



POLICY FOR THE ADMINISTRATION AND MANAGEMENT OF  
ENVIRONMENTAL AND SOCIAL RISKS, INCLUDING CLIMATE  
RISKS - SARAS

**MACROPROCESS**

COMPREHENSIVE RISK MANAGEMENT

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## 1. OBJECTIVE

Banco Popular S.A., hereinafter the Bank, hereby establishes guidelines for the comprehensive management of environmental and social risks, including climate risks, with the aim of ensuring their proper identification, measurement, treatment, and monitoring, taking into account potential impacts on the financial position, operations (including lending activities), business continuity, technological infrastructure, human resources, and institutional reputation. The guidelines established in this policy are based on the principles of proportionality, materiality, and relevance.

The Bank recognizes environmental, social, and climate risks as an integral part of risk management, in accordance with the provisions of the Comprehensive Risk Management System (SIAR), pursuant to the provisions of subparagraph 1. 2. of Part I of Chapter XXXI and Chapter XXXIII, Management of Environmental and Social Risks, including Climate Risks, of the Basic Accounting and Financial Circular. Likewise, in alignment with the Sustainability Policy, the Credit Risk Management System (SARC) Policy, the Banco Popular Comprehensive Risk System Policy, and the Risk Appetite Framework (MAR).

## 2. SCOPE

This policy applies to all Bank employees and to the Bank's operations, physical infrastructure, and technology systems that are exposed to such risks. It includes:

- During the credit approval process for the Business Banking, Corporate Banking, and Government Banking segments, environmental, social, and climate risks associated with the credit transactions to be financed must be properly managed in accordance with the principles of materiality, relevance, and proportionality.
- SARAS management may exclude products, services, or territories with low-risk exposure, provided that such exclusion is based on documented materiality analyses and complies with applicable regulations.
- Administrative headquarters, customer service offices, ATMs, data processing centers, and technology platforms that are owned by the Bank or under its administration.
- It also covers logistics processes that affect operations, information security, and business continuity.

## 3. COMMITMENT

Recognizing the importance of sustainability, the Bank is committed to using SARAS as a tool to support the process of assessing and managing environmental and social risks,



including climate-related risks. The purpose of this initiative is to help ensure that these identified risks are managed and addressed in a way that mitigates their effects.

This document aligns with recognized business standards and practices, seeking to ensure consistency with national and international frameworks regarding sustainability and risk management. Climate change management is addressed through mitigation and adaptation approaches, in accordance with relevant policies and commitments.

Senior Management is committed to implementing mechanisms and actions to ensure that all employees are aware of and comply with the SARAS and the guidelines that must be provided for its proper implementation.

#### 4. GUIDING PRINCIPLES

- **Prevention:** Anticipate environmental, social, and climate risks through regulatory and/or technical analyses, promoting organizational adaptation to uncertain scenarios, reducing the likelihood and/or impact of adverse events, and strengthening the Bank's resilience.
- **Social and environmental due diligence:** implementing processes to identify and measure environmental, social, and climate risks and impacts associated with the Bank's operations, products, and business relationships, and establishing mitigation measures. This due diligence will be conducted in accordance with established materiality and the principles of proportionality and relevance. This includes counterparty assessment, integration of Environmental, Social, and Governance (ESG) criteria, review of financed projects, and monitoring of reputational risks.
- **Proportionality:** the management of environmental, social, and climate risks must be based on reliable, complete, and useful information available to the Bank, ensuring consistency with the risk profile and risk appetite framework approved by the Board of Directors. The actions, controls, and measures implemented must be proportional to the materiality and potential impact of such risks, ensuring an efficient and reasonable allocation of resources.
- **Relevance:** The management of environmental, social, and climate risks will be guided by the principle of relevance, prioritizing those factors that, based on their materiality, could have a significant impact on the Bank's financial position, operations, business continuity, infrastructure, personnel, or reputation. In applying this principle, the Bank will focus its efforts, resources, and controls on the risks that, according to the analyses conducted, present the greatest exposure or likelihood of impact, considering the nature, size, complexity, and location of its activities and physical and technological infrastructure.



