

ENVIRONMENTAL AND SOCIAL STRATEGY

Banco Financiera Comercial Hondureña S.A. (FICOHSA)

A. Project Status and Compliance

- 1.1 Banco Ficohsa, states that it is in compliance with all the relevant environmental, social, health and safety and labor applicable country regulations. It conducts an assessment of environmental and social aspects during the credit review process (e.g for mortgages/ development in compliance with land use regulations for SME's and compliance with permits and licenses, etc). However, this assessment is not comprehensive and systematized. As part of IDB's financial assistance to Banco Ficohsa, ESG will assist the Project Company to develop an Environmental Procedure and Environmental Mortgage Procedure to be applied to its operations. Banco Ficohsa was one of the first banks who joined IDB's Trade Finance Facility Program in 2006. The client had implemented an environmental procedure for its trade operations with the help of FMO, before joining the program at the IDB.
- 1.2 Based upon the nature of this Project, there should be limited direct environmental, social, health & safety (H&S) impacts/risks, and thus a limited environmental assessment is required. The potential key environmental, social, health and safety, and labor issues and risks associated with this operation are those related to the specific projects financed by Banco Ficohsa and could include (i) Banco Ficohsa environmental credit risks and (ii) IDB Reputation Risks associated to Ficohsa's environmental, social, H&S, and/or labor practices.
- 1.3 Environmental Credit Risks refer to potential negative effects of Ficohsa's ability to repay the IDB because of: (i) risks due to credit programs associated with the reduction in mortgage asset values or property guaranties/securities due to environmental or social issues (e.g. clean up costs, law suits, fines, etc) and (ii) risks associated with Ficohsa's facilities and operations, such as environmental liabilities in their buildings/offices due to PCB transformers, asbestos, lead paint, etc. or Ficohsa's employees having occupational health and safety problems due to working conditions/environment (e.g. inadequate emergency preparedness, lack of fire exits, etc).
- 1.4 Reputational Risks are associated with Ficohsa's involvement with projects, companies or activities considered unacceptable to the IDB such as (i) goods (companies) which may be considered to be non-eligible by IDB; (ii) Ficohsa's finance application and analysis process that is not equitable, fair, and unbiased in terms of social factors (e.g. gender, age, sex, ethnicity, or cultural heritage etc.); and (iii) significantly deficient labor practices by Banco Ficohsa.
- 1.5 Based on Policy Directive B.13, and given this is a Financial Intermediary project, this operation is not categorized.

B. Strategy for the Environmental and Social Due Diligence

The Bank, as part of the due diligence process, will analyze the environmental and social aspects of the Project and establish environmental, social, health and safety, and labor requirements in the legal agreements. The environmental and social due-diligence will specifically include the components listed below:

- a. An assessment of Banco Ficohsa compliance status with the applicable country (national, state, municipal) environmental, social, H&S, and labor regulatory requirements;
- b. An assessment of the sufficiency of current credit appraisal, approval, and monitoring procedures to manage environmental and social liabilities, impacts and risks of its operations. Current procedure should at a minimum be able to (i) include in the application and analysis process (i.e., underwriting guidelines and risk review process) consideration of environmental or social aspects, and assess potential environmental financial/credit risks and liabilities that may be associated with the loans, (ii) count with credit officers qualified and trained to identify potential environmental, social, H&S, and labor issues/liabilities.
- c. An evaluation to assure an appropriate inventory of present environmental and H&S liabilities in Ficohsa's facilities and operations, and if they exist, assess the adequacy of the action plan to properly resolve them.
- d. An evaluation to ensure that Ficohsa has adequate H&S and Contingency Plans and procedures (i.e. emergency response programs, building evacuation drills, etc) including their technical adequacy, adequate level of training, and sufficient resources to ensure adequate implementation.
- e. An evaluation of Ficohsa's compliance with the Fundamental Principles and Rights at Work and with any other international labor organization conventions and treaties which have been ratified by Honduras, to determine presence of any existing major labor problems associated with Project companies, and whether they practice fair and unbiased labor practices related to sex, age, ethnicity, cultural heritage, and collective bargaining. Ficohsa must have (or develop) written procedures to assure adequate hiring procedures and treatment of employees.
- f. An assessment of the adequacy of Ficohsa procedures to ensure that lending procedures (for Mortgages, SME's and micro-credit), finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc).