

Guide to
issuance of securities
**social negotiable ,
green and sustainable**

2019
version 1.0

1. Bac

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Each of the Values labels
 Negotiable SVS is defined based on
 of the benefits generated by
 projects or activities to be financed.
 Thus, **“green” marketable securities**
 focus on projects or activities
 with environmental benefits, the **values**
negotiable "social" projects
 o activities with social benefits and
 the **securities "sustainable"**
 they pursue a combination of both.

2. Capital markets and sustainability

2.1 introduction

Qualified investors can be an important source of capital to finance infrastructure development sustainable in Panama. During the last 5 years it has globally experienced an increase in the demand for investment opportunities for adaptation and mitigation of climate change, the generation of positive social impact and sustainable development, mainly by institutional investors from member countries of the Organization for Cooperation and Development Economic (OECD). This is reflected in the increase in capitals engaged in initiatives such as the Principles for Responsible Investment , the Global Declaration of

reaching emissions for an amount equivalent to USD 87,000 MM in 2016, USD 155,000 MM in 2017 and USD 167,000 MM in 2018, also with an increase in diversity with respect to the issuer's base, geographies and projects . The emergence of green marketable securities has been recognized by the United Nations as "one of the developments most important in financing opportunities low-carbon investment and resilience climatic " . In the same vein, the statement from the leaders of the G20 (Group of 20 industrialized and emerging countries) in September 2016 recognized that to support growth environmentally sustainable around the world "it is necessary

Source: Climate Bonc

The BVP consider effective way to m priorities of Panar

Investors on Climate Change¹; and the emergence of funds with an interest in investing in financial instruments with green and social purposes.

The growing demand for sustainable assets has generated the development of markets for financial instruments with green, social or sustainable purposes, capable of offering qualified investors short, medium and long maturities term, aligned with its liabilities, and with stable returns and predictable. Assets labeled as green are, at time of publication, the most developed segment globally, with great public recognition investor and with a greater degree of consensus around its taxonomy.

Likewise, the green marketable securities market has experienced exponential growth internationally,

expand green financing², promoting investments cross-border to promote market development local green marketable securities³.

Along these lines and among various initiatives for the development of sustainable finance can be highlighted creating of the Operational Group of Financial Disclosure on the Climate Change (*Task Force on Climate-related Financial Disclosures*), whose objective is to develop disclosures voluntary and consistent financial climate that will be helpful to investors, lenders and insurers to understand material risks. This group is led by Michael Bloomberg, and has the support of 513 international organizations and countries G20 members.

low-carbon resilient equitable and sustainable SVS Negotiable Securities transparency, since funding raised was finance projects with

The growing sustainability financial instruments for green, social, capable of offering qualified short-term, aligned with its liabilities, and with stable returns

¹ <https://www.unpri.org/>

² <http://investorsonclimatechange.org/statement/>

³ <https://www.climatebonds.net/resources/reports/green-bonds-state-market-2018>

⁴ <https://renewablesnow.com/news/un-report-confirms-key-role-of-green-bonds-in-climate-investment-497005/>

⁵ <http://unepinquiry.org/wp-content/uploads/2017/01/2016-09-04-g20-communicue-en.pdf>

3. International standards recognized by the BVP

At the international level, there are widely recognized standards for issuance of financial instruments for green, social or sustainable purposes⁶ that should be considered to label this type of assets.

- **Principles of Green Bonds** (*Green Bond Principles, GBP*): were created in 2014 by the Association Capital Market International (*International Capital Market Association, ICMA*). These principles constitute procedural guides for the issuance of green bonds. Their main objective is promote transparency and disclosure of information, promoting integrity in market development of green bonds. The four principles or components main on which the GBP are founded are the use income, project selection process, revenue management and reporting. They also recommend the use of external reviews to determine the alignment with the four components. In order to more information on the four principles of GBP, see ANNEX A of this document. In 2017 ICMA also developed the Principles of the Social bonds (*Bond Social Principles, SBP*) and Guide of the Sustainable Bonds (*Sustainability Bond Guidelines, SBG*). The former adopt the same pillars around transparency than GBP, and add new categories eligible for financing. For their part, the SBGs refer to eligible assets under the principles of GBP and SBP.

- **International standard for climate bonds** (*International Climate Bonds Standard, CBS*): managed by Climate Bonds Initiative (CBI), refers to criteria and standards created to be used as tools for governments, investors and companies whose objective is to mitigate the adverse effects of the change climate. These standards establish prerequisites and subsequent to the issuance of the instrument and additionally They have a list of project categories. It fits note that CBS is aligned with GBP and therefore promote trust and transparency among investors⁷. The BVP recommends the adoption of the practices international referrals in order to obtain a greater harmonization with markets globally.

