

Waiver of Responsibility

The law and any other regulation translated into English are only referential. The official language for any legal purposes is Spanish as published in the Official Journal El Peruano.

Lima, 27 March 2015

***S.B.S. Resolution
N° 1928-2015***

*The Head of the Superintendency of Banks, Insurance Companies and Private
Pension Fund Administrators*

WHEREAS:

Financial firms have voluntarily adopted social and environmental risk evaluation and management practices for projects and/or primary suppliers to whom they grant loans. If these practices are correctly and timely implemented, they will result in lower risks for financial firms, improvements in their reputation and value and, in particular, in a better relationship between their clients and communities, which – in turn - may contribute to mitigate social conflicts;

The possibility of social conflicts is relevant for financial firms because social conflicts may increase credit risk, reducing creditworthiness of projects and/or their primary suppliers that are directly or indirectly affected by social conflicts;

Recognizing the voluntary initiatives undertaken by financial firms, it is the purpose of the Superintendency to encourage financial firms to implement common corporate governance and management practices that aim at aligning their interests with standards that contribute to build a sound, integral and law-abiding system. For this purpose, it was deemed necessary to set forth the minimum requirements for social and environmental risk management in order to promote sharing of these practices among financial firms, and –therefore- diminish the likelihood and severity of social conflicts associated to business activities to which financial firms grant loans;

It is necessary to modify the Accounting Manual for Financial Firms, enacted by SBS Resolution N° 895-98 on 1 September 1998, and its amendments, to include a report about social and environmental risk;

It is necessary to modify the Internal Auditing Regulations enacted by SBS Resolution N° 11699-2008, and its amendments, to include the evaluation of social and environmental risk management regulations, as a scheduled activity;

It is necessary to modify the Sanctions Regulations, enacted by SBS Resolution N° 816-2005, as amended, to include the breaches for non-compliance with the regulations for social and environmental risk management;

For purposes of gathering opinions from users and the public concerning the proposed amendments to the regulations for the financial system, it was decided to publish for

consultation the draft resolution concerning this matter in the Superintendency's webpage, in compliance with the provisions set forth in Supreme Decree N° 001-2009-JUS;

With the approval of the Deputy Superintendents for Banking and Microfinance, Risk, Economic Studies and Legal Counsel; and,

By the authority conferred in by paragraphs 7, 9 and 13 under article 349° of the General Law of the Financial and Insurance System, and the Banking and Insurance Superintendent's Organic Law– Law N° 26702 as amended, hereafter the General Law;

WHEREOF:

Article one.- The Regulations for Social and Environmental Risk Management are hereby approved under the following terms:

“REGULATIONS FOR SOCIAL AND ENVIRONMENTAL RISK MANAGEMENT

CHAPTER I GENERAL PROVISIONS

Article 1°.- Scope

These regulations shall apply to the firms listed in paragraphs A and C of article 16° under the General Law, as well as to Corporación Financiera de Desarrollo (COFIDE), Banco de la Nación, financial leasing companies, factoring companies, and surety and warrant companies, hereafter, the firms.

Article 2°.- Objective

The objective of this regulation is to establish minimal requirements for social an environmental risk management in order to encourage the firms to implement the best practices and prudent decision-making process. This regulation does not attempt to transfer the responsibility or roles that belong to public institutions in charge of social and environmental issues to the firms; neither to make the firms responsible for potential regulatory breaches by projects and/or their primary suppliers.

Article 3°.- Definitions

For purposes of enforcing these regulations, the following definitions shall be used:

a) Area of influence- this concept includes:

- The area potentially influenced by: i) the project and facilities belonging to the client or operated or managed by the client or its contractors and which are used for developing the project; or ii) the impact of unplanned but predictable developments caused by the project and which may occur at a later stage or different location;
- Related facilities, i.e. facilities for which no loans are granted as part of the project, but which would not have been built or expanded if the project had not taken place, and without which the project would not be viable; or,
- Cumulative impacts i.e. those recognized as important, based on scientific concerns or concerns of the communities influenced by the project that result from the incremental effect (e.g. increased air emissions or reduced water flow) of the project, either in combination with other

business activities or not, on areas or resources used or directly impacted by the project or planned developments identified during the assessment process.

