ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT 2017

Current actions
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 technical and socio-environmental standards for the identification, evaluation and management of environmental and social risks and impacts within the operations and projects 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 industrial health and safety. Bancolombia has adjusted and updated its processes and policies of Environmental and Social Risk Assessment to be aligned 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 Report, in projects and ordinary operations as well as in Project Finance, Corporate Loans, Bridge Loans and Financial Advisors, in the business areas like Corporate and Government Banking, SME Banking, Investment Banking and Leasing operations. The criteria, risk categorization and covenants structuring are defined for each evaluation through the tools generated by Equator Principles and the Performance Standards, adjusted to the needs of Bancolombia, the country and the region.

For those operations that require it, the Risk Vicepresidency may present the evaluation of a project or activity before the Environmental Committee of Bancolombia, formed by the risk, legal, commercial, sustainability, communications and other interest groups for the final decisions, determine the viability, result, qualification and procedure for the operation.

In Bancolombia, we prevent and mitigate the indirect environmental and social risks that can materialize in the projects and activities that we finance to our clients and investors and at the same time, we identify business opportunities with an environmental and social positive impact. We focus on evaluating environmental, social and occupational health and safety aspects, following normative guidelines and international standards; thus fulfilling our commitment to adherence to the Equator Principles.

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

We continue with the evaluation and analysis of environmental and social risks in the receipt of guarantees and payment dations, mitigating the risks associated with environmental liabilities in real estate where activities are significantly sensitive to environmental impacts.

To strengthen the process of the environmental and social risks assessment, the Policy was updated, giving a new scope to Corporate and Corporate banking, reducing the amount required for the environmental risk assessment, from US $ 10,000,000 to US $ 2,500,000, making emphasis on the following sectors: (i) Mining; (ii) Power; (iii) Tanneries; (iv) Cement and Concrect; (v) Oil and Gas; (vi) Steelmakers; (vii) Chemicals and Agrochemicals; (viii) Oil Palm. In the same way, these sectors apply to financial operations of the SME Banking and on the Leasing business. They are also other sectors different from those mentioned, and that also have the potential to represent
an environmental and social risks and that may affect the payment of financial obligations. Some of these sectors are: (i) Potable Water and Basic Sanitation (sewerage and sanitation); (ii) Transportation and storage of hazardous substances; (iii) Food sector; (iv) Animal food production plants; (v) Sugar mills (vi) Animal slaughter plants and zoo farms for commercial purposes; (vii) Road, airport and port infrastructure. For these sectors, environmental and social risk assessments are carried out at the express request of the commercial managers, attribution bodies, credit risk management, legal areas, assets and sustainability, as long as the request is reasonably supported. Likewise, the processes and formats for compliance with the Environmental and Social Risk Management Policy were updated, involving the evaluation of Ecosystem Services in the analysis and determining how these may be affected or even affect the development of 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.

**Actions of 2017**

During 2017, 223 operations were evaluated within the process of Environmental and Social Risk Assessment – ARAS (for its acronym in spanish), distributed among Bancolombia's business areas. The following is a general balance sheet of the ARAS activities, followed by a balance by business unit:

**Bancolombia operations 2017 (Consolidated Bancolombia):**
Project Finance 2017:

Corporate Banking operations:

SME Banking operations:
Leasing corporate operations:

![Graph 1](Image 1)

Leasing SME operations:

![Graph 2](Image 2)

Project Finance Statistics:

Within the 223 operations evaluated during 2017, 10 correspond to Project Finance operations developed in Latin America, which are described as:

