

Second Party Opinion

## Banco de Credito del Peru's Proposed Sustainability Financing Framework

JAN. 12, 2022

Banco de Credito del Peru (BCP) has been operating for over 100 years and is the largest bank and financial service provider in Peru, with a market share of about 35%, in terms of domestic loans and deposits. BCP provides a full range of retail and wholesale banking services for large corporations, small and midsize enterprises (SMEs), and individuals, and offers asset management, private banking, and treasury activities. As part of its business plan, BCP aims to expand financial inclusion in Peru's large informal economy by offering microfinancing, mainly through its subsidiary, MiBanco. BCP is majority owned by Credicorp Ltd., a financial conglomerate listed on the New York Stock Exchange.

In our view, BCP's proposed Sustainability Financing Framework is aligned with the following international guidelines, collectively referred to as the Principles:

- ✓ Social Bond Principles, ICMA, 2021
- ✓ Green Bond Principles, ICMA, 2021
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2021
- ✓ Sustainability Bond Guidelines ICMA, 2021

### Issuer's Sustainability Objectives

BCP's overall business goal is to strengthen its long-term financial performance and maintain its competitiveness by creating new business opportunities and integrating sustainability into its activities. In its 2020-2025 Commitment to Sustainability Program, BCP outlines three main sustainability pillars. The bank intends to contribute to a more sustainable and inclusive economy, improve the financial health of citizens, and embed diversity and innovation into its corporate culture. To achieve these objectives, BCP has developed the Reconecta Program that embraces various initiatives to boost financial inclusion, financial education, and SMEs' empowerment through investments in digital tools, training programs, and simpler and more accessible financial services for underserved individuals and businesses. Moreover, BCP has been developing customized products to help corporate clients in their transition to become more environmentally sustainable businesses.

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## Second Party Opinion Summary

### Use of proceeds

**Alignment**  BCP's Sustainability Financing Framework is aligned with this component of the Principles.

**Score** Not aligned Aligned **Strong** Advanced

BCP commits to using the net proceeds of financing instruments issued under the framework to fund eligible green and social projects. The bank provides a clear description of the eligible projects, their alignment to International Capital Market Association's (ICMA's) categories and their relevance according to its sustainability objectives.

### Process for project evaluation and selection

**Alignment**  BCP's Sustainability Financing Framework is aligned with this component of the Principles.

**Score** Not aligned Aligned **Strong** Advanced

BCP has a well-defined process in place to ensure the eligibility of the projects to be financed, including exclusionary criteria, with appropriate internal accountability. Moreover, the framework provides information on processes to identify and manage potential social and environmental risks of the projects and companies funded, as well as alignment with local regulations, international standards and certifications.

### Management of proceeds

**Alignment**  BCP's Sustainability Financing Framework is aligned with this component of the Principles.

- BCP states that all financing issued under the framework will be allocated on the general account and earmarked for allocation to the eligible projects. These proceeds will be adjusted on a quarterly basis to match allocation to projects.

### Reporting

**Alignment**  BCP's Sustainability Financing Framework is aligned with this component of the Principles.

**Score** Not aligned Aligned **Strong** Advanced

BCP commits to publish an annual report on the allocation and actual and expected impact of bond's net proceeds until these are fully allocated. This report will include performance indicators for each category, and the methodology used for quantitative indicators. An external auditor will verify the allocation of bond's proceeds and conformity with the framework.

# Framework Assessment

## Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as satisfactory, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 BCP's Sustainability Financing Framework is aligned with this component of the Principles.

### Commitments score

Not aligned

Aligned

**Strong**

Advanced

We consider BCP's overall use of proceeds commitments to be strong.

In our view, the framework aligns with the requirements of the Principles, with a clear commitment to allocate proceeds exclusively to (re)finance eligible social and green projects. Moreover, BCP commits to disclose the amount of funds used for financing against refinancing of projects, as well as the expected look-back period (36 months) for refinanced projects, which we consider in keeping with best practices.

Green projects are directly linked to sustainability objectives and aligned with eligible categories such as renewable energy (i.e. wind, solar, and biomass power generation), clean transportation (electric vehicles and hydrogen-powered public transport), green buildings (with LEED certification Gold/Platinum), energy efficiency, sustainable water and wastewater management, and environmentally sustainable management of living natural resources and sustainable land use.

