

# Green Bond Framework

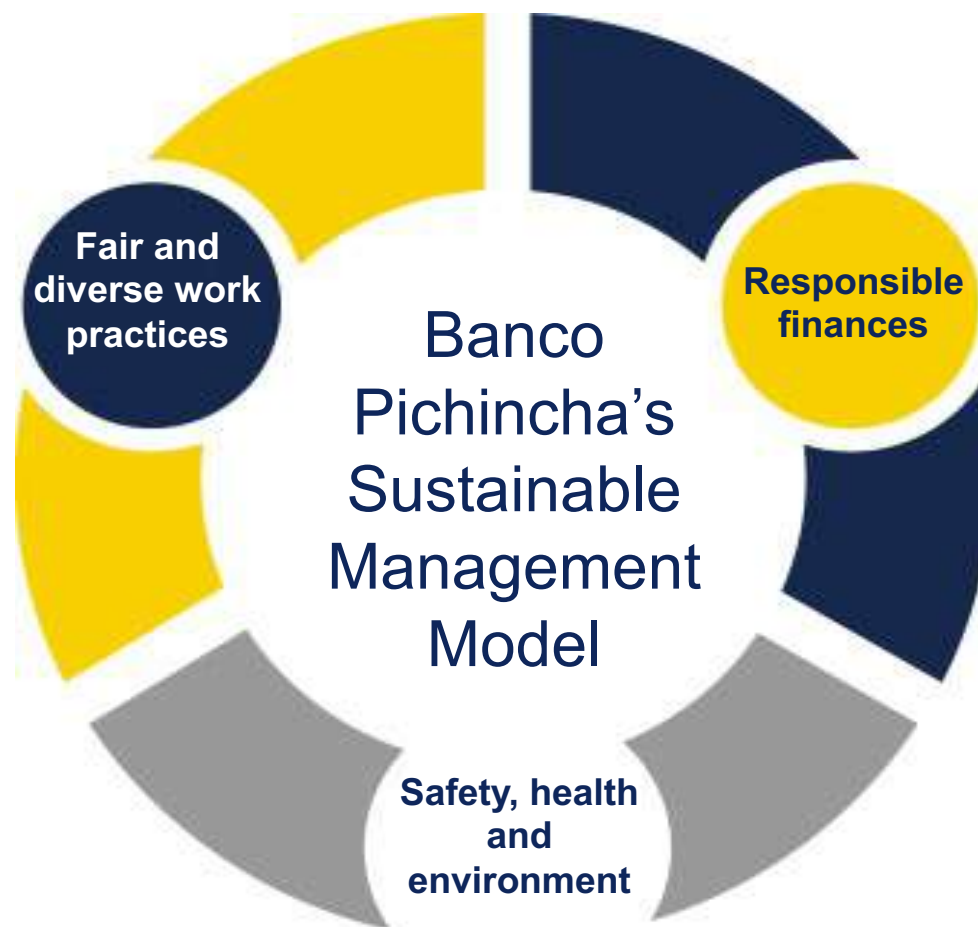
## Summary the Banco Pichincha's Green Bonds Framework

May 31, 2020

# Introduction

- Integrity, service, productivity and innovation, solidarity, and responsibility are the Bank's core values. Regarding the latter, the Bank has an ineluctable responsibility to the whole society and to the clients, shareholders, employees, and to the environment. This commitment becomes part of the philosophy and the institutional conduct, establishing accountability systems which are managed and measured.
- Banco Pichincha's Sustainable Management Model has the following pillars:

The management of the Bank's employees and chain of value is aligned with the best work practices within the national and international regulatory framework.

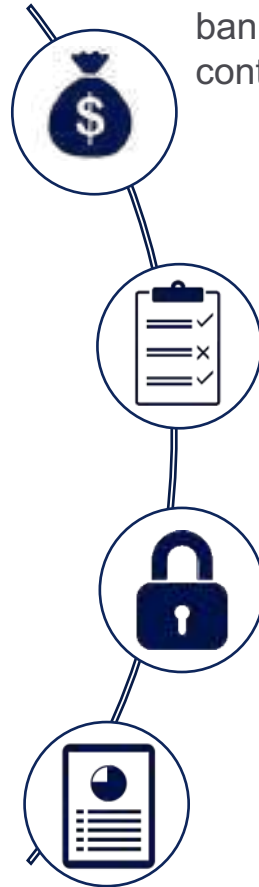


The Bank develops and offers responsible products and services that meet the needs of our clients and their families, which allow their progress and strengthen the inclusion of vulnerable groups in the financial sector.