<table>
<thead>
<tr>
<th>SECTOR AND PROJECT</th>
<th>CATEGORY</th>
<th>DATE</th>
<th>COUNTRY</th>
<th>ASSESSMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>POWER</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thermoelectric power generation</td>
<td>A</td>
<td>31/01/2017</td>
<td>Colombia</td>
<td>X</td>
</tr>
<tr>
<td>Hydroelectric power generation</td>
<td>A</td>
<td>28/02/2017</td>
<td>Guatemala</td>
<td>X</td>
</tr>
<tr>
<td>Thermoelectric power generation</td>
<td>A</td>
<td>01/09/2017</td>
<td>Colombia</td>
<td>X</td>
</tr>
<tr>
<td>Hydroelectric power generation</td>
<td>B</td>
<td>15/12/2017</td>
<td>Colombia</td>
<td>X</td>
</tr>
<tr>
<td>Hydroelectric power generation</td>
<td>B</td>
<td>21/12/2017</td>
<td>Colombia</td>
<td>X</td>
</tr>
<tr>
<td>Hydroelectric power generation</td>
<td>B</td>
<td>22/12/2017</td>
<td>Colombia</td>
<td>X</td>
</tr>
<tr>
<td><strong>INFRASTRUCTURE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hotel construction</td>
<td>B</td>
<td>13/09/2017</td>
<td>Colombia</td>
<td>X</td>
</tr>
<tr>
<td>Construction and operation of road</td>
<td>A</td>
<td>12/12/2017</td>
<td>Colombia</td>
<td>X</td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>PORTUARIO</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expansion port Project</td>
<td>B</td>
<td>05/09/2017</td>
<td>Colombia</td>
<td>X</td>
</tr>
<tr>
<td>Port infrastructure works</td>
<td>A</td>
<td>07/11/2017</td>
<td>Colombia</td>
<td>X</td>
</tr>
</tbody>
</table>

Statistics on conceptualizations, economic sectors and business areas:

<table>
<thead>
<tr>
<th>BANK (Corporate, SME and Investment Banking)</th>
<th>LEASING (Corporate and SME)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agroindustrial Sector</strong></td>
<td></td>
</tr>
<tr>
<td>EVALUATED OPERATIONS: 3</td>
<td>EVALUATED OPERATIONS: 2</td>
</tr>
<tr>
<td>Environmental favorability: 3</td>
<td>Environmental favorability: 1</td>
</tr>
<tr>
<td>Condicionated environmental favorability: 0</td>
<td>Condicionated environmental favorability: 0</td>
</tr>
<tr>
<td>Non environmental favorability: 0</td>
<td>Non environmental favorability: 1</td>
</tr>
<tr>
<td>Sector</td>
<td>Condicionated environmental favorability</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>-----------------------------------------</td>
</tr>
<tr>
<td>Cement/Concrete Sector</td>
<td>4</td>
</tr>
<tr>
<td>Power Sector</td>
<td>0</td>
</tr>
<tr>
<td>Tanners Sector</td>
<td>2</td>
</tr>
<tr>
<td>Oil and gas Sector</td>
<td>5</td>
</tr>
<tr>
<td>Infrastructure Sector</td>
<td>2</td>
</tr>
<tr>
<td>Mining Sector</td>
<td>1</td>
</tr>
<tr>
<td>Port Sector</td>
<td>0</td>
</tr>
<tr>
<td>Chemicals and agrochemicals Sector</td>
<td>0</td>
</tr>
<tr>
<td>Sanitation Sector</td>
<td>5</td>
</tr>
<tr>
<td>Steel Sector</td>
<td>1</td>
</tr>
<tr>
<td>Transport and storage of hazard substances</td>
<td>1</td>
</tr>
</tbody>
</table>

**Environmental and Social Risk Management**

**Condicionated environmental favorability:**
- Cement/Concrete Sector: 4
- Power Sector: 0
- Tanners Sector: 2
- Oil and gas Sector: 5
- Infrastructure Sector: 2
- Mining Sector: 1
- Port Sector: 0
- Chemicals and agrochemicals Sector: 0
- Sanitation Sector: 5
- Steel Sector: 1
- Transport and storage of hazard substances Sector: 1