3.1 Social, green and sustainable

The BVP adopts the Executive of ICM/Principles of Social

I Green Bonds: this type of bond with intended to finance fully, new or existing as 'green projects' are the use of financial management. The proceeds of finance activities include intangible environmental impact climate change, the conservation of air, water and soil. Greens can also For more information present document

II Social Bonds: this whose resource finance or refinancing eligible social categories are aligned with of the SBP. Social address or mitigate achieve special not exclusively, population". List of funds, the present document its main components allocated to promote without being liable food and afford they can also have information on present document

III Sustainable Bonds: combination of

6 See Annex A for more details.

7 For more information on the Climate Bonds Standards visit: <https://www.climatebonds.net/>

8 Likewise, the destin: research, development

3.2 Possible structures for SVS marketable securities

Financially, the SVS Marketable Securities are structured similarly to marketable securities traditional, with equivalent characteristics in terms of qualifications and structuring processes. In other words, These are instruments that can provide similar returns to a common debt instrument, with the distinction that the use of the resources obtained will be used exclusively to finance social and / or green activities or projects, which can be guaranteed by dedicated institutions exclusively to evaluate the transparency of this type of projects.

In accordance with the regulations of Panama, the structures Possible for SVS emissions are as follows:

- **Bonds:** representative title-value of a company, can be public or private. Through this class of titles the companies or the state receive funds from the public in general to finance their projects and in return the bonds will earn interest for their holder.
- **Investment funds:** investment instrument for the that an investor or participant contributes or subscribes a amount of money that entitles you to the property of a percentage of the fund's portfolio (participation). This portfolio is made up of various assets and is managed by a management company.
- **Treasury bills:** fixed income securities issued by the Government, with maturities of up to one year.
- **Treasury notes:** fixed income securities issued by the Government, with maturities between one and up to ten years.
- **Treasury bonds:** fixed income securities issued by the Government with maturities from ten years onwards.
- **Securities:** any bond, negotiable commercial value or other debt security, securities law recognized in a custody account, participation fee, certificate of participation, certificate of entitlement, certificate trustee, certificate of deposit, mortgage certificate, option and any other title, instrument or right commonly recognized as a value or that the The Superintendency determines what constitutes a security. For the purposes of this guide, they have been excluded from this definition of shares (including treasury shares).
- **VCN (Negotiable Commercial Securities):** they are known in the international financial market as commercial paper. They are short-term fixed income securities term with a term of less than 365 days. Are issued mainly to finance capital requirements of work.

Since or because the SVS Negotiable Securities will not differentiate in structure from other instruments traditional financial instruments, the issuance requirements will be those that are established for the issuance of the marketable securities mentioned (bonds, funds investment, treasury bills, treasury notes, treasury, securities, VCN) in Decree Law 1 of July 8, 1999, modified by Law 67 of September 1, 2011 9 that establishes the coordination and cooperation system interinstitutional between the financial control entities, creates the Superintendency of the Securities Market, reforms Decree Law 1 of 1999 and Law 10 of 1993 and that dictates other provisions.

3.3 Benefits of issuing securities negotiable SVS

SVS Marketable Securities offer different benefits, for issuers and the investing public, as summarized in the table below.

The main benefits reported by issuers have been expanding investor base, improving its reputation and project financing to through mutual funds, investors qualified and stakeholders interested in projects social and / or environmental. Also exists preliminary evidence of rate benefits for some issuers, driven by a strong demand from investors and a limited offer. In fact, as international background, oversubscription has been the norm for bonds for environmental purposes. 10

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9 For more information consult the link: http://www.supervalores.gob.pa/files/Ley/LEY_67-11.pdf

10 Green Bond Pricing in the Primary Market H1 2019, Climate Bonds Initiative 2019 (see the link <https://www.climatebonds.net/resources/reports/green-bond-pricing-primary-market-h1-2019>)

11 Brown sectors: sec

3.4 International practices for awarding SVS labels

Thematic asset markets first developed voluntarily turn to the first green asset, called *Climate Awareness Bonus Bond*) of the European Investment Bank in 2007, followed by the World Bank green bond in 2008. Subsequently, best practices have been developed internationally to guide issuers and offer standardized markets to maintain investor confidence and avoid *green washing* ¹².

