

Annex III

Environmental and Social Strategy²¹

I. Overview

- 1.1 The project consists of a revolving asset-backed credit facility to provide Securitizadora Security (“SSEC”) with financing for the purchase and accumulation mortgage loans until an adequate volume can be pooled and sold in the domestic capital markets under the Residential Mortgage-Backed Security (“RMBS”) program. The amount of the facility will be up to US\$50 million with a total maturity of eight years and an availability period of six years on a revolving basis. The amortization period will be two years. During the availability period, amounts repaid may be re-borrowed.

II. Environmental and Social Impacts and Risks

- 2.1 Based upon the nature of this operation to support mortgage lending with an average loan amount of US\$24,500 and given also the individual character of each loan, the direct environmental, social, health and safety (ESHS) risks are anticipated to be minimal to moderate, and thus a limited environmental due diligence is required. Some of the ESHS risks could be associated with: (i) the physical characteristics of the land where the real estate is located (e.g. area subject to natural disasters; contaminated land); (ii) the possible lack of compliance with applicable construction, health and safety and other security standards (including the possible use of banned materials such as asbestos in construction or unsafe electric and gas installations); and (iii) the location of the real estate, with respect to critical natural habitats, protected areas and indigenous territories.
- 2.2 The ESHS risks and impacts associated with mortgaging houses will be related mainly to the magnitude and the location of each individual property to be mortgaged. The key potential project-related ESHS risks and impacts are those typically associated with the location of the property, such as:
- Properties located on land which may have contamination such as soil and ground water contamination, which may present a human health risk;
 - Particularly in older properties, those with the existence of lead-based paint, friable asbestos containing materials, equipment containing polychlorinated biphenyl compounds, or presence of hazardous gases/materials;
 - Properties that are located on sites of archeological, cultural or historical value;
 - Properties located in areas where previous use/activities may have resulted in localized environmental problems (i.e. abandoned landfills or waste disposal areas, industrial facilities).

²¹ This ESS will be made available to the public in accordance with the Bank’s policy on information disclosure. The ESS does not represent either the Bank’s approval of the Project or verification of the ESS completeness or accuracy. The Bank, as part of its due-diligence on the feasibility of the Project, will assess the environmental and social aspects. This assessment will be presented in the Project Environmental and Social Management Report that will be prepared by the Bank, and will be made available to public prior to consideration of the Project by the Bank’s Board of Executive Directors.

- Properties located in areas at high risk to natural hazards, such as tornadoes, hurricanes, floods, or from seismic events, and fires.
- Properties located in areas near important or sensitive environmental areas (e.g. containing threatened or endangered species, tropical rain forests, natural parks, etc.).
- Properties located in areas with particular social issues such as the displacement of illegal settlements occupying the property or land on which the property is located;
- Potential discrimination and barriers for an equitable process of providing the mortgages taking into consideration ethnicity, sex, religion, age, etc.

2.3 These risks will be assessed during due diligence.

2.4 Reputational risks associated with the impact of other operations: Reputational risks relate to SSEC's involvement in projects, companies or activities considered unacceptable to the IDB and/or that will face significant public opposition or concerns such as SSEC's finance application and analysis process that is not equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage, etc.); and significantly deficient labor practices.

2.5 E&S Risk Management Capacity: the management of environmental and social aspects of the facility will be the responsibility of SSEC. The IDB will evaluate the borrower's capacity during the due-diligence phase and agree on specific environmental and social requirements, as appropriate, proportionate to the operation. These will include at least the compliance with applicable local environmental legislation and with the IDB list of excluded activities for NSG Operations. Other requirements, if any, will be agreed with SSEC, if necessary to ensure an adequate management of environmental and social risks.

III. Status and Compliance

3.1 Given that this is a FI and based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this transaction is not categorized. The IDB will evaluate the borrower's capacity for environmental management during the due-diligence phase and define the specific environmental and social requirements commensurate to the needs of the operation and in agreement with the client.

IV. Environmental and Social Due-Diligence.

4.1 As per the IDB Environment and Safeguards Compliance Policy and Guidelines, the Bank will assess SSEC's capacity for environmental and social risk management, through an analysis of the ESHS and labor impacts and risks associated with its lending portfolio.

4.2 The environmental and social due diligence required for this operation will comprise of the following steps:

- a. An identification of any environmental and occupational safety liabilities in SSEC's facilities and operations and, if required, an assessment of the adequacy of action plans to properly resolve them;
- b. An assessment of SSEC's compliance status with the applicable country environmental, social, health and safety, and labor regulatory requirements as well as with any relevant conventions and treaties which have been ratified by Chile;
- c. A full evaluation of the client's ESMS and of all current credit appraisal, approval and monitoring procedures in place to manage potential environmental and social impacts, risks and liabilities, associated with SSEC's portfolio.

- d. An assessment of potential reputational risks associated with SSEC's involvement in projects, companies or activities considered unacceptable to the IDB.
- e. An assessment of SSEC's procedures to ensure that its loan, finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc.).
- f. An evaluation of SSEC's compliance with the Fundamental Principles and Rights at Work and whether they practice fair and unbiased labor practices related to sex, age, ethnicity, cultural heritage, and collective bargaining.
- g. An assessment of SSEC's actual portfolio and proposed pipeline, to establish potential reputational risks associated with SSEC's involvement in projects, companies or activities considered unacceptable to the IDB; and specific ESHS and labor impacts and risks related to investment in certain sectors, likely to be financed under the Partnership.
- h. An assessment of SSEC's capacity in terms of environmental and social risk management.

4.3 The results of the due diligence will be presented in an Environmental and Social Management Report and summarized in the Loan Proposal to establish the environmental, social, health and safety, and labor requirements for the operation.