



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:

1. Compliance with applicable local legislation
2. Assessment and management of environmental and social risks and impacts
3. Labor and working conditions
4. Resource efficiency and pollution prevention
5. Community health and safety
6. Land acquisition and involuntary resettlement
7. Biodiversity conservation and sustainable management of living natural resources
8. Indigenous peoples
9. Cultural heritage
10. Community education and income programs
11. Climate change mitigation and adaptation
12. Environmental and/or social certifications and awards
13. Promotion of good practices

Issues such as Climate Change, Human Rights and Water are covered by various aspects. The objective of applying these criteria is focused on risk mitigation to anticipate and avoid negative impacts on people, communities and the environment.

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.

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 2022 FOR THE GRANTING OF CREDIT

1. STREET LIGHTING MODERNIZATION PROJECT

The project to modernize the street lighting system of a municipality in Colombia, by replacing 32,760 lighting fixtures with LED technology, is deemed environmentally and socially FEASIBLE, as the project is expected to reduce electricity consumption in street lighting by 41%, going from the current consumption of 22,630 MWh/year to 13,389 MWh/year, avoiding the emission of 4,511 tonCO₂/MWh/year.

The project does not require environmental permits and there is a hazardous and non-hazardous waste management plan in place. There is no history of climatic or social impacts in the project area that could affect project development. The company maintains policies and procedures for complying with current labor regulations, and there is a plan for meeting the needs of the public.

2. COMPLETION OF THE DOUBLE-LANE ROAD CONSTRUCTION PROJECT

The project to complete the construction of a Functional Unit in a road concession is deemed environmentally and socially FEASIBLE, as the company has personnel in charge of environmental and social issues and has established an Environmental Management Department. The company is ISO 14001 and ISO 26000 certified, and has earned awards and recognitions for the technical, environmental and social management of the project, including the 2016 Sustainable 360 Infrastructure Award presented by the private sector and recognitions by Government agencies in recognition of the project's environmental management.

The project obtained an environmental license from the National Agency of Environmental Licenses (ANLA) and all of the environmental permits required for the project were secured.



There have been 2 environmental contingencies related to landslides. ANLA found that the concessionaire adequately describes the conditions of the sites where geotechnical management work activities will be implemented and that interventions are envisaged in accordance with the studies carried out for the stability of the works.

3. CONSTRUCTION OF A MOTORCYCLE ASSEMBLY PLANT

The project to build a motorcycle assembly plant is deemed environmentally and socially FEASIBLE SUBJECT TO CONDITIONS as the client maintains personnel in charge of environmental and social issues as well as an environmental management department, in addition to programs for dialogue and development of surrounding communities, income generation programs, employment and job training in poor communities, and incentives for active volunteering by its employees. There are procedures for compliance with applicable labor regulations, industrial health and safety programs for workers, and the company does not engage in activities listed on the exclusion list.

No permits for the use and exploitation of natural resources are required for the construction and operation of the project and there is access to public utilities. Environmental and social control measures are in place for the storage and transportation of materials on site, soil protection, controlling the alteration of water resources, removal of organic soil and vegetation, site signage, camps, and occupation of public space.

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 *TCFD Report 2022*.

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*](#).
