

Annex XI - Environmental and Social Management Report

Project Description

The proposed project entails a long term financing facility (the “Facility”) that will enable Global Bank (“GB”) to finance the growth of its long-term loan portfolio, including housing finance and lending to small and medium enterprises (SMEs). The proposed IDB senior unsecured loan would provide up to US\$45 million senior A loan (the “A Loan”) with a tenor of five years, with an anticipated participation, subject to respective approvals, of the IIC for up to US\$20 million. In any event, the maximum exposure for the IDB will be capped at US\$25 million. Furthermore, subject to market demand, the IDB will try to syndicate approximately US\$20 million senior B loan (the “B Loan”) on a best effort basis.

Founded in 1994 by a group of local entrepreneurs, GB has established itself as the sixth largest bank (second largest locally controlled private bank). The bank initially focused on corporate lending in Panama City and the Colon Free trade zone. After growing steadily for five years, GB acquired Colabanco in 1999 to enhance its presence and enter in the retail segment.

Project Status and Compliance

The Environmental and Social Strategy for the project was presented on October 10, 2008 by the Environmental Safeguards Review (ESR) team. The ESR requested additional information on specific potential impacts from investments in SMEs. These additions were made and submitted to ESR on October 21st for information.

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.

GB has confirmed that it is in compliance with Directive B.2 (country laws and regulations) 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, such as those required by The National Environmental Authority of Panama (ANAM).

Environmental and Social Impacts and Risks

The potential key environmental, social, health and safety, and labor issues and risks associated with this Facility are mainly those related to the mortgages to be financed by BG as well as to the construction loans, which could finance housing development projects for which GB could eventually provide mortgages from the Facility. GB has a relatively new and rapidly expanding mortgage business in Panama. In June 2008 GBs mortgage portfolio totaled US\$64.5 million (US\$34.1 million in June 2007), 31% (21% in 2007) of which was for preferential interest rate mortgages (low income housing for properties with a value of under \$80,000). GB relies on the regulatory framework in Panama for the assessment of environmental and social impacts and risks. For all newly constructed properties BG requires an Occupation Permit (which must be

approved by the respective authorities for water, waste and fire and safety) before a mortgage is granted. For older properties, BG requires an Evaluation Inspection before a mortgage is granted, which includes consideration of water, sanitation and natural hazards. Currently GB does not have an environmental procedure to assess the environmental and social aspects related to residential mortgages and does not apply an exclusion list.

For GB financed construction of preferential (low-income) housing, GB requires a Construction Permit from the Municipality Office as well as an approved resolution from The National Environmental Authority of Panama (ANAM) (confirming the results of an EIA) before any disbursements can be made. In order to receive these, the construction plans must be approved by the respective authorities for water, waste, and fire and safety. Third party inspections are conducted prior to each disbursement to ensure compliance with the permit and resolution. A list of authorized third party inspectors is detailed, by specialty, in the Banco Global Credit Manual.

GB's SME portfolio (loans up to \$100,000) has a current value of US\$13.8 million (September 30, 2008). This includes investments in hotels and restaurants, industry, transport, construction, printing services and fisheries. Currently no environmental and/or social screening criteria are applied; however the list of projects requiring EIAs is used to ensure compliance with applicable environmental law. Specific risks related to SME investment in certain sectors may include: activities such as transport and construction (which may have impacts associated with noise, dust, traffic, health and safety as well as location); print shops (solvent emissions and waste); or fisheries (overfishing, aquatic biodiversity loss), to give a number of examples.

GB has stated that it has no financial liabilities in its existing portfolio, related to environmental, social and health and safety issues.

The risks associated with GB facilities and operations, such as environmental liabilities in their offices due to asbestos, lead paint, etc. or BG employees having occupational health and safety problems due to working conditions (e.g. inadequate emergency preparedness, lack of fire exits, etc) are considered to be minimal. GB's head office is located in the city of Panama. GB's "*Banking Security Manual*" (2001) contains detailed information on all security aspects related to GB's two Panama City offices, as well as its 28 regional branches. GB has a designated officer to manage security issues (including fire and evacuation). The head office is inspected by the fire department on a yearly basis and each floor has the corresponding fire extinguishers. However, currently GB does not conduct evacuation drills and does not have well marked evacuation signage. Acuerdo 1 (2007) of the *Superintendencia de Bancos de Panamá* stipulates legal requirements for all Banks with respect to fire regulations, including evacuation. To date progress has been made by developing an Evacuation Plan (including evacuation drills and signage). This Plan has been approved by GB Management and is awaiting approval from the Panamanian fire authority.

