

Environmental and Social Review Summary (“ESRS”) Banco Promerica Guatemala – Sustainable Bond / 14248-01 – Guatemala

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- 1. Scope of Environmental and Social Review.** The Environmental and Social (“E&S”) assessment of the proposed transaction was carried out during the second half of 2023 through a documentation review and discussions with the Credit Management areas, including E&S risk management and the Finance Management Area. The documents reviewed covered E&S risk assessment and human resources management policies and procedures. Banco Promerica S.A. (“BPGT” or the “Bank”) is an existing client. IDB Invest is related to Promerica Financial Corporation (hereinafter, “PFC” or “Promerica Financial Group”) in seven out of the nine countries where they operate.
- 2. Environmental and Social Categorization and Rationale.** The proposed issuance is classified as FI-2 in the terms of the IIC’s Environmental and Social Sustainability Policy. The potential E&S risks of the subprojects within the issuance are moderate. The potential underlying loans will be aimed at Micro, Small-, and Medium-Sized Enterprises (“MSMEs”), as well as to the Bank’s green portfolio, which includes the corporate portfolio.

The issuance is deemed as universally aligned with the provisions of the Paris Agreement on mitigation and adaptation goals, based on the analysis in line with IDB Group’s Paris Alignment Implementation Approach. As part of the Environmental, Social and Governance (“ESG”) work within the sustainable banking framework, BPGT is currently developing a strategy to map climate change risks and opportunities, which involves the carbon footprint impact and reduction measurement covering the analysis of its portfolio.

Category A subprojects (high risk), as per IDB Invest’s definition, will be excluded. The potential issuance will be subject to all the applicable regulatory approvals before its formalization, IDB Invest’s Exclusion List and the Eligibility List.

- 3. Environmental and Social Risks and Impacts.** The main E&S risks of the potential issuance are associated with BPGT’s capacity to identify and manage the E&S risks of its issuing activities. The potential risks associated with its main lending activities include labor rights, and pollution prevention and mitigation.

The Bank defines MSMEs as any loans granted to micro-, small-, or medium-sized enterprises with annual revenues up to US\$8 million and assets up to US\$15 million. BPGT’s subloans to the MSME segment include amounts of US\$22,000 to US\$944,000 with an average of US\$ 138,000 and a term of 1 to 8 years. The Bank’s MSME portfolio is mainly made up of loans to the following industries: trade (35.6%), manufacture (18.6%), services (17.0%), construction (16.1%), agriculture (6.6%), tourism and hospitality (0.8%) and other (22%).

About 5.4% of BPGT’s total portfolio is focused on MSMEs and 22.8% on corporate clients, out of which 10.1% is aimed at the green portfolio. As of Q4 2023, the green portfolio includes energy efficiency (55.1%), environmental certification (21.7%), green capital (21.2%), recycling (1.6%) and renewable energy (0.4%).

BPGT applies IDB Invest’s Exclusion List. In 2016, BPGT adopted and adapted its corporate Environmental and Social Risk Management (ESMS) policy; likewise, in 2021, it developed a E&S Risk

Manual for consistency in the E&S assessment process across the Group banks. The Bank is in the process of implementing the International Finance Corporation (“IFC”) Performance Standards (“PSs”) and detailed forms broken down by sector and specific for the country.

The classification of the E&S risk and the depth of the E&S Due Diligence (“DD”) are determined by two factors: economic activity and use of funds. The Bank defines three levels of DD: E&S risk category A, B, C (Category I, II and III, respectively). In the case of transactions where the combination of the Company’s economic activity, and the purpose and use of the funds result in the classification as Category C, a basic DD will be carried out; that is to say, verifying compliance with local regulations and the Exclusion List. DDs for Category A and B projects consist in the regulatory base and the E&S risk classification form, a detailed questionnaire and a sector analysis. The loans with the highest E&S risks (Category A) will require an annual visit to the field. The projects¹ exceeding US\$10 million and lasting longer than 36 months require the assistance of a consultant and the application of the IFC’s PSs.

Since 2021, Promerica Financial Group has subscribed the Principles for Responsible Banking and it started to design a sustainability strategy by appointing country leaders to develop and implement the strategy through local sustainability committees.

4. **Mitigation Measures.** The Bank will need to confirm that all the loans to MSMEs and green portfolio loans included in the issuance meet IDB Invest’s Exclusion List, the applicable local E&S legislation, the Eligibility List, the Sustainable Bond Framework and the ESMS policy manual of the Bank applied locally.

If solar energy projects are included in the issuance and entail a direct relationship with the solar panel provider, BPGT will assess the risk of forced labor in the solar panel supply chain. In the event of higher risk subloans or Project costs exceeding US\$10 million and the tenor being over 36 months, the Bank shall apply the IFC’s PSs. The eligibility criteria of the potential bond shall establish the conditions to be met by the potential subloans to be deemed sustainable. These criteria are consistent with the International Capital Markets Association (“ICMA”) principles.

5. **Environmental and Social Action Plan (“ESAP”):**

Item	Task	Activity	Deliverable	Compliance
1	Updating the Bank’s Environmental and Social Management System (“ESMS”)	Banco Promerica Guatemala will deliver the updated ESMS policy, manual and tools.	Updated ESMS policy, manual and tools	12 months after the issuance
2	Assessment of the first three transactions within the green business sector with medium or high E&S risk where the IFC’s PSs are applicable	The Bank will send the first three transactions categorized as with inherent medium and/or high E&S risk applying the PSs for IDB Invest’s review and comment in order to: (i) confirm the E&S categorization; and (ii) assess the proposed action plan.	DD report of the three transactions	Upon each transaction

¹ It means any development in any sector at an identified location which includes green field developments and/or expansion and/or improvement of an existing operation.

Item	Task	Activity	Deliverable	Compliance
3	Strengthening the labor risks assessment in the supply chain for solar energy subprojects	Preparing and implementing a procedure to assess labor risks in the solar panel supply chain in solar energy subprojects.	Approved procedure	6 months after the issuance
4	Capacity development and training	The Bank will train all the Financial Analysis and Credit Management area personnel in the implementation of the ESMS following IDB Invest's Exclusion List, local regulations and PSs, when applicable. Ensuring that all the new personnel in charge of risk assessment and/or ESMS implementation receive the training.	Post-training certificate of the personnel in charge of implementing the ESMS, and of every new hire	12 months after the issuance Every time there is a new hire in risk management

6. **Contact Information.** For project inquiries, including environmental and social questions related to an IDB Invest transaction please contact the client (see **Investment Summary** tab), or IDB Invest using the email divulgacionpublica@iadb.org. As a last resort, affected communities have access to the IDB Invest Independent Consultation and Investigation Mechanism by writing to mecanismo@iadb.org or MICI@iadb.org, or calling +1(202) 623-3952.