

Annex I
Environmental and Social Management Report
CR-L1063 BCT Bank Costa Rica and PN-L1092 BCT Bank Panama

CR-L1063 Banco BCT SME Financing Partnership Costa Rica	
Borrower	Banco BCT de Costa Rica
IDB Senior A Loan	Up to US\$7.5 million
IDB Senior B-Loan	US\$5.0 million
Total Senior Debt:	US\$12.5 million
IDB Senior A	Up to 4 years
PN-L1092 BCT Bank International SME Financial Partnership Panama	
Borrower	BCT Bank International
IDB Senior A Loan	Up to US\$7.5 million
IDB Senior B-Loan	US\$5.0 million
Total Senior Debt:	US\$12.5 million
IDB Senior A	Up to 4 years

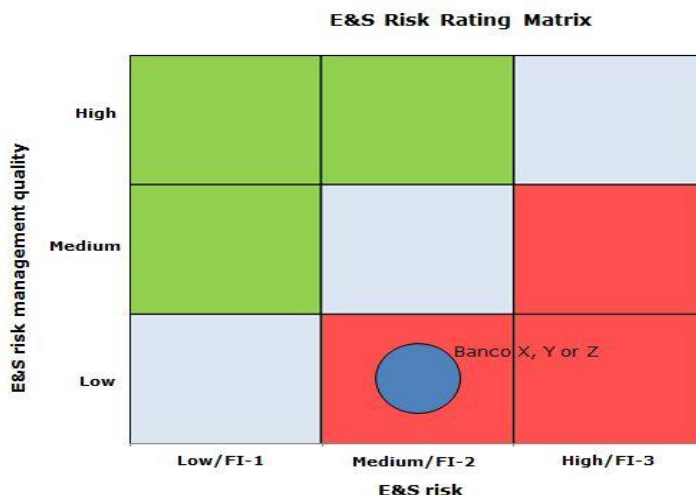
I. Project Description and Background

- 1.1 The proposed transaction will support the expansion of commercial loan portfolios of Banco BCT, S.A. in Costa Rica (Banco BCT) and BCT Bank International Panama (Banco International) (together, the “BCT Banks”) to small and medium-sized enterprises (“SME”) in Costa Rica and Panama, respectively (the “Project”). The proposed Loans would be the first IDB transaction in Panama and the third IDB transaction in Costa Rica under the Regional SME Facility (RG-X1092) approved by the Bank’s Board of Executive Directors in May 2011.
- 1.2 The Project will provide two Senior A Loans for up to US\$7.5 million each, one to Banco BCT and the other to BCT Bank International. The tenor for both Loans is up to three to four years with a bullet repayment. Additionally, two B Loans of approximately of US\$5 million, or such other amount to be determined based on market conditions and needs of the clients, will be also provided for each of the BCT Banks. The Loans will support the BCT Banks in providing financing to SMEs by offering products and services that meet their needs and therefore allow them to reach a larger and productive scale.
- 1.3 Since 1981, the parent company of the BCT Banks, Corporation BCT has been dedicated to support two clearly defined niches: the corporate market and high net worth individuals. Additional information on Banco BCT, S.A. can be found at www.bancobct.com and www.bctbank.com

II. Project Status and Compliance

- 2.1 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), the Projects are classified as financial intermediaries and as such are not categorized

according to their potential environmental and social (E&S) impacts and risks. Due to the E&S risks associated with SME’s loans to be financed by the IDB, the operation is classified as FI-2 (medium risk).



2.2 BCT Banks have confirmed that they are both in compliance with Directive B.2 (country laws and regulations) of IDB Environmental and Safeguards Compliance Policy, complying with all applicable legal and regulatory environmental, social, health and safety, and labor (ESHS&L) laws and regulations of Costa Rica and Panama respectively.

III. Environmental and Social Risks and Impacts

A. Potential risks and impacts associated with BCT’s portfolio

3.1 Corporation BCT’s portfolio is varied and overall may be considered as having minimal to moderate environmental and social risks and impacts. As of December 2012, Banco BCT’s commercial loan portfolio included the following sector concentrations: Commerce and Services (49%), Industry (15%), Agriculture (10%), Construction (9%), Transport (5%), Tourism (1.5%), Consumer (0.5%), and others (8%). On the other hand, BCT International’s portfolio, as of March 2013, was divided as follows: Commerce and Services (66%), Agriculture (13%), Industry (9%), and others (12%). The SME combined portfolio is expected to reach US\$282 million in 2016 versus US\$174 million as of December 2012.

3.2 Corporation BCT applies the same definitions for MSMEs to both its subsidiaries in Costa Rica and Panama. It categorizes micro enterprises as having up to 10 employees and annual sales up to US\$175 thousand, small enterprises as having between 10 and 35 employees and sales between US\$175 thousand and US\$2 million, and medium enterprises as having between 35 and 200 employees and sales between US\$2 million and US\$10 million.

