ENVIRONMENTAL AND SOCIAL RISKS ANALYSIS, MANAGEMENT 2018

ACTUAL CURRENT WORKS

Bancolombia, committed to responsible and sustainable financing, has adopted the Equator Principles of the World Bank and the Performance Standards of the International Finance Corporation - IFC, as applied standards for the identification, evaluation and management of environmental and social risks and impacts, implicit in the operations and projects that we finance. The scope of application is the assessment concerning the environment and natural resources, the health and safety of the community, ethnic minorities and health and safety at work.

Bancolombia has adjusted and updated its processes and policies of Environmental and Social Risk Assessment to align itself with the third version of the Equator Principles and its entire application framework, based in particular on the evaluation of Climate Change, Human Rights, Transparency and Reporting, both in ordinary projects and operations as well as in Project Finance, Corporate Loans, Bridge Loans and Financial Advisors, in the business units of Corporate and Government Banking, SME Banking, Investment Banking, Leasing operations and receipt of guarantees.

The criteria, risk categorization and structured covenants are defined for each evaluation through the tools generated by the Equator Principles and the IFC Performance Standards, adjusted to the needs of Bancolombia, local regulations, the country and the region. Additionally, the scope of the fourth version of the Equator Principles is under study to carry out the updates or modifications in the internal environmental and social risk assessment policies.

For those operations that require it, the Risks Vice Presidency may present the evaluation of a project or activity before the Environmental Committee, consisting of risk, legal, commercial, sustainability, communications and other interest teams for the taking of decisions, determine the viability, result, qualification and procedure that will be carry out.

In Bancolombia we prevent and mitigate the environmental and social indirect risks that can materialize in the projects and activities that we finance to our clients and investors, while also identifying business opportunities with positive environmental impact. We focus on evaluating environmental, social and occupational health and safety aspects, following normative guidelines and international standards, complying with our commitment to adherence to the Equator Principles.

As a result of the joint and permanent work carried out between the Legal and Risk areas, the environmental and social clauses and commitments (covenants) were built for the contractual figures of: (i) Investment Banking, (ii) Leasing, (iii) Business and Government Banking and, (iv) SME Banking; doing due diligence in monitoring the environmental and social management of the financed operations.

We continue with the evaluation and analysis of environmental risks in the collection of guarantees and payment dations, mitigating the risks associated with environmental liabilities in real estate where made activities are significantly sensitive to environmental impacts.
To strengthen the process of environmental and social risks assessment, the Policy was updated giving a new scope to Corporate Banking, reducing the amount required for the environmental and social risk assessment, for operations over US$2,300,000 and emphasizing the sectors: (i) Mining; (ii) Energy; (iii) Tanneries; (iv) Cement; (v) Oil and Gas; (vi) Steelmakers; (vii) Chemicals and Agrochemicals; (viii) Oil Palm. In the same way, these sectors apply to SME Banking financial and leasing operations.

They are also considered other productive sectors, different from those mentioned, that also have the potential to present environmental and social risks that may affect the payment of financial obligations. These sectors are also subject to environmental authorizations, approvals, licenses and permits from local and national authorities. Some of these sectors are: (i) Basic Sanitation (sewerage and sanitation); (ii) Transportation and storage of hazardous substances; (iii) Food sector; (iv) Animal feed production plants; (v) Sugar mills; (vi) Animal slaughter plants and zoofarms for commercial purposes; (vii) Road, airport and port infrastructure; (viii) Poultry and Pig Industry; (ix) Apparel and textile plants; (x) Forestry activities; (xi) Fishing and tuna; and (xii) Glass plants. For the previous sectors, environmental and social risk assessments are carried out at the express request of the commercial managers, attribution teams, credit risk management, legal areas, assets, compliance, customer relationship and sustainability, as long as it is reasonably supported.

The processes and registers for compliance with the Policy were updated, including the evaluation of ecosystem services, climate change and human rights in the assessment and determining how these may be affected or how they affect the development of the projects and activities.

As a model for reporting the results of the environmental and social risk assessment, we have adopted the "Reporting Submission Template", shared by Equator Principles, based on the "Governance Association Rules", which was required for voting in December 2015.

