

FINDEV CANADA TRANSACTION SUMMARY

Banco de Occidente S.A.

This document provides an overview of the FinDev Canada transaction, including a summary of the anticipated development impacts and of the environmental, social and governance (ESG) assessment performed, potential risks identified, and related mitigation measures to be implemented.



Transaction Description

Banco de Occidente is the sixth largest commercial bank by total assets in Colombia and is part of Grupo Aval, the largest financial conglomerate in the country. As a leading provider of financing to small and medium enterprises (SMEs), Banco de Occidente plays an important role in advancing economic development, access to financial services, and business growth in Colombia. The total facility comprises of two parallel subordinated loans totaling USD 100M of which FinDev Canada provides USDD 30M and IDB Invest provides USD 70M.

Transaction Details

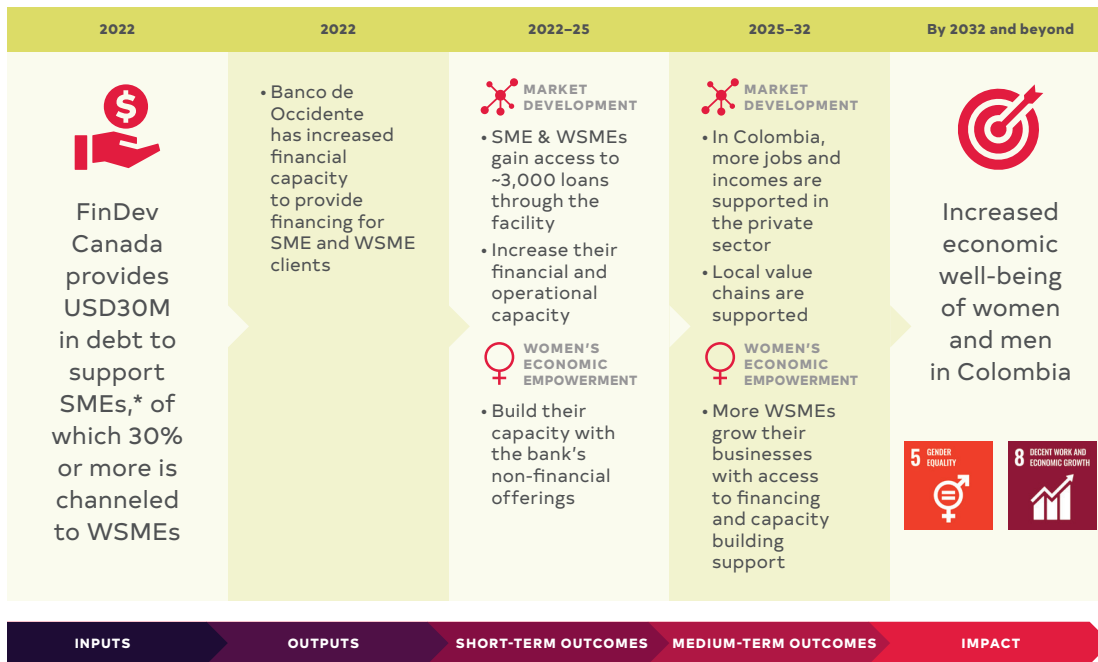
COUNTERPARTY	Banco de Occidente S.A. ("the Bank")
DOMICILE OF INCORPORATION	Colombia
DOMICILE OF OPERATIONS	Colombia
TERM OF FINANCING	10 years
SECTOR	Financial Services
IFC PERFORMANCE STANDARDS TRANSACTION CATEGORY	Category FI-2
FINANCING PRODUCT	Debt
FINDEV CANADA TRANSACTION AMOUNT	USD 30M
DATE OF TRANSACTION DISCLOSURE	30 June 2022
DATE OF TRANSACTION SIGNING	24 November 2022
DATE OF TRANSACTION SUMMARY PUBLICATION	3 March 2023
2X CHALLENGE QUALIFYING	Yes, based on the indirect (Financial intermediaries) and direct (Employment) criteria

Summary of Anticipated Development Impacts

The development impact value proposition of this transaction is to increase the economic well-being of men and women in Colombia. This will be achieved by increasing access to financing for Colombian SMEs, including women-owned and women-led SMEs (WSMEs), thereby supporting jobs, income generation, and the economic participation of women entrepreneurs. This transaction will contribute to FinDev Canada's long-term development impact goals and the Sustainable Development Goals (SDGs), particularly SDG 5 (Gender Equality) and SDG 8 (Decent Work and Economic Growth) as illustrated by the impact theory of change below.

