Environmental and Social Strategy (ESS)[1]
Banco BAC, S. A. (BAC)

I Overview

1.1 The operation consists on providing Banco BAC ("BAC") with up to US$120 million of long-term financing, to expand credit financing to small and medium enterprises ("SME") in its Central American subsidiaries, including Panama, Nicaragua, Honduras, El Salvador and Guatemala, and to support their internationalization across the region. Around 70% of IDB's proceeds will be used to finance operations in service and commerce sectors. The loan has a final maturity of up to six years.

1.2 BAC is wholly-owned by Banco de Bogota, which is in turn majority-owned by Grupo Aval (65%) from Colombia. Minority shareholders own the remaining shares (35%), none of whom holds more than 10% of the shares of Banco de Bogota. The Bank provides a full range of financial services to corporate clients and individuals. As of December 2012, Banco BAC's assets amounted to US$10.7 billion, ranking as one the largest banking groups in Central America.

II Environmental and Social Risks and Impacts

2.1 Based upon the nature of this operation, and considering that the average size of the sub-loans is expected to be US$100,000, there may be minimal to moderate direct environmental, social, health and safety (ESHS) and labor risks and impacts, and thus a limited environmental assessment is required.

2.2 The potential key ESHS and labor issues and risks associated with this operation are those related to the specific projects financed by BAC, with the proposed funding, and could include (i) BAC's environmental credit risks resulting from non-compliance risks and ESHS liabilities; (ii) specific ESHS and labor risks and impacts related SME investment in certain sectors; and (iii) IDB and/or BAC Reputation Risks associated with the ESHS impact of and risks of all BAC operations.

2.3 Credit risks resulting from environmental and social risks refer to potential negative effects on BAC's clients and therefore BAC's potential inability to repay due to business interruption, liabilities and costs arising due to environmental and social issues (e.g. law suits, fines, etc.) for SME loans; and risks associated with BAC facilities and operations,

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1 This ESS will be made available to the public in accordance with the Bank's policy on information disclosure. The ESS does not represent either the Bank's approval of the Project or verification of the ESS completeness or accuracy. The Bank, as part of its due-diligence on the feasibility of the Project, will assess the environmental and social aspects. This assessment will be presented in the Project Environmental and Social Management Report that will be prepared by the Bank, and will be made available to the public prior to consideration of the Project by the Bank's Board of Executive Directors.

such as environmental liabilities in their offices or BAC employees having occupational health and safety problems due to working conditions.

2.4 The project may generate ESHS impacts associated with the financed loans in specific sectors. The type of impacts will vary depending on the amount of loans to be extended and on the type of activities to be financed. There may be specific impacts and risks related to investment in certain sectors, for example, habitat conversion and degradation (construction, agriculture, transport, energy); solvent emissions and waste (print shops, tanneries); occupational health and safety (industry, construction, agriculture); poor land use (construction, agriculture); noise and air pollution (industry, construction), increased greenhouse gas emissions (industry, energy). The assessment of social and environmental impacts for each loan will be the responsibility of BAC, through the implementation or enhancement of an Environmental and Social Management System, whose specific requirements will be defined during the due diligence process.

2.5 Reputational risks are associated with BAC's involvement in projects, companies or activities considered unacceptable to the IDB and/or that could face significant public opposition or concerns, such as (i) inappropriate location or lack of environmental and social management of the projects; (ii) BAC's finance application and analysis process that is not equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage, etc.); and (iii) significantly deficient labor practices or poor maintenance of facilities.

2.6 BAC's E&S risk management capacity is estimated to be good as they count with a Manual of Procedure for the Environmental and Social Risk Analysis System (SARAS acronym in Spanish), to identify evaluate and manage E&S risks that may result from projects or activities over US$1 million to be financed. The SARAS sets out six steps to be taken with any operation to be financed by BAC. This is based on i) eligibility, ii) initial identification of environmental and social risks which helps determine the level of environmental evaluation required, iii) internal investigation based on historic information, iv) classification of projects/activities according to their categorization model A, B or C (considering the type of operation, size, location, nature and magnitude of impacts and risks) which is consistent with IDB Environment and Safeguards Compliance Policy, v) detailed evaluation of environmental and social risks, specifically those categorized as A and B; and vi) monitoring.

2.7 These risks may be minimal to moderate and will be assessed during the due diligence.

III. Status and Compliance

3.1 Given that this is a financial intermediary operation and based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this transaction is not categorized.

3.2 In 2012, the IDB approved a loan for US$40 million to BAC San Jose (Costa Rica), to expand its mortgage lending financing to middle and lower-middle income families and increase its loan portfolio to SME.

IV. Strategy for Environmental and Social Due Diligence

4.1 The environmental and social due diligence for the proposed facility will verify the operation's compliance with the Bank's Environment and Safeguards Compliance Policy and guidelines. In addition, the due diligence will address those issues that are relevant to the proposed operation.

4.2 Therefore, the environmental and social due diligence required for this operation will comprise of the following steps for each recipient Bank in Panama, Nicaragua, Honduras, El Salvador and Guatemala:

(a) An assessment of BAC's compliance status with the applicable environmental, social, health and safety, and labor regulatory requirements.

(b) An assessment of BAC's existing ESMS, and its adaptability to this operation considering the amount of the loans and potential financing of more risky sectors such as agriculture and construction.

(c) An assessment of BAC's SME and lending portfolio, potential reputational risks associated with BAC's involvement in projects, companies or activities considered unacceptable to the IDB, and potential ESHS risks and impacts related to investment in certain sectors, which could be financed under this operation.

(d) An assessment of the capacity of current appraisal, approval and monitoring procedures (checklists, exclusion lists) to manage environmental and social liabilities, risks and/or impacts of SME operations. Current procedures should, at a minimum, be able to: (i) include the consideration of environmental and social issues in the application and analysis process such as: filter high-risk projects that may involve potential impacts on protected areas, on indigenous peoples, physical or economic displacement of vulnerable groups, possible effects that may result from natural disasters, or other significant social and environmental impacts (i.e. pollution, overexploitation of resources, impacts to health and safety of neighboring communities, etc.); eliminate projects which are included in the IDB exclusion list; verify compliance of the ESHS laws applicable to sub-loans; and assess and manage potential risks and ESHS liabilities that may be associated with sub-loans, and (ii) include provisions for loan officers to be trained and qualified to identify ESHS issues/liabilities.

(e) An evaluation, if appropriate, of BAC's status and compliance with other multilateral development facilities and programs.

(f) An evaluation to ensure an appropriate inventory of present environmental and health and safety liabilities in BAC's portfolio, and facilities, and if they exist, assess the adequacy of the action plan to properly resolve them.

(g) An evaluation to ensure that BAC has adequate Contingency Plans and procedures (i.e. emergency response programs, building evacuation drills, etc.) including their technical competence, satisfactory level of training and sufficient resources to ensure adequate implementation.

(h) An evaluation of BAC's compliance with the Fundamental Principles and Rights at Work and whether they practice fair and unbiased labor practices related to sex, age, ethnicity, cultural heritage, and collective bargaining.
(i) Define the ESHS mitigation and management measures required for the program to meet the requirements of the Bank's safeguard policies.

4.3 The results of the due diligence will be presented in an Environmental and Social Management Report and summarized in the Loan Proposal. The ESMR will contain the ESHS requirements of the program which should also be reflected in the loan agreement.