

FINDEV CANADA TRANSACTION SUMMARY¹

Banco de la Producción S.A. (Produbanco)

This document provides an overview of the FinDev Canada transaction, including a summary of the anticipated development impacts and of the environmental, social and governance (ESG) assessment performed, potential risks identified, and related mitigation measures to be implemented.



Transaction Description

Founded in 1978 and consolidated with Banco Promerica Ecuador in 2014, Produbanco is the third largest private commercial bank in Ecuador. The bank is present in 17 of the 24 provinces in the country and it serves individual, SME, middle market and corporate clients.

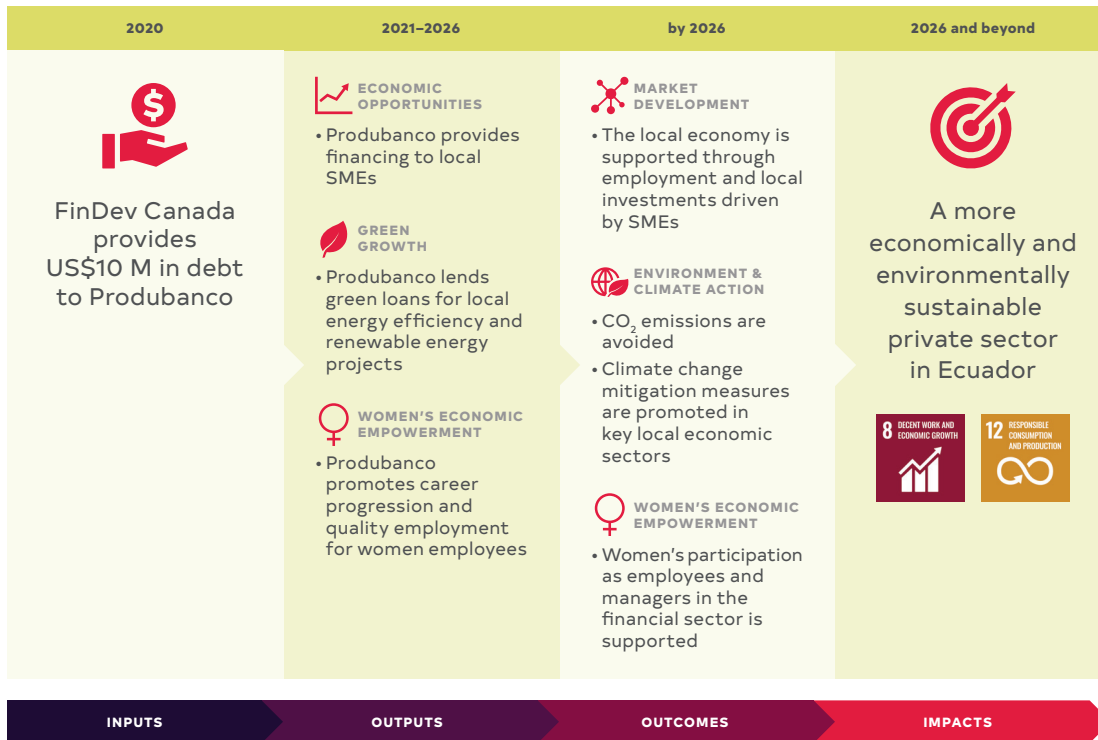
Transaction Details

COUNTERPARTY	Produbanco
DOMICILE OF INCORPORATION	Ecuador
DOMICILE OF OPERATIONS	Ecuador
TERM OF FINANCING	5 years
SECTOR	Financial Services
IFC PERFORMANCE STANDARDS TRANSACTION CATEGORY	Category B
FINANCING PRODUCT	Debt
FINDEV CANADA TRANSACTION AMOUNT	USD 10 million
DATE OF TRANSACTION DISCLOSURE	04 November 2019
DATE OF TRANSACTION SIGNING	12 February 2021
DATE OF TRANSACTION SUMMARY PUBLICATION	8 April 2021
2X CHALLENGE QUALIFYING	Yes, under Employment

¹ This document follows key requirements spelt out in the Interim Disclosure Policy, effective on Jan. 22, 2018: https://www.findevcanada.ca/sites/default/files/2018-02/disclosure_interimpolicy_11dec2017_final.pdf

Summary of Anticipated Development Impacts

The development impact value proposition of this transaction is to support Produbanco's financing of local small and medium-sized enterprises (SMEs)² and green lending for local low-carbon projects, such as energy efficiency and renewable energy initiatives through its Green Loans program. Such targeted financing will promote green growth in Ecuador and support local SMEs, while avoiding CO₂ emissions and promoting climate change mitigation measures. Ultimately, this will lead to a more economically and environmentally sustainable private sector in Ecuador, as is illustrated by the following impact theory of change.