Banco Pichincha promotes a culture of prevention by protecting our employees, clients, suppliers, and the society's safety and health, as well as respecting the environment through efficient processes for using resources (water, energy, paper), seeking to reduce the Organization's impact on climate change.



The framework has been developed based on the IFC Standards for Green Bonds and in accordance with the 2018 Green Bond Principles



## Use the funds:

**Eligible Projects:** renewable energy , energy efficiency, cleaner and more efficient production, sustainable agriculture, sustainable building, sustainable transportation and solid, liquid waste management and recycling

**Exclusion criteria:** Projects that have previously been financed through international banking, category A according to the IFC, projects involved in socio-environmental controversies and others.

## Process for Project Evaluation and Selection

**Process for Granting Green Bond Credits:** identifying and presenting potential Bio Credit operations by the business area, socio-environmental pre-validation process by the Sustainable Development area that including socio-environmental risk assessment, verifying exclusion lists and the eligibility criteria. Reviewing and verifying the projects by Banco Pichincha Strategy Committee. Treasury, Sustainable Development, Finances, and Business Development Management Areas assess compliance with the goals.

## Management of Funds

The Bond funds will be managed by the Banco Pichincha Treasury Area. The funds still to be disbursed will remain in Banco Pichincha account in the Central Bank of Ecuador. The Bank undertakes to maintain a balance in the account of the Central Bank of Ecuador, that exceeds the amount of bond funds not yet disbursed. . The Strategy Committee approves the correct allocation of funds.

## Reporting

Report of indicators financial performance, environmental impact and change climate through of the Annual Sustainability Report. The Sustainable Development Area is responsible for preparing the aforementioned report.

The use of the funds and the impact outcome of Green Bonds shall be audited by an external body



## Principales hitos del Framework



- **Manuals / instructions / internal documentation** have been developed for the issuance of green bonds
- It has been provided the governance of bond through **Banco Pichincha Strategy Committee**, are among the responsibilities the administration of matters related to Sustainable Financing and Green Bond, shall hold a meeting at least every 2 months with Business, Risk, Finances VP representative, including the Areas of Sustainability and Treasury.
- Treasury, Sustainable Development, Finances, and Business Development Management Areas monitoring and assess compliance with the goals, budget and social - environmental requirements of the projects.
- The assessment of socio-environmental risks regarding clients is carried out using the Environmental and Social Risk Management System (SARAS) and incorporate the IFC Performance Standards,
- The Treasury Area is responsible for monitoring the use of the Bond funds. The Strategy Committee approves the correct allocation to selected projects until the maturity of the securities after Bio Credit Sustainable Development Area's review and recommendation.

SARAS: Environmental and Social Risk Management System (ESRM) for the assessment of socio-environmental risks regarding clients



## Projects Eligibles Categories

### 1. Renewable energy and network expansion for interconnection and transmission

Renewable energy and network expansion for interconnection and transmission

- Examples:

- ☐ Implementation of projects for unconventional renewable energy generation up to 50 MW: solar, wind, geothermal, biomass (from agroforestry waste which does not deplete existing land resources, nor the carbon stocks) and biogas (landfill gas, anaerobic digestion, etc.). Hydroelectric projects are not eligible
- ☐ Systems, adjustments and technology for connecting and transmitting renewable energy to the network

### 2. Energy efficiency

- The resources of this category will be intended to be used in projects that reduce energy consumption in industrial production processes, implementation of actions/technologies/electrical-electronical devices to control and/or reduce energy use in buildings and to get more efficient public street lighting. It is important to mention that projects including fossil fuels are not eligible..
- Examples:
  - ☐ Increase of energy efficiency (reduction of at least 20% in energy consumption)
  - ☐ Replacement, production or acquisition of machinery/equipment under Energy Star, A, AA, A+ rating (Ecuador), Energy System, or Inverter labels
  - ☐ Productive processes with ISO 50001 certification on Energy Management System, etc.

## Projects Eligibles Categories

### 3. Cleaner and more efficient production

- The resources will be employed in projects that reduce water consumption and greenhouse gas emissions (GHG) in industrial productive processes.
- Examples:
  - ❑ Reduction in water consumption (at least 15%) in productive processes or in public and private buildings
  - ❑ GHG Reduction (mínimo de un 20%) in industrial productive processes or in public or private buildings in the event of eliminating or replacing fossil fuels with clean fuels, such as electricity

### 4. Sustainable building

- The promoters and/or consumers of infrastructure, development, and urban housing projects with design and construction measurements certified under one of the following labels:
  - ❑ LEED
  - ❑ BREEAM
  - ❑ EDGE

### 5. Sustainable transportation

- The resources will be utilized to promote modal acquisition and/or renewal of the current transportation systems towards new zero-emission systems, including electric and hybrid transport or those running on biofuels. Operations regarding replacement of vehicles which are powered solely by fossil fuels are excluded.
- Examples:
  - ❑ All types of vehicles that do not use fossil fuels for mass and consumer transport (for example, electric trains, subway, personal electric or hybrid vehicles, or those that run on biofuels, etc.)
  - ❑ Acquisition/renewal of bus fleet: electric, hybrid or running on biofuels. .



