

ENVIRONMENTAL AND SOCIAL MANAGEMENT REPORT
BANCO CONTINENTAL FINANCING FACILITY
(PE-L1065)

Project Description

The proposed project involves a financing facility to Banco Continental (Continental), one of Peru's leading financial institutions. This facility represents an additional step in the partnership established in 2006 between the Bank and the Continental when the IDB approved a US\$ 120 million facility to provide long term senior and subordinated financing. The proposed project would consist of:

- 1) A subordinated loan, structured as an A/B loan where the IDB would fund up to US\$15 million. This Subordinated Tranche will provide additional support to Continental's capital position (Tier II Capital), and will expand its long term loan portfolio, specially mortgage financing, while strengthening Continental's funding, liquidity and capital position.
- 2) A senior loan, Senior Tranche, of up to 30 million to enable Continental to expand its sustainable lending for micro, small and medium enterprises (SME) particularly those adopting measures related to energy efficiency, sustainable forestry, clean energy and industrial environmental certificates.

Compliance

The Environmental and Social Strategy for the Environmental and Social Due Diligence was presented and approved ESR on August 28, 2008, and no further action was required, except sending the ESMR to Environmental and Social Review (ESR/ESG) for information only.

The *BBVA* group is a subscriber to the Equator Principle, and thus is committed to comply with the IFC safeguard policies for any project finance over US\$ 10 million. As part of the Environmental and Social Management Plan associated to the previous loan Continental created an Environmental Unit which is developing with the support of Sustainable Finance, Ltd., an external consultant, an Environmental Management System (EMS) to comply with the IDB requirements. The process of customization and implementation of the EMS and the Sustainable Energy and Climate Change Initiative (SECCI's) eligibility criteria guidelines should start once the current Facility is approved. The EMS implementation is estimated to begin during the last quarter of 2008. The key components of the scope of work for Sustainable Finance are as follows: (i) assess the relevant environmental and social impacts and risks associated with Continental's lending business (e.g., corporate loans, consumer credit, project finance, mortgage finance, etc.); (ii) develop the EMS in form and substance satisfactory to the IDB, and (iii) provide ongoing support to Continental for the first six months to strengthen its technical and

management capacity to implement its EMS . The sustainable line for SME's eligibility criteria and approval process is being jointly developed among Continental, SECCI and IDB. The project team will share with IDB/ESG the final eligibility criteria as well as approval mechanism for technical assistance defined by SECCI, once they are agreed by all the parties and before closing of the Sustainable Line.

In terms of environmental management, Continental currently has a sustainable line of US\$30 million financed by IFC. This line is directed only to SME projects that include energy efficiency and sustainable forestry components. It's envisioned that IDB's new facility will expand the efforts achieved by the existing IFC line and further expand the use of proceeds to other sustainable projects such as: integrated solid waste management, water and sanitation and cleaner production technology among others. The final composition of the portfolio will be determined by market demands and regulatory needs in Peru.

The IDB is expected to use SECCI resources to foster Continental's knowledge capacity to enable appropriate assessment and identification of opportunities in carbon emission reduction (CER) projects in SME's.

Environmental and Social Requirements.

The Bank will require as part of the Loan Agreement that *Continental* comply with each of the following:

- 1) All applicable country environmental, social, health and safety, and labor regulatory requirements
- 2) All applicable aspects of the IDB Environmental and Safeguard Compliance Policy (OP-703)
- 3) The Fundamental Principles of Rights at Work
- 4) IDB's List of Excluded Activities for Non-Sovereign Guaranteed Operations (NSG), Trade Finance Exclusion List and SECCI environmental and social eligibility criteria required to assess potential borrowers of the sustainable line (Senior Tranche).
- 5) Compliance with the EMS and all environmental and social provisions.
- 6) During the life of the Facility, Continental will be required to prepare and submit an Environmental and Social Compliance Report (ESCR), in frequency, form and content acceptable to IDB.
- 7) The Bank will monitor the Facility's environmental, social, health and safety aspects via internal Bank supervision.