² Ecuador defines an SME as any business with annual revenues of up to US\$ 5M



MARKET DEVELOPMENT

- **Supporting Ecuador's local economy by financing SMEs:** with an increasingly growing SME portfolio, as of December 2020, Produbanco has provided US\$ 436M in financing to 1,666 local SMEs in key economic sectors, including the healthcare, food, manufacturing, agriculture and livestock industries. Within the context of the COVID-19 economic crisis, Produbanco proactively gathered and responded to the needs of its clients by providing grace periods of up to three months. Our funds will support Produbanco's financing to SMEs, which are a central economic driver and stimulate not only local employment but also investment in local supply chains and communities, thereby supporting the reactivation of Ecuador's economy.



WOMEN'S ECONOMIC EMPOWERMENT

- **Supporting quality employment for women in financial services:** women are well represented within Produbanco: 51% of its managers and 63% of its employees are women. Moreover, the bank provides quality employment as it provides an attractive benefits package to its employees and it supports the career progression of women by offering a dedicated mentorship program. The high representation of women employees along with the provision of quality employment qualify this transaction for the 2X Challenge under the *employment* criterion.



CLIMATE MITIGATION AND ADAPTATION

- **Supporting green lending for reduced carbon emissions and climate change mitigation:** Produbanco's Green Loan program provides specialized financing for energy efficiency, renewable energy and natural resource management projects in energy-intensive sectors. These projects must reduce CO₂ emissions, water consumption or fuel consumption by at least 20%. From its launch in August 2016 to December 2020, the program has lent US\$ 218M in green loans, contributing to the avoidance of 280,000 tons of CO₂ emissions. Produbanco's commitment to sustainability is further showcased by the launch of its Green Saving Accounts in 2019 and its role as the South America representative of the Banking Board of the United Nations Environment Programme – Finance Initiative (UNEP – FI), actively promoting the Principles for Responsible Banking. Our funds will directly support Produbanco's Green Loan program to promote the use of climate-smart technologies and measures in Ecuador.

Summary of Environmental and Social Assessment and Related Risk Mitigation Measures

The adverse environmental and social (E&S) impacts associated with this transaction are considered to be limited and manageable through the application of Produbanco's E&S Policy and environmental and social management system (ESMS), which meets host country requirements. With the completion of an Environmental and Social Action Plan (ESAP) recommended by FinDev Canada, the ESMS will also meet international E&S standards.

The primary risks of this transaction relate to the projects in which Produbanco will invest. As of December 2020, projects are mainly in the recycling, agriculture, small hydroelectric and manufacturing sectors, involving the replacement of equipment, adoption of new technologies, change of energy sources, and/or implementation of new efficient production processes, activities or certification processes. The nature of these projects presents potential E&S impacts in occupational health and safety, working conditions, water, biodiversity, pollution and waste management. These impacts are anticipated to be limited, temporary reversible and readily addressed through appropriate impact assessment and application of standard mitigation. Furthermore, Produbanco's policies and ESMS prohibit the financing of higher risk activities associated with Category A projects. This review was completed in accordance with FinDev Canada's Environmental and Social Policy.

An illustrative list of key documents reviewed is outlined below:

- Produbanco's Environmental and Social Policy
- Produbanco's Environmental Social and Management System
- Produbanco's Code of Ethics
- Produbanco's Human Resources Manual.

The following International Finance Corporation (IFC) Performance Standards were applied in FinDev Canada's assessment in addition to host country requirements and the IFC Interpretation Note on Financial Intermediaries:

- IFC Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
- IFC Performance Standard 2: Labor and Working Conditions.