3.3 The environmental, social, health and safety (“ESHS”) impacts and risks associated with loans to SMEs will be of varied nature depending mainly on the type of activity being financed. These ESHS risks and impacts may be minimal to moderate, for example: i) habitat conversion and degradation (construction, agriculture, transport, energy, communications);

ii) noise, air emissions, wastewater and solid waste (industry), iii) occupational health and safety (industry, construction, agriculture); iv) poor land use (construction, agriculture); v); increased greenhouse gas emissions (industry, energy), vi) stress on water resources, soil erosion and loss of productive capacity, pesticide use, eutrophication of aquatic environments, biodiversity impacts, crop residues and other solid waste and atmospheric emissions (agriculture), and vii) visual impacts, hazardous materials and waste, electric and magnetic fields, emissions to air and noise (communications).

B. Environmental and social risks associated with Corporation BCT's facilities and human resources practices

3.6 BCT Banks have stated that they have no material health issues (including legal claims) and do not have any material employee or labor disputes. The BCT Corporation has a Code of Ethics, which defines the professional principles and ethical values to be routinely applied by the staff. Corporation BCT 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). Corporation BCT's guidelines for employees' compensation (salary, pay raise, benefits) are based on the local legislation, following also country labor regulations. The risks associated with Corporation BCT's facilities and operations, are considered to be minimal. In order to prevent and mitigate possible emergencies, Corporation BCT implemented the *Plan de Emergencia*, *Plan de Evacuacion* and *Rutas de Evacuacion de Oficinas Centrales*, for which the staff has been trained and emergency evacuation drills have been performed. Corporation BCT's head office is located in San Jose, Costa Rica.

IV. Environmental and Social Management

A. Corporation BCT's Environmental and Social Management System

4.1 Corporation BCT has previously received support from several of the Development Finance Institutions including German Investment and Development Corporation (DEG) and the Netherlands Development Finance Company (FMO). As part of its commitment to these lenders, Corporation BCT has developed and implemented an Environmental and Social Management System (SGAS as per its initials in Spanish). The SGAS was designed in 2011 to identify, evaluate and manage E&S risks that may result from projects or activities¹ to be financed. The environmental and social risks are evaluated in terms of financial exposure, reputational impact, compliance, and impacts to standards adopted by stakeholders. General responsibility for the implementation of the SGAS is assigned to the Risk Manager in collaboration with two coordinators. Internally, Corporation BCT has conducted trainings for credit risk analysts and commercial advisors responsible for the application of the SGAS.

¹ Presently, the scope of the SGAS is for all Category A operations independent of value and Category B and C above US\$1.5 million.

- 4.2 As part of the process to grant a credit, Corporation BCT considers the following four stages to assess the capacity of the client to identify and manage environmental and social risks: i) Risk Categorization; ii) Data collection; iii) Data Processing; and iv) Final Decision.² Prior to applying the process, first it is necessary to determine the eligibility of the operation by the application of the IFC List of Excluded Activities. Then, the **risk categorization** is based on the environmental and social risks related to the client's industry. For this purpose the *Lista de actividades económicas según criterios de riesgo*³ is used to categorize their clients as Category A, B or C (high, medium and low risk respectively). Category A and B operations are required to submit an Environmental Impact Assessment (EIA) to the Secretaria Técnica Nacional Ambiental (SETENA) in order to obtain the Environmental Viability. For Category C operations, the client is required to complete the *Cuestionario para Sector Comercial*.
- 4.3 The **data collection** is carried out considering the risk category. All Category A operations require an external consultant in assisting with the analysis. Differently, for Category B operations, the client is asked to complete the *Protocolo para Evaluación de Industrias de Mediano Riesgo*. Categories A and B require documentation desk review, a field inspection and regular monitoring. For category C, from the result of the *Cuestionario para Sector Comercial*, a field inspection could be coordinated. The **data processing** consists in identifying the risks events of the operation and enables Corporation BCT's Environmental Department to: recommend mitigation measures, indicate when the actions are checked, indicate who is responsible for verifying the actions, and confirm status. In most circumstances, high risk operations will require corrective action plans and/or conditions within the loan agreement. Once the aforementioned steps of the process are done, the **final decision** to grant the credit is taken. Corporation BCT's SGAS also sets out management commitment and personnel responsibilities and is complemented by several documents to be used along the process.⁴
- 4.4 Currently, field checklists have been implemented for agriculture, livestock, industry, commerce, mortgages and finance sectors. After the SGAS' implementation, the result shows that only a very small portion of Corporation BCT clients are dedicated to high risk activities.⁵

B. Corporate Social Responsibility

² See Flujo Operativo del Sistema de Gestion Ambiental y Social (SGAS)

³ Based on the *Clasificación Industrial Internacional Uniforme de todas las actividades económicas (CIU)*

⁴ *Política de Financiamiento Sostenible, Objetivos y Metas, Matriz de Riesgo, Análisis de Riesgo Base, Base de Datos de Normativa y Estándares, Roles y Responsabilidades Clave para el SGAS, Matriz para el Desarrollo de Competencias del SGAS, Plan Anual de Entrenamiento y Desarrollo de Competencias, Protocolo para la Evaluación de Industrias de Bajo y Mediano Riesgo, Reporte de Indicadores de Desempeño Clave del SGAS y Plan de Auditoria y Aseguramiento Anual del SGAS.*

⁵ One percent of BCT's operations in Costa Rica were categorized as Category A projects (chemical products, energy, some agriculture and fishing). A further 29% as Category B (predominating construction, industry and transportation), and the remaining 70% percent were classified as Category C (mainly commerce and services). In Panama, 1% was Category A, 43% Category B and 56% Category C.

