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Second Party Opinion

Banco Santander de Negocios Colombia S.A.'s Sustainability Use-Of-Proceeds Framework

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Location: Colombia

Sector: Financial Institutions

Alignment Summary

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Sustainability Bond Guidelines ICMA, 2021

See [Alignment Assessment](#) for more detail.

Strengths

Eligibility criteria for several projects use technical references from regional taxonomies. Alignment of project eligibility to the European and Colombian taxonomies mitigates environmental risks associated with certain projects. For example, gas power plants financed under the framework must comply with the EU Taxonomy's robust requirements while crop and livestock farming must meet the Colombian Green Taxonomy (TVC) climate and biodiversity considerations. For certain projects, the bank uses its own criteria, published in its Sustainable Finance and Investment Classification System (SFICS).

The financing addresses the most pressing social issues in Colombia. Santander Colombia provides financial inclusion through its retail lending to low-income individuals and micro, small, and midsize enterprises (MSMEs), and it seeks to finance corporate projects that help narrow material social gaps and promote local development in underserved communities.

Weaknesses

Santander Colombia's framework includes significant investments in, and exposure to, fossil fuel-based assets and infrastructure. Proceeds can finance investments in the readiness of Colombia's gas distribution network for hydrogen and low carbon gases. Until the network distributes renewable or low carbon gases, it is exposed to significant transition risk from the distribution of natural gas and hydrogen produced from natural gas. Natural gas fired plants are used as a back-up to avoid power interruptions in Colombia. Secondly, proceeds can be used for other purposes than climate mitigation, such as waste collection and transportation for recycling projects, which can involve the use of fossil fuel-based equipment.

Areas to watch

The eligibility criteria for many activities, particularly in transportation, manufacturing, and energy, incorporate transitional technical criteria from the EU taxonomy. These criteria are reviewed every three years by the EU Commission to ensure alignment with the EU's climate neutrality goal. As the bank relies on the EU taxonomy, we believe it may need to update the SFICS criteria for these transitional activities to maintain their future eligibility. Furthermore, some categories do not specify performance thresholds. For example, feedstock for bioenergy could entail land use change risks; energy efficiency may not decarbonize data centers. While common for an extensive list of projects, this limits insights on benefits.



It is unclear how Santander's financing will adhere to the 100 gCO₂e/kWh electricity distribution threshold. Up to 20% of the electricity distributed comes from gas-fired plants, depending on hydropower reservoir levels and, consequently, thermal dispatch.

The framework includes financing of livestock, an emissions intensive sector. However, Santander aims to reduce emissions and its policies and use of the TVC criteria include relevant safeguards to mitigate some of those risks for its financing.

Shades of Green Projects Assessment Summary

There is not an estimated amount that will be allocated to each project category. The issuer does not have an estimated breakdown of proceeds to be allocated to refinancing projects versus newly financed projects, nor does it define a look-back period for the projects.

The Shade of Green shown below is based on the more granular project category shading that is detailed in the Analysis of Eligible Projects section.

Clean transportation (road, rail, air, and water)	 Light green
Passenger interurban rail transport and freight rail transport	
Urban and suburban transport, road passenger transport	
Operation of personal mobility devices, cycle logistics and infrastructure for personal mobility	
Transport by motorbikes, passenger cars, and light commercial vehicles	
Freight transport services by road	
Infrastructure for rail transport	
Infrastructure enabling low-carbon road transport and public transport	
Hydrogen-powered vehicles	
Inland passenger and freight water transport	
Retrofitting of inland water, sea, and coastal passenger and freight transport	
Sea and coastal passenger and freight water transport, vessels for port operations, and auxiliary activities	
Infrastructure enabling low-carbon water transport	
Aircraft leasing and passenger and freight air transport	
Air transport ground handling operations	
Energy (fossil fueled, bioenergy, renewable, and nuclear)	 Medium to Light green
Electricity generation from fossil gaseous fuels	
District heating/cooling distribution	
Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system and high-efficiency cogeneration of heat/cool and power from fossil gaseous fuels	
Transmission and distribution networks for renewable and low-carbon gases	
Electricity generation and production/cogeneration of heat/cool and power from renewable nonfossil gaseous and liquid fuels	

Electricity generation and production/cogeneration of heat/cool and power from bioenergy and manufacture of biogas and biofuels for use in transport of bioliquids

Electricity generation and cogeneration/production of heat/cool and power using solar photovoltaic technology, wind power, ocean energy technologies (tidal wave)

Installation, maintenance, and repair of renewable energy technologies

Electricity generation from cogeneration/production of heat/cool and power geothermal energy and hydropower

Storage of electricity

Storage of thermal energy

Installation and operation of electric heat pumps


Production of heat/cool using waste heat

Transmission and distribution of electricity

Storage of hydrogen

Nuclear energy

Sustainable construction (buildings & other)

 **Medium to Light green**

Construction of new buildings

Renovation of existing buildings

Acquisition and ownership of buildings

Building energy efficiency (including professional services)

Installation, maintenance, and repair of charging stations for electric vehicles in buildings

Demolition and wrecking of buildings and other structures


Maintenance of roads and motorways

Use of concrete in civil engineering

Nature-based solutions for flood and drought risk prevention and protection

Emergency services

Flood risk prevention and protection infrastructure


Energy efficiency  **Light green**

Data processing, hosting, and related activities (including data centers)

Data-driven solutions for greenhouse gas emissions reductions

Software enabling physical climate risk management and adaptation

Close-to-market research, development, and innovation

Drinking water and basic sanitation  **Medium to Light green**

Water collection, treatment, and supply systems

Sustainable water management

Desalination

Drinking water supply

Waste water collection and treatment

Anaerobic digestion of sewage sludge


Composting of biowaste

Urban wastewater treatment

Sustainable urban drainage systems (SUDS)

Phosphorus recovery from wastewater

Production of alternative water resources for purposes other than human consumption

Waste – circular economy  **Medium to Light green**

Composting and recovery of biowaste (by anaerobic digestion or composting)

Collection and transport of nonhazardous waste in source segregated fractions

Material recovery from nonhazardous waste

Landfill gas capture and utilization

Transport of carbon dioxide

Sorting of nonhazardous waste

Depollution and dismantling of end-of-life products

Remediation of legally nonconforming landfills and abandoned or illegal waste dumps

Remediation of contaminated sites and areas

Production of energy from nonrecyclable waste fractions (thermal treatments)

Agroindustry (agriculture, livestock, and forestry)  **Medium to Light green**

Afforestation, rehabilitation, and restoration of forest, forest management, and conservation forestry

Restoration of wetlands and conservation, including restoration, of habitats, ecosystems, and species

Sustainable growing of crops, regenerative farming, sustainable agricultural production and low-carbon agricultural technologies (e.g., techniques used in precision farming, hydroponics farming, aeroponics farming), soil remediation, and organic farming

Efficient electric machinery, excluding tech for livestock production, and agriculture structures


Integrated crop-livestock-forestry and livestock management

Sustainable feed production

Carbon sequestration activities

Sustainable agriculture and fishing

Sustainable land purchase and transformation

Sustainable manufacturing  **Light green**

Manufacture of plastics in primary form

Manufacture of renewable energy technologies

Manufacture of equipment for the production and use of hydrogen

Manufacture of hydrogen

Manufacture of low-carbon technologies for transport

Manufacture of batteries

Manufacture of energy efficiency equipment for buildings

Manufacture of other low-carbon technologies

Manufacture of cement

Manufacture of aluminum


Manufacture of iron and steel

Manufacture of soda ash

Manufacture of organic basic materials

Manufacture of nitric acid

Manufacture of chlorine
Manufacture of anhydrous ammonia
Manufacture of automotive and mobility components
Manufacture of rail rolling stock constituents
Manufacture, installation, and servicing of high-, medium-, and low-voltage electrical equipment for electrical transmission and distribution
Manufacture, installation, and associated services for leakage control technologies
Manufacture of plastic packaging goods
Manufacture of medicinal products
Manufacture of clean naphtha
Manufacture and installation of equipment efficient in terms of energy consumption
Research, development, and innovation for direct air capture of carbon dioxide
Repair, refurbishment, and remanufacturing
Sale of spare parts
Preparation for reuse of end-of-life products and product components
Sale of secondhand goods
Product-as-a-service and other circular use- and result-oriented service models
Marketplace for the trade of secondhand goods for reuse

Impact tourism	 Medium green
Hotels, holiday, camping grounds, and similar accommodation	

See [Analysis Of Eligible Projects](#) for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Bogota-headquartered Banco Santander de Negocios Colombia S.A. was established in 2013 and operates as a subsidiary of Santander group. The bank offers a variety of financing solutions, including loans, letters of credit, trade financing, working capital loans, and guarantees, along with administrative and financial services. Additionally, the bank provides auto loans, debtor support programs, and various banking products, such as current and savings accounts, super deposits, funds, checks, and treasury services.

Through a diversified business encompassing both corporate and individual clients, Santander Colombia plans to expand its sustainable portfolio, focusing on energy transition and financial inclusion. Meanwhile, Santander Group's sustainability strategy encompasses advancing green finance globally within its fixed income and equity operations. Additionally, the strategy emphasizes meeting customer needs. All of this is facilitated through its SFICS, which provides a robust definition of eligible green and social project financing. The group also has a greenwashing policy in place to avoid involvement in controversial financing.

Material Sustainability Factors

Climate transition risk

Banks are highly exposed to climate transition risk through their financing of economic activities, which impact the environment. Policies and rules to reduce emissions could raise credit, legal, and reputational risks for financial institutions. These medium- to long-term risks are significant and will be proportional to the impact of climate change on the economy. Positively, financing the climate transition offers a growth avenue for banks through lending, debt structuring, and other capital markets activities.

Physical climate risk

Physical climate risks will affect many economic activities as climate change will increase the frequency and severity of extreme weather events. Banks finance a wide array of business sectors that are exposed to physical climate risks, exposing banks through their financing activities. However, while climate change is a global issue, weather-related events are typically localized, so the magnitude of banks' exposure is linked to the geographical location of the activities and assets they finance. Colombia faces significant climate risks, including more frequent droughts and intense floods (including landslides). These changes pose challenges to key sectors such as agriculture and tourism, highlighting the urgency of effective adaptation measures.

Biodiversity and resource use

Banks contribute to significant resource use and biodiversity impact through the activities they fund or invest in. For example, the construction sector--which is a major recipient of bank financing--is a large consumer of raw materials such as steel and cement. Similarly, bank-financed agricultural activities can have material biodiversity impacts. Colombia faces biodiversity risks due to habitat loss, deforestation, and the impacts of climate change, such as droughts. These factors threaten native species and ecosystems, particularly in the tropical Andes mountains, requiring enhanced conservation and sustainable land management efforts.

Access and affordability

Banks' large impact on society and the economy stems from their role in enabling access to financial services to individuals and businesses, and in ensuring the correct functioning of payments systems, which are cornerstones of economic development and stability. In most countries, unbanked and underserved population segments are still meaningful, although the access gap is most acute in emerging economies. Market imperfections such as low competition, incomplete information, and lack of financial literacy often result in costly alternatives for small businesses and low-income people, so ensuring affordable access to financial services, especially to the most vulnerable population, remains a challenge for the banking industry. New technologies will, however, increasingly enable banks to close this gap through cost efficiencies and product innovation. While structural issues such as poverty, informality, and lack of financial literacy partly limit access to financial services, banks have large opportunities to support economic development through financial inclusion.

