

Environmental and Social Strategy (ESS)¹ Banco BAC San Jose, S. A. (BAC)

I Overview

- I.1 Banco BAC is part of BAC Credomatic, which is wholly-owned by Banco de Bogota, which is in turn majority-owned by Grupo Aval (65%) from Colombia. Minority shareholders own the remaining shares (35%), none of whom holds more than 10% of the shares of Banco de Bogota. The Bank provides a full range of financial services to corporate clients and individuals. As of June 2011, Banco BAC's assets amounted to US\$2.3 billion, ranking as the largest private bank in Costa Rica. As part of Banco BAC's commitment to corporate social responsibility, it has developed various initiatives, for example, in 2009, it approved the policy that established an environmental and social risk management system for its lending operations, and in 2010 obtained ISO 14001:2004 certification for two of its administrative buildings. For further information visit www.bac.net
- I.2 The operation consists on providing Banco BAC with up to US\$50 million of long-term financing, whereby up to US\$40 million will be in the form of a senior A-loan with a tenor of up to five years. Subject to market demand, the IDB will attempt on a best effort basis to syndicate the approximately US\$10 million senior B loan to complement the Facility. The objective of the proposed transaction is to broaden and deepen the scope of the bank's key business areas in mortgage financing to lower- and middle-income individuals and to expand its lending to small and medium-sized enterprises ("SME").
- I.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:

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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 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.
- 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.

2.3 The ESHS impacts and risks associated with loans to SMEs will be of varied nature depending mainly on the type of activity being financed. These ESHS risks and impacts may be minimal to moderate, for example related to trade and commerce of products and substances subject to bans and international phase outs (trade finance); habitat conversion and degradation (construction, agriculture, transport, energy); aquatic biodiversity loss (fisheries, hydropower); solvent emissions and waste (print shops, tanneries); occupational health and safety (industry, construction, agriculture); poor land use (construction, agriculture); noise and air pollution (industry, construction), increased greenhouse gas emissions (industry, energy).

III Strategy for the Environmental and Social Due Diligence

3.1 As per the IDB Environment and Safeguards Compliance Policy and Guidelines, the Bank will assess Banco BAC's capacity for environmental management, through an analysis of the ESHS and labor impacts and risks associated with its mortgage and SME lending 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 BAC's 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 BAC's compliance status with the applicable environmental, social, health and safety, and labor regulatory requirements in Costa Rica.
- (b) An assessment of Banco BAC's existing ESMS, the sufficiency of the current credit appraisal, approval, and monitoring procedures (checklists, exclusion list) to manage

- environmental and social liabilities, risks and/or impacts of SME and residential mortgage loans.
- (c) An assessment of potential reputational risks associated with Banco BAC's involvement in projects, companies or activities considered unacceptable to the IDB.
 - (d) An evaluation, if appropriate, of Banco BAC's status and compliance 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 BAC's portfolio, and facilities, and if they exist, assess the adequacy of the action plan to properly resolve them.
 - (f) An evaluation of Banco BAC'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.
 - (g) An assessment of the adequacy of Banco BAC'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).

3.3 The results of the due diligence will be presented in an Environmental and Social Management Report and summarized in the Loan Proposal.