

Environmental and Social Strategy (ESS)¹

Banco Interamericano de Finanzas (BIF)

I Overview

- 1.1 Banco BIF is the fifth largest commercial bank in Peru, and is controlled by the Spanish Fierro Group, through two entities constituted in Uruguay. BIF has assets of US\$ 1.7 billion, a network of 57 branches and 890 employees. The bank provides a full range of financial services to small and medium size companies and individuals.
- 1.2 The operation consists on providing Banco BIF a subordinated loan of up to US\$20 million, with a 10 year tenor and a call option at the end of the year 5, under the IDB LACC Sub Debt Facility, approved in 2010. The objective of the proposed transaction is to strength Banco BIF's capital structure to develop and grow their mortgage portfolio.
- 1.3 Based on Directive B.13 of the Environment and Safeguards Compliance Policy, and given that this is a financial intermediary project, this operation is not categorized.

II Environmental and Social Risks and Impacts

- 2.1 Based upon the nature of this operation, there may be minimal to moderate direct environmental, social, health and safety (ESHS) and labor risks and impacts, and thus a limited environmental assessment is required.
- 2.2 The ESHS risks and impacts associated with mortgaging new and existing houses will be related mainly to the magnitude and the location of each individual property to be mortgaged. The key potential project-related ESHS risks and impacts are those typically associated with the location of the property, such as:
 - Properties located on land which may have contamination such as soil and ground water contamination, which may present a human health risk;
 - Particularly in older properties, properties with the existence of lead based paint, friable asbestos containing materials, equipment containing polychlorinated biphenyl compounds, or presence of hazardous gases/materials;
 - Properties that are located on sites of archeological, cultural or historical value;
 - Properties located in areas where previous use/ activities may have resulted in localized environmental problems (i.e. abandoned landfills or waste disposal areas, industrial facilities).
 - Properties located in areas at high risk to natural hazards, such as tornadoes, hurricanes, floods, or from seismic events, and fires.

¹ This ESS will be made available to the public in accordance with the Bank's policy on information disclosure. The ESS does not represent either the Bank's approval of the Project or verification of the ESS completeness or accuracy. The Bank, as part of its due-diligence on the feasibility of the Project, will assess the environmental and social aspects. This assessment will be presented in the Project Environmental and Social Management Report that will be prepared by the Bank, and will be made available to public prior to consideration of the Project by the Bank's Board of Executive Directors.

- Properties located in areas near important or sensitive environmental areas (e.g. containing threatened or endangered species, tropical rain forests, natural parks, etc.)
- Properties located in areas with particular social issues such as the displacement of illegal settlements occupying the property or land on which the property is located;
- Potential discrimination and barriers for an equitable process of providing the mortgages taking into consideration ethnicity, sex, religion, age, etc.

III Strategy for the Environmental and Social Due Diligence

- 3.1 As per the IDB Environment and Safeguards Compliance Policy and Guidelines, and in accordance with the due diligence procedure put in place for the [LACC Subordinated Debt Facility](#), the Bank will assess BIF's capacity for environmental management, through an analysis of the ESHS and labor impacts and risks associated with its mortgage business. This will be done through an analysis of the ESHS and labor risks and impacts associated with the Operation as well as an assessment of Banco BIFs existing ESHS policies and procedures in place to assess and manage these potential risks and impacts.
- 3.2 To that end, the environmental and social due-diligence will specifically include the components listed below:
 - (a) An assessment of Banco BIF's compliance status with the applicable environmental, social, health and safety, and labor regulatory requirements in Peru.
 - (b) An assessment of the sufficiency of BIFs current credit appraisal, approval, and monitoring procedures (existing ESMS, checklists and exclusion list) to manage environmental and social liabilities, risks and/or impacts of residential mortgage loans (i.e. risks from natural hazards, risks from proximity to contamination sources and risks from poorly enforced building codes and standards).
 - (c) An assessment of potential reputational risks associated with BIF's involvement in projects, companies or activities considered unacceptable to the IDB.
 - (d) An evaluation of BIF's status and compliance with the environmental and social requirements of the IDB's Trade Finance Facilitation Program and with other multilateral development facilities and programs.
 - (e) An evaluation to ensure an appropriate inventory of present environmental and health and safety liabilities in Banco BIF's portfolio, and facilities, and if they exists, assess the adequacy of the action plan to properly resolve them.
 - (f) An evaluation of Banco BIF compliance with the Fundamental Principles and Rights at Work and whether they practice fair and unbiased labor practices related to sex, age, ethnicity, cultural heritage, and collective bargaining.
 - (g) An assessment of the adequacy of Banco BIF procedures to ensure that the mortgage finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc).
- 3.3 The results of the due diligence will be presented in an Environmental and Social Management Report and summarized in the Loan Proposal.