Impact on communities

Banks can address a wide range of community issues by providing economically vulnerable groups with access to financing. This can help alleviate income inequality and foster upward social mobility. The realization of these objectives hinges on banks' responsible lending practices. These include transparent contractual terms, financial education programs, and support for borrowers encountering unexpected financial hardships. By contrast, obscure loan terms or predatory lending practices can exacerbate existing socioeconomic disadvantages in the customer base. By actively addressing such concerns, banks can access new markets, achieve better financial performance, attract top talent, and mitigate reputational and regulatory risk.

Issuer And Context Analysis

All project categories included in Santander Colombia's framework address the bank's exposure to material environmental and social factors. The bank aims to advance its sustainability strategy and become a leader in sustainable finance in Colombia. Approximately 7% of its financing is either green, social, or sustainability-linked, totaling Colombian peso (COP) 1.1 billion since 2021. All project categories in the framework were selected via the policies of Santander's credit division, which is composed of corporate and investment banking, corporate and commercial banking, consumer loans, and the Prospera microcredit program. Given the bank's extensive corporate financing outreach and its role as a bookrunner in transactions, its framework encompasses almost all International Capital Market Assn. (ICMA) green categories and social target populations.

Santander Colombia is advancing its greenhouse gas emissions reporting. The bank achieved carbon neutrality in direct emissions in 2024 and aims to reduce financed emissions by 51% by 2030. It has also redefined its commercial strategy to track carbon dioxide emissions per client. The loans granted under Santander's framework could broaden the bank's efforts to reduce its financed emissions. At the group level, in line with other major global banks, the bank has set a policy that starting in 2030, it will cease to invest in or provide financial services to clients for whom coal-based energy generation accounts for more than 10% of consolidated revenue.

Furthermore, for traditional activities in sectors such as oil and gas, electricity generation and transportation from fossil sources, mining, metallurgy, and soft commodities, the bank has a specific Environmental, Social & Climate Change Risk Management (ESCC) policy that lists prohibited activities and those requiring special attention. For example, Santander Colombia prohibits financing new clients in oil exploration and production, except for specific financing operations for new renewable energy installations.

The bank continues to provide financing opportunities to MSMEs and the lower-income population. Through its Prospera program, which began in Brazil and currently has over 550,000 clients in Latin America, the bank provides loans to MSMEs in amounts ranging from 1x to 25x the Colombian minimum wage. However, it is unclear how the bank addresses over-indebtedness risks and whether the loans actually have more accessible rates. The bank expects to allocate approximately half of the proceeds from its next sustainable bond issuance to its Prospera program.

Santander Colombia has established practices for considering physical risks in its financing activities. The bank gathers background information on climate events and the location of projects or activities prior to engaging in corporate and business financing. It determines the significance of climate threats for these activities and categorizes the associated risks, engaging with corporate clients on the development and monitoring of adaptation plans. Through the framework, the bank expects to finance climate adaptation projects focused on nature-based solutions and technologies that support physical climate risk management and adaptation.

The bank's ESCC policy also covers biodiversity risk mitigation practices. For example, the policy prohibits the bank from financing deals that jeopardize areas classified as Ramsar or UNESCO World Heritage sites or classified by the International Union for Conservation of Nature as categories I-IV. For high-risk sectors such as forestry and agriculture, Santander prohibits financing the extraction of native species of tropical timber that are not certified by the Forest Stewardship Council, as well as prohibits palm oil processors that are not members of or certified by the Roundtable on Sustainable Palm Oil.

Alignment Assessment

This section provides an analysis of the framework's alignment to the Social and Green Bond principles and the Sustainability Bond Guidelines.

Alignment Summary

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✘

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Sustainability Bond Guidelines ICMA, 2021

✓ Use of proceeds

All the framework's green and social project categories are considered aligned. The issuer commits to allocate the net proceeds issued under the framework exclusively to eligible green and/or social assets. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental and social benefits of the expected use of proceeds. The company will disclose the proportion of financing versus refinancing in its allocation reporting. The look-back period is not disclosed, which reduces insight into the projects' additionality.

✓ Process for project evaluation and selection

Santander has a Global Sustainability Funding Group (GSFSG) and Local Sustainability Funding Group (LSFST), comprising corporate and local members. It will meet at least annually to screen and approve the potential projects before their approval by the board of directors. The company has processes to identify and manage environmental and social risks related to eligible projects, adhering to the Social and Environmental Risk System (SARAS).

✓ Management of proceeds

Santander will track the net proceeds through its internal systems and allocate them within 12 months after the issuance of a sustainable instrument. The company commits to replacing projects that cease to comply with the framework's eligibility criteria as soon as practicable. Pending allocation, net proceeds will be held in short-term instruments, in accordance with the company's treasury policy.

✓ Reporting

Santander commits to report annually on the allocation of the net proceeds and on the financed projects' impact, until full allocation of the net proceeds and in case of material developments. Reporting will be available on the bank's website. Allocation reporting will include the total amount of instruments outstanding, a brief description of the projects, and the breakdown of allocation of net proceeds by eligible category. The company will also report on the expected impact of the financing. It is a positive that the company commits to receiving an external limited assurance on the allocation until full allocation.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "[Analytical Approach: Shades Of Green Assessments](#)," as well as our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Green project categories

Clean transportation – road and rail

Assessment

 Light green

Description

Clean transportation projects that comply with either the EU or Colombian Taxonomy substantial contribution criteria or Santander-specific criterion.

Passenger interurban rail transport and freight rail transport

EU Taxonomy 6.1, Colombian Taxonomy T1 and T4, and SFICS A.2.1

Urban and suburban transport, road passenger transport

EU Taxonomy 6.3, Colombian Taxonomy T1 and T4, and SFICS A.2.3

Operation of personal mobility devices, cycle logistics and infrastructure for personal mobility

EU Taxonomy 6.4, Colombian Taxonomy T2, and SFICS A.2.4

Transport by motorbikes, passenger cars, and light commercial vehicles

EU Taxonomy 6.5, Colombian Taxonomy T1, T4, and T5, and SFICS A.2.5

Freight transport services by road

EU Taxonomy 6.6, Colombian Taxonomy T4, and SFICS A.2.6

Infrastructure for rail transport

EU Taxonomy 6.14, Colombian Taxonomy T3, and SFICS A.2.14

Infrastructure enabling low-carbon road transport and public transport

EU Taxonomy 6.15, Colombian Taxonomy T3, and SFICS A.2.15

Hydrogen Powered Vehicles

EU Taxonomy 6.5, Colombian Taxonomy T1, T4, and T5, and SFICS A.2.21

Note (applicable to all green project categories): EU and Colombian Taxonomy-aligned on a best-effort basis--compliant with the relevant Technical Screening Criteria (TSC) and Minimum Social Safeguards (MSS), but the assessment of Taxonomy alignment is not carried out for the Do No Significant Harm (DNSH) requirements.

Analytical considerations

- Mitigating greenhouse gas emissions from transportation will be crucial to meeting global decarbonization goals, given the transportation sector accounts for 23% of global energy-related greenhouse gas emissions, according to the Intergovernmental Panel on Climate Change. Fossil fuel transportation also creates air pollution, such as nitrogen oxides and sulfur oxides.

- Furthermore, for the infrastructure that supports low-carbon transportation, value chain emissions and environmental impacts can be significant and should be carefully managed--for example, by choosing low-carbon construction materials. Physical climate risks also are a material consideration for all infrastructure projects.
- Electric road and rail transport is key to decarbonizing land transportation. The use of biofuels and synthetic fuels may also contribute to lower emissions, if climate and environmental risks such as feedstock sourcing, direct and indirect land-use change, and energy intensity of production are effectively mitigated.
- The overall road and rail clean transportation project category receives a Light green Shade. The eligibility criteria from the EU and Colombian taxonomy requires Santander to ensure that its lenders will meet carbon dioxide emissions efficiency thresholds. For instance, for passenger cars, Santander will only finance vehicles with a carbon intensity factor of 75g CO2/km or less. In comparison, according to S&P Commodity Insights, in 2023, the global average estimated emissions per electric kilometer were above 80g CO2/km, given the still high dependency on coal-fired electricity in certain parts of the world. Although it is unclear whether internal combustion engine vehicles, including light passenger vehicles, heavy-duty commercial vehicles, and diesel trains, are technically excluded under this project category, we believe that the carbon intensity thresholds are not achievable without bio-mode engines or vehicles fully running on biofuels. The emissions intensity thresholds for such modes of transport in the EU and Colombian Taxonomy represent significant short-term efficiency improvements, hence the Light green Shade.
- Although the bank's financing also includes electrified transportation, the bank has not committed to measuring the life-cycle emissions of these projects compared with the fossil fuel alternative, which is an important consideration for the transition. The bank also does not have specific screening related to the electricity type that will charge the electrified transportation, nor does it have screening related to raw material sourcing (for example, embodied emissions in infrastructure building materials and battery production for electric transportation). That said, the current power generation mix in Colombia is over 70% renewable sources which results in electric vehicles in Colombia having a lower emissions intensity than the global average.
- All clean transportation projects are subject to Santander Colombia's biodiversity risk screening policies and physical risk management processes. The bank will not finance linear low-carbon road or rail transport infrastructure in areas with high biodiversity or areas that are highly exposed to landslides following extreme precipitation events, which have been frequent in Colombia.

Clean transportation – water and airport modernization

Assessment

 Light green

Description

Clean transportation projects that comply with either the EU or Colombian Taxonomy substantial contribution criteria or Santander-specific criterion.

Inland passenger and freight water transport

EU Taxonomy 6.7, Colombian Taxonomy T5, and SFICS A.2.8

Retrofitting of inland water, sea, and coastal passenger and freight transport

EU Taxonomy 6.12, Colombian Taxonomy T5, and SFICS A.2.12

Sea and coastal passenger and freight water transport, vessels for port operations, and auxiliary activities

EU Taxonomy 6.10, Colombian Taxonomy T5, and SFICS A.2.10

Infrastructure enabling low-carbon water transport

EU Taxonomy 6.16, Colombian Taxonomy T4, and SFICS A.2.16

Air transport ground handling operations

EU Taxonomy 6.20 and SFICS A.2.20

Analytical considerations

- The decarbonization of the aviation and shipping sectors will likely be slower than that of land transport. Because electrification at scale remains challenging, the use of low-carbon fuels and energy efficiency measures are important to achieving lower emissions.
- The overall water and airport infrastructure project category receives a Light green Shade, given the larger number of water transportation projects. Similar to land transportation, the eligibility criteria from the EU and Colombian taxonomy requires Santander to ensure that its lenders will meet CO2 emissions and fuel efficiency thresholds for vessels. For instance, for inland freight water vessels, where technologically and economically not feasible to comply with zero direct (tailpipe) CO2 emissions, Santander will require that they operate 50% lower than the average reference value for emissions of CO2. According to the International Maritime Organization, latest Greenhouse Gas Study (2020), the global average estimated emissions per nautical mile (nm) were at 376.81 kilograms of CO2 per nm. Although it is unclear whether vessels that use bunker fuel are excluded under this project category, we believe that the CO2 emissions thresholds are not achievable without dual fuel vessels or ships fully running on biofuels or green methanol. The emissions intensity thresholds for such modes of transport in the EU and Colombian Taxonomy represent significant short-term efficiency improvements, hence the Light green Shade.
- We view the electrification of equipment for loading and unloading goods from aircraft, baggage handling (including electric lifting aids), and aircraft power supply infrastructure as incidental to contribute to phasing out fossil fuel use for airport operators and contributing to reduce their scope 1 and 2 emissions. However, some activities in the category, such as construction of infrastructure to improve accessibility to public transportation, could increase the risks of emissions lock-ins and represent a Medium green contribution to the overall shading.

Energy (nonrenewable)

Assessment

 Light green

Description

Power generation projects that comply with either the EU or Colombian Taxonomy substantial contribution criteria or Santander-specific criterion.

Electricity generation from fossil gaseous fuels

EU Taxonomy 4.29 and SFICS A.1.29

District heating/cooling distribution

EU Taxonomy 4.15, Colombian Taxonomy EC18, and SFICS A.1.29

Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system and high-efficiency cogeneration of heat/cool and power from fossil gaseous fuels

EU Taxonomy 4.31 and SFICS A.1.30

Transmission and distribution networks for renewable and low-carbon gases

EU Taxonomy 4.14 and SFICS A.1.14

Note: The Colombian Taxonomy does not identify fossil fuel electricity generation or heat/cool production as activities that contribute to climate change mitigation.

Analytical considerations

- We assign the overall fossil fuel energy and distribution network project category a Light green Shade. We consider the relevant activities, like Santander's financing of electricity generation from fossil fuel, to be transitional investments based on the eligibility criteria.
- The eligibility criteria from the EU Taxonomy require the bank to ensure that for existing plants, life-cycle greenhouse gas emissions are lower than 100 g CO₂e/kWh. This means Santander will finance only the most efficient Colombian natural-gas-fired plants, which are typically used during extended drought periods in Colombia--given the grid's dependence on hydroelectric power--and have become increasingly common. For new builds, the eligibility criteria stipulate that these

plants should combust only natural gas until December 2035 and that direct greenhouse gas emissions from the activity must be lower than 270 g CO₂e/kWh of the output energy.

- Investments in unabated natural-gas-fired plants are not generally aligned with a low-carbon economy. Although they can play a role in replacing electricity generation from coal-fired plants in jurisdictions with high exposure to such energy sources, it's crucial for natural gas plants to transition to the combustion of renewable or low-carbon gases or to integrate point source carbon capture systems.
- The readiness of distribution infrastructure for renewable and low-carbon gases is pivotal in enabling widespread adoption of these gases. Historically, build-to-distribute hydrocarbon pipelines have faced substantial transition risks until entities can integrate these sustainable alternatives.
- The use of natural gas for heating and cooling will be considered by the bank only if renewable alternatives are unfeasible, given such investments carry the risk of impeding the development of renewable sources. Moreover, the eligibility criteria require Santander to ensure the lender prepares a comparative assessment with the most cost-effective and technically feasible renewable alternatives for the same capacity, to publish this assessment, and to subject it to a stakeholder consultation. We understand the bank has not done this kind of lending in Colombia.
- Regarding the financing of natural gas pipeline retrofits, we understand that the bank will abide by market practice and guidance from the EU Taxonomy (which has not yet provided explicit definitions) to determine what constitutes a renewable or low-carbon gas. It currently envisages renewable gases as those produced from non-fossil sources (e.g., green hydrogen, biomethane, or synthetic methane from green hydrogen) and low-carbon gases as those from fossil origins where the life-cycle greenhouse gas emissions are largely eliminated through carbon capture and storage or other forms of abatement.
- We assign a Light green Shade to investments in retrofitting existing gas transmission and distribution (T&D) infrastructure in Colombia, which will receive a blend of green hydrogen or biomethane in the future, although we expect the maximum feasible green hydrogen blend to be 20%, based on current technological and health and safety considerations.

Bioenergy

Assessment

 Light green

Description

Electricity generation and production/cogeneration of heat/cool and power from renewable nonfossil gaseous and liquid fuels

EU Taxonomy 4.7, Colombian Taxonomy EGE7 and EC16, and SFICS A.1.7

Electricity generation and production/cogeneration of heat/cool and power from bioenergy and manufacture of biogas and biofuels for use in transport and of bioliquids

EU Taxonomy 4.8 and 4.13, Colombian Taxonomy EGE7 and EC16, and SFICS A.1.8 and A.1.13

Analytical considerations

- Bioenergy derived from sustainably produced feedstock can produce lower emissions than fossil fuels and offers a decarbonization pathway where electrification is not possible. For example, electrification may not be feasible in remote or rural areas lacking access to an electrical grid. In such locations, bioenergy can play a crucial role by providing a reliable source of energy through biomass, such as agricultural residues or animal waste. At the same time, land-use change, and biodiversity risks related to feedstock production, transportation and processing emissions, and local pollution from combustion can undermine the climate and environmental benefits of bioenergy.
- We assign a Light green Shade to the overall bioenergy project financing because it likely derives from first-generation feedstock, primarily sugarcane produced around Valle del Cauca, Colombia. According to the TVC criteria, electricity generated by the existing or new bioenergy facilities financed by Santander Colombia must have a life-cycle emissions intensity of less than 100 gCO₂/kWh. The bank anticipates the power generated will serve the local grid and not be directly connected to emission-intensive activities. Biofuel production must also meet TVC stringent climate and biodiversity loss mitigation requirements. For example, sugarcane crushers must demonstrate complete traceability of their cane sources and comply with the crop farming requirements of the TVC.
- All energy and biofuels T&D projects are subject to Santander Colombia's screening policies for biodiversity risk and physical risk management processes.

Renewable energy

Assessment

 **Dark green**

Description

Electricity generation and cogeneration/production of heat/cool and power using solar photovoltaic technology, wind power, ocean energy technologies (tidal wave)

EU Taxonomy, Colombian Taxonomy EGE1/E2/E3/E4/E5/E6, and SFICS

Installation, maintenance, and repair of renewable energy technologies

EU Taxonomy 7.6, Colombian Taxonomy, SFICS A.3.3.

Electricity generation from cogeneration/production of heat/cool and power geothermal energy and hydropower

EU Taxonomy, Colombian Taxonomy EGE5/E6, and SFICS

Storage of electricity

EU Taxonomy 4.10, Colombian Taxonomy EA10, and SFICS A.1.10

Storage of thermal energy

EU Taxonomy 4.11, Colombian Taxonomy EA11, and SFICS A.1.11

Installation and operation of electric heat pumps

EU Taxonomy 4.16, Colombian Taxonomy C2 and EA, and SFICS A.1.16

Production of heat/cool using waste heat

EU Taxonomy 4.25, Colombian Taxonomy EP17, and SFICS A.1.25

Analytical considerations

- Renewable energy sources such as solar photovoltaics, wind, and hydroelectric power are key elements in limiting global warming to well below 2 degrees Celsius. Still, these projects may cause land-use change and harm local biodiversity, and they're exposed to physical risks.
- We assign a Dark green Shade to the overall renewable energy project financing, given the bank will follow robust screening criteria for the financing of renewable projects with higher environmental risk, such as hydropower generation, which generates most electricity in Colombia's grid. For example, hydropower projects will either be run-of-river, without artificial reservoirs or with low storage capacity; have a power density above 5 W/m²; or have life-cycle emissions below 100 gCO_{2e}/kWh, verified by an independent third party. Although these specifications can limit the availability of financing, the robust screening criteria support the financing of only low-carbon hydropower projects.
- Power generation projects will serve the local grid and not be directly connected to emission-intensive activities. Santander has strong physical climate risk considerations for these projects, although hydropower in Colombia is exposed to increasing extended droughts and landslides frequency in different climate change scenarios.

Transmission and distribution of electricity and storage of hydrogen (energy)

Assessment

 **Medium green**

Description

Transmission and distribution of electricity

EU Taxonomy 4.9, Colombian Taxonomy ETD9, and SFICS A.1.9

Storage of hydrogen

EU Taxonomy 4.12, Colombian Taxonomy EA12, and SFICS A.1.12

Analytical considerations

- Reliable and efficient electricity T&D networks are important in supporting electrification and achieving a low-carbon economy. Investments are needed to make grids more flexible, strengthen their resilience to physical risks, and take measures to reduce transmission losses. At the same time, networks should be managed carefully to avoid disrupting habitats and harming biodiversity, particularly in areas of high ecological value.
- Green hydrogen is important for the transition to a low-carbon future due to its low emissions and potential applications in otherwise difficult-to-decarbonize industrial processes and transportation. However, because green hydrogen relies on electrolysis, water consumption needs to be carefully managed, while other environmental risks include potentially polluting end-uses and leaked hydrogen in the atmosphere. Because it is a nascent technology, such risks are not yet fully understood.
- We assign a Medium green Shade to the overall electricity T&D project financing because it the electricity distributed will come from different power generation sources, including natural gas fired plants. However, according to the TVC, electricity generated by existing or new facilities financed by Santander must have a life-cycle emissions intensity of less than 100 gCO₂/kWh. The bank anticipates the power generated will serve the local grid and not be directly connected to emission-intensive activities.
- We also assign a Medium green Shade to Santander's hydrogen storage financing. Santander follows the TVC criteria, requiring production to have direct carbon dioxide emissions equal to or below 3 tCO₂e per ton of hydrogen. Moreover, Santander defines green hydrogen in line with Article 5 of Colombia's Energy Transition Law (2019 of 2021), which states that hydrogen must be produced from nonconventional renewable energy sources, such as biomass, small hydroelectric power plants, wind, geothermal heat, solar, or tidal, among others. The end-use of green hydrogen is not specified beyond stated exclusions and could be emission intensive (e.g., producing green ammonia for fertilizers, which could generate substantial on-field emissions).
- We believe that the use of funds for hydrogen storage will be limited. The current infrastructure in Colombia does not support significant hydrogen storage at this time. Consequently, the project category receives a Shade of Green, despite the lock-in risks associated with gas distribution--see Energy (nonrenewable).

Nuclear energy

Assessment

 Medium green

Description

Construction and safe operation of new nuclear power plants for the generation of electricity and/or heat, including for hydrogen production, using best-available technologies

EU Taxonomy 4.27 and SFICS A.1.27

Electricity generation from nuclear energy in existing installations

EU Taxonomy 4.28 and SFICS A.1.28


Note: The Colombian Taxonomy does not include nuclear energy. Santander Global's framework excludes nuclear power plants.

Analytical considerations

- Nuclear power is a low-carbon electricity source with smaller land use than most renewable energy sources. At the same time, nuclear has environmental impacts locally and in its value chain, particularly associated with uranium mining and final waste management, that need to be managed carefully.
- Santander has not identified the location of the nuclear fission or nuclear energy generation projects. Colombia has one nuclear reactor, IAN-R1, located in Bogota. It's not used for electricity generation but is a research and development facility. Discussions are ongoing on integrating small modular reactors into Colombia's energy matrix.
- Santander Colombia utilizes EU Taxonomy safeguards and procedures that mitigate risks associated with environmental damages from uranium mining, long-term storage of hazardous spent fuel, thermal modeling, and water use for cooling, among other risks. As a result, we assign Santander's nuclear financing a Medium green Shade.

