

## Environmental and Social Review Summary (“ESRS”) Banco de América Central S.A. – BAC Guatemala Sustainable Bond / 14247-01 – Guatemala

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- 1. Scope of Environmental and Social Review.** The Environmental and Social (“E&S”) assessment of the proposed transaction consisted in reviewing the relevant documentation and holding discussions with members of the management team and E&S staff of Banco de América Central S.A. (the “Bank”). The Bank is an existing client of IDB Invest and has shown satisfactory E&S performance.
- 2. Environmental and Social Categorization and Rationale.** The proposed issuance is classified as FI-2 under the IIC Sustainability Policy. The segments to be supported have moderate risk potential, i.e., the subloans granted by the Bank include or are expected to include activities with relatively few potential limited adverse E&S risks, generally specific to the site, mostly reversible and that may be remedied through mitigation measures.

The proceeds from the issuance will be designated to finance subloans for micro-, small- and medium-sized enterprises (“MSMEs”), and larger companies (corporate clients). The subloans for social projects will focus on providing funds for MSMEs in general, as well as, for MSMEs led or owned by women or women in vulnerable areas, and possibly involving education and employment creation. The tentative green projects will fall in one of the following nine categories: (1) Clean transport, (2) Renewable energy (including hydro power plants of up to 10 MW and solar power plants of up to 20 MW), (3) Energy efficiency, (4) Sustainable construction, (5) Waste management, (6) Sustainable agricultural production, (7) Water and wastewater sustainable management, (8) Sustainable fishing and aquaculture, and (9) Circular economy. The specific sectors and segments to be included in this issuance will align with the provisions in the related Sustainable Bond Framework of this issuance.

BAC Credomatic financial group’s<sup>1</sup> portfolio is made up of personal banking (50%), large companies (corporates) (34%), small- and medium-sized enterprises (“SMEs”) (7%), project financing (7%), and micro-enterprises (2%). The Bank’s portfolio is mainly made up of the following sectors: services (39%), trade (22%), manufacturing (16%) and real estate (8%).

The loans to micro-enterprises amount to US\$58,000 on average, whereas for SMEs they average US\$374,000 and for larger companies (corporates) the average is about US\$2.8 million. The tenor of the loans granted by these three segments range between three and eight years. The most widely represented sectors in these segments are manufacturing (27%), trade (16%), construction (11%), real estate (10%), power supply (10%) and agriculture (10%).

The Transaction is considered Paris Agreement aligned based on an analysis conducted in accordance with the IDB Group’s Paris Alignment Implementation Approach.

IDB Invest’s resources may not be used by the Bank to finance any category A (high risk) subprojects based on IDB Invest’s definition, or projects in the sectors included in the IDB Invest Exclusion List. The issuance will follow the eligibility criteria described in the framework for the use of funds designated and International Capital Market Association (“ICMA”) principles for green and social bonds, as well as its Sustainable Bonds Guidelines.

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<sup>1</sup> The BAC Credomatic financial group includes Banco de América Central, S.A. and Credomatic de Guatemala, S.A.

- 3. Environmental and Social Risks and Impacts.** The E&S risks of this transaction relate to the Bank's ability to assess and manage any risks associated to its investments. The main risks of this issuance are related to the workers' health and safety, waste generation, changes in the use of the soil, hazardous materials management, health and safety of the communities, and labor rights, among others.

The Bank implemented a policy to manage the E&S risks of its business lending activities (SMEs, businesses, corporate clients) in July 2023, derived from its strategy to offer three-fold value; environmental, social and economic value. The policy sets forth general principles, E&S requirements (exclusion list, national legislation, and the International Finance Corporation ["IFC's"] Performance Standards ["PS"]), as well as roles and responsibilities. The Bank prepared a set of policies to manage operational risks, which was updated in February 2024 to include a brief description of the suppliers' risks.

The Bank launched the pilot phase of a policy and an operations rulebook to manage the E&S risks of business lending known as the Environmental and Social Management System (ESMS<sup>2</sup>) in September 2023, and was finally implemented in December 2023. Additionally, it has several questionnaires and instructions for the implementation of the system. The ESMS is applied to all business lending transactions<sup>3</sup> and comprises five stages that are integrated into the lending cycle, with several questionnaires for each one: Prospecting, Evaluation, Approval, Formalization and Monitoring. The exclusion list applies to all business loans under US\$1 million, and a certificate of compliance with the national legislation is required. For loans between US\$1 million and US\$5 million, regardless the sector, the applicable licenses and permits must be provided. Also, a due diligence process is carried out on requests with the following characteristics: Scope 1 - It is assessed in the light of the IFC's eight PS, when the loan is meant for project finance or it is a corporate loan for a project involving lending for US\$5 million or more, or the overall cost of the project is over US\$10 million and the tenor is longer than 36 months. Scope 2 - It is assessed against IFC's PS 1 and 2, when it is a corporate loan (not associated with any project) for US\$5 million or more, and the tenor is longer than 36 months. Each scope has a specific form to be filled, including a climate risk assessment and an environmental assessment.