Worldwide, different tools have emerged to provide security to investors about the environmental and / or social credentials of the instruments finances used, among which are the reviews external. These are **suggested** to issuers for the purposes of reinforce the credibility of the marketable security label used as a vehicle to finance green projects and / or social. The most common forms of external reviews are ¹³ :

I Second opinion: an institution with experience in environmental and / or social matters, regardless of the issuer, may give a second opinion and must be independent of the negotiable security structuring processes. Usually the review consists of an evaluation of the alignment of the marketable security with the GBP / SBP. In particular, internal with a rating methodology of may include an assessment of the overall objectives of the issuer, strategy, policy and / or processes related to the environmental and / or social sustainability, and an assessment of the environmental characteristics of the type of projects to which the funds will be allocated.

II Verification: an issuer may obtain a verification independent through comparison with a set criteria related to business processes and / or environmental and / or social criteria. This verification can focus on alignment with internal standards or external, or statements made by the issuer. Also you will be able to have a verification on the processes internal issues of the issuer regarding the use and management of the funds, impact reports and alignment with the principles of green and / or social bonds.

III Certification ¹⁴ : includes an expert review of the internal processes and controls of the issuer against a standard green / social externally recognized. A standard defines criteria and alignment with these is usually verified by qualified and accredited third parties to verify consistency with the certification criteria. Therefore, the issuer can certify its negotiable value green against an internationally recognized standard and publicly available, such as the Standard Climate Bonds (Climate Bonds Standard) ¹⁵ .

IV Rating / score: consists of an evaluation of the SVS Negotiable Securities and its processes and controls internal with a rating methodology of third parties. These third parties can be providers specialized analysis or rating agencies, according to with what is established in a rating methodology.

12 Green washing: the possibility that the funds are not used to finance the activities declared by the issuer or that the project does not generate the intended impact.

13 ICMA. "Guidelines for Green, Social and Sustainability Bonds External Reviews", June 2018. Available at: <https://www.icmagroup.org/green-social-and-sustainability-bonds/external-reviews/>

14 At the time of initial publication of the Guide, certification is only available for green bonds.

15 An assessment standard such as ISAE 3000, but not limited to it, defines the criteria and alignment with the latter is tested by qualified third parties / certifiers.

4. Definitions and processes for securities green, social and sustainable negotiable

4.1 Acronyms and definitions

Value green negotiable

Negotiable value with income earmarked for projects with environmental benefits.

3.5 Objectives for the Issuance of Negotiable Sustainable

The development of SVS establishes a platform to promote the creation of thematic marketable securities. The Guide is to offer issuers, a guide to channel the development of social, green and / or sustainable securities.

To this end, marketable securities, should this guide. Thus, it is responsible for to the public offering. The objective of the Guide is to generate:

4.2 Scope

The Guide is intended to provide the guidelines that issuers of green, social or sustainable securities will be obliged to follow for financial instruments.

4.3 Implementation

This Guide also aims to support the development of the financial instruments of the capitals of Panama.

Value social negotiable	Negotiable value with income earmarked for projects with social benefits.
Value sustainable negotiable	Negotiable value with income earmarked for projects with benefits environmental and social.
Values negotiable SVS	Marketable securities labeled "green", "social" and / or "sustainable".
External review	Suggested International Practice to Reinforce Credibility of Features social, green and / or sustainable negotiable value, which consists of a verification of these characteristics and carried out by an independent reviewer.
Value framework social negotiable or associated green	Document that describes the issuer's environmental strategy and its adherence and compliance with GBP / SBP / SBG.
External reviewer independent or independent reviewer	Entity independent of the issuer, its directors, senior management and advisers, which has been designated by the issuer to confirm social, green or sustainable status of the instrument.
Transmitter	Company, entity or vehicle registered in accordance with Panamanian laws and authorized by the Superintendency of the Securities Market to offer negotiable securities to the public.
CBS	Climate Bonds Standards
BVP	Panama Stock Exchange

The Guide is an it improves as the instruments, issuer of green, social and Standard are perio

4.4 Comp

The independent re Green and / or soci SVS in accordance sustainable and / o presentation of ext are required.

Independent review the approved list o Initiative available recognized nation independent must l and sustainability r report indicating y or sustainable valu selected projects.

