

Environmental and Social Management Report
Banco Interamericano de Finanzas (BIF)
PE-L1118

I. Description of the operation

- 1.1 The proposed operation is part of the LACC Subordinated Debt Facility (RG-X1088) approved by the Bank's Board of Executive Directors in August 2010 and consists of a loan of up to US\$20 million, with a 10 year tenor and a call option at the end of year 5, to Banco Interamericano de Finanzas (BIF).
- 1.2 The objective of the proposed operation is to strengthen BIF's capital to support the growth of their mortgage portfolio.
- 1.3 BIF is the sixth largest commercial bank in Peru, and is controlled by the Spanish Fierro Group, through two entities located in the Swiss Confederation. 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 companies and individuals. Information on BIF can be found on <http://www.bif.com.pe/NuestroBanco.aspx>

II. Project Status and Compliance

- 2.1 Based on Directive B.13 of the Environment and Safeguards Compliance Policy, and given this is a financial intermediary project, this operation was not categorized.
- 2.2 BIF has confirmed that it is in compliance with Directive B.2 (country laws and regulations) of IDB Environmental and Safeguards Compliance Policy, complying with all applicable legal and regulatory environmental, social, health and safety, and labor laws and regulations including permits and authorizations.

III. Environmental and Social Risks and Impacts

- 3.1 As of December 2010 BIF's portfolio accumulated a total of US\$1.1 billion. The portfolio breakdown is diverse with 23% in manufacturing, 20% in mortgages, 13% in commerce, 10% in real estate, 7% in consumer loans, 6% in agriculture, 6% in transport and communications, and a group of activities with less than 5% each. BIF has 3.7% of the mortgage loans market share being the fifth largest competitor with approximately 5,000 mortgage loan clients which almost 90% of them live in Lima. The average size of the mortgage loans is US\$47,000.
- 3.2 In general terms, mortgage investments have the potential to generate environmental credit risks. These refer to potential negative effects on BIF's ability to repay the IDB because of: risks due to BIFs credit programs associated with reduction in mortgage asset values or property guarantees/securities due to environmental, social, health and safety (ESHS) issues (e.g. environmental liabilities) or risks due to increased probability of non-

repayment of loan due to environmental and social issues (e.g. law suits, fines, etc) however these risks are considered minimal, and mainly related to the location of the property being mortgaged.

3.3 More specifically, these may include:

- i) Potential impacts on properties located in areas of previous use activities that may result in localized environmental problems, such as abandoned landfills or waste disposal areas, industrial facilities, etc.
- ii) Potential impacts on properties located in areas susceptible to natural hazards, such as hurricanes, floods, seismic events, and fires.
- iii) Potential discrimination and barriers for an equitable process of providing the mortgages taking into consideration ethnicity, sex, religion, age, etc
- iv) Potential risks due to poor construction standards.
- v) Potential impacts on properties with a lack of the basic services (sewage, electricity, water).

3.4 These potential risks and impacts can be mitigated and managed by incorporating a basic mortgage checklist or questionnaire into BIFs existing mortgage loan procedures. This would enable BIF to identify any potential basic environmental and social risks and impacts associated with mortgages.

IV. Environmental and Social Management

4.1 At a corporate level, BIF displays a high level of commitment to environmental and social risk management, through the implementation of an Environmental and Social Management System (ESMS) “*Sistema de Administracion Social y Medioambiental*” which is being implemented since 2009, and updated in 2010. BIF’s “*Sistema de Administración Social y Medioambiental*” is applied to its corporate banking portfolio. The ESMS is implemented at the earliest stage of the credit cycle, requiring checks against a list of excluded activities consistent with the IDBs List of Excluded Activities for NSG Operations, the categorization of the transaction according to its environmental risk (categorized A, B, C) as well as the completion of an environmental questionnaire (completed by the Credit Executive) and an evaluation of environmental risks (completed by the client). Depending on the level of potential risks identified, the ESMS provides instructions on the actions that may be required, responsible parties for implementing actions and on monitoring and compliance reporting.

4.2 The responsibility to implement the ESMS is shared by three BIF deputy managers, one in each Vice-presidency; Deputy Business General Manager and Deputy Risk General Manager. An annual budget is assigned to ensure that the ESMS can be updated, as required, on an annual basis, with the support of an environmental specialist.

4.3 In terms of the proposed transaction, BIF’s management of environmental and social risks and impacts associated with residential mortgages relies mainly on Peruvian environmental legislation and banking regulations, and is not covered by its ESMS but by BIF’s *Manual de Normas y Procedimientos: Prestamos Personales Hipotecarias*, which

is the principal document defining the credit process for residential mortgages. Based on this Manual, the assessment of a potential new mortgage, includes some basic information on the location of the property such as the adequacy of the site and/or industrial contamination/waste from adjacent or previous land uses, susceptibility to certain natural hazards such as floods, materials used for construction and the existence of basic services such as water, sewage and electricity. The information is assessed and generated by a third party evaluator. In this process BIF works with 25 evaluators companies (9 in Lima and the other 16 in the rest of the provinces), which are annually certified by the “Superintendencia de Banca y Seguros (SBS)” which is the national institution that regulates and supervises the banks and insurance companies in Peru. The only provisions missing in the Manual to assess the key risks associated with mortgages (see paragraph 3.3) are mechanisms to assess the existence of hazardous substances, mainly asbestos and lead paint that could be used in houses and for which there are no regulations in the Peruvian legislation.

V. Environmental and Social Requirements

- 5.1 The Bank will require as part of the Loan Agreement that BIF:
 - i) Comply with all applicable Peruvian environmental, social, health and safety, and labor regulatory requirements, IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations and the Fundamental Principles of the Rights of Work.
 - ii) Enhance BIF’s existing mortgage process (*Manual de Normas y Procedimientos: Prestamos Personales Hipotecarias*) to ensure that new residential mortgages are assessed against the key environmental risks of mortgages (potential environmental liabilities related to the use of lead paint and asbestos). BIF will require the evaluators to include a simple checklist or questionnaire as part of their property report to gather information on key environmental and social risks.
- 5.2 The IDB will supervise the environmental and social aspects of the Loan Agreement and will require BIF to present environmental and social compliance reports in form, content and frequency satisfactory to the IDB.