



Impact analysis of Banpro - Grupo Promerica´s portfolio

Principles of Responsible Banking 2020

The current analysis identifies the areas of major impact of the customer portfolio for purposes of developing the bank's sustainability strategy and the establishment of objectives that will allow said sectors to increase their positive impacts and reduce the negative ones.

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EXECUTIVE SUMMARY

Banco de la Producción, S.A. (Banpro) with operations in Nicaragua is part of the Promerica Group, present in 9 countries of the Latin American Region. Its portfolio offers a broad ranging variety of banking products and services focused on Consumption Banking, Private Banking, Business Banking and Alternate Means of Payment for diverse customer segments.

The current analysis identified the areas of major impact of its client portfolio with the purpose of developing the bank's sustainability strategy and to set objectives to allow said sectors to increase their positive impacts and to reduce the negative ones. The information was assessed to December 31, 2020. The analysis was carried out using the "**Portfolio Impact Analysis Tool**" methodology, developed by UNEP-FI. The Business Portfolio, which represents 71% of the total portfolio, was assessed during this first phase.

The analysis identified **Food and Employment** as the areas that made the greatest contributions, in addition to areas such as inclusive health and economies. Such contributions are mainly associated to funding for traditional crops such as **Rice, Sugarcane and Coffee**, which constitute sources of foreign exchange and employment in rural areas.

Likewise, the areas where negatives impacts were found are **Resource Efficiency, Climate and Biodiversity**. These impacts are largely associated with **Real Estate Activities**, which require significant energy consumption. In addition, water consumption for agricultural activities constitutes a climate risk and an opportunity for the responsible use of the resource.

Among the possible strategies for the management of the identified impacts, there are the promotion of certifications for sustainable buildings, energy efficiency and renewable energy in SMEs of commerce and services, efficient risk technology and solar pumping in the agricultural sector, the implementation of standards for the measurement of GHG (Greenhouse Gases), as well as the strategy to generate, collect and publish quality information on the contributions and impacts of customers.

Among the challenges found, we have the establishment of effective communication and coordination channels between customers and the bank. The design of sustainable products according to the needs of SMEs and vulnerable segments. In addition, the establishment of objectives by priority areas or activities of the portfolio, which is estimated to be carried out in 2022.

1. GEOGRAPHICAL COVERAGE AND PRODUCTS

Banpro operates in Nicaragua, offering a wide variety of banking products and services, focused on Consumer Banking, Private Banking, Business Banking and Alternative Payment Methods for different customer segments. As of December 31, 2020, the portfolio amounted to 1,170 million dollars, of which 71% is constituted by the business portfolio and 29% by Consumer banking, the latter includes both personal loans, mortgages, and credit cards, related to personal banking.

2. SCOPE AND METHODOLOGY

To identify the areas of greatest impact, an analysis of the total portfolio distribution in terms of balances was carried out as a first step, with the aim of concentrating on the portion or sectors of the portfolio with the highest levels of exposure.

Since its inception, Banpro has focused on the business segment, where the two segments par excellence can be identified: SMEs and Corporate, mostly classified in agricultural, commercial, industrial, and livestock credit, among others.

The business portfolio, for the same period, amounted to 826 million dollars, of which Corporate represents 92% and SMEs 8%. This distribution shows us the importance of the corporate segment for the analysis in question; and on the other hand, the business potential of the SME segment in terms of product diversification and innovation, allowing the segment to grow with an inclusive approach.