- **Materiality:** establish materiality thresholds to identify the Bank's products, services, or assets that involve customers, users, territories, or economic sectors with high exposure to environmental and social risks, including climate risks; and determine those that, due to their low exposure or characteristics, may be excluded from the management of these risks. Materiality thresholds will be based on the analysis of risk factor identification, considering risk appetite and the potential impact of the materialization of risks.
- **Continuous improvement:** establish monitoring, evaluation, and feedback mechanisms that enable the adjustment of social and environmental strategies, thereby strengthening innovation and organizational learning.
- **Transparency:** clearly, periodically, and verifiably reporting on progress, incidents, challenges, and measures adopted in SARAS management, which involves the proactive disclosure of relevant information to internal and external stakeholders, including indicators, targets, and results, as well as accountability for commitments made in environmental, social, and climate matters, in a progressive and proportionate manner and in accordance with current regulatory guidelines.
- **Cross-cutting impact:** The Bank promotes active cooperation among all its departments, integrating sustainability across key processes and activities in accordance with the principles of proportionality and relevance, and in line with the Sustainability Policy. This vision is reinforced through an ongoing awareness-raising and training strategy, aimed at ensuring that teams embrace and understand their role in mitigating environmental, social, and climate impacts.

Environmental, social, and climate risk management is based on the principle of materiality, prioritizing the factors and operations with the greatest potential for impact. This policy will be subject to periodic reviews in order to incorporate regulatory changes and adopt industry best practices.

## 5. TYPES OF COVERED RISKS

### 5.1. ENVIRONMENTAL AND CLIMATE RISKS

- **Acute physical risks:** climate- or environment-related events such as floods, fires, storms, and landslides that can cause operational disruptions due to damage to or failure of critical infrastructure, affecting financial services, offices, or data centers.



- **Chronic physical risks:** effects resulting from sustained increases in temperature and humidity and progressive environmental degradation, which may lead to the devaluation of assets and real estate located in areas exposed to climate change and/or higher infrastructure maintenance costs. Furthermore, these factors may even lead to adjustments in business strategy, including redesigning products and services to adapt to new conditions.
- **Transition risks:** financial, operational, and strategic impacts that may arise during the Bank's adaptation process toward a low-carbon economy. These risks may result, among other things, in the obsolescence of certain assets, negative impacts on business models due to the adoption of cleaner technologies, restructuring of investment and credit portfolios to align with ESG criteria, as well as potential impacts on profitability or the continuity of operations.
- **Indirect risks:** events associated with failures among critical suppliers, logistical disruptions, and occupational health issues, which may impact on the supply chain for outsourced services; an increase in occupational illnesses due to adverse environmental conditions; or impacts on business continuity resulting from reliance on third parties exposed to environmental or climate risks.
- **Emerging risks:** use PESTAL analysis to identify, prioritize, and anticipate emerging environmental and climate risks that could affect the Bank's operations, thereby strengthening decision-making and institutional resilience.

## 5.2. SOCIAL RISKS

Risks arising from events that have a negative impact on individuals, communities, or the sociopolitical environment, which may affect the bank's operations, reputation, regulatory compliance, and sustainability. These include:

- **Labor risks:** labor disputes, non-compliance with labor regulations, discriminatory practices, impacts on occupational health and safety, or violations of employees' fundamental rights.
- **Community risks:** conflicts with communities related to funded projects, cultural impacts, involuntary displacement, or deficiencies in social management or prior consultation in sensitive areas.
- **Human rights risks:** direct and indirect links to activities, projects, or counterparties that violate fundamental rights, such as child labor, labor exploitation, or land dispossession.
- **Reputational risks:** negative public exposure resulting from relationships with actors that generate adverse social impacts, or from the omission or inadequate management of these risks.
- **Sociopolitical risks:** abrupt changes in the political, social, or regulatory environment that could alter the Bank's operating conditions, such as blockades,



riots, or damage to infrastructure, as well as impacts on investment or community relations, which could lead to service disruptions or risks to personnel.

- **Risks from pressure by illegal groups:** the possibility that illegal armed groups or outlaws, especially in rural or high-conflict areas, may exert pressure or make threats that compromise the physical security of offices, customers, suppliers, and employees.
- **Public health risks:** events such as pandemics, disease outbreaks, or health crises that could affect the health of Bank staff or critical suppliers, and consequently, business continuity, customer service, and the stability of the financial services provided.
- **Climate-induced displacement risk:** impacts resulting from extreme weather events or environmental degradation that may lead to forced migration, harm to vulnerable communities, and changes in the location, accessibility, or viability of the Bank's physical assets.

