




# **Guidelines Sustainable Finance Banco de Occidente**

Version: 1.0

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## 1. Guidelines Sustainable Finance

### 1.1 General:

At Banco de Occidente, we adopt and promote environmental, social and governance (ESG) sustainability principles in our activities, and in financing sustainable operations that contribute to a responsible environmental transition, strengthening the competitiveness of our clients and improving the environment and the well-being of society.

With this in mind, we seek to provide our clients and investors with financing options that enable them to make investment decisions that incorporate ESG criteria into their business or project. The positive impact we can achieve by offering this type of financing is significant. Not only are we contributing to Colombia's economic growth and stability, but we are also encouraging the adoption of more responsible and environmentally friendly business practices.

In an economy transitioning to a low-carbon model, the role of the financial sector is fundamental. We have the ability and the responsibility to channel our resources to projects and companies that promote sustainability and climate change mitigation. By providing sustainable finance lines, we drive innovation and the adoption of clean technologies, which in turn brings us closer to a more resilient and sustainable economy in the long term.

Our commitment to sustainability is reflected not only in our internal policies and practices, but also in the way we engage with our clients and community. We work closely with companies of all sizes to help them achieve their business goals in a sustainable and responsible way. Offering sustainable financing lines is more than a business strategy; it is a commitment to the future of Colombia and the planet.

### 1.2 Objective


Establish general guidelines to enable us to play an active role in building a fairer, more equitable and greener economy by incorporating ESG criteria into project, asset and working capital finance for Corporate, Business and SME, Government, Institutional, Project Finance and Consumer Banking clients.

### 1.3 Scope

These guidelines are applicable to all of our businesses<sup>1</sup> and cover all of our operations, identifying customers in different sectors of the economy that are vulnerable to climate change, that have a greater environmental and social impact as a result of the development of their activities, and that may offer greater opportunities through the implementation of mitigation and adaptation measures.

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<sup>1</sup> Corporate Banking, Business and SME, Government, Institutional, Project Finance and Consumer Banking.

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#### 1.4 National and international environmental and social standards, frameworks and initiatives undertaken

- Green Protocol Asobancaria
- Social Protocol Asobancaria
- Principles of the Global Covenant
- Sustainable Development Goals (SDGs)
- United Nations Environment Programme Finance Initiative (UNEP-FI) – Principles for Responsible Banking
- Task Force on Climate-Related Financial Disclosures (TCFD)
- Dow Jones Sustainability Index
- Finance for Biodiversity Foundation

#### 1.5 Front lines of our Sustainability Strategy

Our strategy is designed to effectively integrate sustainability principles into all areas of our business, aligning our practices with environmental, social, and governance (ESG) principles.

This strategy seeks not only to comply with current regulations and expectations, but also to lead by example in the financial sector by promoting a positive impact on society and the environment.

The front lines on which we focus our ESG initiatives are:






- **We mitigate climate change and conserve resources:** We focus on implementing initiatives to decarbonize the economy and minimize the environmental impact of our operations, including initiatives to reduce greenhouse gas emissions, manage natural resources efficiently, recycle, and preserve biodiversity.
- **We support the development of our people and society:** We focus on developing policies for employee well-being, diversity and inclusion, and respect for human rights, as well as making a positive contribution to local communities.
- **We drive sustainable business growth:** We have demonstrated transparency in decision-making, business ethics, risk management, anti-corruption and the creation of a product portfolio focused on environmental, social and governance criteria.

## 1.6 Our Sustainability Taxonomy











With the objective of mobilizing resources to finance economic activities, projects and assets that contribute significantly to the environment and society, we have developed our taxonomy based on the Colombian Green Taxonomy, the taxonomy provided by IDB Invest and the Asobancaria Social Protocol.








### 1.6.1 Environmental Taxonomy

It includes financing for environmental protection and conservation purposes related to climate change mitigation and adaptation, ecosystem and biodiversity conservation, water protection, soil management, and circular economy, among others.

Categories	Subcategories	Definition	Contribution SDG <sup>2</sup>
Energy Efficiency	<ul style="list-style-type: none"> <li>Energy efficiency in equipment or processes.</li> <li>Heat recovery.</li> <li>Cooling and heating systems.</li> <li>Fuel substitution.</li> <li>Cogeneration and thermal districts</li> <li>Energy improvements in urban and/or rural infrastructure</li> </ul>	<p>Measures implemented with the objective of reducing energy consumption per unit of service or production with respect to a baseline, including replacement or modernization of vehicles, equipment and machinery.</p> <p>Manufacturers and/or suppliers of equipment or products for energy efficiency projects.</p>	  
Renewable Energy	<ul style="list-style-type: none"> <li>Solar energy</li> <li>Wind energy.</li> <li>Geothermal energy</li> <li>Biomass energy</li> <li>Ocean energy</li> </ul>	<p>Installation of fixed assets that allow the generation or productive use of energy from renewable sources (solar, wind, geothermal, biomass, oceanic and others).</p> <p>Manufacturers and/or suppliers of equipment or products for renewable energy projects.</p>	 







<sup>2</sup> Sustainable Development Goals. Our sustainable strategy has defined its contribution to specific SDGs, however, we are aware that through sustainable financing we can also contribute to other SDGs.