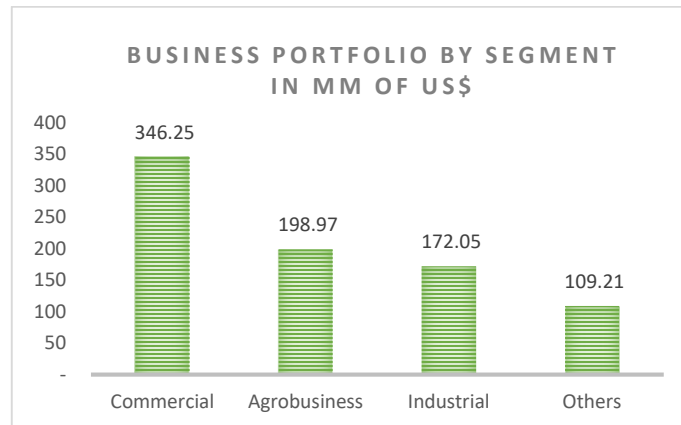


Figure 1. Business portfolio by main market segments

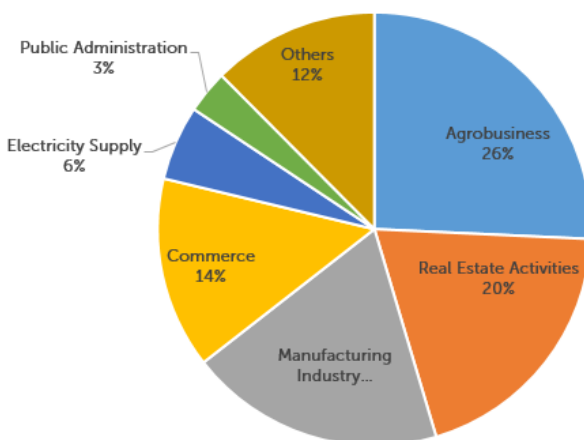


Figure 2. Distribution of business portfolio by economic sector, December 2020

Figure 2. shows the distribution of the business portfolio by sector, where agriculture, real estate activities, manufacturing industry and commerce constitute the sectors with the largest scale of exposure.

Likewise, disaggregating these sectors at ISIC 4 level, 15 activities were identified that account for almost 70% of the business portfolio and concentrate 27% of clients, defining in this manner, the specific portion of the portfolio (US \$ 554 MM), evaluated in this impact analysis. (Refer to Table 1)

The delimitation of the portfolio was carried out with the objective of facilitating the use of the tool, processing 15 activities in this first phase, but with great impact, which translates into more representative results, and with an efficiency approach.

Table 1. Main Activities of the Business Portfolio to Dec. 2020

N°	Description Level 4 ISIC	Balance	% Balance	# Customers
1	Real estate activities with own or leased property	160,966,600	29%	111
2	Growing of oleaginous fruits	53,247,467	10%	74
3	Manufacture of vegetable and animal oils and fats	47,407,474	9%	2
4	Electric power generation, transmission and distribution	46,127,148	8%	9
5	Growing of rice	37,933,537	7%	58
6	Growing of sugar cane	37,087,349	7%	3
7	Growing of beverage crops	28,451,117	5%	100
8	Wholesale and retail trade and repair of motor vehicles and motorcycles	26,367,092	5%	11
9	Wholesale of agricultural raw materials and live animals	19,734,692	4%	15
10	Marine fishing	17,474,382	3%	3
11	Manufacture of pesticides and other agrochemical products	16,811,287	3%	11
12	General public administration activities	16,515,372	3%	10
13	Hospital activities	15,715,514	3%	3
14	Raising of poultry	15,612,642	3%	2
15	Raising of cattle and buffaloes	14,551,531	3%	160
	General total	554,003,211	100%	572

Once the portfolio segment had been defined, the “**Portfolio Impact Analysis Tool**”, developed by UNEP-FI, was implemented. The tool offers a holistic set of 22 impact areas in the three pillars of sustainable development (economic, social, and environmental). These areas of impact are defined based on standards aligned with the Sustainable Development Goals (SDG).

Table 2. Impact Areas of the “Portfolio Impact Tool”

22 Tool impact areas			
1	Availability - Water	12	Justice
2	Food	13	Strong institutions, peace & stability
3	Housing	14	Water quality
4	Health & sanitation	15	Air
5	Education	16	Soils
6	Employment	17	Biodiversity & ecosystems
7	Energy	18	Resource efficiency
8	Mobility	19	Climate
9	Information	20	Waste
10	Culture and heritage	21	Inclusive and Healthy Economies
11	Integrity & security of person	22	Economic convergence

3. PRIORITY SECTORS WITH ASSOCIATED IMPACTS

The evaluation of the portfolio by the impact tool shows that real estate activities constitute the sector with the highest potential by level of exposure (29%) and with potential impacts on 9 indicators (positive and negative). Table 3 describes the types of impacts that will serve as inputs for the establishment of the strategy and objectives for real estate activities.