- b) **Bridge loans.-** temporary loans granted to a client and related to a project in the expectation of a long-term loan.
- c) **Business activities-** Set of activities undertaken by an entity or group of persons to meet a demand.
- d) **Client.-** receiver of financing or financial advisory services to finance a project.
- e) **Corporate loans.-** loans granted to legal persons and/or entities as defined by the Regulations for the Evaluation and Classification of Borrowers and Provisioning Requirements approved by SBS Resolution N° 11356-2008, as amended. For the purposes of this regulation, the term “corporate loan” does not include sovereign loans, loans granted to multilateral development banks, securities intermediaries, financial firms, credit insurance trusts and warranty funds established by law.
- f) **Independent reviewer.-** a qualified company or professional expert with experience in social and environmental risk issues, not associated to the client, as established by the Special Norms on Relations and Economic Groups, enacted by SBS Resolution N° 445-2000, as amended.
- g) **Loan.-** direct or indirect loans - granted directly or through third parties - as defined by the Regulations for the Evaluation and Classification of Borrowers and Provisioning Requirements, approved by SBS Resolution N° 11356-2008 as amended.
- h) **Primary suppliers.-** suppliers that provide goods and services that are essential for a project.
- i) **Project.-** Development of a business activity at an identified location and for which feasibility and social and/or environmental impact assessments on the area of influence are required. Development includes exploration, installation, operation, expansion or material changes and decommissioning of required facilities.
- j) **Social and environmental baseline.-** exhaustive description of the environmental and social conditions existing prior to the undertaking of business.
- k) **Social and environmental risk.-** the likelihood of losses caused by social conflicts related to the development of projects that may significantly impact the economic, social or environmental systems within which they take place.
- l) **Social and environmental risk management plan.-** set of measures required to mitigate a project or its primary supplier’s social and environmental risk.
- m) **Sustainable development.-** development of a business activity that allows present generations to meet their social, economic and environmental needs without adversely impacting the ability of future generations to meet their own needs.
- n) **Superintendency.-** the Superintendency of Banks, Insurance Companies and Private Pension Fund Administrators.

Article 4°.- Scope of the Regulations

Firms shall enforce these regulations when providing any of the following services:

- a) Advisory services for project financing when the project's total estimated investment exceeds US\$ 10 million.
- b) Financing for a project when the total estimated investment in the project exceeds US\$ 10 million. A particular case is project finance as defined in the Credit Risk Capital Requirement regulations under Annex 2, enacted by SBS Resolution N° 14354-2009, as amended.
- c) Loans to non-retail clients related to a project's development phase only if these are provided under the following circumstances:
 - i. When the aggregate loan amount related to the project is at least US\$ 50 million in the financial system; and
 - ii. When the firm's loan amount related to the project (before syndication or sale) is at least US\$25 million.
- d) Bridge loans related to a project that requires a total estimated investment above US\$10 million.
- e) Corporate loans above US\$ 10 million to be used for project's primary suppliers.

These regulations shall also be applied when the services described above are provided via trusts.

In addition, the firm may enforce similar or identical standards as those set forth in these regulations when providing other services not mentioned in this article.

Article 5°.- Responsibilities of the Board

The firm's Board will be responsible for setting forth the general policy for social and environmental risk management. This policy shall include at least the following considerations:

- a) Allocate the necessary resources for appropriate social and environmental risk management in order to set up the appropriate infrastructure, methodology and personnel.
- b) Approve the social and environmental risk management manual which shall, at least, include the provisions set forth in these regulations.
- c) Set forth throughout the entire organization an appropriate system to delegate powers and segregate functions for managing social and environmental risks.
- d) Ensure the firm has in place an effective social and environmental risk management structure and that the key identified risks are under control within certain limits.
- e) Define, as part of its risk taking policy, the minimum social and environmental requirements to be met by clients.

In compliance with article 11° of the Comprehensive Risk Management Regulations enacted by SBS Resolution N° 037-2008, as amended, the Board may either designate a committee to undertake the responsibilities described above or delegate such responsibilities to an existing committee.

Article 6°.- Responsibility of Management

The firm's Chief Executive Officer is responsible for implementing social and environmental risk management policies in compliance with the Board's decisions.