**ASSESSMENT 2018**

During 2018, 130 operations were evaluated through the process of Environmental and Social Risk Analysis, decreasing by 41% the total of operations evaluated compared to the previous period (221 operations), covering a total portfolio of COP $ 9,537,208,694,335 in 2018, increasing 280% of the portfolio covered compared to the previous period of COP $ 3.4 billion), distributed among Bancolombia's business units. The following is a general balance sheet of the ARAS activities, followed by a balance by business unit:
Environmental and Social Risk Analysis Bancolombia 2018:

1. Results of the Evaluations

In the conceptualization of the operations, according to the final evaluation result, a favorability is contemplated in 66% of the operations evaluated (86 in total), conditioned environmental favorability of 27% (35 in total) and the 7% (9 in total) of operations with non-environmental favorability results, mainly due to non-compliance with technical and / or legal environmental standards, desisted from applying for credit or did not send the documents required for the evaluation.

2. Operations Risks Categorization Bancolombia

Of the 130 operations evaluated during 2018, 85 correspond to a high environmental risk category, equivalent to 65% of the total; 41 operations correspond to medium environmental risk, equivalent to 32% and 4 operations presented low environmental risk, equivalent to 3% of the total operations evaluated.
3. Number of operations evaluated by Business Unit

Business and Government Banking (38%) and SME Leasing (28%), are the business units that, respectively, have the highest number of operations evaluated, from the environmental risk point of view.

4. Covered portfolio according to the Business Unit

Although there was a decrease in the number of operations evaluated with respect to the previous year, (223 operations evaluated in 2017 against 130 evaluated during 2018), coverage was given to the amount of approval requests, for COP$ 9,537,208,694,335, about 280% more of the portfolio covered than the year immediately before.

Of the total amount covered, 86% corresponds to Corporate and Government Banking operations, 11% to Corporate and Government Leasing operations; 2% to SME Leasing operations and the remaining 1% corresponds to SME Banking operations.
5. Number of operations evaluated by Economic sector

The most representative economic sector within the analysis, corresponds to the Oil and Gas, with 23%, of which most is concentrated in Gas Stations. The mining sector was in second place, with a 22%, represented in projects of mining extraction and economic exploitation of coal, construction materials, gold, clays and sands. In a third place, are the evaluations generated to the Energy sector, with a representation of 15% and which is constituted in the construction, installation and operation of Hydroelectric Plants, Thermoelectric and Energy Cogeneration Systems. Fourth, we find the sector of Sanitation (aqueduct, sewage and waste disposal), with a representation of 13% of the evaluated operations.

Environmental and Social Risk Analysis on Corporate and Government Banking:

6. Results and Risk Categorization – Corporate and Government Banking
Environmental and Social Risk Analysis on SME Banking:

7. Results and Risk Categorization – SME Banking

Environmental and Social Risk Analysis on Corporate and Government Leasing operations:

8. Results and Risk Categorization – Corporate and Government Leasing operations

Environmental and Social Risk Analysis on SME Leasing operations:

9. Results and Risk Categorization – SME Leasing operations

Project Finance Statistics:

Among the 130 operations evaluated during 2018, 4 correspond to Project Finance developed in Colombia (Latin America) and of which the following report is made:

<table>
<thead>
<tr>
<th>SECTOR AND PROJECT</th>
<th>RISK CATEGORY</th>
<th>DATE OF ANALYSIS</th>
<th>COUNTRY</th>
<th>VALIDATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power</td>
<td>A</td>
<td>09/08/2018</td>
<td>Colombia</td>
<td>Independent</td>
</tr>
<tr>
<td>Power</td>
<td>B</td>
<td>23/11/2018</td>
<td>Colombia</td>
<td>Independent</td>
</tr>
<tr>
<td>Power</td>
<td>B</td>
<td>27/12/2018</td>
<td>Colombia</td>
<td>Independent</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>B</td>
<td>30/10/2018</td>
<td>Colombia</td>
<td>Internal</td>
</tr>
</tbody>
</table>
ENVIRONMENTAL AND SOCIAL RISKS ANALYSIS TO SUBSIDIARIES ABROAD

During 2018, two environmental and social risk analyzes were carried out on subsidiaries abroad, as follows:

Grupo Empresarial Mariposa Corporation – Grupo CBC, January 30, 2018, with the Basic Sanitation project for the industrial activities of water purification and bottling of soft drinks, developed in Guatemala.

Ingenio Magdalena S.A., April 4, 2018, with the agroindustrial and power project for the cultivation of sugarcane, production of sugar and by-products and power cogeneration with cane bagasse, to be carried out in Guatemala.