- Any financed nuclear project will be subject to Santander's physical risk screening and management policies. The EU Taxonomy's climate adaptation Do No Significant Harm requirements also provide important safeguards, although Santander does not commit to following them, which is a significant risk.


Sustainable construction – green buildings

Assessment	Description
 Medium to Light green	Construction of new buildings <i>EU Taxonomy 7.1, Colombian Taxonomy C1, and SFICS A.3.1</i>
	Renovation of existing buildings <i>EU Taxonomy 7.2, Colombian Taxonomy C2, and SFICS A.3.2</i>
	Acquisition and ownership of buildings <i>EU Taxonomy 7.7, Colombian Taxonomy C3, and SFICS A.3.7</i>
	Building energy efficiency (including professional services) <i>EU Taxonomy 7.3, 7.5, and 9.3, Colombian Taxonomy C2 and C3, and SFICS A.3.7 and A.4.1</i>
	Installation, maintenance, and repair of charging stations for electric vehicles in buildings <i>EU Taxonomy 7.4, Colombian Taxonomy T3, and SFICS A.3.4</i>

Analytical considerations

- The International Energy Agency emphasizes that reaching net-zero emissions in buildings will demand major energy efficiency strides and fossil fuel abandonment. All properties must achieve high energy performance. New properties should also cut emissions from building materials and construction. Additionally, addressing physical climate risks is crucial for strengthening buildings' climate resilience.
- We assign a Medium to Light green Shade to this project category, reflecting our view that Santander will finance only certified new buildings, renovations, and energy efficiency equipment, in line with the TVC's eligibility criteria. No minimum level of certifications was set, although the lack of a minimum level is a common practice in the region. The bank has not indicated the expected breakdown among loans for new construction, renovation, and existing buildings.
- For new construction, the framework requires 30% annual energy savings compared with the baseline set by Resolution 0549 of 2015, while for new social housing projects, the requirement is 20%. In our view, this represents local best practice, given the alignment to the TVC. But given the lack of clear considerations on mitigants for embodied emissions and the impacts of new construction, we assess this project as Light green.
- Meanwhile, for projects limited to retrofitting of existing buildings, embodied emissions are a less material climate factor, and so we assign a Medium green Shade to this project category.
- We view favorably the framework's criteria for energy efficiency measures, but individual measures for emissions reduction vary in their magnitude. We assess them as Light green. On the other hand, charging stations for electric vehicles are shaded in line with the vehicle type, and therefore we assign a Dark green Shade.
- Buildings are generally highly exposed to physical climate risks. Colombian buildings face floods and landslides in different climate change scenarios. The framework does not specify considerations in place to mitigate physical climate risks, nor does it specify the resilience plans of this project category. However, Santander conducts its own climate risk assessment before providing any green building loans and has a process to screen high-risk projects or engage with high-risk building operators.
- For all projects listed under this category, as required by the TVC, Santander will ensure the financed buildings will not be used for the extraction, storage, transportation, or manufacture of fossil fuels and that the energy or the operation of the buildings will not come directly from fossil fuels.


Sustainable construction – other

Assessment	Description
 Light green	Demolition and wrecking of buildings and other structures <i>EU Taxonomy 3.3 and SFICS A.3.8</i>
	Maintenance of roads and motorways <i>EU Taxonomy, Colombian Taxonomy T3, and SFICS A.3.8</i>
	Use of concrete in civil engineering <i>EU Taxonomy 3.5 and SFICS A.3.10</i>
	Nature-based solutions for flood and drought risk prevention and protection <i>EU Taxonomy 3.1 and SFICS A.5.1</i>
	Emergency services <i>EU Taxonomy 14.1 and SFICS A.5.2</i>
	Flood risk prevention and protection infrastructure <i>EU Taxonomy 14.2 and SFICS A.5.3</i>

Analytical considerations

- For any construction projects, enhancing energy performance and minimizing embodied emissions from building materials and construction are essential for achieving low-carbon objectives. Additionally, addressing physical climate risks is crucial for strengthening climate resilience across all construction types.
- We assign a Light green Shade to this project category, given its broad variety of civil works. All of them must meet the EU Taxonomy's requirements for substantial contributions to either climate change mitigation or a circular economy, reinforcing our view that these projects support a transition to a low-carbon and climate-resilient economy.
- For example, for road maintenance (excluding bridges and tunnels), the main road elements (binder course, surface course, or concrete slabs) must come from recycling of nonhazardous waste, with a maximum of 30% primary raw material (e.g., steel restraining systems). Despite emissions-reduction benefits from the use of recycled material, the financing doesn't impose any limit on the use of fossil-fueled vehicles on the roads. Moreover, there aren't strong incentives for the use of electrified or zero-tailpipe vehicles in Colombia. Therefore, the project entails significant carbon lock-in risks.
- Similarly, for the use of concrete in civil engineering, the maximum proportion of primary raw material is 70%. While the financing should help advance the circularity of civil engineering in Colombia via the robust EU Construction and Demolition Waste Management Protocol, there is no end-use restriction to the recycled content. However, the bank does not expect the end-use to go to oil and gas industry civil works. Similarly, the bank does not envision flood risk prevention financing for oil and gas infrastructure.
- All projects listed under this category are subject to Santander Colombia's biodiversity risk screening policies and physical risk management processes.

Energy efficiency

Assessment	Description
 Light green	Data processing, hosting, and related activities (including data centers) <i>EU Taxonomy 8.1, Colombian Taxonomy TIC1, and SFICS A.10.1</i>

Data-driven solutions for greenhouse gas emissions reductions

EU Taxonomy 8.2, Colombian Taxonomy TIC2, and SFICS A.10.2

Software enabling physical climate risk management and adaptation

EU Taxonomy 8.4 and SFICS A.10.3

Close-to-market research, development, and innovation

EU Taxonomy 9.1/9.2 and SFICS A.10.6

Analytical considerations

- Energy efficiency measures are necessary to transition to a low-carbon economy, but their climate benefits and risks vary. Exposure to climate risk arises, for example, when these activities take place in high-emitting sectors or lock in high-energy processes or fossil fuel use.
- We assign a Light green Shade to this category, reflecting that the bank aims to finance either technologies (including data centers) that are more efficient than the industry average or data solutions that support a low-carbon and climate-resilient economy. Our assessment is limited by the lack of clarity regarding the specific types of eligible projects and the absence of defined emission reduction thresholds. Moreover, the types of eligible production are somewhat uncertain. However, the bank confirmed that it will not provide loans for activities related to the efficiency improvement of fossil-fuel-powered assets.
- Eligible data centers must have a power usage effectiveness (PUE) of 1.5 or below. The upgrade of data centers must result in the attainment of such a PUE value. The PUE is a ratio of the total amount of power entering a facility to the power consumption of IT equipment. The closer the PUE ratio is to 1, the more energy efficient the data center is. Santander is targeting a PUE better than the 1.56 global industry average, according to the Uptime Institute Global Data Center Survey 2024.
- The actual emissions reduction depends on the local electricity grid and power consumption, and Santander benefits from Colombia’s renewable electricity supply. Given no information on the planned split between newly built and existing data centers, the potential embodied emissions and the climate impact from new construction could be large.
- Energy-efficient projects in fixed assets are exposed to physical climate risks. Santander already integrates climate risk assessments into its credit assessments, and it will finance software enabling physical climate risk management and adaptation to clients, which significantly contributes to a transition to a climate-resilient economy, in our view.
- Potential exists for climate and environmental risks, namely in the energy intensity of data-driven solutions, which may include the use of artificial intelligence and 5G upgrades. However, the bank requires that the information and communication solution demonstrates substantial greenhouse gas emissions savings, calculated using ETSI ES 203 199, ISO 14067:2018, or ISO 14064-2:2019. Greenhouse gas emission reductions must be verified by a third party in a transparent assessment, according to the bank.

Water and wastewater – sanitation

Assessment

 **Medium green**

Description

Water collection, treatment, and supply systems

EU Taxonomy 5.1, Colombian Taxonomy A1, and SFICS A.6.1

Sustainable water management

EU Taxonomy 2.1, Colombian Taxonomy A1, and SFICS A.6.2

Desalination

EU Taxonomy 5.13, Colombian Taxonomy A1, and SFICS A.6.12

Drinking water supply

EU Taxonomy 2.1, Colombian Taxonomy A1, and SFICS A.6.13

Wastewater collection and treatment

EU Taxonomy 5.4, Colombian Taxonomy A2 and A3, and SFICS A.6.3

Anaerobic digestion of sewage sludge

EU Taxonomy 5.6, Colombian Taxonomy A2 and A3, and SFICS A.6.5

Composting of biowaste

EU Taxonomy 5.8 and SFICS A.6.7

Urban wastewater treatment

EU Taxonomy 2.2, Colombian Taxonomy A2 and A3, and SFICS A.6.14

Sustainable urban drainage systems (SUDS)

EU Taxonomy 2.3, Colombian Taxonomy A2 and A3, and SFICS A.6.15

Phosphorus recovery from wastewater

EU Taxonomy 2.1 and SFICS A.6.16

Production of alternative water resources for purposes other than human consumption

EU Taxonomy 2.2, Colombian Taxonomy A4, and SFICS A.6.17

Analytical considerations

- As a form of natural capital, water is necessary for economic activity, thriving ecosystems, and public health. Therefore, water supply system projects are important to securing a future where all stakeholders have reliable access to sufficient water of adequate quality. Water efficiency measures help reduce demand on natural capital and reduce greenhouse gas emissions associated with water treatment and conveyance. As a result, they could help achieve a low-carbon, climate-resilient future. That said, if not well managed, water systems are energy intensive and can generate significant waste, exacerbate water stress for other stakeholders, and pose disruptions to hydrology and aquatic ecosystems.
- Wastewater systems reduce pollution, enable resource recovery, and enhance ecosystem and public health. As a result, they are also a key component of a low-carbon, climate-resilient future. The primary benefits include improvement in water quality and cumulative effects on the watershed; they can also help relieve water stress and be a source of nutrient and energy recovery, depending on the system. That said, these systems are energy intensive and can produce significant solid waste and methane emissions if not sufficiently managed.
- We assign Santander Colombia's water and wastewater management projects a Medium green Shade. These projects have environmental benefits such as reducing demand on current water systems via water-loss reduction measures and the use of reclaimed water. Moreover, they reduce river pollution by financing new wastewater treatment systems. Santander uses the TVC eligibility criteria for all sustainable water and wastewater projects, which supports the Medium green Shade.
- For example, new drinking water systems must align with Colombia's Potable Water and Basic Sanitation Regulation, ensuring that water leaks are limited and that appropriate maintenance measures are implemented. The average carbon intensity of these systems' energy should be equal to or less than 100 gCO₂/kWh over the lifetime of the infrastructure.
- Moreover, for existing systems, the project must meet any of the following criteria: reduce the average energy consumption of the system by at least 20%; achieve at least 20% savings between the losses of the water supply system and water leaks; or increase the coverage of existing systems that already comply with the water leakage target values established in Colombian Resolution CRA 688 of 2014.
- The TVC's wastewater treatment criteria include requirements such as a reduction in inflow and infiltration of untreated wastewater and system design with environmental co-benefits, like reduction of methane emissions and the use of renewables to power the systems.