Table 3. Potential impacts of real estate activities

N°	Indicators	Potential impacts identified	
		Positive	Negative
1	Housing	Access to accommodations/housing, which is a priority need for the country.	It can be detrimental if accommodations/housing are unaffordable.
2	Health & sanitation	Contributes to wellbeing and health	It generates health problems if the accommodations/housing are unsanitary.
3	Employment	It generates employment, which is a high priority in the country.	Working conditions to the detriment of the worker's well-being.
4	Soils		It could present land use problems.
5	Biodiversity & ecosystems		Disturbance of ecosystems.
6	Resource Efficiency		Intensive energy and water consumption in buildings.
7	Climate		Emissions related to air conditioning and lighting.
8	Waste		Generation of office waste or common waste.
9	Inclusive and healthy Economies	The sector makes significant contributions to economic growth.	

The potential impacts for oilseed crops, rice, sugar cane and coffee, which together represent almost 28% of the portfolio analyzed, have quite similar characteristics, affecting the same 11 indicators as shown in the following table.

Table 4. Potential impacts of oilseed, rice, sugarcane, and coffee crops.

N°	Indicators	Potential Impacts Identified	
		Positive	Negative
1	Availability - Water		Contributes to water scarcity and contamination of water sources.
2	Food	Access to food	
3	Health & sanitation	Quality of food contributes to good health	The use of pesticides may affect health of the communities.
4	Employment	Creates employment for the localities.	Potentially minimum wages and irregular income, with unfair working conditions.
5	Soils		Pollution from the use of fertilizers and pesticides
6	Biodiversity & ecosystems		Intensive agriculture
7	Resource efficiency		Intensive use of water, energy, and soils.
8	Climate		Intensive agriculture, process emissions and use of agricultural machinery.
9	Waste		Waste from the process, chemical containers, and disposal of agricultural machinery (obsolete).
10	Inclusive economy	Vital in the supply chain of various sectors (food, beverages, accommodations, etc.)	
11	Inclusive and healthy economies	It may be the only source of livelihood in some areas.	

In the case of the manufacturing of oils and fats, with 9% of the portfolio, they present similar effects to the impacts of agricultural crops (Table 5), with the exception of the impacts that have to do with health and culture & heritage.

Table 5. Potential impacts for the elaboration of oils and fats

N°	Additional Indicators	Potential impacts identified	
		Positive	Negative
1	Health & sanitation	Part of a healthy diet	In excess, it may contribute to health problems
2	Culture & heritage	Contribute to the preservation of local gastronomy	

The energy generation sector, with an 8% of the portfolio assessed, it shows effects in a greater number of indicators, covering 14 among economic, environmental, and social indicators.

Table 6. Potential impacts for energy generation

N°	Indicators	Potential impacts identified	
		Positive	Negative
1	Energy	Access to available and sustainable energy	
2	Information	It is vital for access to information and connectivity	
3	Culture and Heritage		In some cases, energy production has the potential of affecting natural and world heritage sites
4	Health & sanitation	Access to energy contributes to improving health services	
6	Biodiversity & ecosystems		It may probably affect maritime species and ecosystems
7	Resource Efficiency		Use of energy, metals, and mineral sources
8	Climate	The use of renewable energy can contribute to avoid polluting emissions.	The use of fossil fuels can contribute to polluting emissions.
9	Air		Potential contamination by polluting emissions.
10	Soil		Potential contamination.
11	Water quality		Potential contamination.
12	Waste		Disposal of obsolete machinery and pipes.
13	Inclusive and Healthy Economies	Indispensable for economic activity	
14		Drive's economic conversion and innovation	

The strategy for real estate activities aims to promote the use of certifications for new high-potential investments, as well as the implementation of energy efficiency and renewable energy in commercial and services SMEs.

On the other hand, agricultural activities present a higher potential for reducing its negative impacts and for increasing the positive ones due to its agricultural-export nature and with a more stable demand in relation to the internal shocks. In addition, energy generation, which has high potential in financing electricity generation from biomass, hydroelectrical plants, as well as wind and solar parks.