## Projects Eligibles Categories

### 6. Solid, liquid waste management and recycling

- The resources aimed at financing projects regarding wastewater, solid waste treatment management and their best use.
- Examples:
  - ☐ Wastewater treatment (green/hybrid infrastructure )
  - ☐ Reuse of rainwater (green/hybrid infrastructure)
  - ☐ Wastewater and rainwater sewage (gray infrastructure)
  - ☐ Construction or expansion of infrastructure or technology for best use, treatment, appropriate final disposal, and waste control (hazardous waste is not eligible)

### 7. Sustainable agriculture and land use

- Acquisition of equipment, technological changes and more efficient and/or low-carbon agriculture projects are included. Projects regarding sustainable management of planted forests and reforestation are also eligible.
- Examples:
  - ☐ Drip irrigation, micro-irrigation or another more efficient system (15% reduction in water use) Producción o uso de abonos orgánicos
  - ☐ Certified projects/producers by RSB , Global GAP or Bonsucro
  - ☐ Reforestation of degraded areas (with an increase of Greenhouse Gas capture) or sustainable management of planted forests

## 7 Process for Project Evaluation and Selection (Principal 2)

The **Business Area** supported by the **Sustainable Development** Area is responsible for identifying the existing operations in the portfolio included for refinancing, apart from the projects in the pipeline (new projects).



Once the projects are identified, the **Sustainable Development** Area shall carry out a socio-environmental pre-validation process, certifying their positive environmental characteristics, the socio-environmental risk categorization, and the “**Bio-Credit**” grade.



**Application of Exclusion Criteria:** In the socio-environmental pre-validation process, the representatives of the **Sustainable Development Area** are responsible for reviewing these aspects

### Exclusion Criteria

- The projects that will be financed or refinanced with the funds from the Banco Pichincha Green Bonds issuance, may be generated 12 months before the bond issuance, or after the issuance
- Projects that have previously been financed by Banco Pichincha through international banking
- Existing loans issued more than 12 months before the first disbursement
- Less than 12-month loans
- Projects under category A according to the IFC are not eligible
- Projects using fossil fuels and hydroelectric renewable energy and/or higher than 50 MW are not eligible
- Projects involved in socio-environmental controversies (proven guilty for negative socio-environmental impact by the responsible regulatory entities)
- In addition to these exclusion criteria for issuance, Banco Pichincha will not finance activities included in the International Finance Corporation exclusion list

**Category A:** Corresponds to the environmental and social categorization determined by the IFC. They are activities with possible risks and / or adverse environmental or social impacts, of a significant nature that are diverse, irreversible or unprecedented.



## Process for Project Evaluation and Selection (Principal 2)



### Review of Socio-Environmental Risk Analysis

The “socio-environmental pre-validation process” provided by the Sustainable Development Area, includes the fulfillment of socio-environmental risks assessment related to the projects:

- Accordance with the Banco Pichincha Environmental Policy for Credits
- Projects in the “medium” and “high” risk categories, are analyzed by the Environmental and Social Risk Management System (ESRM).
- Furthermore, projects under the highest category/most sensitive sectors and/or of an amount exceeding US\$ 10 million and a 36-month term will also be analyzed on the basis of the best international practices (IFC Performance Standards).



### Sensitive sectors, activities or operations:

Ejemplo:

- Development and implementation of renewable energy projects with a generating capacity between 20MW and 50MW.
- Construction of industrial parks.
- Medium and large-scale farming and fishing
- Production of forestry products including logging operations
- Manufacture, storage and/or transport of hazardous chemicals over 25,000 liters.
- Manufacture of textiles, including all stages: fur or leather dyeing, printing, tanning, and finishing.
- Mining
- Other activities indicated in the Framework



### Credit Approval

If, after financial risk and feasibility analysis, including socio-environmental risk and environmental pre-validation process, the credit still qualifies as a Bio Credit and is approved by the corresponding Credit Committee

The responsible in the Business area should mark it within the Bank's technological systems and attach the environmental technical documentation, as well as the letter of commitment, to the process. .

