

Environmental and Social Review Summary (“ESRS”) Banco Sabadell México Green Financing Agreement / 12987-01 – Mexico

Original language of the document: Spanish
Issuance date: July 2021

- 1. Scope of Environmental and Social Review:** The Environmental and Social (E&S) analysis of the proposed transaction consisted in reviewing the documentation and holding discussions with officials and members of the management of Sabadell Mexico. Sabadell México is a new client for IDB Invest but has worked with multilateral Banks and understand its E&S requirements. In 2019 it closed a transaction with the International Finance Corporation (IFC) to finance green construction and hotels.
- 2. Environmental and Social Categorization and Rationale:** The proposed transaction is classified as an IF-2 per IIC Invest’s Environmental and Social Sustainability Policy. The subprojects to be supported have moderate risk potential, i.e., the subloans granted by Sabadell Mexico include or are expected to include activities with relatively few potential limited adverse environmental and social risks, generally specific to the site, mostly reversible and that may be remedied through mitigation measures. The subloans to be granted by the Bank using IDB Invest funds will be earmarked for green loans. A portion of the resources will be used to finance SMEs while another will be aimed at the corporate sector.

Small and Medium-Sized Enterprise (SME) customers are defined by Sabadell México as those with revenues of up to US\$200 million. The average loans in this portfolio amount to US\$2 million with an average term of four years. The four main sectors in this portfolio are: (i) food and beverages, 31%; (ii) tourism, hotels, and leisure, 16%; (iii) commercial real estate (CRE), 14%; and (iv) textiles and footwear, 6%.

The Bank defines corporate customers as those with revenues of over US\$200 million. The average loans in the corporate portfolio amount to US\$19 million with an average term of six years. The main sectors in the corporate banking portfolio are: (i) tourism, hotels, and leisure, 32%; (ii) electricity, water, and gas, 19%; (iii) CRE, 13%; and (iv) food and beverages, 5%. Sabadell Mexico’s five largest corporate renewable energy subloans in the portfolio relate to wind power and photovoltaic power generation between 66MW and 405MW, and over a term of 12 to 20 years.

Sabadell Mexico has in place a Conceptual Human Resources Management Manual, a Welfare and Health at the Workplace Policy, and an Equity, Diversity and Labor Inclusion Policy consistent with the Mexican Federal Labor Law. As of May 31, 2021, the Bank has 478 employees, out of whom 38% are female. At the Bank, 21% of management positions are occupied by women.

The Bank adheres to the sustainability protocol and green bond principles of the ABM (Mexican Banking Association). It is a member of Sustainable Banking Network (SBN) and the Equator Principles Association.

IDB Invest’s resources may not be used by Sabadell Mexico to finance any category A (high risk) projects or projects in IDB Invest’s Exclusion List or renewable energy projects with a total generating capacity exceeding 10 MW.

- 3. Environmental and Social Risks and Impacts:** The E&S risks of this transaction relate to Sabadell Mexico’s ability to assess and manage any risks related to their investments.

The Bank is in the process of implementing an Environmental and Social Management System (ESMS) in its construction business line. During the first half of 2021 Sabadell implemented it in two green construction projects and it intends to implement its ESMS in the rest of its portfolio during the second half of 2021. Sabadell Mexico hired a Sustainability Manager as the person in charge of implementing the ESMS. The Bank assesses the E&S risk of its transactions based on the relevant local legislation, the IFC Performance Standards, the Equator Principles and hires external consultants when required by such principles,¹ for category A projects and certain B category projects, when deemed appropriate (under the ESMS).

- 4. Mitigation Measures:** Sabadell Mexico should assess, manage, and monitor the E&S risks by applying an ESMS consistent with the guidelines in the IFC’s PS 1. ² Also, the ESMS should develop and adopt processes, procedures, forms, and contractual requirements for loans to SMEs, as well as corporate. The Bank personnel in charge of implementing the ESMS will train business and management personnel on the implementation of such ESMS.

Any financing granted by Sabadell Mexico using IDB Invest’s resources should meet the provisions in IDB Invest’s Exclusion List, local and federal E&S laws, and the IFC standards, when applicable.³ In order to disseminate IDB Invest’s requirements, the personnel in charge of supervising and implementing the ESMS should attend IDB Invest’s E&S Risk Management training for financial intermediaries.

5. Environmental and Social Action Plan (ESAP):

ITEM	TASK	ACTIVITY	DELIVERABLE	COMPLETION DATE
1	Application of IDB Invest’s exclusion list.	Ensuring that all the activities in IDB Invest’s Exclusion List are included in Banco Sabadell’s Exclusion List prepared as part of its ESMS.	Updated Exclusion List.	Prior to the first disbursement.
2	Enhancement of its Environmental and Social Management System (ESMS).	Including E&S due diligence processes/procedures in its ESMS to identify any risks and impacts in all its portfolio (particularly, SMEs and corporate loans). The ESMS should indicate that when project costs exceed US\$10 million and/or their tenor is over 36	ESMS including SME and green corporate customer processes and procedures	9 months after first disbursement.

¹ Corporate loans related to a project in which the customer has operational control, the total loan amounts to at least US\$100 million and the loan term is shorter than two years (Equator Principles III)

² Interpretation note on Financial Intermediaries https://www.ifc.org/publications_policy_interpretationnote-fi

³ When project costs exceed US\$5 million and/or the tenor is longer than 36 months.

ITEM	TASK	ACTIVITY	DELIVERABLE	COMPLETION DATE
		months, Sabadell Mexico will require that PSs be applied.		
3	Assessment of: a. The first three green SME transactions ⁴ . b. The first three green corporate transactions.	Sending the first three green SME transactions ⁵ and the first three green corporate transactions for IDB Invest's review and feedback to: (i) confirm the E&S categorization and (ii) assess the proposed action plan.	Pilot Project Implementation and Assessment Report (six in total).	Upon having each transaction.
4	Enhancement of skills and training.	Sabadell México will train its business and management personnel on the E&S requirements of federal laws and the implementation of the IFC's PSs. Ensuring that all new personnel in charge of implementing the ESRMS attend the training sessions.	Attendee list and contents of the training sessions E&S training certificate of the personnel in charge of implementing the ESRMS and whenever new personnel is hired.	6 months after first disbursement Whenever new personnel in charge of implementing the ESRMS to be included in the Annual Monitoring Report is hired.
5	External Communication Mechanism.	Implementing and maintaining an external communication procedure, including methods to receive, record, examine and assess, track, respond and resolve any external doubts or grievances following PS 1 requirements.	Evidence of the external communication mechanism implementation.	6 months after first disbursement.

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 requestinformation@idbinvest.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.

⁴ Those exceeding US\$1 million.

⁵ Ditto footnote 2.