The categories in the ESMS are based on the intrinsic E&S risk of the economic activity and the general context in which it happens. The classifications are: **Category A:** Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented. **Category B:** Business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures. **Category C:** Business activities with minimal or no adverse environmental or social risks and/or impacts. As of the end of 2023, the Bank's portfolio included 10 category-A debtors, 63 category-B debtors and 1,099 category-C debtors. The ESMS includes contractual clauses and provisions to prepare action plans for instances when the requirements are not fulfilled: the Exclusion List, the national environmental legislations and the IFC's PS.

The Bank has an E&S Risk Management Department under the Business Lending Department, in charge of implementing the ESMS. The Bank has had an external environmental and/or social grievance mechanism in place since July 2023.

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<sup>2</sup> ESMS is the English acronym equivalent to SARAS in Spanish, which is used in a standard acronym across BAC Credomatic financial group and was described in its Consolidated Annual Report 2022.

<sup>3</sup> Excluding personal banking and credit cards.

The Bank reports to the unified risk committee every six months. The Bank personnel in charge of implementing the ESMS and assessing overall risk are trained annually.

As part of the BAC Credomatic financial group, the Bank embraces the Principles for Responsible Banking, the Women’s Empowerment Principles, the Global Compact, the Financial Alliance for Women. Also, the group as a whole is strategically committed to becoming a net positive bank, participating in initiatives like the Partnership for Carbon Accounting Financials (“PCAF”) and the Net-Zero Banking Alliance (“NZBA”). On the other hand, the financial group publishes a consolidated annual report following both the Global Reporting Initiative (“GRI”) and the Task Force on Climate-related Financial Disclosures (“TCFD”) reporting frameworks and aligned with the industry standards set by the Sustainability Accounting Standards Board’s (“SASB”).

- 4. Mitigation Measures.** The Bank will keep efforts of strengthening its ESMS as part of the continuous improvement process during its implementation. The due diligence assessments for this issuance, through the implementation of the ESMS, will include analyzing and managing climate risks. The Bank personnel in charge of implementing the ESMS and assessing overall risk will be trained on its implementation.

In order to better incorporate IDB Invest’s requirements, the personnel in charge of supervising and implementing the ESMS are required to attend IDB Invest’s E&S Risk Management training for financial intermediaries.

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

Activity/Issue	Description	Compliance Indicator	Delivery Date
<b>PS1: Assessment and Management of Environmental and Social Risks and Impacts</b>			
<b>1. E&amp;S Assessment and Management System</b>	1.1 As part of the annual monitoring report to the co-investors, the Bank will identify areas to improve and strengthen the ESMS and its questionnaires.	Report on areas of improvement in the ESMS	Annually, as part of the Annual Monitoring Report to be delivered to the co-investors
	1.2 Obtain support from a consultant specialized in identifying the environmental and social risks in (i) hydroelectric, (ii) geothermal, and (iii) ocean (i.e. marine or ocean energy) energy projects. As part of this issuance, all corporate projects in these renewable energy subsectors which trigger the IFC’s performance standards will require sharing with the co-investors a tentative categorization and a summary of the transaction, resorting to an external consultant for support and reviewing the due diligence report by the co-investors before the lending committee meeting.	a. Letter with terms of service with three consultants	Three (3) months after the issuance
		b. Due diligence report for each transaction in (i) hydroelectric, (ii) geothermal and (iii) ocean energy projects	Prior to the lending committee meeting, when the report of each of the transactions is available.
1.3 Assessment of Scope 1 renewable energy transactions - The Bank will send the co-investors all due diligence reports on Scope 1 transactions to be reviewed and commented on, in order to: (i) confirm the E&S categorization and (ii) assess the proposed action plan.	Due diligence report for each renewable energy transaction	When the report of each of the transactions is available.	

	1.4 Assessment of all Scope 1 non-renewable-energy transactions. The Bank will send the co-investors the first three due diligence reports on Scope 1 transactions to be reviewed and commented on, in order to: (i) confirm the E&S categorization and (ii) assess the proposed action plan.	Due diligence report for the first three non-renewable-energy transactions	When the report of each of the transactions is available.
<b>2. Organizational Capacity and Competency</b>	The Bank will train all credit and E&S risk personnel on how to implement the ESMS, including climate risk. The Bank will make sure that all the new personnel in charge of E&S risk assessment and/or ESMS implementation is trained.	Training certificate of the personnel in charge of implementing the ESMS	Eight (8) months after the issuance, and later annually as part of the Annual Monitoring Report to be delivered to the co-investors
<b>3. External grievance mechanism</b>	Report on the implementation of an external grievance mechanism and the measures to be implemented as part of its continuous improvement.	a. Gap analysis report during the implementation of the mechanism	Six (6) months after issuance
		b. Improved external grievance mechanism	Eight (8) months after issuance
<b>PS2: Labor and Working Conditions</b>			
<b>4. Supply chain</b>	Strengthen the labor risks assessment in the supply chain for solar energy subprojects. Design and implement a method to assess labor risks in the solar panel supply chain in solar energy subprojects.	Updated due diligence report	Six (6) months after issuance

**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](mailto: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](mailto:mecanismo@iadb.org) or [MICI@iadb.org](mailto:MICI@iadb.org), or calling +1(202) 623-3952.