ENVIRONMENTAL AND SOCIAL RISKS ANALYSIS MADE BY SUBSIDIARIES ABROAD

Banco Agrícola S.A., El Salvador:
No environmental risk assessments were generated during this reporting period.

Banistmo S.A., Panamá:
Since the update to the process of Environmental and Social Risk Analysis made in 2018, an evaluation of a Credit Operation was carried out, where the result generated was Conditioned Environmental Favorability, which included contractual obligations to do, with a High Environmental Risk Category (A), belonging to the Business and Government Banking segment of the hydrocarbons and gas economic sector. The evaluation included a technical visit to the site, practiced by internal experts.

Banco Agromercantil de Guatemala S.A. – BAM, Guatemala:
1. Credit operations evaluated through Environmental and Social Risk Assessment: 15

2. Environmental and Social Risks Assessment results:
   a. Environmental favorability: 15
   b. Conditioned environmental favorability: 0
   c. Non-environmental favorability: 0

3. Category and environmental and social risks level:
   a. High environmental and social risk (Category A): 3
   b. Medium environmental and social risk (Category B): 3
   c. Low environmental and social risk (Category C): 9

4. Covered portfolio according to the Business Unit:
   a. Corporate banking: 15
   b. Business banking: 0
   c. Regional banking: 0

5. Number of operations evaluated by Economic sector:
   a. Agroindustry: 0
   b. Commerce: 1
c. Buildings: 2
d. Infrastructure: 1
e. Manufacture: 8
f. Other services: 0
g. People: 0
h. Natural resources: 1
i. Companies services: 0
j. People services: 0
k. Finance services: 2
l. Telecommunications: 0
m. Transport: 0

**Continuous improvement of the Environmental and Social Risk Policy:** Adjustments were made to the Environmental and Social Risk Policy (February 2018), highlighting the following changes:

a. The credit analyst is responsible for carrying out the evaluation of the client and categorizing it according to their level of risk, based on the evaluation process for clients in BAM.

b. It is added to the conclusion of the opinion of the risk analysis of the clients, with the applicable environmental risk category, according to the FERAS Form, if an operation with Environmental Favorability, Non-Environmental Favorability or Conditioned Environmental Favorability is considered.

**Training, feedback and education:**

a. Two trainings were conducted aimed at the area of credit analysis, in order to meet their new attributions, according to the update of the Environmental and Social Risk Analysis Policy.

b. Internal evaluation and synergy with the Sustainability Area to align the current situation of the bank in environmental and social issues. The result was documented through evaluation generated by internal audit.

**REPORTS OF EVALUATION AND ANALYSIS OF ENVIRONMENTAL AND SOCIAL RISK – CASES**

As an application of the Environmental and Social Risk Analysis process, the following report is made on three operations, with each of the possible outcomes, as follows:

**Environmental Favorability (POWER GENERATION PROJECT):**

1. **General description:**

   The project consists of the power generation, on the edge of water, with a generation capacity of 14 MW. The plant uses the potential energy of the conducted water and converts it, first into mechanical energy and then into electrical energy. An operation is projected continuously, without a reservoir taking water directly from the Nare River, by means of derivation and collection works, surface loading tank, controlled by an electronic level measurement system, synchronized with the turbines for water supply. In the powerhouse there are two units (turbines), which after generating, deliver the turbinated flow back to the Nare River, through the discharge channel. The project is located in the department of Antioquia.
2. **Conclusions and concept:**

- After carrying out the environmental risk assessment on the project, through its Environmental Impact Study and its corresponding Environmental Management, Monitoring, Contingencies, Investment of 1% and Abandonment and Final Restoration Plans, it is identified that it has the processes, mechanisms, resources and programs aimed to the control, prevention, mitigation, restoration and compensation of environmental risks and impacts, associated with the construction and works of infrastructure for power generation.

- The Environmental Management Plan has, among others, the following management programs: management and disposal of leftover materials, restoration in areas of temporary use, management of water resources, landscape management, management of liquid, solid and special waste, management of soils, restoration and conservation of flora, forest exploitation, management of wildlife and threatened fauna, among others.

- It has a Social Management Plan aimed at maintaining harmonious relations with the community and stakeholders, establishing grievance mechanisms and programs whose purpose is an environmental education to the communities surrounding the project, information and dissemination, institutional strengthening, hiring labor, goods and services and rural entrepreneurship.