The managers charged with the organization's business or support units are responsible for managing social and environmental risks within their field of competence and in line with established policies, limits and procedures.

Article 7°.- Functions of Risk Units

The firm's Risk Unit, or, if applicable, the unit specialized in social and environmental risk management, shall perform the following functions:

- a) Suggest to the Board the policies required for social and environmental risk management.

- b) Contribute to the drafting and ongoing updating of the firm's social and environmental risk management manual.
- c) Develop a methodology for social and environmental risk management.
- d) Support and assist all other firm units in applying the social and environmental risk management methodology.
- e) Evaluate the social and environmental risks before financing is granted and, once granted, monitor those operations' risks.
- f) Consolidate and prepare reports and notes on social and environmental risk management.
- g) Identify dissemination and training needs for the appropriate management of social and environmental risk.

Firms shall allocate sufficient resources to manage social and environmental risk so that they may adequately perform the functions listed here. In addition, it is the firm's responsibility to ensure appropriate attention is given to social and environmental risk and to ensure the independence of the units charged with managing social and environmental risk from other business or support units.

CHAPTER II

EVALUATION OF SOCIAL AND ENVIRONMENTAL RISK FOR PROJECTS

Article 8°.- Minimum requirements for projects' social and environmental risk evaluations

As a minimum, the firms providing the services described in paragraphs a), b), c) and d) under article 4° above shall:

- a) Require their clients to fill out a questionnaire as described in article 9°. This questionnaire shall be signed by the client's Chief Executive Officer or by whom he/she had designated. In addition, should the client have someone responsible for social and environmental issues, he/ she shall sign the questionnaire.
- b) Use public information sources that will streamline social and environmental risk evaluation and monitoring tasks.
- c) Classify projects as established under article 10°. An explanation of such a classification shall be available to the Superintendency.
- d) Require the opinion of an independent reviewer, as described in article 11°.

Article 9°.- Minimum contents of the project questionnaire

The questionnaire mentioned in paragraph a) in the above article shall cover at least the following topics:

- a) *Background.* Identification of the area of influence; information about the social and environmental baseline and the economic and social conditions in the area of influence, including information about previous social conflicts and evaluation of governance conditions and potential development of the area of influence; and information about the client's capabilities (regarding experienced personnel and dedicated resources); as well as about the entities under the client's control or other companies previously involved in the project to manage the relationship between the client and the community and the protection of the environment.
- b) *Due diligence.* Due compliance with the requirements listed in social and environmental regulations, as well as with international treaties, conventions and agreements strictly mandated by Peruvian law.
- c) *Evaluation of potential impacts.* Including:

- Impacts on air quality, water quantity or quality including ground water.
 - Impacts on sustainable development and use of non-renewable and renewable natural resources.
 - Socio-economic impacts related to the purchase and use of land and water.
 - Impacts resulting from relocation and involuntary economic displacement.
 - Impacts on indigenous people and communities living within the area of influence.
 - Cumulative impacts on other existing business activities that have been directly affected by development of the funded project.
 - Impacts from emerging economic disparities between project workers and the local population in the area of influence.
- d) *Mitigation measures.* These include:
- Measures adopted for the protection of human health, cultural heritage and biodiversity, including endangered species and fragile ecosystems.
 - Measures regarding the use of hazardous substances, occupational health and security, fire management and life protection.
 - Measures to ensure efficient energy generation and use, pollution control (regarding effluents and air borne emissions) and solid and chemical waste.
 - Evaluation of compensation programs such as land acquisition and people relocation to reasonably offset impacts of the project.
- e) *Engagement and dialogue.* Clients will inform about:
- Effective engagement of communities in the area of influence so that it shall be continuous, structural and culturally appropriate.
 - For projects with potentially significant adverse impacts on the communities in the area of influence, whether an informed participation and consultation process was applied and whether the client tailored its consultation process to: the risks and impacts of the project; the project's phase of development; the language preferences of the communities in the area of influence; their decision-making processes; and the needs of disadvantaged and vulnerable groups;
 - Whether the consultation process was free of external manipulation, interference, coercion and intimidation.
 - To facilitate communities engagement in the areas of influence, the clients –according to the project's risks and impacts- made the related assessment documentation readily available to the communities in the areas of influence and in the local language and in a culturally appropriate manner.
- f) *Grievance mechanism.* Clients will inform about:
- Whether there is a grievance mechanism to accept and facilitate the solution of concerns and complaints about the project's environmental and social performance.
 - Whether the grievance mechanism is proportional to the project's risks and impacts, and whether this mechanism has the communities in the influence area as its main users.
 - Whether the grievance mechanism aims at resolving potential problems quickly through a consultation process which is understandable, transparent, culturally appropriate, easy to use, free of charge and retribution to the sources originating the issue or concern.
 - Whether the grievance mechanism does not impede recourse to other court or administrative proceedings.
 - Whether the client informed the communities in the area of influence about these grievance mechanisms during the engagement process.