**Environmental favorability:**
- Cement/Concrete Sector: 1
- Power Sector: 0
- Tanners Sector: 2
- Oil and gas Sector: 5
- Infrastructure Sector: 2
- Mining Sector: 1
- Port Sector: 0
- Chemicals and agrochemicals Sector: 0
- Sanitation Sector: 5
- Steel Sector: 1
- Transport and storage of hazard substances Sector: 1

**Non environmental favorability:**
- Cement/Concrete Sector: 0
- Power Sector: 0
- Tanners Sector: 0
- Oil and gas Sector: 0
- Infrastructure Sector: 0
- Mining Sector: 0
- Port Sector: 0
- Chemicals and agrochemicals Sector: 0
- Sanitation Sector: 0
- Steel Sector: 0
- Transport and storage of hazard substances Sector: 0
**Environmental and Social Risk Assessment – ARAS, Conclusions and Results Analysis**

1. During 2017, there was an increase in the number of operations evaluated, with respect to the previous year, corresponding to 40% (133 operations evaluated in 2016 compared to 223 evaluated during 2017).

2. Through the Environmental and Social Risk Assessment, coverage was given to the amount of approval requests, for $3,446,726,387,098.00 (3.4 billion COP), of which 41% corresponds to Corporate Banking operations; 30% to Investment Banking operations; 16% to Corporate Leasing operations and the remaining 13% corresponds to SME Banking and Leasing operations.

3. Of the 223 operations evaluated during 2017, 148 correspond to a high level environmental risk, equivalent to 66% of the total; 55 operations correspond to medium level environmental risk, equivalent to 25%. 20 operations presented low level environmental risk, equivalent to 9% of the total operations evaluated.

4. In the conceptualization of the operations, according to the final evaluation result, a Environmental Favorability is contemplated in 61% of the operations evaluated, corresponding to 135 operations; Conditioned Environmental Favorability is contemplated in 24%, corresponding to 54 operations evaluated. 15% of the operations had Non Environmental Favorability, corresponding to 34 operations; conceptualized in this way because of non-compliance with technical and/or legal environmental standards, they gave up the request for credit or did not send the documents required for the evaluation.

5. SME Banking operations (66%) and SME Leasing operations (17%), are the business areas that, respectively, have the highest number of operations evaluated, from the environmental and social risk assessment process.

6. The economic sector that had the most representativeness within the Environmental and Social Risk Assessment process, corresponds to the Oil and gas, with 47%, of which most is concentrated in Gas Stations. Although to a lesser extent, the mining sector was in the second place with a 19%, represented in projects of mining exploitation of coal, phosphate rock, quarry material and drag material, gold, clays and sands. In a third place, there are the evaluations generated to the Infrastructure sector, with a representation of 11%. Fourth, we find the Power sector, with a representation of 9% of the operations evaluated; this sector includes the Hydroelectric Power Plants, Small Hydroelectric Power Plants, Thermoelectric Power Plants and Energy Cogeneration Systems.

7. A total of 10 operations, structured under the Project Finance model, were evaluated (4% of the total) and over US $10'000,000.00.

**Environmental and Social Evaluation and Assessment Reports - Cases**

As an application of the Environmental and Social Risk Analysis process, the following section is made on three operations evaluated in 2017, with each of the possible results, as follows:

1. *Environmental Favorability (SMALL HYDROELECTRIC POWER PLANT -PCH- LA CHORRERA, ARQUITECTURA Y CONCRETO S.A.)*

   - General description:
     
     The project consists of hydroelectric power generation at the edge of water that derives the waters of the stream La Chorrera at 2273 meters above sea level and discharges the turbine water back into the channel of La Chorrera at 1044 meters above sea level. It is composed of a bottom catchment structure using Coanda-type grating, bypass tank, flood
spillway, sand trap, low pressure pipe tunnel, cargo tank, equilibrium chimney, high pressure pipes and surface installation of powerhouse and download structure. The works will take advantage of approximately 1,217.8 m of gross jump with a design flow of 1.5 m3/s and an estimated generation power of 14.73 MW. The project is located on the stream of La Chorrera, a tributary of the San Andrés River, in the villages of La Chorrera, El Roble, El Barro and Alto Seco in the municipality of San Andrés de Cuerquia, department of Antioquia.