For green adoption i: projects of the catego Climate B green bon

16 <https://www.climat>

17 <https://www.climat>

18 This information is

19 For more informati

4.6 Choice of projects

The issuer must define the project (s) that will be (are) financed (s), describing in the issuance prospectus the Estimated impacts based on their measurability, of in accordance with the provisions of the green negotiable security framework and social partner of the issuer. According to the principles of green and social bonds, issuers must establish, document and maintain a decision-making process to determine project eligibility including:

- I A statement on environmental objectives and / or of the chosen financial instrument.
- II Processes to determine the eligibility of the project.
- III The eligibility criteria, the exclusion criteria, or any other process used to identify and manage the environmental and / or social risks associated with the projects.

4.7 Fund management

In order to ensure that the resources from of this type of emissions are used in accordance with the principles agreed upon at the time of issuance, these assets should be assigned to specific accounts, or other reliable mechanisms that guarantee traceability and transparency in the use of funds.

In this way, the issuer must have a process formal to monitor the funds obtained until their total allocation, distinguishing between invested resources and those that have not been assigned. The resources still

4.8 External review

The development of external reviews is suggested to reinforce the credibility of the green, social or sustainable label.

It is one of the world's best practices to provide transparency and certainty to investors. The reviews approved by ICMA are those described in the section 3.4. Additionally, it is recommended that:

- I The review is carried out by an external reviewer Independent.
- II The independent reviewer may be one of those approved by Climate Bonds Initiative ¹⁶, although it may also be chosen among others of a local or international nature that may be developed in the future.
- III The independent reviewer has experience in the analysis of technical characteristics and performance of projects with green and / or social benefits.
- IV The credentials of the independent reviewer and the scope of the review carried out are available to the public investor on the issuer's website and are informed at the time of requesting authorization to process issue.
- V The benefits related to the use of the funds are evaluated and, where possible, quantified and included in the review.

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4.10 Post

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have not been assigned to a project may be invested temporarily in other financial instruments and said information must be communicated to investors.

Some recommendations for resource management include mechanisms to:

• **Follow-up of the destination of the funds:**

- + Net income can be credited to a subaccount or be tracked in another appropriate way. By way of example, the funds obtained may be credited in a specific bank account for projects of the social, green and / or sustainable financial instrument chosen to channel them.
- + Funds must be allocated within twenty-four (24) months after issuance. Otherwise, the same issuer may submit a schedule or line of estimated time to carry out said final assignment.
- + A specific allocation process can be used to manage and account for financing of eligible projects.
- + Manage unallocated revenue ²⁰.

²⁰ See section 4.12 for details.

²¹ <https://www.climatebonds.net/certification/approved-verifiers>

²² When there are cor generic terms.

²³ In the case of greer quantitative performar greenhouse reduced / ; reduction in the numb

In order to create a harmonized framework for the publication of reports on the impact of projects Green, the Impact Reporting Working Group of the ICMA Green Bond Principles developed guidelines volunteers that include recommendations for the creation of impact reports, especially for related projects with energy efficiency, renewable energy, water and water waste and waste management.

Some of the main recommendations are:

- I** Define and disclose the period and the process to include projects in your report.
- II** Indicate the total issued and the amount of funds allocated to green projects.
- III** It is recommended that issuers provide a list of projects to which the funds have been allocated.
- IV** The impact report must illustrate the environmental impact expected as the result of the projects to which allocated the funds.
- V** It is recommended to report shelf life results estimates and / or the economic life of the project (in years) to understand the impact of the project throughout its useful life.
- VI** The Working Group proposes four basic indicators to report results on related projects with (1) energy efficiency (EE) and renewable energy (ER), (2) greenhouse gas (GHG) emissions reduced or avoided (EE and RE), (3) renewable energy annual produced (RE), and (4) the capacity of the renewable energy built or rehabilitated (RE) ²⁴.

In the same sense, the Working Group on Reports of Impact of ICMA Social Bonds developed its guide voluntary in order to harmonize the practices of

report of social bonds ²⁵. Likewise, this Group of Work created an impact report template that includes quantitative and qualitative measures that issuers can adapt to the particular circumstances of the project.

Some of the main recommendations are:

- I** Issuers must identify the population (s) for the which (s) are positive socioeconomic results obtained expected. Issuers are advised to provide additional information on why it was selected to that specific population. For example, explain why the selected population is considered underserved or vulnerable.
- II** Issuers must report the expected social impact that will result from the projects to which they have been assigned funds obtained from social bonds.
- III** Impact indicators: it is suggested to use metrics quantitative and qualitative.

4.12 Fund management not assigned

It is recommended that income not allocated to projects specific:

- I** Can be kept in investment instruments temporary or applied temporarily to reduce the indebtedness.
- II** Green and sustainable projects do not include - in the temporary investments - projects that are inconsistent with a low carbon economy and resilient to climate or with climate change policies from Panama.