4. AREAS OF MAJOR IMPACT: POSITIVE AND NEGATIVE

Issues such as food and job creation are the areas with the greatest impact, which are associated with the financing of traditional crops such as rice, sugar cane and coffee, the latter being one of the main generators of foreign exchange to the country and source of employment in rural areas.

Table 7. Positive impact areas associated with key sectors (ranking)

Rank	Positive impact areas associated with key sectors (Ranking)– Positives	Portfolio ratio
1	Food	45%
2	Employment	37%
3	Health & sanitation	37%
4	Inclusive and healthy economies	10%
5	Energy	8%
6	Economic convergence	8%
7	Mobility	5%
8	Integrity & security of person	3%
9	Justice	3%
10	Strong institutions, peace & stability	3%

Among the environmental areas, which present the greatest potential for improvement, are resource efficiency, climate issues and biodiversity. These negative impacts are largely associated with real estate activities, which require considerable energy consumption for air conditioning and lighting. In addition, the intensive consumption of water for the aforementioned agricultural activities.

Table 8. Negative impact areas associated with key sectors (ranking)

Rank	Impact areas associated with key sectors - negative	Portfolio ratio
1	Resource Efficiency	68%
2	Climate	68%
3	Biodiversity & ecosystems	45%
4	Waste	42%
5	Soils	37%
6	Water Quality	34%
7	Availability - Water	31%
8	Integrity & security of person	28%
9	Health & sanitation	12%
10	Employment	7%
11	Strong institutions, peace & stability	3%
12	Air	3%

5. CHALLENGES AND PRIORITIES FOR SUSTAINABLE DEVELOPMENT

As part of the 2021-2025 Strategic Map presented by the General Management, 6 guidelines were defined that aim at managing the environmental and social impacts generated by the institution directly and by the main activities of the business portfolio. These guidelines include:

- 1) Sustainable products for collaborators, customers, and communities.
- 2) S&A Risk management in credits and investments.
- 3) Education, financial inclusion, and social responsibility.
- 4) Sustainable investments.
- 5) Impact measurement.
- 6) Digital channels and innovation.

With the portfolio impact analysis, priority sectors and/or activities have been identified, as well as lines of intervention. Real estate activities involve a sector with different levels of exposure and with a broad base in the number of customers. On the other hand, there are 3 sugar mills, with high investments distributed in the production of sugar and the generation of energy based on biomass. Likewise, as a first step, it will be necessary to define the degree of depth of the impacts and to establish the level of management or progress of the sectors in relation to said potential impacts.

The results from the impact analysis allowed for defining the following measures aimed at improving the business portfolio in terms of sustainability:

- Promote the use of EDGE and LEED certifications in the real estate sector for high potential buildings, as well as the implementation of energy efficiency and renewable energy for SMEs of commerce and services.
- Promote environment-friendly agricultural practices and use of soils.
- Provide technical assistance on energy efficiency and renewable energy (self-consumption) among segments of priority customers, fostering low-carbon investments as a first phase in aligning the portfolio with the goals of the Paris Agreement.
- Massify the use of efficient irrigation systems (water and energy) and solar pumping among producers to counteract the risks associated with climate change and the efficient use of resources.
- Promote among customers the creation and publication of environmental information; only sugar mills opt for certifications such as BONSUCRO or ISCC, where they can have access to environmental information with a high level of trustworthiness.
- The implementation of the GHG measurement standard for the financial industry promoted by PCAF (Partnership for Carbon Accounting Financials), to begin aligning the portfolios with the objectives of the Paris Agreement.
- Incorporation into the strategic map the country's needs identified in the impact analysis.
- Determine indicators by priority areas and economic sector for 2022.

In the same manner, among the challenges identified are the establishment of effective communication and coordination channels between customers and the bank in order to record environmental and social information. The design of sustainable products according to the needs of the SMEs. In addition, the challenges that the needs of the country entail, which include food, health, employment, security, justice, among others.

Figure 3. Impact areas associated with the strategic sectors of the Business Portfolio, Dec 2020