The issuer has identified sustainability objectives and benefits of its eligible social projects, which have defined target populations. The chosen categories are SME financing and microfinancing (according to IFC criteria), socioeconomic advancement and empowerment of women and financial literacy of underbanked and underserved individuals, access to essential services to promote financial inclusion and access to basic infrastructure such as affordable housing to low-income individuals, sewerage systems, and water treatment.

## Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as satisfactory, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 BCP's Sustainability Financing Framework is aligned with this component of the Principles.

### Commitments score

Not aligned

Aligned

**Strong**

Advanced

We consider BCP's overall process for project selection and evaluation commitments to be strong.

BCP's process to determine the eligibility and alignment of projects is conducted by its Sustainability Financing Working Group at least on a bi-annual basis. The group will consist of senior representatives from different divisions, including treasury, corporate sustainability office, representatives from MiBanco and Reconecta, wholesale banking, and other business units. In our view, the decision-making body is equipped to base decisions on the bank's sustainability objectives. In addition, the eligibility criteria is well defined, and all categories include additional criteria, such as recognized international standards, efficiency thresholds, exclusion criteria, and the inclusion of third-party certification systems.

Moreover, the bank lists processes that it will take to identify and manage social and environmental risks stemming from the projects and companies that it will finance under this framework. For high-risk sectors, the bank may consider hiring third-party consultants to manage those risks. Furthermore, all projects are subject to local regulations (i.e. Superintendencia de

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Banca, Seguros y AFP), internal credit policies and risk management guidelines such as the Equator Principles.

### Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 BCP's Sustainability Financing Framework is aligned with this component of the Principles.

We view BCP as aligned with this component because it commits to maintain an amount allocated to eligible projects at least equal to the value of the instruments issued under this framework. In the case of unallocated fund proceeds, the balance will be allocated in cash or liquid securities, in line with BCP's liquidity management policy. BCP will manage the proceeds in a general account and will earmark them for allocation to eligible projects, which will be tracked and adjusted on a quarterly basis.

### Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as satisfactory, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 BCP's Sustainability Financing Framework with this component of the Principles.

### Disclosure score

Not aligned

Aligned

**Strong**

Advanced

We consider BCP's overall reporting practices to be strong.

The bank adheres to the principles by committing to publish an annual report showing the environmental and social impacts until the net proceeds are fully allocated, communicating any material changes on an ad-hoc basis.

BCP has proposed key performance indicators that it may use to measure the actual and expected outputs and impact of the various green and social categories. For instance, the amount of GHG emissions reduced for the energy efficient projects and cubic meter of water saved for wastewater management. This also includes a commitment to disclose the methodology to calculate the quantitative performance measures, which demonstrates greater transparency and is considered a best market practice.

The framework also has strong features that goes beyond minimum requirements. For instance, an external auditor will verify the alignment of allocation of the proceeds on an annual basis. We consider it to be a best market practice for issuers to obtain a verification or audit of an impact or allocation report and a strength of this framework.

## Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations set up in 2015, form an agenda for achieving sustainable development by 2030.

We use ICMA's SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

BCP's Sustainability Financing Framework intends to contribute to the following SDGs:

Use of proceeds/KPI	SDGs		
Renewable Energy			
	<b>*7. Affordable and clean energy</b>	<b>9. Industry, innovation and infrastructure</b>	
Clean Transportation			
	<b>13. Climate action</b>	<b>9. Industry, innovation and infrastructure</b>	
Green Buildings			
	<b>*11. Sustainable cities and communities</b>	<b>13. Climate action</b>	
Energy Efficiency			
	<b>11. Sustainable cities and communities</b>	<b>12. Responsible consumption and production</b>	<b>13. Climate action</b>

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Sustainable water and wastewater management



**\*6. Clean water and sanitation**

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Environmentally Sustainable Management of Living natural Resources and Sustainable Land use



**\*12. Responsible consumption and production**



**\*15. Life on land**

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Socioeconomic advancement and empowerment – Women empowerment



**\*5. Gender equality**

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Socioeconomic advancement and empowerment



**4. Quality education**



**\*10. Reduced inequalities**

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SME financing and microfinance / Employment Generation



**\*8. Decent work and economic growth**

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\*The eligible project categories link to these SDGs in the ICMA mapping.

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