## 6. OPERATIONAL GUIDELINES

- The Bank expressly prohibits any activity, whether direct or indirect, that violates human rights or fails to recognize their importance and their universal and inalienable nature. This prohibition applies to all operations, business relationships, strategic decisions, and internal processes, including the supply chain and relationships with third parties.
- The Bank must refrain from establishing commercial, financial, or contractual relationships with economic sectors or companies regarding which there are reasonable, duly substantiated doubts concerning non-compliance with applicable regulations, human rights violations, negative social impacts, or environmental degradation.

Excluded sectors include, but are not limited to:

- ✓ Unregulated gambling and gaming activities.
  - ✓ Production, distribution, or sale of illicit drugs.
  - ✓ Companies that engage in workplace discrimination based on gender, race, sexual orientation, disability, or socioeconomic status, or that violate labor standards.
  - ✓ Manufacture or trade of weapons of mass destruction.
  - ✓ Illegal mining or mining without environmental licensing.
  - ✓ Companies that promote or tolerate child labor.
- Integrate environmental, social, and climate risks into the operational risk management system, including this category within GRC (Governance, Risk, and Compliance).



- The entity will use benchmarks and KRIs (Key Risk Indicators) to monitor exposure to and management of environmental, social, and climate risks, reporting the results periodically to senior management and the Board of Directors.
- Require critical suppliers to submit environmental, social, and business continuity management plans, as well as certifications in responsible labor practices, among other aspects, as part of supply chain due diligence. This requirement must be incorporated into contracts and into supplier evaluation and selection processes.
- Promote eco-efficiency measures, energy consumption reduction, waste management, and sustainable mobility.
- The Bank will not finance or support in any way activities that are illegal or prohibited by national and international law. This exclusion applies to all products, services, operations, and investments, as well as to the selection and engagement of clients, suppliers, contractors, and business partners.

## **7. ROLES AND RESPONSIBILITIES**

### **7.1. BOARD OF DIRECTORS**

- Approve the Environmental and Social Risk Management Policy, as well as its periodic review and update.
- Oversee the implementation and management of social, environmental, and climate risks, and ensure their alignment with corporate strategy.
- Approve risk thresholds indicative of environmental and social risk appetite.
- Review or delegate to a committee the progress, reports, and results of this Policy's implementation, based on the reports generated annually by the departments responsible.

### **7.2. BOARD OF DIRECTORS RISK COMMITTEE**

- Review this policy at least once a year and propose the necessary adjustments to the Board of Directors for approval.
- Monitor the implementation of the Bank's SARAS.
- Develop any improvement initiatives deemed necessary regarding the management of environmental and social risks, including climate risks, at the Bank.

### **7.3. VICE PRESIDENCY OF RISKS**

- Lead the design, development, and updating of the Environmental and Social Risk Management framework in accordance with applicable regulatory requirements and submit relevant updates to the legal representative.



- Establish and implement methodologies for identifying, measuring, controlling, and monitoring environmental, social, and climate risks.
- Develop training and education strategies for Environmental, Social, and Climate Risk Management.
- Submit an annual report on environmental, social, and climate risk management to the Bank's Board of Directors and Senior Management.

#### **7.4. VICE PRESIDENCY OF CREDIT**

- Manage, implement, and enforce the SARAS Policy in credit operations that must be conducted in accordance with these guidelines.
- Ensure that credit studies subject to environmental and social risk assessments, including climate-related risks, are approved in accordance with credit policies and SARC guidelines.
- Monitor and track the portfolio within the scope of this policy.
- Maintain a record of credit operations falling within the scope of this policy.

#### **7.5. VICE PRESIDENCY OF CORPORATE AFFAIRS, SUSTAINABILITY, AND THE GENERAL COUNCIL**

- Ensure the implementation of regulatory and corporate guidelines related to ESG issues, in accordance with the Bank's Sustainability Policy.
- Lead the integration of metrics related to environmental, social, and climate risk management into sustainability reports.
- Promote a culture of sustainability within the organization.

#### **7.6. VICE PRESIDENTS AND MANAGERS REPORTING DIRECTLY TO THE PRESIDENT**

- Ensure and promote the implementation and compliance with established policies and methodologies for managing environmental, social, and climate risks within the scope of their respective duties.
- Work to incorporate SARAS criteria into the processes, products, and evaluation of operations under their responsibility.
- Actively participate in training on SARAS policies, procedures, and guidelines.
- Lead and ensure that the client is aware of and understands the SARAS requirements for credit operations, as well as each of the obligations established and the commitments assumed by the client.