The responsible requests the disbursement of resources for the client.



\*The minimum, low and medium levels of socio-environmental risk are equivalent, in general, to Category C of the IFC

Performance Standards.

## 9 Management of Used Funds (Principal 3)

### Banco Pichincha Strategy Committee

Made up of Senior Management and will include Sustainability and Treasury. Reports will be submitted every two months

Verifying how the projects are aligned with the eligibility, exclusion criteria and socio – environmental risks

Approval the projects for allocation of resources

Substituting previously financed operations which are involved in negative socio-environmental controversies

Reviewing compliance the goals and projections

Establishing long-term milestones and impact indicators.

- Prior to fund allocation, the Banco Pichincha **Treasury Area** is responsible for monitoring the use of the Bond funds
- The **Strategy Committee** approves the correct allocation to selected projects until the maturity of the securities after Bio Credit Sustainable Development Area's review and recommendation.
- The **Sustainable Development Area**, after disbursement, shall technically and periodically review on a sample basis some of the selected projects in order to verify if the selected projects maintain the same characteristics as when they were categorized as Bio Credits
- The funds still to be disbursed will remain in Banco Pichincha account in the Central Bank of Ecuador.



# Management of Used Funds (Principal 3)



## Reporting

- **The Sustainable Development Area** is responsible for preparing the aforementioned report.
- The use of the funds and the impact outcome of Green Bonds shall be audited by an external body.
- Banco Pichincha shall disclose annually in a generalized form, not at project level, the use of funds from bond issuance, including the number of beneficiaries, the average size of the loans, the disbursement by category of eligibility and the regional allocation, in order to meet banking confidentiality and information security requirements, through the dedicated section of the Annual Sustainability Report available in:

<https://www.pichincha.com/portal/Informacion/Transparencia/Informes-anuales-y-memorias-de-sostenibilidad>



## Impact Reporting

- The indicators in black (finance-related) are mandatory for all of the Bond categories, as a whole.
- Banco Pichincha undertakes to present annually at least an impact indicator and a performance indicator by category of eligibility
- Example:

d Sustainable building		
<b>Number of beneficiaries (clients)</b>	Number of beneficiaries	= Number of beneficiaries
Number of buildings built with eligible labels	Number of buildings	= Number of buildings and/or houses built with eligible labels
Energy conservation in certified buildings	KWh	= Certified building's consumption in KWh (per year) / similar non-certified building's consumption in KWh (per year)

- In cases where the information required for the calculation of this indicator is not available, the Bank will make a detailed case study of a selected project.



## • Glossary

**Bonsucro:** Bonsucro is an association of sugar cane producers and chain processors aiming to ensure a sustainable future for sugar cane production through environmentally and socially responsible initiatives.

**BREEAM:** Building Research Establishment Environmental Assessment Method. <https://www.breeam.com> BREEAM is the world's leading sustainable construction certificate, adapted to the regulations, language and construction practice of Spain.

**EDGE:** Excellence in Design for Greater Efficiencies. <https://www.edgebuildings.com>. A sustainable construction certification which is an IFC innovation.

### **IFC Performance Standards for Green Bonds:**

[https://www.ifc.org/wps/wcm/connect/corp\\_ext\\_content/ifc\\_external\\_corporate\\_site/about+ifc\\_new/ifc+governance/investor+relations/grnbond-overvw](https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new/ifc+governance/investor+relations/grnbond-overvw)

**Global GAP:** Global GAP are internationally recognized standards on agricultural, livestock, and aquiculture good practices.

**ISO 50001:** is an international standard developed by ISO (International Organization for Standardization or International Organization for Standardization) that aims to maintain and improve an energy management system in an organization.

**LEED:** Leadership in Energy and Environmental Design. : <https://new.usgbc.org/leed> LEED is a sustainable building certification system, developed by the United States Green Building Council.

**IFC Performance Standards:** They are intended for clients, offering guidance to identify risks and impacts in order to help prevent, mitigate and manage risks and impacts as a way of doing business in a sustainable manner, including the client's obligation to include stakeholders and disclose project activities.

**Green Bond Principles (GBP 2018):** promote the integrity of the Green Bond market through guidelines that recommend transparency, publicity and reporting. They provide a series of relevant categories, eligible for green projects. <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

**RSB:** Roundtable on Sustainable Biomaterials (RSB) is an international initiative of certification and a sustainability standard for biomass, bioenergy, and biofuels production

**SARAS:** Environmental and Social Risk Management System (ESRM) for the assessment of socio-environmental risks regarding clients

