

1. **Scope of Environmental and Social Review.** The environmental and social review of the proposed transaction was conducted through documentary assessment of internal processes regarding risk assessment and environmental and social requirements, human resources and people management procedures, meetings during four days with leaders from different areas of Sofisa, as well as a review of its portfolio of clients. Sofisa is an existing client of the IDB Group, and it has already made transactions with other development banks with similar environmental and social criteria.
2. **Environmental and Social Categorization and Rationale.** The proposed transaction is classified as FI-2 according to IDB Invest's Sustainability Policy. The underlying loans to be supported by this lien will mainly concentrate on Small and Medium-size Enterprises ("SMEs"), initially focusing on commercial and service sectors, as well as industrial and manufacturing sectors. The potential risk is thus considered medium to low, with the possibility of limited and few adverse environmental or social risks or impacts, generally specific to a location, fully reversible, and which may be promptly approached through mitigation measures. This transaction will not finance category "A" subprojects, which correspond to funding operations for big companies or projects, or subprojects of sectors mentioned in IDB Invest's Exclusion List.
3. **Environmental and Social Risks and Impacts.** The main environmental and social risks for this project are associated with the capacity of the Financial Institution ("FI") to identify and manage the environmental and social risks associated with its loan activities. Banco Sofisa has its own exclusion list, which contemplates some of the activities foreseen by IDB Invest's Exclusion List, as well as an Environmental and Social Risk Management Policy, which is part of the Manual of Procedures of Banco Sofisa. Said Policy details the compliance with Brazilian legislation and establishes some basic review requirements for new loans and management of the existing loan portfolio. Sofisa has a well diversified portfolio for SMEs, and the highest exposure levels are in connection with the following sectors: (i) industrial sector; (ii) food sector; (iii) consumer goods; (iv) services; and (v) textile manufacturing. The largest share of loans are intended for maintenance of working capital of companies, and for short periods of time.

Sofisa has recently established an Environmental, Social, and Governance Board ("ESG"), currently being structured to enhance its risk management and respond to the demands of the market and of other stakeholders, such as investors and civil society as a whole. From time to time, the Bank organizes capacity building and recycling activities on risk management and in-house processes. Sofisa has 378 employees, including 171 women (45%) who account for 25% of the leadership posts in the institution. The Bank has a Human Resource ("HR") Manual, and procedures related to recruiting, training, and performance management, *inter alia*. Employment terms and conditions are defined in labor agreements with employees and in collective bargaining agreements binding the company. Sofisa has also developed an Ethics Code, which clearly prohibits any kind of discrimination, threat, coercion, abuse or harassment in the work environment.
4. **Mitigation Measures.** Sofisa shall update its Environmental and Social Management System ("ESMS") to make it correspond to international best practice and adequately reflect the risk level of its loan portfolio. The ESMS will be revised and updated by an independent consultant, provided that it must be in line with Performance Standard 1 of the International Finance Corporation ("IFC")^[1] and require application of local legislation and IDB Invest's Exclusion List. Sofisa shall ensure that all loans made out of IDB Invest funds are in compliance with the Exclusion List and with local laws applicable to environmental and social matters. In order to better understand IDB Invest's requirements, Sofisa will participate in a training on Environmental and Social Risk Management for financial intermediaries.

In addition, Sofisa will update its Human Resource Manual and associated procedures, in order to explicitly encompass: i) right to freedom of association; ii) implementation of a clear

procedure for the management of internal grievances; and (iii) establishment and monitoring of health and safety indicators for its employees, especially including those carrying out external activities (such as business visits and client prospecting, *inter alia*).

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

Item	Task	Description	Deliverable	Completion Date
1	Sustainability Policy	To develop and implement a corporate sustainability policy	Updated Policy and evidence of in-house disclosure	6 months after execution of the loan agreement
2	Update the existing ESMS	Update the ESMS, which should be consistent with IDB Invest’s Sustainability Policy and IFC Performance Standard 1 requirements. The ESMS must foresee and detail, at a minimum, the subproject categorization process, an E&S due diligence based on risks, oversight, and assessment, in addition to inclusion of environmental and social provisions and action plans, when applicable, as an integral part of the loan agreements.	Updated ESMS	9 months after execution of the loan agreement
3	Capacity building in environmental and social areas	Capacity building for upper management and credit officials on the updated ESMS and on environmental and social risk management.	Capacity building certificate	10 months after execution of the loan agreement
4	Update the existing Human Resources Manual	Update the Human Resource Manual to provide for inclusion of the following: (i) freedom of association; (ii) procedure for the management of internal grievances; (iii) third-party management; and (iv) health and safety indicators.	Updated HR Manual and associated procedures	6 months after execution of the loan agreement

6. Contact information. Any questions about projects, including environmental and social matters related to IDB Invest transactions, should be directed to the contacts shown in the **Investment Summary** section or to IDB Invest, by email: divulgacionpublica@iadb.org. As a last resort, the affected communities may access the Independent Consultation and Investigation Mechanism (“ICIM”) by email: mecanismo@iadb.org and MICI@iadb.org or by telephone (+1) 202 623-3952.

[1] The Interpretation Note on Financial Intermediaries is available at: https://www.ifc.org/sustainability-at-ifc/publications/publications_policy_interpretationnote-fi