Waste – circular economy

Assessment

 **Medium to Light green**

Description

Composting and recovery of biowaste (by anaerobic digestion or composting)

EU Taxonomy 2.5, Colombian Taxonomy RC4, and SFICS A.6.7/A.6.20

Collection and transport of nonhazardous and hazardous waste in source segregated fractions

EU Taxonomy 5.5, Colombian Taxonomy RC2, and SFICS A.6.4

Material recovery from nonhazardous waste

EU Taxonomy 5.9, Colombian Taxonomy RC5, and SFICS A.6.8

Treatment of hazardous waste

EU Taxonomy 2.2 and SFICS A.6.19

Landfill gas capture and utilization

EU Taxonomy 5.10, Colombian Taxonomy RC7, and SFICS A.6.9

Transport of carbon dioxide

EU Taxonomy 5.11, Colombian Taxonomy RC8, and SFICS A.6.10

Sorting of nonhazardous waste

EU Taxonomy 2.7, Colombian Taxonomy RC2 and RC5, and SFICS A.6.21

Depollution and dismantling of end-of-life products

EU Taxonomy 2.6 and SFICS A.6.12

Remediation of legally nonconforming landfills and abandoned or illegal waste dumps

EU Taxonomy 2.3 and SFICS A.6.24

Remediation of contaminated sites and areas

EU Taxonomy 2.4 and SFICS A.6.25

Production of energy from nonrecyclable waste fractions (thermal treatments)

Colombian Taxonomy RC6 and SFICS A.6.25

Note: The Colombian Taxonomy does not include hazardous waste.

Analytical considerations

- Waste management is an important pollution prevention measure that can limit harm to human health and local ecosystems from waste streams. Recycling, if done properly, increases the useful life of materials, thereby reducing carbon and other air pollutants' emissions, energy, and natural resource use. Waste prevention and reuse solutions are preferred under the waste management hierarchy because they have the lowest negative environmental impact among waste management options, followed by recycling, energy recovery, and finally disposal. Waste collection and sorting projects can increase recycling and reuse rates, thus diverting waste from less environmentally beneficial disposal solutions.
- Waste-to-energy projects, such as the thermal treatments Santander will finance, may provide a disposal solution for waste that cannot be recycled, reused, or avoided and is preferable to landfilling. Nevertheless, unabated waste-to-energy plants that incinerate municipal waste create significant carbon and other pollutant emissions and therefore represent only near-term transition steps.
- We assign the financing of waste collection, sorting, and recycling systems and facilities a Medium green Shade. Such investments improve recycling rates and help recover raw materials, and we understand that fossil-fuel-powered vehicles for

waste collection are not eligible to receive financing. Other eligible activities in the framework include waste treatment and waste-to-energy projects.

- Nevertheless, because unabated waste-to-energy plants create significant emissions and represent only near-term transition steps, we assign such activities a Light green Shade. In Colombia, adherence to the waste avoidance and recycling is relatively low.
- Santander requires that thermal treatment plants meet technology requirements in relevant EU directives, mitigating environmental impacts. Santander Colombia will require the energy produced to displace the use of fossil fuels for energy production as per the EU Taxonomy requirements.
- While the bank does not consider emissions linked to waste transportation, we understand that financed plants are typically local and transport tends to be within the municipality receiving the funding (although cross-municipality transportation is sometimes used).
- The framework includes transportation of carbon dioxide that meets the EU Taxonomy's substantial contribution as eligible expenditure to climate mitigation, yet the related projects currently identified by the bank are still in their pilot phases and would account for only a marginal share of proceeds. We consider carbon capture utilization and storage to be critical components of a low-carbon, climate-resilient future. Of particular importance are adequate leakage monitoring and detection systems, as well as comprehensive assessments of projects' life-cycle emissions.
- Finally, the framework includes criteria on the remediation of contaminated sites and areas, including landfills and areas of illegally deposited waste. While the bank does not screen for whether projects (for example, the filter membrane) are dependent on fossil-based materials or use fossil equipment, it requires green loan borrowers to disclose risk mitigation measures for sites or projects near vulnerable biodiversity areas and screens for environmental impact assessments, as well as physical risk management, in line with its approach to all projects under the framework.

Green agroindustry – forestry and ecosystem conservation

Assessment

 Medium green

Description

Afforestation, rehabilitation, and restoration of forest, forest management and conservation forestry

EU Taxonomy 1.1/1.2/1.3/1.4, Colombian Taxonomy 4.3, and SFICS A.7.5

Restoration of wetlands and conservation, including restoration, of habitats, ecosystems, and specie

EU Taxonomy 2.1/1.1 and SFICS A.7.5.


Analytical considerations

- Forests can contribute to carbon sequestration and provide biodiverse habitats. They can also support ecosystem services, such as water regulation and soil stabilization, which improve climate resilience. Implementing sustainable forestry management practices, avoiding harmful land-use change, and managing physical climate risks, including wildfires and pests, are key to achieving these benefits.
- Healthy ecosystems and biodiversity are important parts of a low-carbon, climate-resilient future, providing natural resources, water and soil management, pollination, and physical risk resilience services. Protecting or restoring biodiversity also often creates climate co-benefits, such as carbon sequestration or adaptation solutions. Well-designed projects can reduce threats such as unsustainable resource extraction, climate change, land-use change, pollution, and invasive species.
- We assign a Medium green Shade to this category. Santander will require eligible projects to be certified by the Forest Stewardship Council or by the Colombian Program for Endorsement of Forest Certification for its financing. Any afforestation, restoration, or commercial forest management financing done by Santander must meet the technical requirements of the eligible silvicultural practices listed in the TVC. As per the TVC, Santander will also require a forestry entrepreneurship plan. This plan aims to ensure sustainable forest use and incorporate environmental management principles in a way that respects the forest's growth cycle and maximizes its carbon sequestration potential. The model is based on the requirements of the Colombian Forest Incentive Certificate established by Law 139 of 1994 and cited in Decree

1791 of 1996. That said, the bank does not establish specific thresholds for carbon sequestration potential, nor indicators for tree species diversity or broader biodiversity.

- We assign terrestrial biodiversity conservation and restoration projects a Medium green Shade, given the bank did not specify the criteria established for restoration (for example, which species will be targeted) or the specific climate adaptation or carbon sequestration co-benefits aimed for. That said, the implementation of the bank's biodiversity policies provides sufficient safeguards to ensure the financed projects will have environmental benefits, even if the potential location of such projects is not defined. The bank did not identify whether the project can be designed to offer carbon and biodiversity credits.

Green agroindustry – crop and livestock farming

Assessment	Description
 Medium to Light green	Sustainable growing of crops, regenerative farming, sustainable agricultural production and low-carbon agricultural technologies (e.g., techniques used in precision farming, hydroponics farming, aeroponics farming), soil remediation, and organic farming <i>Colombian Taxonomy 4.2 and SFICS A.7.7/8/9/11</i>
	Efficient electric machinery, excluding tech for livestock production, and agriculture structures <i>Colombian Taxonomy 4.2 and SFICS A.7.10/12</i>
	Integrated crop-livestock-forestry and livestock management <i>Colombian Taxonomy 4.1 and SFICS A.7.13/15</i>
	Sustainable feed production <i>Colombian Taxonomy 4.1, and SFICS A.7.14</i>
	Carbon sequestration activities <i>SFICS A.7.17</i>
	Sustainable aquaculture and fishing <i>Colombian Taxonomy 4.1 and SFICS A.7.16</i>
	Sustainable land purchase and transformation <i>SFICS A.7.20</i> <i>Note: The EU Taxonomy does not cover agricultural activities.</i>

Analytical considerations

- Agricultural practices that reduce climate emissions from crop and livestock farming and enhance soil health, water quality, and ecosystem integrity are crucial for a low-carbon, climate-resilient future. Sustainable inputs and farming practices, as well as a shift to more plant-based and lower-emission protein sources, contribute to a green transition for this sector.
- We assign an overall Medium to Light green Shade to this category. We assign lower-carbon crop farming financing a Medium green Shade, while we assign sustainable aquaculture and lower-carbon livestock financing a Light green Shade. Santander will follow TVC requirements for both types of terrestrial farming.
- The TVC defines several "ecological agriculture" crop farming practices that can be financed for coffee (the largest planted crop in Colombia, with almost 850,000 hectares of planted area), rice, cacao, and other crops to mitigate climate change and meet TVC's other objectives. Santander's SFICS lists such practices and commits to meeting the TVC's soil management, water management, and biodiversity and ecosystem preservation requirements.
- For example, the TVC includes a requirement for the issuer to finance farms only if they follow techniques for minimal soil disturbance (reduction or elimination of tillage) and to improve the structure and porosity of the soil, as well as species of deep roots, among many other considerations. We believe these farming practices and inputs, together with the

considerations from the TVC and Santander's climate and biodiversity risk mitigation screening policies (see Issuer Sustainability Context for the full description), support the environmental benefit of this subcategory.

- We assign lower-carbon ruminant livestock practices a Light green Shade, given the very high greenhouse gas intensity starting point for this protein source. Furthermore, ruminant livestock farming requires a lot of land and water and can involve land conversion for pastureland or soil degradation. In Colombia, the average productivity of traditional cattle farming is 0.6-0.7 heads per hectare, indicating extensive and unproductive land use. These projects aim to support the transition from conventional to lower-carbon livestock by financing projects such as new feed for diet changes that entail methane reduction, manure management, and soil restoration, among others. The bank ensures the financing won't increase cattle head or create incentives for industrial livestock practices. Through due diligence processes, the bank analyzes whether the farms to be financed guarantee the implementation of sustainable livestock practices framed in the TVC, which reduces the risk of incentives for an increase in cattle head or industrial livestock practices.
- The Framework includes the acquisition of existing farm as an eligible green expenditure as long as the acquired farm is performing the crop or livestock practices required by the TVC. Certifications listed in Santander's SFICS are acceptable evidence that the acquired farm is performing lower carbon farming practices. Agriculture carried out under the certifications listed is more sustainable than the more widespread traditional practices employed by farmers in Latin America. That said, certification systems vary significantly in stringency, can focus on different goals (environment, climate, water etc.), adopt differing approaches (procedural versus thresholds), and have different levels of restrictiveness. As such, the effect on climate and the environment of implementing these practices is difficult to assess. Hence we view this project as Light green.
- Fishing is not as common as crop or livestock farming in Colombia. We think aquaculture has benefits such as offering a lower-carbon source of protein. Moreover, if certified, as in Santander's case, aquaculture has a low risk of overfishing and offers biodiversity loss mitigation. However, the Light green Shade also captures the value chain emissions, such as the transport of the final product, including air freight, and some facilities that run on fossil fuels.