Article 10°.- Project categorization

Based on the answers to the questionnaire, in particular those pertaining to the social baseline, level of engagement with the communities in the area of influence, and the quality of the dialogue and grievance mechanisms, the firms shall classify the projects for which any of the services described in paragraphs a), b), c) and d) under article 4° are provided by level of social and environmental risk, including three possible categories (to be defined by the firm itself):

- a) High social and environmental risk projects.
- b) Medium social and environmental risk projects.
- c) Low social and environmental risk projects.

To an adequate project categorization firms may use the guidelines established in the Equator Principles as a reference.

Article 11°.- Obligation of independent review

For projects classified as high social and environmental risk, firms shall require clients to hire the services of an independent reviewer, who shall at least evaluate answers to sections a), c), e) and f) of the questionnaire, and verify on site the answers to sections e) and f). Additionally, firm may request clients to evaluate other components of the questionnaire.

CHAPTER III

EVALUATION OF SOCIAL AND ENVIRONMENTAL RISK FOR PROJECT'S PRIMARY SUPPLIERS**Article 12°.- Minimum requirements for evaluating social and environmental risk of project's primary suppliers**

Firms providing the services described in paragraph e) under article 4° , shall comply with the following minimum requirements:

- a) Request their clients to fill out a questionnaire as describe in article 13° below.
- b) Use public information sources that will streamline social and environmental risk evaluation and monitoring tasks.
- c) Categorize the client's business activities as set forth in article 14° below. An explanation of such classification shall be available to the Superintendency

Article 13°.- Minimum contents of the questionnaire for project's primary suppliers

The questionnaire mentioned in paragraph a) in the above article shall be completed considering only the goods and services provided by primary supplier to a project, and shall cover at least the following topics:

- a) *Due diligence*. Due compliance with the requirements listed in social and environmental regulations, as well as with international treaties, conventions and agreements, strictly mandated by Peruvian law.
- b) *Evaluation of potential impacts*. Including:
 - Impacts on air quality, water quantity or quality including ground water.
 - Impacts on sustainable development and use of non-renewable and renewable natural resources.

- c) *Mitigation measures*. These include:
- Measures adopted for protecting human health, cultural heritage and biodiversity, including endangered species and fragile ecosystems.
 - Measures regarding the use of hazardous substances, occupational health and security, fire management and life protection.
 - Measures to ensure efficient energy generation and use, pollution control (regarding effluents and air borne emissions) and solid and chemical waste.

Article 14°.- Project's primary suppliers categorization

Based on the answers to the questionnaire, firms shall classify their client's projects for which they provide any of the services described in paragraph e) under article 4°, by level of social and environmental risk, including three possible categories (to be defined by the firm itself):

- a) High social and environmental risk business activity.
- b) Medium social and environmental risk business activity.
- a) Low social and environmental risk business activity.

To an adequate project's primary suppliers categorization firms may use the guidelines established in the Equator Principles as a reference

CHAPTER IV

TREATMENT OF FINANCIAL SERVICES' SOCIAL AND ENVIRONMENTAL RISKS

Article 15°.- Refusal to provide financial services

In any stage of the social and environmental risk evaluation process, the firm may decide not to provide services to a given project or a project's primary supplier, when at its sole discretion, the social and environmental risk exceeds a threshold the firm deems acceptable.