	<ul style="list-style-type: none"> <li>Hydroelectric power plants</li> </ul>		
Green Buildings	<ul style="list-style-type: none"> <li>Construction of new homes and/ or buildings</li> <li>Renovation of new housing and/buildings</li> <li>Sustainable urban developments</li> </ul>	Projects that meet sustainable construction standards and have Edge, LEED, Casa Colombia or other applicable certifications.	 
Protection of biodiversity and natural resources	<ul style="list-style-type: none"> <li>Sustainable forest management</li> <li>Ecosystem restoration and/or reforestation</li> <li>Climate adaptation actions</li> <li>Nature-based solutions</li> </ul>	Financing of loans and investments related to construction, operation, maintenance, expansion, training and adaptation for the promotion of sustainable land use, biodiversity preservation and marine protected areas.	 
Sustainable water management	<ul style="list-style-type: none"> <li>Aqueduct, sanitary sewer and/or wastewater treatment systems</li> <li>Efficient use of water</li> </ul>	Projects related to studies, design, construction, operation, maintenance, expansion and adaptation for efficient and sustainable water use, sanitation and management.	  
Waste management	<ul style="list-style-type: none"> <li>Recycling of materials</li> <li>Products with sustainable design and/or development</li> <li>Environmental initiatives developed with food products.</li> </ul>	Recycling, reuse and material use minimization initiatives that promote circular economies in any part of the production chain.	 

	<ul style="list-style-type: none"> <li>Waste treatment and disposal</li> </ul>		
Clean transport	<ul style="list-style-type: none"> <li>Hybrid vehicles</li> <li>Electric vehicles</li> <li>Euro VI technology vehicles</li> <li>Dedicated NGVs</li> <li>Infrastructure for sustainable transport</li> </ul>	Financing of vehicles characterized by the use of zero or low-emission energy or technologies	 
Sustainable farming	<ul style="list-style-type: none"> <li>Good livestock farming practices</li> <li>Sustainable agriculture</li> </ul>	The implementation of good environmental practices in agriculture and livestock farming, which in turn have the potential to reduce greenhouse gas emissions.	 
Other sustainable investments	<ul style="list-style-type: none"> <li>Certified sustainable tourism</li> <li>Energy services companies</li> <li>Companies certified in sustainability.</li> <li>Other initiatives with environmental impact not listed</li> </ul>	Other investments that contribute to sustainability from different fronts	 

### 1.6.2 Social Taxonomy











This includes the financing of operations aimed at having a positive impact, offering well-being and improving the quality of life of the community or groups of interest, for example: women, people with disabilities, minority groups, among others.

Categories	Subcategories	Definition	Contribution SDG <sup>3</sup>
Financing of companies that carry out activities with a social focus	<p>Companies that finance or have included in their value chain activities, such as:</p> <ul style="list-style-type: none"> <li>• Productive activities of young people between 18 and 28 years old.</li> <li>• Activities of women microenterprises or women with productive activities.</li> <li>• Activities with senior citizens (Women: over 57 years old and men: over 62 years old).</li> <li>• Activities located in vulnerable areas<sup>4</sup></li> <li>• Microenterprises working with vulnerable communities or in vulnerable areas.</li> <li>• Projects or activities with small agricultural and/or agribusiness producers.</li> <li>• Projects or activities that promote the generation of employability for sexually diverse population (LGBTQ+1)</li> <li>• Microenterprises in general</li> </ul>	<p>Companies that finance or include in their value chain activities with a social focus that promote the improvement of the quality of life of traditionally underserved populations, the generation of employability for vulnerable populations, and any other activity that promotes the social development of the community.</p> <p>The financed company can support this population with productive and consumer loans.</p>	    
SME (With social focus)	<ul style="list-style-type: none"> <li>• Financing of projects aimed at protecting employment and reactivating businesses.</li> </ul>	Financing for productive purposes such as working capital, fixed asset capital, investment in fixed assets, and other types of financial services.	





<sup>3</sup> Sustainable Development Goals. Our sustainable strategy has defined its contribution to specific SDGs, however, we are aware that through sustainable financing we can also contribute to other SDGs.