4.5 Both BCT Banks follow the Corporate Social Responsibility practices of the Corporation BCT for the community and the environment. While Corporation BCT focuses on ensuring its subsidiaries implement environmental risk mitigation practices, the BCT Banks develop social cohesion and childhood initiatives. For instance, Banco BCT is actively supporting educational programs to reduce drop-outs by high-schoolers by providing educational programs and by providing tutors in the Banco BCT's premises to 16 yearly participants. Additionally, BCT International is one of the participants in the "Empresas Amigas de la Infancia SOS", where it provides economic help to more than 60 households throughout Panama.

V. Environmental and Social Requirements

5.1 For this Project which involves individual SME loans ranging in size from US\$10,000, up to a maximum of US\$500,000, the Bank will require Banco BCT and BCT Bank International as part of the Loan Agreement to:

- (i) Comply with, and ensure that the BCT Banks comply with, (A) all applicable Costa Rican and Panamanian environmental, social, health and safety, and labor regulatory requirements, and (B) in relation to the financing of SME's, to ensure that each Sub-loan and Sub-Borrower complies with: (1) BCT Bank's ESHSL policies and procedures; (2) in-country ESHSL regulations; (3) the IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations; and (4) the Fundamental Principles of the Rights at Work;
- (ii) Corporation BCT and the BCT Banks will implement within six months after disbursement as a pre-condition to the eligibility of Sub-Loans⁶, the Environmental and Social Due Diligence (ESDD) tools (the "E&S Protocol") described in items (a) through (d) below. The E&S Protocol will be a complement to BCT's ESMS by implementing the following ESDD requirements:
 - a. BCT will categorize all IDB Sub-loans according to the UNEP-FI sector classification used by BCT in accordance with its ESMS.
 - b. For all Category A Sub-Loans, BCT's ESMS will be applied to identify and implement environmental, social, labor and health and safety impacts and risks, and mitigation measures.
 - c. For Category B Sub-Loans under \$200,000 BCT will ensure and document that the Sub-Borrower's comply with all national ESHSL laws and regulations, IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations, and the Fundamental Principles of the Rights at Work.
 - d. For Category B Sub-Loans over \$200,000 thousand but under \$500,000, in addition to applying the requirements in item (c) above, BCT will specifically verify and document that the Sub-Loans and/or Sub-Borrowers as applicable are up-to-date with all ESHSL related licenses, permits, authorizations and related requirements.

⁶ The eligibility of Sub-loans will be defined in the Loan Agreement in a manner that incorporates the pertinent E&S eligibility requirements.

- (iii) Corporation BCT will obtain the non-objection of the IDB prior to approving any Category A projects for financing with the proceeds of the IDB loan. [Furthermore, even though these circumstances are unlikely, the Loan Agreement will include standard provisions precluding the use of proceeds of the IDB Loan to finance projects that adversely affect indigenous peoples or result in resettlement not supported by a proper plan.]
- (iv) Ensure that at least one staff member with responsibility for the compliance of the environmental and social requirements takes part annually in the IIC/IDB Environmental Risk Management training course, or in other ESHS training agreed upon by the IDB, to ensure that BCT continues to remain up to date with its environmental and social risk management expertise.
- (v) Ensure that IDB is given access to the results of the internal/external audits of the effectiveness of the SGAS
- (vi) Cooperate fully with the IDB to perform supervision actions the Bank deems necessary through the life of the loan, including providing access to all relevant documentation, facilities and personnel related to the ESMS and the Sub-Loans, and cooperating fully with any inspection or audit by the Bank, or its designated representatives or consultants.
- (vii) Present an Annual Environmental and Social Compliance Report (ESCR) with information on the SME portfolio, including a breakdown of financing by subsectors and a list of transactions including Environmental risk categorization (according to BCT's methodology), and any particular ESHSL risk issues identified during screening, the mitigation measures agreed with clients, and their E&S performance status.
- (viii) Promptly notify IDB of any non-compliances, issues or complaints related to ESHSL matters.

5.2 The IDB will supervise the environmental and social aspects related to the use of the proceeds of the IDB loan either by an in-house specialist or with external consultants, and will require Corporation BCT to present environmental and social compliance reports to the IDB to assess the environmental and social risks of the portfolio being supported.