Development Challenges:

- Only 40% of Colombian SMEs access commercial credit.
- In Latin America, WSMEs face a financing gap of USD 93bn
- In Colombia, only 9% of SMEs are women-owned or led compared to 27% in Latin America



*The SME definition for this facility is: (i) small businesses: annual sales between USD 177k to USD 5M; (ii) medium-sized businesses: annual sales between USD 5M-8M



MARKET DEVELOPMENT

- **Increasing access to finance for Colombian SMEs:** In Colombia, SMEs are an important contributor to the national economy accounting for 28% of GDP.¹ Despite their major role in the economy, only 40% of SMEs access commercial credit.¹ With a leading track record providing financial and non-financial services to growing SMEs, Banco de Occidente will on-lend the proceeds from this transaction towards Colombian entrepreneurs. It is anticipated that up to 3,000 SMEs can benefit from financing through this transaction. Unlocking capital for private businesses is key for the economic reactivation of Colombia following the pandemic.



WOMEN'S ECONOMIC EMPOWERMENT

- **Increasing access to financing for women entrepreneurs:** By on-lending 30% of FinDev Canada's funds to WSMEs, Banco de Occidente will contribute to promoting increased participation of women entrepreneurs in the economy. The additional support WSMEs are expected to receive through this financing is critical, as women entrepreneurs have been disproportionately affected by COVID-19.² Furthermore, only 9% of Colombia's SMEs are WSMEs, compared to 27% of WSMEs in Latin America and the Caribbean.³
- **Promoting the representation of women employees:** Women represent 60% of all employees at Banco de Occidente. The Bank is committed to maintaining women's high representation in its workforce and to provide quality employment. The transaction qualifies for the 2X Challenge under employment and indirect criteria.



CLIMATE ACTION

- **Supporting SME clients on climate action:** Banco de Occidente provides a suite of knowledge resources to its SME clients and intends to further equip its customers with additional content and materials on relevant climate topics. The Bank also plans to explore ways to better serve SMEs operating in sustainability sectors.
- **Advancing internal climate action practices:** As part of Colombia's Carbon Neutrality Program, Banco de Occidente is actively working towards assessing, managing, and reporting its annual GHG emissions in accordance with the TCFD requirements.

¹OECD. *Financing SMEs and Entrepreneurs 2020: Colombia*. 2020.

²UN Women. *Efectos Diferenciados Por Género de COVID-19 en el Desarrollo Sostenible*. 2021.

³IFC. *MSME Finance Gap*. 2018

Summary of Environmental and Social Assessment and Related Risk Mitigation Measures

The portfolio to be supported through this transaction comprises business activities that have limited potential adverse environmental or social (E&S) risks, or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.

FinDev Canada has outlined recommendations to enhance the E&S management system and internal capacity as part of an Environmental and Social Action Plan ("ESAP"). FinDev Canada considers that the Bank can mitigate the existing E&S risks in the portfolio financed through this transaction by adherence to loan covenants and successful completion of the ESAP.

Upon completion of the proposed ESAP, the Bank will align with the objectives of the IFC Performance Standards. FinDev Canada does not anticipate Banco de Occidente having difficulty maintaining regulatory compliance.

This review was completed in accordance with FinDev Canada's Environmental and Social Policy. An illustrative list of key documents reviewed is outlined below:

- Code of Ethics, Employee Handbook and Diversity and Inclusion Corporate Policy
- Sustainability Strategy (2021)

The following IFC Performance Standards were applied in FinDev Canada's assessment in addition to host country requirements and the IFC Interpretation Note on Financial Intermediaries:

- IFC Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
- IFC Performance Standard 2: Labor and Working Conditions