GB has a senior management approved Human Resources Manual that includes procedures and information related to: recruitment selection, training, compensation practices, among others, and contains stated references to the Panamanian *Codigo Laboral de Trabajo*, which includes the fundamental principles of work. GB's Code of Ethic includes stated reference to respect, fair and equal treatment as a basis for labor relations. All employees receive a copy of the Code, which

must be signed as understood and GB provides training on the Code to new Employees. All GB employees have a private health plan (medical, hospital and emergency). GB has stated that they have no material health issues (including legal claims) and do not have any materials employee or labor disputes. GB has also stated that its finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage).

Other Risks

During IDB's environmental and social due diligence, GB disclosed one particular aspect of its current portfolio that raised a certain level of concern regarding other potential risks (reputational, financial and legal) arising from the involvement of BG in a hydroelectric project in the Changuinola/Teribe watershed¹. In 2007 GB became part of a syndicate of 11 Panamanian and Central American financial institutions, to fund the AES Changuinola, S.A. (AESC) development of CHAN 75 (Changuinola I Hydroelectric Project), a 223-MW facility located on the Changuinola River in Bocas del Toro Province near the town of Almirante in northwestern Panama.²

GB has a US\$ 25 million investment in AESC for the development of CHAN 75. Initially there were a number of environmental and social concerns raised by local indigenous communities and environmental groups, however some recent investigations during IDB's due diligence have indicated that these have been satisfactorily resolved. GB also has investments of US\$2 to US\$5 million in four other hydroelectric and thermal projects.

GB has stated that it has no outstanding environmental, social, health and safety concerns, through involvement in these or other projects, companies or that could potentially generate significant public opposition or concerns, for example due to inappropriate development location.

Environmental and Social Management

Environmental and Social Management System

GB does not have an Environmental Management System (EMS). To date their focus has been on compliance with applicable Panamanian law. Its Credit Manual (which all credit officers adhere to) contains an Annex detailing a list of projects requiring an Environmental Impact Assessment (EIA), in order to comply with Panamanian environmental law. Two officials of the Credit Administration Department attended the IIC-IDB Environmental Management for FIs workshop (Mexico, 15-17 October 2008).

¹ The Changuinola/Teribe watershed is 3,202 square kilometers (sq. km.), of which approximately half is located La Amistad International Peace Park and Biosphere Reserve, shared between Panama and Costa Rica.

² AESC was also awarded the two other dams (CHAN 140 and CHAN 220) in the same watershed.

Corporate Social Responsibility

GB has a strong corporate social responsibility ethic, which includes financial contributions to social programs with a strong focus on supporting children's foundations and charities such as *Fundación Pro-niños del Darien* and *Casa Esperanza*. It also operates a staff volunteer program, whereby members of staff give their time to develop activities in poor communities throughout Panama.

Environmental and Social Requirements

The Bank will require as part of the Loan Agreement that GB comply with all applicable Panamanian environmental, social, health and safety, and labor regulatory requirements, IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations, and with the Fundamental Principles of the Rights at Work.

Prior to financial closure, the IDB will require GB to present an Environmental, Social and Health and Safety (ESHS) Action Plan in form and substance satisfactory to the IDB that specifically includes a chronogram for the development and implementation of an EMS that will apply to GB's residential mortgage business and SMEs operations; a chronogram for conducting emergency evacuation drills and implementing evacuation and emergency exit signage in all BG facilities; as well as an assessment by the IDB on GBs participation as a lender on the Changuinola I Hydroelectric Project, and in other hydroelectric and thermal projects in its portfolio. The results of this assessment should provide recommendations to enhance the GBs EMS particularly with respect to future investments in sectors that could have potential reputational risks associated with environmental and social issues. This condition will be, therefore, part of the Loan Agreement to be negotiated with the GB.

The level of detail of the EMS will be commensurate to the potential environmental and social risk associated with GBs portfolio, and will include at a minimum: (i) project eligibility criteria (Environmental Exclusion List); (ii) a process for assuring compliance with local environmental and social legal requirements, (iii) mechanisms for assessing and managing environmental and social aspects associated with its residential mortgage portfolio and SME portfolio; (iv) a process for documenting evaluation, approval and monitoring performance; and (v) training. The IDB will supervise the environmental and social aspects of the Loan Agreement either by an in-house specialist or with external consultants, and require BG to present environmental and social compliance reports in form, content and frequency satisfactory to the IDB.