Sustainable manufacturing

Assessment

 Light green

Description

Manufacture of plastics in primary form

EU Taxonomy 3.17, Colombian Taxonomy M7, and SFICS A.8.17

Manufacture of renewable energy technologies

EU Taxonomy 3.1, Colombian Taxonomy M1, and SFICS A.8.1

Manufacture of equipment for the production and use of hydrogen

EU Taxonomy 3.2 and SFICS A.8.2

Manufacture of hydrogen

EU Taxonomy 3.10, Colombian Taxonomy EP8, and SFICS A.8.3

Manufacture of low-carbon technologies for transport

EU Taxonomy 3.3, Colombian Taxonomy M1, and SFICS A.8.4

Manufacture of batteries

EU Taxonomy 3.4 and SFICS A.8.5

Manufacture of energy efficiency equipment for buildings

EU Taxonomy 3.5, Colombian Taxonomy M1, and SFICS A.8.6

Manufacture of other low-carbon technologies

EU Taxonomy 3.3, Colombian Taxonomy M1, and SFICS A.8.7

Manufacture of cement

EU Taxonomy 3.7, Colombian Taxonomy M2, and SFICS A.8.8

Manufacture of aluminum

EU Taxonomy 3.8, Colombian Taxonomy M3, and SFICS A.8.9

Manufacture of iron and steel

EU Taxonomy 3.9, Colombian Taxonomy M4, and SFICS A.8.10

Manufacture of soda ash

EU Taxonomy 3.12 and SFICS A.8.12

Manufacture of organic basic materials

EU Taxonomy 3.14, Colombian Taxonomy M6, and SFICS A.8.13

Manufacture of nitric acid

EU Taxonomy 3.16 and SFICS A.8.14

Manufacture of chlorine

EU Taxonomy 3.13, Colombian Taxonomy M5, and SFICS A.8.15

Manufacture of anhydrous ammonia

EU Taxonomy 3.15 and SFICS A.8.16

Manufacture of automotive and mobility components

EU Taxonomy 3.18 and SFICS A.8.18

Manufacture of rail rolling stock constituents

EU Taxonomy 3.19 and SFICS A.8.19

Manufacture, installation, and servicing of high-, medium-, and low-voltage electrical equipment for electrical transmission and distribution

EU Taxonomy 3.20 and SFICS A.8.20

Manufacture, installation, and associated services for leakage control technologies

EU Taxonomy 1.1 and SFICS A.8.22

Manufacture of plastic packaging goods

EU Taxonomy 1.1, Colombian Taxonomy M7, and SFICS A.8.23

Manufacture of medicinal products

EU Taxonomy 1.2 and SFICS A.8.25

Manufacture of clean naphtha

SFICS A.8.26

Manufacture and installation of equipment efficient in terms of energy consumption

SFICS A.8.27

Research, development, and innovation for direct air capture of carbon dioxide

EU Taxonomy 9.2 and SFICS A.8.28

Repair, refurbishment, and remanufacturing

EU Taxonomy 5.1 and SFICS A.8.29

Sale of spare parts

EU Taxonomy 5.2 and SFICS A.8.30

Preparation for reuse of end-of-life products and product components

EU Taxonomy 5.3 and SFICS A.8.31

Sale of secondhand goods

EU Taxonomy 5.4 and SFICS A.8.32

Product-as-a-service and other circular use- and result-oriented service models

EU Taxonomy 5.5 and SFICS A.8.33

Marketplace for the trade of secondhand goods for reuse

EU Taxonomy 5.6 and SFICS A.8.34

Analytical considerations

- Many industrial processes, including iron and steel production and aluminum, are not aligned with a low-carbon, climate-resilient future due to their high dependence on fossil fuels as an input. However, parts of these production processes can be decarbonized through electrification or alternative technologies that reduce reliance on fossil fuels or abate carbon emissions (via carbon capture). Lowering the carbon footprint of such industrial processes is important for the transition to a low-carbon economy.
- Meanwhile, supporting the scaling up of enabling technologies--such as renewable energy technologies, hydrogen, low-carbon transportation, batteries, energy equipment, and other low-carbon solutions—as well as activities that support circularity, are crucial aspects of a low-carbon economy.
- Aircraft manufacturing is a materials-intensive process with significant embodied emissions due to the high use of metals and plastic. Furthermore, aviation is the most greenhouse-gas-intensive transportation mode, responsible for 2%-3% of global greenhouse gas emissions, according to the U.N. Environment Programme Emissions Gap Report 2024, and this proportion is gradually increasing. While there are alternative transportation modes with lower carbon intensity over short distances (for example, railroads), the substitution risk remains low, given the bulk of airline traffic is long distance.
- The overall project category receives a Light green Shade given the large number of hard to abate sectors financing. Santander requires that financing to issuers from heavy manufacturing industries (hard-to-abate sectors) demonstrate compliance with the EU taxonomy requirements, which enlists eligible technologies and emissions thresholds. These include the manufacture of cement, aluminum, iron and steel, organic basic materials, chlorine, anhydrous ammonia, hydrogen, and plastics (including plastic packaging). Due to the projects’ estimated lifecycle emissions criteria (which are stringent against the BAU case for the related wide-ranging sectors and industries in the border region), we believe these efforts support a low-carbon, climate-resilient future in the medium term. However, we know little about the end users of these inputs and many of the manufactured inputs are considered transitional activities in the EU Taxonomy.
- Other projects that meet the relevant EU Taxonomy criteria but are not from hard-to-abate sectors, include low carbon emissions in transportation, batteries, energy efficiency equipment for buildings, and other low carbon emission technologies. Additionally, sodium carbonate, nitric acid, automotive and mobility components, railway rolling stock components, active pharmaceutical ingredients (APIs), medicines, and clean naphtha. These initiatives support a low carbon economy and align with our vision of a low-carbon, climate-resilient future, although they can still be exposed by some lock-in risk.
- All sustainable manufacturing projects are subject to Santander Colombia's biodiversity risk screening policies and physical risk management processes.

Impact tourism

Assessment

 **Medium green**













Description

Hotels, holiday, camping grounds, and similar accommodation
EU Taxonomy 2.1, Colombian Taxonomy, and SFICS A.9.1

Analytical considerations

- Hotels, holiday accommodations, camping grounds, and similar accommodations within the framework relate only to accommodations that meet the EU Taxonomy's technical screening criteria for "conservation, including restoration, of habitats, ecosystems, and species." That is, the area where the hotel is located must be covered by a management plan for biodiversity restoration. The accommodation must also contribute to conservation or restoration measures, for example by having a percentage of the hotel tariff going toward the funding of restoration areas.
- We believe this project is very relevant in Colombia, a country with high biodiversity that receives around 6 million tourists per year. However, tourism has significant flight-related emissions exposure, which limits the overall benefit of the project. Also, the project can face physical climate risks, considering most relevant accommodations are in wilderness areas with limited infrastructure availability. We assign the project category a Medium green Shade.

S&P Global Ratings' Shades of Green

Assessments					
 Dark green	 Medium green	 Light green	 Yellow	 Orange	 Red
Description					
Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects					
 Solar power plants	 Energy efficient buildings	 Hybrid road vehicles	 Health care services	 Conventional steel production	 New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Social project categories

Financial inclusion

Microfinance that promotes financial inclusion for individuals and micro, small, and medium enterprises, aimed at facilitating access to financial services for target populations, driving economic development, and poverty reduction.

Analytical considerations

- Microfinance helps narrow the gap in financial inclusion. However, its diffusion still faces significant challenges in developing economies. In Colombia, between 2022 and 2023, the number of microcredits disbursed decreased by 8 percentage points, according to the 2023 Financial Inclusion Report. Additionally, the national indicator of access to microcredit was 6.2%, 0.04 percentage point below the previous year, maintaining a decreasing trend that began after 2018, when it peaked at 9.1%. In our view, projects that promote microfinance contribute to reversing these trends while fostering economic activity.
- Eligible projects under this category are mostly connected to Santander Colombia's Prospera microcredit line. This line includes loans ranging from 1x to 25x the minimum living wage for individuals and MSMEs for working capital or fixed investments, such as the purchase of machinery or renovations. Individual or group loans can be granted under this line. Prospera also offers recovery loans, aimed at financially rehabilitating entrepreneurs negatively reported in credit risk bureaus.
- Santander Colombia uses Law 590 of 2000 to define MSMEs. According to its criteria, medium-size enterprises are those with a workforce of between 51 and 200 employees or total assets valued between 5,001 and 15,000 current legal monthly minimum wages. Small enterprises are defined as those with a workforce of between 11 and 50 employees or total assets valued between 501 and less than 4,999 current legal monthly minimum wages. Finally, microenterprises are those whose workforce does not exceed 10 employees or whose total assets are valued at less than 501 current legal monthly minimum wages.
- According to Santander Colombia, Prospera is designed to reach a wide variety of entrepreneurs across the country, and the bank directs regional personnel to be physically present and carry out personalized credit applications while providing financial guidance to applicants. This strategy allows Prospera to assist groups that lack or face significant challenges in accessing financial services, either due to digital or other socioeconomic barriers. Moreover, Prospera's value proposition relies on the agility of credit approvals, that is, promptly responding to applicants' capital needs. In our view, eligible projects help bridge the financial gap for microfinance in Colombia while promoting financial literacy among the target population.
- In Colombia, interest rates cannot exceed a certain percentage, which is often defined based on the benchmark interest rate and other economic indicators by the Financial Superintendence. The law seeks to protect consumers and ensure that credit conditions are fair and transparent. Therefore, we consider it positive that Santander Colombia annually discloses the effective interest rates of its various credit lines under Prospera and confirms that its rates are certified by the Superintendence. Furthermore, the SFICS requires alignment with responsible lending practices, such as understanding the final borrower's financial background, avoiding inappropriate lending practices, and transparently communicating the terms of the loan to mitigate risks for the borrower.
- We believe the bank has comprehensive policies and processes to identify and manage perceived social risks as part of its underwriting standards, ensuring that the social benefits stemming from eligible projects outweigh potential risks. For example, over-indebtedness can be a significant social risk when microfinance is not accompanied by financial literacy and regulations regarding interest rates and predatory lending.

Public education

The following eligible activities promote education, focused on improving access, quality, and equity in teaching, contributing to sustainable development and the well-being of society:

- Public centers for educational services as well as provision of services and assets, including nursery, primary and secondary schools; university buildings; and other facilities, such as laboratories and other educational purpose facilities.
- Public sports and cultural education centers as well as provision of services and assets, including arts, dance, sports, drama, music, etc.

- Public centers for other educational activities as well as provision of services and assets, including academic tutoring, learning centers that offer remedial courses, preparation for professional exams, languages and conversational skills, or computer training.
- Student loans if the terms and conditions offer preferential financial or payment terms to target populations.

