

Environmental and Social Review Summary (“ESRS”) Banco Nacional de Costa Rica – Blue Subordinated Bond / 14518-01 – Costa Rica

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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 documentation and holding discussions with members of Management and technical staff of Banco Nacional de Costa Rica (“BNCR” or the “Bank”). The Bank has been a client of IDB Invest’s since 2014 and has shown satisfactory E&S performance.
- 2. Environmental and Social Categorization and Rationale.** The proposed issuance is classified as FI-2 under IDB Invest’s Sustainability Policy. The subloans to the segments to be supported with the blue portfolio have moderate risk potential, i.e., the subloans granted by Banco Nacional de Costa Rica 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 subloans will be used to fund blue projects—to preserve the oceans and their ecosystems— that suit the eligibility criteria established in the Blue Bond framework of reference.

The Bank has identified three project categories as eligible to the blue portfolio: sustainable projects along the seafront area and the Pacific and Atlantic Slopes (including the sustainable tourism, sustainable real estate, fisheries and fish farms subcategories); water management and wastewater projects (including wastewater systems, drinking water system subcategories); and sustainable agriculture and agroindustry projects (including the plastic waste management and circular economy subcategories as well as plastic reuse or recycle projects). Most of the blue portfolio is made up of corporate loans, i.e., those granted to companies with over 100 employees and annual sales of more than US\$1.5 million. The blue portfolio loans are expected to exceed US\$1 million.

The issuance is deemed as aligned with the provisions of the Paris Agreement based on the analysis in line with IDB Group’s Paris Alignment Implementation Approach.

IDB Invest’s resources may not be used by Banco Nacional de Costa Rica to finance any category A subprojects (high risk) based on IDB Invest’s definition, projects in the sectors included in the IDB Invest Exclusion List, or projects that do not observe the eligibility list requirements.

- 3. Environmental and Social Risks and Impacts.** The E&S risks of this transaction relate to Banco Nacional de Costa Rica’s ability to assess and manage any risks associated with its investments. BNCR has its exclusion list, and a comprehensive E&S Management System (“ESMS”) Rulebook, which since January 2021 has been in the pilot implementation phase. The ESMS, which was approved in 2021 by Management, states its protocols should be reviewed every six months.

The ESMS categorization is based on two factors: E&S inherent risk related to the economic activity and the level of financial exposure. The financial exposure threshold required for the ESMS to be applied is US\$1 million, whereas for the International Finance Corporation (“IFC”) Performance Standards (“PSs”) to be triggered the threshold is US\$5 million.

These two factors determine four tiers of due diligence: (i) *Basic*: loans of US\$1-5 million and low/medium E&S risk must comply with local legislation and the exclusion list; (ii) *Moderate*: loans of US\$5-20 million and medium/high E&S risk, or loans of more than US\$20 million with low E&S risk must cover the *Basic* requirements and follow a questionnaire that will establish the conditions for

the loan and the application of the related PSs; (iii) *Advanced*: loans of more than US\$20 million and medium E&S risk, or loans of over US\$5-20 million and high E&S risk must cover the *Moderate* requirements and include a field visit by a credit analyst well versed in local legislation and the IFC's PSs; and (iv) *Expert*: loans of more than US\$20 million and high E&S risk must cover all the *Advanced* requirements and complete a field visit led by an E&S specialist. BNCR's legal agreements contain E&S terms and conditions depending on the E&S risk level.

The Bank has a Sustainability Manager and a Sustainability Committee, as well as a Risk Department in charge of implementing the ESMS. The Bank has an Internal and External Grievance Mechanism, and Emergency Plan.

Banco Nacional de Costa Rica has published sustainability reports since 2018. In 2019 the Bank was awarded a prize for its PYME Nauta platform for micro and small companies as the best digital transformation solution. In 2020 the Bank reached its goal of becoming a carbon-neutral institution. In 2022 it was recognized by the National Stock Exchange as a company with 50%+ women in its top management or C-suite; it also was presented with the "Bank of the Year" award by British magazine *The Banker*.

- 4. Mitigation Measures.** Banco Nacional de Costa Rica shall assess, manage and track E&S risks enhancing its ESMS Rulebook. The ESMS shall indicate that all investments made by the Bank will be assessed considering the exclusion list, the local/national laws, the guidance on Performance Standard 1¹ and the IFC's Performance Standards. The Bank personnel in charge of implementing the ESMS and assessing overall risk will be trained on its implementation.

In order to better 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"):

No.	Task	Activity	Deliverable	Completion Date
1	Constitution for an Advisory Panel	An Advisory Panel made up of subscribers (IDB Invest, Finance in Motion, FinDev Canada) to: (i) confirm the inherent E&S risk category; and (ii) promote best practices.	Evidence of Advisory Panel appointment and formation	1 month after subscription
2	Enhancement of the E&S Management System ("ESMS") Rulebook	Complete the ESMS to: (i) review the thresholds to include the high/medium risk blue bond transactions; (ii) update the assessment form with the blue bond categories PSs; and (iii) include climate risk (physical and transition) assessment.	Enhanced E&S Risk Management System ("ESMS") Rulebook	12 months after subscription

¹ [Interpretation/guidance note on Financial Intermediaries \(2023\)](#).

No.	Task	Activity	Deliverable	Completion Date
3	Climate risk management	1. Prepare a preliminary procedure to identify and manage climate risk. 2. Finalize and incorporate a procedure to identify and manage climate risk, including physical and transition risk.	1. Preliminary climate risk management procedure 2. Consolidated procedure to identify and manage climate risk	1. 6 months after subscription 2. 12 months after subscription
4	Assessment of the first three transactions triggering the Performance Standards	Banco Nacional de Costa Rica will send the first three transactions for IDB Invest's review and feedback, in order to: (i) confirm their E&S categorization; and (ii) assess the proposed action plan.	Due Diligence Report	Upon each transaction report
5	Enhancement of skills and training	The Bank will train all credit, sustainability and E&S risk personnel in how to implement the ESMS, including climate risk. It will make sure that all the new personnel in charge of risk assessment and/or ESMS application is trained.	Post-training certificate of the personnel in charge of implementing the ESMS, and of every new hire	6 months after subscription 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.