Article 16°.- Requirement to prepare a social and environmental risk management plan

As part of the risk evaluation process and if such evaluation results in the project or primary suppliers' social and environmental risk rating as high but within the firm's acceptable range, the firm shall agree with the client on a social and environmental risk management plan, including the measures that, at the firm's sole criterion, are required for the project or project's primary supplier to improve its social and environmental risk category.

Based on its own evaluation, the firm may request the client to prepare social and environmental risk management plans for its other business activities.

The firm shall monitor, at least annually, whether the observations raised against the client have been answered and the level of implementation of actions agreed upon in the social and environmental risk management plan.

Article 17°.- Additional clauses to the credits contracts

All firms providing any of the services described in article 4° shall ensure their clients sign the following documents, as part of the credit file:

- a) A commitment and/or obligation to comply, during the life of the project, with the requirements listed in social and environmental regulations, as well as with international treaties, conventions and agreements, strictly mandated by Peruvian law.
- b) A commitment and/or obligation to report regularly to the firm in the terms determined by the latter. The frequency of reports will depend on the severity of the potential impacts but shall not be less frequent than annually. The reports will be prepared by specialists working for the client or independent reviewers. As a minimum, they shall present evidence the client complies with the minimum requirements established by the social and environmental regulations, and the international treaties, conventions and agreements strictly mandated by Peruvian law. They shall also include a description of the social and environmental risk management plan for high social and environmental risk.
- c) A commitment and/or obligation to follow the social and environmental risk management plan; and

Firms providing any of the services described in paragraphs, a), b), c), and d) of article 4°, shall ensure that clients additionally sign the following:

- d) A commitment and/or obligation to allow the firm unrestricted access to the facilities of the project.
- e) A commitment and/or obligation to comply with all terms and conditions of permits issued for the project;
- f) A commitment and/or obligation to dismantle the project's facilities (if applicable), following a decommissioning plan previously agreed upon with the local community;
- g) Clauses outlining the actions the firms and its clients shall undertake should the project fail to meet the minimum requirements set forth in the social and environmental regulations, and the international treaties, covenants and agreements strictly mandated by Peruvian law.

CHAPTER V

REPORTS TO THE SUPERINTENDENCY

Article 18°.- Social and environmental risk evaluation report

Firms shall submit to the Superintendency and make available to the public on their web page at least at the end of every financial year, a report evaluating social and environmental risks associated to the services they provide within the scope of these regulations.

Article 19°.- Clients' reports

Firms shall -quarterly and via SUCAVE- report to the Superintendency their exposure regarding every client to whom they have provided the services described in article 4° above, as well as the amount of financing, classification, economic activity, and location of projects and/or project's primary suppliers, according to the "Quarterly report on social and environmental risk" of the Accounting Manual for the Financial Firms.

FINAL AND TEMPORARY PROVISIONS

One.- Sanctions

Failure to comply with the provisions included in these regulations will result in the sanctions set forth in the Sanctions Regulations enacted by SBS Resolution N° 816-2005, as amended.

Two.- Enforcement

These regulations apply to all services listed in article 4° above and provided immediately after this Resolution comes into force.”

Article Two.- By 1 June 2015, firms shall submit to the Superintendency an Adequacy Plan regarding the requirements listed in these regulations. This plan shall be approved by the Board. Through an Official Letter, which may be submitted by email, the Superintendency will establish the content of such an adequacy plan.

In addition, the scheduled auditing activity mentioned in article three of these regulations shall be included in the Annual Audit Plan for the financial year 2016.

Article Three.- The Internal Auditing Regulations enacted by SBS Resolution N° 11699-2008, and its amendments, are modified as follows:

1. Include in section I “Firms listed in paragraphs A and B in article 16° under the General Law (except securities and warrant companies), Banco de la Nación, Banco Agropecuario, Fondo MIVIVIENDA and Corporación Financiera de Desarrollo (COFIDE)” of the “Scheduled Activities” Annex will hereafter read as follows:

“15) Evaluation of compliance with provisions described in the Regulations for Social and Environmental Risk Management, as applicable.”

2. Include in section IV “Surety and warrant companies” in the “Scheduled Activities” Annex shall read as follows:

“10) Evaluation of compliance with provisions described in the Regulations for Social and Environmental Risk Management, as applicable.”

