

Environmental and Social Strategy (ESS)
Brazilian Securities (“BSec”) Mortgage Securitization Partnership

I Overview

- 1.1. This Loan of approximately US\$125 million will be used by BSec to finance the acquisition and accumulation of eligible residential and commercial mortgage instruments in Brazil for further securitization in the domestic capital markets. It will provide BSec with long-term financing for mortgage instruments acquisition and warehousing, difficult to obtain in the domestic market but essential for its activity. This will support BSec to continue promoting the standardization of mortgage instruments’ terms, conditions and contracts, introducing innovations and increasing the frequency and volume of its securitization issuances, thereby contributing to the expansion and sophistication of this asset class in the Brazilian capital markets.
- 1.2. BSec has previously been a client of IDB for which a set of environmental and social procedures were required and implemented (see Management of E&S Risks section below). 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. Based on early indication, this operation is considered low risk.

II Management of Environmental and Social Risks

- 2.1 Under a previous loan (BR-L1032), BSec was required to: (i) develop and implement an Environmental Mortgage Procedure, (ii) ensure all properties (mortgages) comply with the predetermined environmental and social eligibility criteria, (iii) review all commercial mortgages against the IDB environmental exclusion list, and (iv) ensure BSec is compliant with the environmental and social provisions of the legal agreement. The client has confirmed compliance with these procedures.

III Environmental and Social Risks and Impacts

- 3.1 Based upon the nature of this operation focused on both residential and commercial real estate, there may be minimal to moderate direct environmental, social, health and safety (ESHS) and labor risks and impacts, and thus a limited assessment focused on BSec’s continuing E&S management as described in Section II above is required.
- 3.2 The ESHS risks and impacts associated with mortgaging new and existing houses and commercial properties 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, those 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.
- 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.

IV Strategy for the Environmental and Social Due Diligence

- 4.1 As per the IDB Environment and Safeguards Compliance Policy and Guidelines, IDB will assess BSec's capacity and track record for environmental and social management, and the overall adequacy and effectiveness of the current procedures to assess and manage potential risks and impacts with regard to BSec's securitization business and future plans.
- 4.2 To that end, the environmental and social due-diligence will specifically include the components listed below:
- (a) An assessment of BSec's compliance status with the applicable environmental, social, health and safety, and labor regulatory requirements in Brazil.
 - (b) An assessment of BSec's existing ESMS, the sufficiency of the current credit appraisal, approval, and monitoring procedures (existing ESMS or Procedure, checklists, exclusion list) to manage environmental and social liabilities, risks and/or impacts of residential and commercial mortgage loans.
 - (c) An assessment of potential reputational risks associated with BSec's involvement in projects, companies or activities considered unacceptable to the IDB.
 - (d) An evaluation of BSec's status and compliance with the environmental and social requirements agreed with IDB in prior operations, and if appropriate, with the requirements of other multilateral development facilities and programs.
 - (e) An evaluation of the effectiveness of BSec's current mortgage procedure in managing the ESHS risks described in paragraph 3.2 above and identification of needed improvements, if any.
 - (f) An evaluation of present environmental and health and safety liabilities in BSec's portfolio, and facilities, and if they exist, assess the adequacy of the action plan to properly resolve them.
 - (g) An evaluation of BSec's 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.
 - (h) An assessment of the adequacy of BSec's 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.).

- 4.3 Based on the results of the assessment IDB will agree with BSec on any additional measures, if required, to be included in the operation to address its environmental and social impacts.
- 4.4 The results of the due diligence will be presented in an Environmental and Social Management Report and summarized in the Loan Proposal.