- **Conclusions and results**
  - Once the result of the evaluation of the Environmental and Social Risk Assessment to the project has been obtained, through its Environmental Impact Study and its corresponding Environmental, Contingency, Monitoring and Investment Plans of 1%, it is identified that the project has the processes, mechanisms and resources oriented to the control, prevention, mitigation, compensation and restoration of the environmental and social risks and impacts associated with the construction and operation of a small hydroelectric power station on the edge of water.
  - Likewise, through the Social Management Plan, the project has specific programs to sustain harmonious relations with the community and adequate institutional management. Additionally, the Project has a Industrial Health and Safety System that aims to prevent incidents and accidents at each work front.
  - From the point of view of the position of the environmental authority, the project has an Environmental License, granted through Resolution 1506-11702 of June 4, 2015, issued by CORANTIOQUIA. For the reasons mentioned above, the concept of ENVIRONMENTAL FAVORABILITY is issued.

2. **Conditionated Environmental Favorability (SOCIEDAD PRODUCTORA DE ENERGÍA DE SAN ANDRES Y PROVIDENCIA S.A. E.S.P. – SOPESA)**

- **General description.**
  The project consists of the thermoelectric generation of energy through the acquisition, installation and start-up of two power-generating units of MAN diesel type, with a nominal capacity of 14.3 MW, for a total of 28.6 MW of generation and its respective House of machines. The gases produced by combustion will be emitted through a chimney of 32 m high, with fuel injection system. The project is located at the power plant of Punta Evans, located in the Schooner Bight sector of San Andrés Island, San Andrés, Providencia and Santa Catalina department.

- **Conclusions and results**
  - Once the evaluation of the environmental and social risk assessment to the project has been generated, through the Environmental Management Plan described in the administrative acts provided, it is identified that the energy project has the mechanisms, resources and processes oriented to the control, prevention, mitigation and compensation of the risks and environmental impacts associated with thermoelectric power generation.
  - Likewise, it describes the information and communication programs to the community whose purpose is to establish harmonious relationships and manage the grievances that may arise with the project. It also defines strategies aimed at preventing
workplace incidents and accidents for each work front. No obstante lo anterior, es necesario validar las consideraciones técnicas contenidas en el Estudio de Impacto Ambiental que permitirán conocer el modelo de gestión Socioambiental implementado por el proyecto.

- From the point of view of the position of environmental authorities, the project has an Environmental License, granted by the Autonomous Corporation for the Sustainable Development of the Archipelago of San Andrés, Providencia and Santa Catalina, which is in accordance and in force.

- For the reasons mentioned above, CONDITIONED ENVIRONMENTAL FAVORABILITY Concept is issued. Particularly conditioned to send information within the defined deadlines.

3. Non Environmental Favorability (MINERÍA DE ORO – OMAR ALEXIS URRUTIA SÁNCHEZ)

- General description
  The project consists of mining extraction and economic exploitation of a gold deposit and other concessions. The exploitation method is through the gravel system partially under water sheet by basins or pools (construction materials). They are three-dimensional excavations of dry material starting and partially exceeding the water table. They are perpendicular basins to the direction of the channel in the bed of the river. For precious metals, the alluvial terraces method by staggered banks and starting by means of a backhoe. The project is located in the sector of the Napi River, Boca de San Francisco, municipality of Guapi, department of Cauca.

- Environmental and Social considerations:
  - After carrying out the environmental risk assessment of the project, through the Environmental Management Plan, Monitoring Plan and Contingency Plan, it is identified that it has the basic processes and programs for the attention of risks and impacts caused by open sky mining activities. However, no measures are established for the proper handling of hazardous waste and used oils.
  - The Environmental Management Plan provided does not include a Social Management Plan that allows establishing harmonious relationships with the community or interest groups, does not establish mechanisms of grievance or attention to requests, complaints or claims
  - Based on the information provided, it is mentioned that at the moment the mine area is not industrialized and only extractive activities are carried out in an artisanal way, authorizing the sandboxes to extract trawl material in small quantities, the document was not supplied that describes the Occupational Health and Safety System, for which it is not possible to identify the measures of prevention and attention to work incidents and accidents; with the aggravating circumstance of allowing access to people who do not have Social Security or personal protection equipment, reflecting inconsistency with the standards applied by Bancolombia to safeguard Human Rights
  - According to Technical Concept 068-2016 of Environmental Monitoring of Licensed Projects, of December 12, 2016, issued by the Regional Autonomous Corporation of Cauca - CRC, personnel outside the mining title were observed performing the exploitation of trawl material in an artisanal way.

- Legal and Documental Considerations
✓ According to the position of the environmental authorities and the Environmental License issued in 2010, the Regional Autonomous Corporation of Cauca - CRC, required that the process of obtaining the following permits be initiated: (i) Forestry Use Permit, (ii) Permit to Dumping of Wastewater and (iii) Water Concession. To date, these authorizations have not been issued by the CRC. Neither was the Certificate of Unique Registration of Mining Marketer – RUCOM.

➢ Concepto Ambiental
For the reasons mentioned above, the concept of NO ENVIRONMENTAL FAVORABILITY is issued.

Other ARAS achievements made during 2017

1. Updating of the 2950 Environmental and Social Risk Policy, which includes the incorporation of additional environmentally sensitive economic sectors and the decrease of the applicable amount to operations in the Corporate Banking.
2. Creation and implementation of the Corporate Policy on Environmental and Social Risk Assessment, applicable to operations financed in foreign subsidiaries
3. Creation and implementation of the Procedure, Narrative and Flowchart of the process of Environmental and Social Risk Assessment in structured operations under the Project Finance financial model
4. Consolidation and implementation of the systematization process, capture, follow-up and monitoring of compliance with Environmental Covenants, through BizTrack for Corporate and Government Banking operations, SME Banking, Leasing and Investment Banking.
5. Assessment of Operational Risk to the process of Environmental and Social Risk Assessment
6. Active participation of the Environmental and Social Risk Committees of ASOBANCARIA
7. Communication of the Environmental and Social Risk Policy to the Commercial and Origination Teams of Corporate and Government Banking. Also, accompaniment in compliance with environmental legal requirements of the mining sector, to the areas of Customer Linkage and Compliance.
8. Update of the Environmental and Social Risk Microsite, available for consultation by any employee of Bancolombia
9. Systematic evaluation of 4G Road Infrastructure projects
10. Study and analysis of the draft Law, Decree and Resolution of the Congress of the Republic and other authorities, associated with environmental and social aspects and that may have an impact on the banking business
11. Development of the consultations and applicable information on Environmental Risk on the 2016 Dow Jones Sustainability Index
12. The field visits carried out this year were: (i) Mina la Margarita - Titiribí, Antioquia; (ii) Carbones Andinos - Samacá, Boyacá; (iii) Phosphates of Boyacá - Sogamoso, Boyacá (iv) Service Station - Bogotá, Cundinamarca; (v) Túnel Aburrá Concession - Oriente, Medellín, Antioquia; (vi) PCH School of Mines - Marinilla, Antioquia; (vii) PCH Aures Bajo - Sonsón, Antioquia
13. Assistance to the discussion “Mining, 4G Roads, Power and Environmental Sustainability” held at the Universidad Nacional de Colombia, Facultad de Minas on March 22, 2017