Article Four.- The Sanctions Regulations, enacted by SBS Resolution N° 816-2005, as amended, are modified as follows:

1. Include the following breaches in section I under Annex 2 “Specific breaches regarding the Financial System and Complementary and Connected Services”:

“22C) Prepare questionnaires to evaluate the social and environmental risk without meeting the minimum requirements set forth in the Social and Environmental Risk Management Regulations.”

2. Include the following breaches in section II of Annex 2 “Specific breaches regarding the Financial System and Complementary and Connected Services”:

35C) Failure to prepare the questionnaires mentioned in the social and environmental risk management Regulations.

35D) Failure to classify projects and/or project’s primary suppliers, in conformance with provisions under the social and environmental risk management Regulations.

35E) Failure to request the client to hire an independent reviewer, when so required by the provisions under the Social and Environmental Risk Management Regulations.

35F) Failure to request the client to prepare the social and environmental risk management plan for projects and/or project’s primary suppliers, classified as high social and environmental risk.

35G) Failure to include in the credits contracts the clauses mentioned in article 17° of the Social and Environmental Risk Management Regulations.

35H) Failure to submit or make available to the public on its webpage the Social and Environmental Risk Management Report.

35l) Failure to report to the Superintendency the exposure to every client to whom firms provide the services described in article 4° of the Social and Environmental Risk Management Regulations.

Article Five.- Modify the Accounting Manual for Financial Firms set forth in the Annex of these regulations which is published in the Superintendency's webpage - www.sbs.gob.pe -, in concordance with the provisions of Supreme Decree N° 001-2009-JUS.

Article Six.- This Resolution shall come into full force and effect on 1 February 2016, with exception of provisions contained in article Two, which shall come into full force and effect on the day after its publication in the Official Journal El Peruano. The "Quarterly report on social and environmental risk" shall be submitted for the first time with information as of 31 March 2016.

To be registered, reported and published.

DANIEL SCHYDLOWSKY ROSENBERG

Head of the Superintendency of Banks, Insurance Companies
and Private Pension Fund Administrators

ANNEX

MODIFICATION OF THE ACCOUNTING MANUAL FOR FINANCIAL FIRMS

Modify Chapter V “Complementary Information” in the Accounting Manual for Financial Firms under the following terms:

1. Include the report N° 33 named “Quarterly report on social and environmental risk” on the basis of the attached structure. The report shall be submitted on a quarterly basis, within the fifteen (15) days after the end of each quarter, and via SUCAVE (“Submódulo de Captura y Validación Externa” in Spanish).

QUARTERLY REPORT ON SOCIAL AND ENVIRONMENTAL RISK

Month / Year

(Denominated in thousand Nuevos Soles)

SBS Code 1/.	Name's client	Type of service 2/.	Amount of financing 3/.	Accounting code 4/.	Social and Environmental Risk Category 5/.	ISIC Code 6/.	Location 7/.		
							Region	Province	District

Notes:

1/. Code provided by the SBS to the client that receives any of the services described in article 4° of the Regulations for Social and Environmental Risk Management. If the client receives more than one service, each service should be reported separately.

2/. Indicate the type of service mentioned in article 4° of the Regulations for Social and Environmental Risk Management: 1) Advisory services; 2) Financing for a project; 3) Loan for a non-retail client related to a Project; 4) Bridge loan; or 5) Corporate loan for project's primary supplier.

3/. Indicate "0" for advisory services. If the advisory service involves also financing services, such services should be reported separately.

4/. Indicate the accounting code that was used to register the amount of financing in the balance sheet, including all digits as defined in the Accounting Manual for Financial Firms. The third digit shall indicate the currency denomination.

5/. Indicate the category related to articles 10° or 14° of the Regulations for Social and Environmental Risk Management: 1) High Risk; 2) Medium Risk; or 3) Low Risk.

6/. Indicate the code of economic activity related to a project as established by the International Standard Industrial Classification (ISIC) using the four-digit classification.

7/. Indicate the code of location related to the project's area of influence using the table of location codes provided by the SBS via SUCAVE ("Sub-módulo de Captura y Validación Externa" in Spanish). If the area of influence, defined in article 3° of the Regulations for Social and Environmental Risk Management, involved multiple districts, the location of the project's main installation shall be reported.