<sup>4</sup> The 2018 DANE data o Multidimensional Poverty by Municipality in Colombia is taken as a reference for the classification of vulnerable areas



	<ul style="list-style-type: none"> <li>Financing of projects that contribute to the generation of formal employment, entrepreneurship and labor intermediation of vulnerable people and generation of entrepreneurship in the rural population.</li> </ul>	<p>SMEs are companies with annual sales between COP700 million and COP 20,000 million according to local regulations.</p>	   
SMEs Women	<p>Eligible expenses include the financing and/or refinancing of costs related to the operation or improvement of the productive activity or activities whose objective is to promote equality and human rights throughout the value chain through equitable remuneration, promote equality and non-discrimination in the workplace, employment of disadvantaged groups, among other causes that seek to help the community.</p>	<p>Condition 1*</p> <p>a. Ownership: More than 50% of the shares are owned by women, and/or</p> <p>b. Management:</p> <p>b1. More than 20% of the shares are owned by women.</p> <p>b2. have at least one woman on the board of directors (valid legal representative).</p> <p>b3. have at least 30% of the board of directors composed of women.</p> <p>*With at least one year with this condition.</p> <p>Condition 2</p> <p>Annual sales more than 700 million to 30 billion (according to the segmentation defined by the bank)</p>	    
Affordable basic infrastructure	<ul style="list-style-type: none"> <li>Programs and projects that improve the conditions and quality of urban, regional, and rural public transportation, including</li> </ul>	<p>Financing and/or refinancing of costs related to transportation infrastructure and access roads<sup>5</sup></p>	

<sup>5</sup> Does not apply to paving or rehabilitation of routine roads within cities.

	<p>infrastructure improvement, interoperability, service reliability, and transportation supply.</p> <ul style="list-style-type: none"> <li>• Projects for the construction or improvement of urban and rural access roads and land, river, and maritime transportation conditions.</li> </ul>		
<p>Essential services: affordable housing, education, health services, and water and sanitation.</p>	<ul style="list-style-type: none"> <li>• Financing of projects and programs) aimed at improving the quality of and access to basic, secondary and higher education for vulnerable children and young people.</li> <li>• Financing for construction, construction improvements and assets in the hospital sector aimed at public and/or private hospitals located in municipalities with multidimensional poverty.</li> <li>• Financing of actions and measures aimed at the acquisition, construction, repair, expansion, improvement, refurbishment or leasing of social housing.</li> <li>• Financing of projects related to the improvement of access, reliability and quality of basic services for the treatment and distribution of drinking water, collection and treatment of wastewater.</li> </ul>	<p>Financing and/or refinancing of costs related to, but not limited to, projects that provide essential services (affordable housing, education, health services, and water and sanitation).</p>	      

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## 1.7 Environmental and Social Risk Management System


There is growing global recognition of the need to integrate environmental, social and governance (ESG) factors into financial decision-making. Environmental factors include risks related to climate change, sustainable management of natural resources, and carbon footprint. Social factors include issues such as human rights, labor conditions and social justice. We have therefore established policies and developed practices to ensure that our direct lending operations have a positive impact on the environment and society.

In line with the above, we are committed to managing the environmental and social risks associated with our lending activities in a way that not only minimizes the likelihood of their occurrence, but also directs financial flows toward economic activities that appropriately manage their impact on society and the environment.

In line with this reality, in 2023 we completed the three stages that make up the implementation of the Environmental and Social Risk Management System (SARAS), which consists of a methodology designed to address environmental and social issues and integrate sustainability concerns into our lending operations. The system defines a set of policies, guidelines, tools, procedures, and systems that facilitate the identification, assessment, mitigation, and monitoring of environmental and social risks that arise during the development of a bankable project or economic activity.

The SARAS applies to our commercial lending operations, including projects evaluated by our Structured Finance unit (Project Finance), is aligned with our commercial lending process, and is guided by the following guidelines:

1. Commercial credit clients are categorized according to the environmental and social risk they pose to the Bank, using a categorization tool that takes into account Colombian legislation, the client's economic activity, and the characteristics of the territory in which they operate. The following environmental and social risk categories have been established:
  - Category A. Operations that may cause significant negative environmental and social impacts or may have profound impacts on natural resources.
  - Category B. Operations that may cause site-specific, short-term environmental and social impacts for which effective and readily available mitigation measures are known to be effective.
  - Category C. Operations that are likely to result in minimal or no negative environmental or social impacts.
2. Environmental and social risk assessment of commercial clients according to the previously assigned risk category. This assessment considers the client's potential environmental and social impacts, as well as its capacity to manage them, and is supported by specific tools applied according to the client's risk level. As a result of

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the assessment process, we identify critical issues that may expose us to risk, as well as possible mitigating actions.

3. The key findings of the environmental and social risk assessment of customers, as well as the critical issues identified in the process, are considered by the credit departments responsible for evaluating the application. In addition, where appropriate, the credit committees discuss and approve mitigation measures required of clients to reduce the Bank's exposure to environmental and social risks.
  
4. Clients with the highest environmental and social risk to the Bank are monitored to ensure that their activities continue to be carried out within limits acceptable to the Bank. The frequency and depth of environmental and social monitoring is proportionate to the risk level of the project and is supported by specific tools and appropriate staff for each case.

We do not finance high environmental and social impact activities that are included in the prohibited activities section of our exclusion list, which includes activities that are prohibited by host country laws or regulations or ratified international conventions and agreements, or that are subject to phase-out or prohibition at the international level. Other activities with a high environmental and social impact that are not prohibited by Colombian law may be financed only if their aggregate balance does not exceed 5% of our total portfolio.