Analytical considerations

- In our view, projects that promote the expansion of educational and cultural services at free or affordable cost support social mobility and inclusion, especially in developing countries. In Colombia, 9.54% of individuals ages 5 to 16 were outside the educational system in 2023, according to the Ministry of National Education. Among 5-year-olds and 15- to 16-year-olds, the percentage not registered in formal education exceeds 10%. Studies indicate that low-income levels and government underinvestment in education are significant barriers to accessing higher education and formal employment in Latin America. Furthermore, Colombia's National Development Plan reveals that only 30% of children who enter preschool become high school graduates, and only 20% access higher education.
- Santander Colombia will direct proceeds issued under this category toward corporate institutions that aim to finance educational projects aligning with the eligibility criteria. According to Santander's SFICS), which has been fully adopted by Santander Colombia in the design of this framework, both public and private entities may be financed. However, private institutions must be either nonprofit or affordable for low-income groups, as defined by the government.
- In Colombia, a stratification system divides the population into six strata. Strata 1, 2, and 3 consist of individuals with lower income. The National Administrative Department of Statistics (Spanish abbreviation DANE) is responsible for conducting regular surveys and censuses to determine the strata of various neighborhoods and households. We believe the official socioeconomic stratification supports the identification of low-income and underserved populations, thereby increasing the accuracy of the social benefits of the projects. Moreover, the bank uses data from the System of Identification of Social Program Beneficiaries as an additional layer of screening for low-income groups.
- The lack of access to formal education is a cross-cutting social issue in Latin America. Accordingly, Santander Colombia targets the general public as the population for most projects in this category, provided that the affordability conditions described above are met.
- However, barriers to accessing educational services can more strongly affect those who have been historically marginalized, disadvantaged, or underserved. Therefore, we view positively Santander Colombia's specific targeting of entities focused on this population for projects related to educational financial aid, such as student loans. The bank defines, in line with the SFICS, historically marginalized populations as those unable or facing greater difficulties in participating in economic, social, political, and cultural life due to their gender, ethnicity, religion, or language. Additionally, underserved populations are defined as those that lack quality access to essential goods and services, such as isolated or rural communities.
- We view favorably that student loans are offered with preferential financial or payment terms for the target population. Such conditions are individually assessed by the Santander group's panel of experts. We believe these steps help mitigate concerns about over indebtedness.
- Santander Colombia applies additional layers of screening to mitigate social risks linked to the projects. In addition to being subject to environmental and social risk management policies and required to comply with local regulations, projects that apply SFICS criteria must be presented to the experts' local panel and approved by the Local Sustainability Funding Steering Group before being ratified as sustainable by the risk executive committee and Colombia's Green and Sustainable Finance Committee. Furthermore, the SFICS requires alignment with responsible lending practices, such as understanding the final borrower's financial background, avoiding inappropriate lending practices, and transparently communicating the terms of the loan to mitigate risks for the borrower.

Public health and research

The following eligible activities strengthen public health and research, promoting access to medical services and scientific advancement for the well-being and quality of life of a specific population:

- Research and development (R&D) for, and manufacture of basic and generic type pharmaceutical products and preparations (including vaccines), medical equipment and other supplies, including radiation, electro medical and electrotherapeutic equipment, medical and dental instruments, etc.

- Health care services and assets in public hospitals; centers for general health care, specialized medicine, physiotherapy, diagnostics, family planning and speech therapy; laboratories and field hospitals.
- Public health services at specialized residential care/social work facilities to target populations.

Analytical considerations

- Colombia has 1.7 hospital beds per 1,000 people, significantly below the Organization for Economic Cooperation and Development (OECD) average of 4.3, as highlighted in the Health at a Glance 2023 report. The country also has a lower ratio of doctors, with only 2.18 per 1,000 people, compared with the OECD average of 3.48. Additionally, Colombia has the lowest ratio of nurses to doctors in the region, at 0.6, versus the OECD average of 2.7. The report further reveals that while the OECD averages 29.6 computed tomography scanners, 19 MRI units, and 8.2 radiotherapy units per million inhabitants, Colombia has only 5.9, 2.4, and 0.2, respectively. Despite 95% of the population having basic health coverage, only 41% express satisfaction with the quality of care available in the country.
- Proceeds in this category will be allocated to corporate institutions focused on financing health care projects that meet the eligibility criteria outlined above. We recognize that the reported quality and infrastructure challenges within Colombia's health care system affect the entire population, which, in our view, supports Santander Colombia's decision--consistent with the SFICS--to target a general population for two out of three projects. In this context, investing in capacity building and improving health care infrastructure yield significant social benefits, including a reduction in disease incidence and enhanced responsiveness to health emergencies.
- The category also includes financing for specialized residential care and social work facilities targeting specific populations, such as individuals with temporary or permanent disabilities, senior citizens with limited access to infrastructure and services, vulnerable youth, migrants or displaced persons, and other groups at risk of discrimination based on their socioeconomic background and status. This includes children without families, homeless individuals, and those with substance abuse issues. We view this additional layer of scrutiny positively, given these populations are often disproportionately affected by barriers to access and affordability, while requiring differentiated and typically more costly care.
- Similar to educational projects, health projects can be either public or private, if services are affordable and accessible to low-income end-users, in accordance with the same criteria described for educational projects. Projects are also subject to Santander Colombia's risk management and screening procedures. We believe that such procedures help mitigate the risks associated with Santander financing healthcare projects that, while expanding access, do not ensure quality and therefore fail to deliver robust positive health outcomes.

Public transportation and inclusive infrastructure

The following eligible activities promote sustainable public transportation and inclusive infrastructure, aimed at improving urban mobility, reducing emissions, and ensuring access:

- Roads and related infrastructure (such as bridges, viaducts, and tunnels, among others) aimed at improving transport links to underdeveloped rural areas, or where road connectivity does not exist or is clearly inadequate and hinders development.
- Public transportation infrastructure, including over- and underground railways to bring socioeconomic development in target population areas.
- Transport infrastructure to help people with disabilities move around more easily (e.g., accessibility improvements to public transit networks).

Analytical considerations

- Transportation and infrastructure gaps are critical bottlenecks to social inclusion in Latin America. The Inter-American Development Bank (IDB) estimates that the region will need to mobilize investments by more than 70% to close its infrastructure gap. In Colombia, approximately 10.6 million people have limited access to essential services, residing more than 60 minutes away from the main centers of medical attention, education, and other public services. Of these individuals, 63.6% reside in rural areas, as described by IDB. However, a report from the Colombian Ministry of Transport reveals that 20% of nonconcessioned roads are still assessed as being in poor or very poor condition.
- Santander Colombia will direct proceeds to corporate clients aiming to finance infrastructure and transportation projects that target underserved areas. In our view, projects that enhance mobility in these areas have multiple positive impacts, given they

enable marginalized populations to access essential services typically located in urban centers, while also developing infrastructure to facilitate the expansion of these services into underserved zones, promoting local development and inclusion.

- In Colombia, the official socioeconomic stratification system helps identify underserved zones, which, in our view, enhances project selection and facilitates the delivery of social benefits to populations in need. Furthermore, the bank commits to evaluating the development category in which the municipality of the project is located, using data from the National Planning Directorate.
- In line with the SFICS, the maintenance or upgrade of highways and major roads, including those in rural areas, is excluded. Large infrastructure projects typically require land acquisition, which can lead to negative social impacts, such as physical and economic displacement and disruption of the livelihoods of local communities, according to academic studies. In our view, this exclusion helps prevent risks that could outweigh the resulting social benefits, while also mitigating environmental impacts that could affect neighboring populations.
- The financing of transport infrastructure for people with disabilities also addresses a key social gap in the country. According to DANE, while 66.4% of the population in Colombia has access to the labor market, this rate is only 23.5% among people with disabilities. The lack of adequate infrastructure to promote their inclusion is a significant driver of these disparities. Therefore, projects that strengthen inclusive mobility, in our view, can contribute to narrowing this gap and promoting more equitable participation for people with disabilities.
- Projects are subject to Santander Colombia's risk management and screening procedures. In addition, because Santander Colombia can label mobility-related projects as either green or social, robust mechanisms are in place to avoid double-counting and to ensure safeguards are adjusted to environmental and social risks linked to the project's final objective and allocation.

Clean energies with target population

The following eligible activities are aimed at promoting access to clean energy for target populations, seeking to improve quality of life and reduce dependence on polluting energy sources:

- Clean (renewable) energy production and distribution lines and dedicated buildings and structures in target population areas.

Analytical considerations

- The 2022-2023 Multidimensional Index of Energy Poverty revealed that 8.4 million people in Colombia, representing 16.1% of the population, are experiencing energy poverty. The index measures the obstacles that prevent individuals from performing various power-dependent tasks, including access to quality electricity, thermal comfort, and the availability of electricity in schools. Between 2022 and 2023, the percentage of the population living in areas with low-quality electricity supply increased to 15.9% from 13.7%. The lack of quality electricity is especially acute in rural and remote regions, which can include parts of south Colombia, such as the departments of Caquetá, Putumayo, and Amazonas. According to Colombia's Regional Center of Energy Studies (CREE), firewood remains the primary energy source for 1.6 million homes (10% of the country's households) in the region in 2023, where electricity generation is also mostly not available. Given this context, we consider it positive that Santander Colombia aims to provide financing to corporate projects that target the underserved, in areas with no access to electricity or where access to electricity is substantially inadequate.
- From a social perspective, the bank aims at expanding access to renewable energy in underserved areas, which helps promote an equitable distribution of the positive outcomes stemming from these policies. Furthermore, energy is an important driver of local development by enabling access to other essential services, such as telecommunications, education, and health. Underserved areas will be mapped according to governmental definitions and databases.
- In line with the SFICS, all transmission and distribution infrastructure dedicated to connecting fossil or nuclear power plants to the grid is excluded. In our view, this helps mitigate environmental risks that could otherwise lead to long-term social impacts on the target population.
- As in transportation and infrastructure, projects in this category can be labeled as either green or social. However, double-counting is not allowed under the framework's criteria, and safeguards are adjusted to align with the project's final objective. Eligible projects are subject to Santander Colombia's environmental and social risk management processes. The focus of clean energy financing in Colombia is on solar and wind, two sources that are still not widely explored. While most of the electricity in

Colombia comes from hydroelectric power, there is significant gas-fired backup capacity due to drought risks. The gas-fired power capacity can be used in conjunction with battery energy storage to ensure the reliability of the grid.

Housing, water, public sanitation, and territorial development

The following eligible activities address housing, access to water and public sanitation, and territorial development:

- Water collection, treatment, and distribution infrastructure.
- Sewage.
- Hazardous and nonhazardous waste collection.
- Affordable housing and associated infrastructure that meet authorities' socioeconomic requirements.