- Regarding the position of environmental authorities, the Plant has an Environmental License, granted through the Resolution dated December 3, 2014, issued by the Corporación Autónoma Regional de los ríos Negro y Nare – CORNARE. The Environmental License granted has the authorizations for channel occupation, water concession, permits for dumping of wastewater and forest exploitation, among others.

- For the reasons mentioned above, the concept of ENVIRONMENTAL FAVORABILITY is issued.

**Conditioned Environmental Favorability (CEMENT PROJECT)**

1. **General description:**

   The project consists of the production, operation and commissioning of two cement plants, the first is located in the department of Boyacá and has a Clinker cement production capacity of 100 tons / day. The second plant is located in the department of Atlántico and has a capacity of production of cement type I of 60,000 tons per month.

2. **Conclusions and concept:**

   - After evaluating the technical conditions of the project, contained in the Environmental Management Plan, it is identified that it has the processes and equipment aimed to the control, prevention, mitigation and compensation of the environmental risks and impacts associated with generated polluting emissions to the atmosphere during the execution of the activity.

   - It has an Industrial Health and Safety System, where measures for the prevention of incidents and accidents at work are defined.

   - Regarding the position of environmental authorities, there are two Resolutions corresponding to the two plants: (i) Resolution of 2016, by which meet compliance with an Environmental Management Plan and is established as mandatory, a permit for atmospheric emissions, a discharge liquids and forestry use permits are granted to the Company, issued by the Corporación Autónoma Regional del Atlántico – CRA; and (ii) the Resolution of July 6, 2011, by means of which a permit for Atmospheric Emissions is
renewed, issued by the Corporación Autónoma Regional de Boyacá – CORPOBOYACÁ, with validity of five (5) years. Therefore, there is an Act of July 5, 2016, by means of which an administrative procedure for the renewal and modification of an Atmospheric Emissions permit, issued by CORPOBOYACÁ, is initiated.

For the reasons mentioned above, CONDITIONED ENVIRONMENTAL FAVORABILITY concept is issued, conditioned in particular to the sending of the renewal of the updated Atmospheric Emissions permit.

Non-Environmental Favorability (MINING PROJECT)

1. **General description**
   The project consists of mining extraction and economic exploitation of an underground gold deposit. The method of exploitation is through chambers and pillars, combined with widening of drums. The material is started by drilling and blasting. The loading of the material inside the mine is done manually, in 60 kg bags on the front of the farm. The project is located on the eastern flank of the central mountain range, near the municipality of Puerto Berrio, department of Antioquia.

2. **Environmental and social considerations:**
   - After carrying out the environmental risk assessment of the project, through the Environmental Impact Study provided and their corresponding Environmental Management, Risk Management and Monitoring Plans, the processes and mechanisms for control, prevention, mitigation and compensation programs are described for environmental risks and impacts associated with gold mining.
   - However and in accordance with the visit made by the mining authority and referenced in their Technical Concept of December 16, 2015, it notes that two illegal mines were observed that operate occasionally within the titled area and that, technically, represent a danger for the people who enter the mining site. The report also describes groundwater discharges to water sources without presenting any type of treatment or environmental control; with the potential risk of dumping waters contaminated with mercury and / or cyanide.
   - It has a Social Management Plan whose general objective is the maintenance of harmonious relations with the community and the stakeholders. Through Certification issued by the Office of Prior Consultation of the Ministry of the Interior, it is certified that there is no presence of ethnic minorities within the Mining Title.
   - The Occupational Health and Safety Management System for underground mining work was not provided, so it is not feasible to identify the mechanisms for attention and prevention of work incidents and accidents in the mining fronts.

3. **Legal and documentary considerations:**
   - From the point of view of mining authorities, it has the Registro Único de Comercializador Minero – RUCOM (Unique Registration Certificate of Mining Marketer – RUCOM), issued by the National Mining Agency – ANM, for the Mining Title. However, according to the visit made by the mining authority, there is no toxic gas measurement equipment that allows the monitoring, generating risks for the mining works due to poisoning, explosions and landslides inside the mine.
This same technical report considers the development of mining activities not viable. It is also highlighted that the Mining Registration Certificate, issued by the National Mining Agency - ANM, was valid until May 29, 2016 and to date it has expired.

