

SARAS

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT SYSTEM

The Environmental and Social Risk Analysis System - SARAS is in accordance with the **environmental policy** and is part of Enterprise Risk Management (ERM) of Davivienda, is managed by the Environmental and Social Risk Department within the Vice Presidency of Credit Risk, under the supervision of the Corporate Risk Committee, the Credit Risk Committees and the Corporate Governance and Sustainability Committee; includes policies and procedures for the following aspects:

- > Identification, evaluation and monitoring of environmental and social risk in: the **granting of credits** to clients of the corporate, construction, business and leasing segments and in the management of **strategic suppliers** of the Bank.
- > Evaluation of ESG criteria in the evaluation of **investment decisions**
- > Identification and management of **climatic risks** of banking companies, construction and individuals.
- > Identification and management of **human rights risks**.
- > Definition, evaluation and monitoring of compliance with **eligibility criteria** for the granting of credit products to projects, activities and destinations with environmental and social benefit for banking companies, builders and individuals.
- > Environmental and social contract clauses with scope in corporate banking, construction and retail.
- > Training

The environmental and social risk assessment methodology has been applied since 2011 and establishes policies, considering amounts, terms, sensitive activities, and local regulations, when required by credit approval bodies; it is also aligned with IFC standards, performance standards and exclusion list and includes procedures and work plans for climate change risk management and human rights risk management.

This evaluation contributes to the following SDGs:



Methodology

The SARAS methodology is aligned with IFC standards, performance standards and exclusion list. In the evaluation, the following aspects are reviewed:



- > Compliance with applicable local legislation
- > Labor and working conditions
- > Assessment and management of environmental and social risks and impacts
- > Resource efficiency and pollution prevention
- > Cultural heritage
- > Environmental and/or social certifications and awards
- > Community education and income programs
- > Indigenous peoples
- > Community health and safety
- > Climate change mitigation and adaptation
- > Land acquisition and involuntary resettlement
- > Biodiversity conservation and sustainable management of living natural resources
- > Promotion of good practices

The applicable methodology allows us, based on existing information, to generate a categorization of environmental and social risk A, B or C, taking into account the probability of greater to lesser environmental or social impact, assess possible environmental and social risks, generate an environmental and social concept, establish action plans when required and follow-up measures (covenants) to verify the performance of environmental and social aspects during the term of the loan with the Bank. In infrastructure projects (project finance), we support the process since the credit structuring stage. As part of the SARAS process, we include procedures and work plans for climate change risk management and human rights risk management.

In evaluating large infrastructure projects, the evaluation considers the elements of the methodological **Equator Principles** benchmark, including due diligence by an independent consultant.

Climate Change Risk

The evaluation of the Climate Change Risk is part of the SARAS, in relation to physical risks, it establishes the relevance of prioritized climate threats of the risk for the project or activity to be financed, considers antecedents of climatic situations, threats, as well as the possible impact on the environment, which allows identify and categorize risk. In the assessment are evaluated mitigation and adaptation management and existing measures.

The evaluation of this risk is also applied in portfolio to determine the exposure to threats due to the occurrence of possible events associated with climatic variables in the different geographies.

As for transition risks, we consider them based on their share in our overall loan portfolio, focusing on the industries with the highest intensity of CO2 emissions.

Climate change management is carried out in consistency with the recommendations of the TCFD ([see 2021 report](#)).

Human Rights Risk

The human rights risk assessment is carried out as part of the SARAS in accordance with Banco Davivienda's [Human Rights policy](#). The risk assessment process includes the review of actual and potential adverse impacts of our own activities, clients and third parties on human rights, existence of management measures to avoid or minimize risks and address adverse impacts.

The evaluation is carried out through differentiated procedures **for Bank employees**, as well as for **clients in the granting of credit** and in the valuation of **strategic suppliers**.

More information: [Human Rights Risk Scheme](#)

SARAS Tools

As part of the input tools for the evaluation of environmental and social risk, the following are used:

- *FIAS Environmental and Social Information Form*, which is completed by the Bank's client or supplier. The main objective of this form is to know the information of the activity or project to be evaluated. It requires information on aspects such as the type of project or activity, size, location, environmental and social management policies and actions, environmental permits, concessions or authorizations, labor regulatory compliance, management and control measures for possible impacts, proximity to environmental areas or socially sensitive, practices for the use of water and energy, among others. Climate change and human rights are cross-cutting issues in this information.
- Additionally, in the evaluation process, procedures and formats are used that collect information and evidence on the environmental and social performance of the project or activity, inputs and external information inquiries related to regulatory compliance and geographic characteristics are included. The Environmental and Social Action Plan is established, which includes the concept and the management and control measures.

Example cases of SARAS evaluations carried out in 2021 for the granting of credit:

1. New hospital construction with LEED certification

The project to build a new hospital is deemed environmentally and socially Feasible. The project is currently in the process of obtaining LEED certification. The project is located near a river (600 meters) and 4 surface water canals, maintaining a safe distance from these water bodies, and without any additional environmentally or socially sensitive areas. The project area experienced previous flooding during the La Niña Phenomenon in 2011. Subsequently, various mitigation works have been performed to mitigate the flooding threat to the river basin; however, the Land Use Plan (POT) considers the area to be under a



Medium flooding threat. As a mitigation measure, the project includes an Emergency and Contingency Response Plan for possible flooding and overflowing of water bodies. Similarly, the project was designed without basements or structures below ground level in order to prevent major damage to the hospital.

2. Power supply reinforcement project

The project to build a new electrical substation, nine underground electrical lines and the expansion of existing substations for reliability and stability in power supply in a region of Colombia, is deemed environmentally and socially Feasible, subject to certain conditions, as the project is being developed in an urban area and no ethnic communities were identified in the project area of influence. The project is near places that have been declared architectural heritage sites; therefore, steps are being taken with the corresponding city halls to identify cultural and architectural heritage sites in the area of direct influence. To avoid impacting mobility and bodies of water due to excavations, the project uses horizontal directional drilling and structures attached to bridges. The project holds an approved environmental license and does not require additional environmental permits for the use of natural resources.

3. Sustainable transport project.

The project to build the 80th Avenue subway line is deemed environmentally and socially Feasible, subject to the certain conditions, as the project is close to sensitive environmental areas and there has been previous flooding; therefore, flood control measures have been established. There have been opportunities to share the project with the community to address any concerns about forestry operations and the relocation of families. The project's layout reduces the impact on heritage trees, requires less forestry operations, and there is a forestry offset plan in place.

The project does not require an environmental license and there is an Environmental Management Plan that is currently being updated. Environmental permits required for the project are being processed with the environmental authorities and are required for disbursements.



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