerable groups introduces key risks related to high debt levels, generally due to low financial education and limited access to financing alternatives. In our view, Law 1527 helps mitigate these risks by limiting clients to borrowing 50% of their paycheck.

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 affect our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs				
Access to essential services and socioeconomic advancement and empowerment	***1. No poverty**	**5. Gender equality**	***8. Decent work and economic growth**	***10. Reduced inequalities**	**16. Peace, justice and strong institutions**

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

Related Research

- Analytical Approach: Second Party Opinions, March 6, 2025
- FAQ: Applying Our Integrated Analytical Approach For Second Party Opinions, March 6, 2025
- 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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