From the point of view of environmental authorities, neither Environmental License nor Environmental Permits were provided; indispensable authorizations for the development of mining extractive activities.

4. Environmental concept
For the reasons mentioned above, the NON-ENVIRONMENTAL FAVORABILITY concept is issued; particularly due to the absence of legal, technical, environmental and health and safety at work requirements.

OTHER ACHIEVEMENTS DEVELOPED DURING 2018

Continuous improvement of the 2950 Environmental and Social Risk Policy
1. Updating of 2950 Environmental and Social Risk Policy, which includes, among other aspects, the incorporation of opportunity response and time definition for analysis and receipt of documents.
2. Publication and presentation of the Environmental and Social Risk Policy to the following areas: Commercial and their respective facilitators of SME Banking, Origination of SME Banking, Customer Liaison, Compliance and Commercial Management of Fiduciary Businesses.
3. The procedure, narrative, flowchart and application of the Environmental and Social Risk Assessment was entered into Lab.CO tool.

Continuous improvement of the Environmental and Social Risk Process
5. Research, analysis and presentation of the results of the statistical evaluation of environmental and social analyzes in credit operations, aimed to identify the credit risk exposure associated with this risks, in those credit operations that, by its amount, do not reach the scope for evaluation, according with the standards of the 2950 Environmental and Social Risk Policy.
6. Follow-up, monitoring and response to the queries and requirements of the Audit team of Bancolombia on the continuous improvement of the Environmental and Social Risk Assessment process.
7. Operational Risk Assessment to the Environmental and Social Risk process.
8. As a team with the Business Continuity Strategy Management area, the scheme for the automation of the Environmental and Social Risk Assessment process was initiated, which will improve the efficiency in reception, analysis and response for those operations that require it by Policy.

Activities associated with the Environmental and Social Risk Assessment
9. Development of the consultations and information applicable to the Environmental and Social Risk Analysis on the Dow Jones Sustainability Index 2017. The results of the Index are highlighted, in terms of compliance with its standards, where the Environmental and Social
Risk Process obtained a higher rating and contributed, to a large extent, to make Bancolombia the most sustainable Bank in the world, according to this indicator.

10. Capture, follow-up and monitoring of compliance with Environmental and Social covenants, through the BizTrack tool for Corporate Banking and Corporate Leasing operations and manually for SME Banking.


12. With the support of the Infrastructure Credit Risk and Leasing Asset teams, the Environmental and Social conditions required for the Independent Consultancy were defined during the financing of projects in the power sector.

13. The field evaluation visits for the direct environmental and social assessment that were conducted in this period are: (i) Tunnel Aburrá Concession - Oriente, Medellin, Antioquia; (ii) PTAR Fabricatio - Bello, Antioquia; (iii) Combia S.A.S., La Conga Mine - Puerto Berrio, Antioquia; (iv) Minera Las Brisas from Colombia S.A.S., Bricolsa S.A.S. - Campamento, Antioquia; (v) Carbones La Colina S.A.S. - Titiribi, Antioquia; (v) Forest Solutions, Focolsa - Barbosa, Antioquia.

14. The studies and analysis of the regulatory updates of the Congress of the Republic of Colombia, associated with environmental and social aspects and that may have an impact on the banking business, are maintained.

15. With the support of external legal consultancy, the draft of the environmental and social criteria that will be proposed to be included in the credit contracts in those projects structured under the Project Finance model was generated. This draft will be validated by the internal legal area and it will be requested to have it as a model for future business.

Training, feedback and education

16. Feedback to the Infrastructure Risk Team (structuring and credit) on the scope and application of the Equator Principles of the World Bank and the IFC Performance Standards in structured projects under the Project Finance model.

17. The development of the virtual course on Environmental and Social Risk Analysis is maintained, with the support of the Training area

Internal and external relationship

18. Incorporation of environmental and social criteria in the sectoral qualification model, as a team with the Risk Methodologies Management area.

19. Active participation in the Committees of: Environmental Risk of ASOBANCARIA, Sustainability and Equator Principles for LATAM.

20. Participation in the Working Groups for banking, inclusion, linkage and relationship between the mining sector and the banking sector, through the National Mining Agency and the Ministry of Mines and Energy.

21. The agreement generated with FINDETER is reaffirmed based on its environmental and Social Risk Assessment process, which allows the Concept issued by Bancolombia for an operation financed with rediscount resources to be equally valid as an environmental result for FINDETER.