SARAS's management promotes collaboration across different departments, incorporating environmental, social, and climate considerations into its decision-making. Both the Board of Directors and senior management will receive regular reports to monitor risks and assess the effectiveness of the measures implemented.



## 8. SARAS RISK CYCLE METHODOLOGY

### 8.1. PROCESSES, INFRASTRUCTURE, AND ACTIVITIES OTHER THAN LENDING OPERATIONS

To implement this policy, the Bank will adopt a formal, documented, and up-to-date methodology for managing environmental, social, and climate risks, which will be an integral part of the Comprehensive Risk Management System (SIAR) and will be aligned with the Risk Management Framework (MGR).

This methodology will define the criteria, procedures, and tools for identifying, assessing, addressing, monitoring, and reporting such risks, ensuring consistency with the principles of proportionality, materiality, and relevance established by regulations. Additionally, the SARAS cycle comprises the phases of identification, measurement, control, monitoring, and reporting, developed in accordance with internal criteria and in line with applicable regulations.

It will also incorporate management indicators, control mechanisms, and continuous improvement processes, aligned with the best international practices and the provisions of current applicable regulations.

### 8.2. LENDING OPERATIONS

The management of environmental and social risks, including climate risks, in Credit Operations will be aligned with the established credit risk management activities, policies, and methodologies. The main activities in this risk management process consist of four phases, which are generally described as follows:

- I. **Identification and categorization of the client and the project to be financed:** All clients of the Business, Corporate, and Government Banking divisions, as well as structured loans, will be evaluated in accordance with established materiality thresholds, using an initial screening process that considers quantitative and/or qualitative criteria set by management. Procedures will be defined for the classification of economic sectors and activities, as well as the categorization of the activities to be financed.

The geographic location, productive sector, and activities to be financed will be verified based on financial, technical, and credit information, as well as due diligence regarding the client and the project, with the purpose of verifying exposures to environmental and social risks.



As a result of this first phase, alerts may be identified regarding social, environmental, and climate change risks that have been previously defined, based on the activities to be financed, the productive sector to which they belong, the size of the transaction, and the main characteristics of the project to be financed. These alerts will be classified into three risk categories: High, Medium, and Low, according to the assessment of each project.

- II. Assessment of Environmental and Social Risks:** Transactions that, as a result of the initial screening, fall into the High or Medium risk category, or those that meet certain quantitative or qualitative criteria determined by management (initial screening), will be reviewed. The assessment of environmental and social risks, including climate risks, will be based on sector-specific questionnaires, sector assessment guidelines, criteria for evaluating security interests, as well as other environmental, social, and climate change aspects that may impact credit risk.

The following are evaluated: the type of project, geographic location, environmental licenses and permits, the presence of communities that may pose a potential risk to the execution of the project to be financed, and the management of environmental, social, and climate change risks, among others.

The results of the risk assessment will be detailed in the Risk Report, which will identify the risks with the highest exposure and materiality, their causes, recommendations for their control and mitigation, and the client's commitments aimed at reducing their potential impact.

- III. Negotiation and signing of the contract:** Based on the Environmental and Social Risk Report, including climate-related risks, the contract with the client will be finalized, taking into account general and specific clauses, defining the management plans and commitments of the debtor, as well as the guarantees and other conditions necessary to establish risk management mechanisms.
- IV. Follow-up and monitoring:** Compliance with the proposed commitments, controls, and management plans for environmental, social, and climate change risks will be verified to ensure their proper implementation or the need for timely adjustments. Using performance monitoring questionnaires and management indicator tracking tools, it will ensure that environmental and social risks, including climate risks, are properly managed.

Each of the stages described above will be overseen by a designated department and will be supported by procedures or tools to ensure compliance with each stage, as well as more detailed guidelines for their implementation. To this end, manuals, guides, procedures, and other management mechanisms necessary for the proper functioning and compliance of the SARAS in credit operations will be provided.



## **9. REVIEW AND CONTINUOUS IMPROVEMENT**

This policy, as well as any subsequent amendments, must be approved by the Board of Directors and will take effect upon approval. Management will review this Policy annually, or sooner if regulatory, organizational, or risk-related changes warrant an amendment, to identify the need for updates.

## **10. EFFECTIVE DATE**

This policy takes effect upon approval by the Board of Directors and is mandatory for all departments and employees of the Bank.

This policy will be implemented gradually in accordance with the established schedule.