Analytical considerations

- Colombia's 2022-2026 National Development Plan states that more than 3.2 million people lack access to adequate drinking water solutions, with 82% of those living in rural areas. The urban-rural gaps in drinking water and basic sanitation are 22 and 18 percentage points, respectively, while in waste collection, the gap is 70 percentage points. Furthermore, the World Bank estimates that more than one-quarter of the country's households face a housing deficit, with the lack of proper plumbing and water supply being more widespread in rural areas, where over 2 million families are exposed to such gaps. Projects aimed at mitigating these social issues can therefore be important drivers of territorial development.
- Within this category, Santander Colombia expects to provide financing to corporate projects aimed at promoting water and sanitation services to underserved regions, namely those with poor water quality or no treatment systems, no sewage, and no previous infrastructure for waste collection. The development of such projects can pose environmental risks that could affect neighboring populations, but Santander Colombia requires regulatory compliance for all projects, including those labeled as social oriented. That said, from a social perspective, the provision of these services in underserved areas is key to ensuring fundamental rights, especially to those in vulnerable socioeconomic conditions.
- In Colombia, the tariff regime for utility services such as water supply, sewage, and waste collection is defined by the Commission for the Regulation of Drinking Water and Basic Sanitation. Currently, a cross-subsidy scheme is applied based on socioeconomic strata. High-income users, as well as industrial and commercial users, contribute a portion of their bill (service cost) to help pay for the services of users in lower-income strata (strata 1, 2, and, in some cases, 3, depending on the percentages set by the municipal or district council). In our view, this scheme helps mitigate affordability concerns for vulnerable users.
- Water and sanitation projects can be labeled either green or social under this framework, but double-counting is not allowed. Furthermore, projects are subject to Santander Colombia's risk management and screening procedures.
- Financing for corporate clients developing affordable housing projects is eligible under the framework. Santander Colombia requires that eligible projects comply with socioeconomic requirements set by authorities. This category focuses on Social Interest Housing (Spanish abbreviation VIS) and Priority Interest Housing (VIP), as defined by the National Housing Law. VIS is aimed at low- and middle-income families and has a government-set maximum price to facilitate access; it can be either new or used and must meet specific quality standards. VIP targets families in greater vulnerability, particularly those with very low incomes, and has a lower maximum price than VIS to ensure access to decent housing.
- All projects must be evaluated by the Santander group's panel of experts to confirm compliance with the established requirements. In addition, according to Santander Colombia, responsible lending practices are already in place to understand borrowers' financial situations, help ensure borrowers understand the loan terms to mitigate borrower risks and avoid inappropriate lending practices. We believe these processes enhance the delivery of social benefits to the most vulnerable in the country.

Impact financial inclusion

The following eligible activities promote impactful financial inclusion, aimed at facilitating access to financial services for target populations, driving economic development:

- Investment in microfinance.
- Financing to entities that have been impacted by natural, health, and/or human-made disasters, as well as severe socioeconomic situations; and are deemed materially significant to the local economy, either because of the sector they support, the jobs they provide, or the services they offer.

Analytical considerations

- Santander Colombia aims to expand the social impacts of its microfinance services in the country. This category targets individuals for financial inclusion through access initiatives (banking inclusion) and financing initiatives (microcredit). In line with the SFICS, eligible groups may include migrants and displaced persons, informal workers, low-income individuals, underserved populations, and other vulnerable groups affected by disasters and the circumstances mentioned above, in addition to MSMEs.
- Low-income and underserved groups and MSMEs will follow the same definitions across the framework and are screened through the same processes. Informal workers are defined as those who engage in street vending, home-based work, waste picking, domestic jobs, and other short-term contracts, which are typically undocumented. In Colombia, data from DANE from November 2023 through January 2024 revealed that 84.3% of the employed population working in microenterprises was informally employed.
- The SFICS defines migrants and displaced persons as individuals who have been forced to leave their homes or have voluntarily left their country of origin. In 2022, research from DANE indicated that among Venezuelan immigrants living in Colombia, 81.2% wished to start a business but were unable to do so, with nearly 80% of the sample citing a lack of formal credit as the main reason. In our view, including migrants as a target population helps reduce the socioeconomic obstacles faced by these groups and fosters financial inclusion.
- Other vulnerable groups include those susceptible to discrimination based on their socioeconomic background and status, which can be exacerbated by natural, health, and human-made disasters, as well as severe socioeconomic conditions. For example, in Colombia, 10% of microenterprises declared bankruptcy and 53% reported a decrease in sales of over 50% due to the economic impact of COVID-19, according to a study by Corporación Interactuar. Therefore, we consider it positive that Santander Colombia aims to include these individuals in its eligibility criteria for impact financial inclusion projects.
- The Financial Superintendence caps interest rates to protect consumers and ensure fair credit conditions. Moreover, the bank has robust policies and processes in place to identify and manage social risks and to clearly communicate credit conditions. That said, we believe projects in this category help promote the financial inclusion of underbanked and underserved populations while also encouraging the expansion and formalization of these groups' economic activities, which improves their permanence in the financial system.

Telecommunications with target population

The following eligible activities aim to improve access to telecommunications services for target populations, promoting connectivity and digital inclusion as key tools for development:

- Telecommunications infrastructure, distribution lines and supporting integral buildings and structures (especially fiber optic networks, 5G networks, and high-capacity network deployment, as well as landlines when applicable) in target population areas.

Analytical considerations

- Rapid technological expansion in telecommunications raises the potential to innovate in the face of challenges such as climate change. However, significant accessibility barriers persist, especially in developing economies, according to the OECD. Access to telecommunications has become increasingly important to enabling access to a wide variety of essential services, such as financial services and education. In this context, projects fostering the expansion of telecommunication services, especially to

underserved areas, in Santander Colombia's case meaning areas that currently do not have 5G network or high-capacity networks functioning, promote clear social benefits.

- Accordingly, connectivity is a key element of Colombia's National Development Plan, and the country is working on the 2023-2026 National Digital Strategy. Despite advancements in digitalization, reaching equitable and quality access is still challenging. Approximately 40% of Colombian households lack internet access, with only 32.2% in populated and rural areas having service, according to 2022 statistics from DANE. Additionally, 41% of households with fixed internet connections had speeds below 10 megabits per second in 2021, rising to 73.2% in rural areas, according to the ENTIC survey. Therefore, we view positively that Santander Colombia will finance corporate projects directed to areas and populations that lack quality access to telecommunications services.
- Projects are subject to Santander Colombia's risk management and screening procedures. Telecommunication and broader connectivity social risks include the spread of misinformation.

Nonprofit organization

Lending to nonprofit organizations and/or registered charities that meet Banco Santander's guidelines and advance the green and social themes in the group's SFICS.


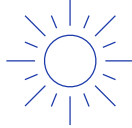


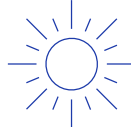


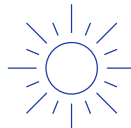



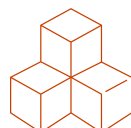

Analytical considerations

- In Colombia, nonprofit organizations are legal entities established by individuals (natural or legal persons) to benefit their members, third parties, or the community. They do not distribute profits among members (per decrees 2150 of 1995 and 427 of 1996 and the Single Circular of the Superintendence of Industry and Commerce). This legal status allows them to access resources and donations, as well as obtain tax benefits. These organizations exist in various sectors, including foundations, cooperatives, universities, hospitals, churches, and associations. Currently, over 90,000 nonprofit organizations exist in Colombia, according to the Registro Único Empresarial y Social.
- Santander Colombia clarifies that nonprofit entities are not automatically eligible in the framework. They must meet the Santander Group Policy on the Financing to Sensitive Sectors and contribute to advancing the green and social themes of the SFICS. In addition to these two conditions, nonprofit organizations are required to demonstrate that the use of proceeds obtained under this category aligns with the conditions established by Santander Colombia. The panel of experts plays a key role in monitoring compliance with these requirements. Furthermore, these entities are subject to ethics and integrity analyses, which help mitigate compliance concerns.
- We view non-profits advancing environmental themes listed in Santander's SFICS as tackling social risks related to climate change and biodiversity loss. These mainly include health, increased migration and labor force related (just transition) risks.
- In our view, the financing of nonprofit organizations can enhance the bank's impact due to their mission-driven nature and, in some cases, specialized knowledge in specific social and environmental issues. Furthermore, in Colombia, and, more generally in Latin America, the funding of non-profits is primarily dependent on donations and lacks access to more favorable banking rates. The bank, by adding layers of screening to ensure that both the entity's mission and the funded actions align with Santander Colombia's guidelines, the bank ensures that positive social outcomes result from the financing.

Mapping To The U.N.'s Sustainable Development Goals

Where the financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the financing to the International Capital Market Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not affect our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs			
Clean Mobility	 3. Good health and well-being	 7. Affordable and clean energy	 11. Sustainable cities and communities*	 13. Climate action
Renewable Energy	 7. Affordable and clean energy*	 11. Sustainable cities and communities*	 13. Climate action	
Sustainable Construction	 7. Affordable and clean energy	 9. Industry, innovation and infrastructure	 11. Sustainable cities and communities*	 13. Climate action
Technology and Information & Communication Science for Climate Governance	 9. Industry, innovation and infrastructure	 13. Climate action		

Drinking Water and Basic Sanitation



3. Good health and well-being

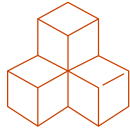


6. Clean water and sanitation*



11. Sustainable cities and communities*

Green Agroindustry (Agriculture, Livestock, Forestry)



9. Industry, innovation and infrastructure



12. Responsible consumption and production*

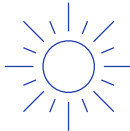


13. Climate action

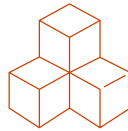


15. Life on land*

Sustainable Manufacture



7. Affordable and clean energy



9. Industry, innovation and infrastructure*



13. Climate action

Impact Tourism



13. Climate action



15. Life on land

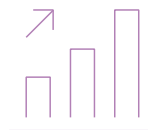
Financial Inclusion



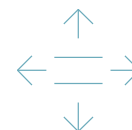
1. No poverty*



5. Gender equality



8. Decent work and economic growth*



10. Reduced inequalities*

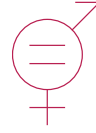
Public Education



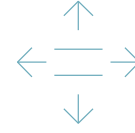
1. No poverty*



4. Quality education*



5. Gender equality

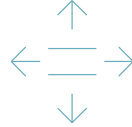


10. Reduced inequalities*

Public Health and Research



3. Good health and well-being*

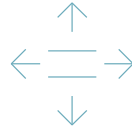


10. Reduced inequalities*

Public Transportation and Inclusive Infrastructure



3. Good health and well-being

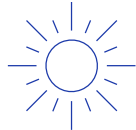


10. Reduced inequalities*



11. Sustainable cities and communities*

Clean Energies with Target Population



7. Affordable and clean energy*



11. Sustainable cities and communities*



13. Climate action

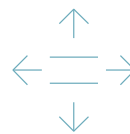
Housing, Water, Public Sanitation, and Territorial Development



1. No poverty*



6. Clean water and sanitation*



10. Reduced inequalities*



11. Sustainable cities and communities*

Impact Financial Inclusion



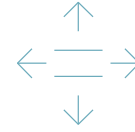
1. No poverty*



5. Gender equality*

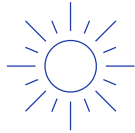


**8. Decent work
and economic
growth***



**10. Reduced
inequalities***

Telecommunications with target population



**7. Affordable and
clean energy**



**11. Sustainable
cities and
communities***

Non-profit organization



**11. Sustainable
cities and
communities**

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- [Analytical Approach: Second Party Opinions: Use Of Proceeds](#), July 27, 2023
- [Analytical Approach: Shades Of Green Assessments](#), July 27, 2023
- [FAQ: Applying Our Integrated Analytical Approach For Use-Of-Proceeds Second Party Opinions](#), July 27, 2023
- [S&P Global Ratings ESG Materiality Maps](#), July 20, 2022

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