24 For more information on the recommendations regarding the impact report visit: <https://www.icmagroup.org/green-social-and-sustainability-bonds/resource-center/>

25 For more information on the recommendations for the impact report and report template visit: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Framework-for-Social-Bond-Reporting-Final-140618v3.pdf>

Annex A:

The Green Bond (English), and the acronym) are a set to the processes of and / or social. The promoted by ICM/ green and / soci: funds in green and issuer characteristi GBP was launched to annual reviews, publication of this ICMA launched th Both principles cor establishment of ac for the use of the fi transparency and c independent review green and / or soci: Both GBP and SBI that highlight infor four areas:

I Use of funds: the bonds should be Eligible "and / be adequately d instrument. GB generic eligibili and / or Social i environmental :

II Project selectio the selection of clear form: (i) t and / or social c issuer determin the categories o and (iii) the rel: another process environmental :

III Fund manage Social, Green o

26 A more detailed ve

27 Specific informati <https://www.climatebc>

28 For more informati

Annex B: Project categories according to GBP and SBP criteria ²⁹

Categories Climate B

The following lists of projects are illustrative and indicative in nature and include the types of projects accepted by GBP and SBP. In this sense, they do not exclude other categories or types of projects that may arise with post-Guide ³⁰.

Social Bonuses:

The funds obtained from a social bond may be used in any of the following project categories:

- Affordable basic infrastructure (eg water drinking, sewerage, sanitation, transportation).
- Access to essential services (eg health, education and vocational training, health care, financing and financial services).
- Affordable housing.
- Generation of employment, including through the potential effect financing of SMEs and microfinance.
- Food safety.
- Advancement and socioeconomic empowerment.
- Gender equality.

The Social Bond Principles provide examples of populations, which may be the object of the social project financed by social bonds. They include, among others, the following:

- + Population below the poverty line;
- + Excluded and / or marginalized populations and / or communities;
- + Vulnerable groups, including as a result of natural disasters;
- + People with disabilities;
- + Migrants and / or displaced people;
- + People without education;
- + Underserved population;
- + Unemployed people.

Green Bonuses:

The funds obtained from a green bond may be used in any of the following project categories:

- **Renewable energy:** generation, production, transmission of energy from renewable sources, devices and products;
- **Energy efficiency:** new and restored buildings, energy storage, thermal insulation in buildings, district heating, efficient heaters water, solar heaters, smart grids, household appliances and products, etc.;
- **Prevention and control of pollution:** treatment wastewater, reduction of atmospheric emissions, control of greenhouse gases, remediation of soils, waste prevention, waste reduction, waste and energy recycling, emissions waste energy efficient, value-added products of waste and remanufacturing, associated environmental monitoring, etc.;
- **Environmentally sustainable management of resources**
 - **natural living and land use:** agriculture environmentally sustainable, environmentally friendly animal husbandry, sustainable, climate-smart agricultural inputs, biological protection of crops, drip irrigation, environmentally sustainable fishing and aquaculture, environmentally sustainable forestry,
 - **afforestation or reforestation and preservation or restoration of natural landscapes, etc.;**
 - **Conservation of terrestrial and aquatic biodiversity:** protection of coastal, marine and watershed environments hydrographic, etc.;
 - **Clean transport :** electric, hybrid, public transport, rail, non-motorized, multimodal, infrastructure for clean energy vehicles (bike lanes or bicycle lanes) and reduction of harmful emissions, etc.;
 - **Sustainable management of water and wastewater:** sustainable infrastructure for clean drinking water, sewage treatment, drainage systems sustainable urban development and training in rivers and other forms of flood mitigation, etc.;
 - **Adaptation to climate change:** support systems for information, weather observation and warning systems early, etc.;
 - **Products, production technologies and processes adapted to the ecological and / or economic economy**
 - **circular: product** development and introduction respectful with the environment, with ecological label or environmental certification, efficient packaging and distribution in terms of resources, etc.;
 - **Green buildings that meet standards or regional, national or international certifications.**

²⁹ The selection of social projects is made in accordance with the Guide to the Social Bond Principles. For more information consult: <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

³⁰ Issuers and other interested parties can consult different examples through the link: www.icmagroup.org/essresourcecentre

Annex C: How to issue a social, green or sustainable bond

Annex D

Placement and issuance process

two

Revision
Independent

Structuring

3



1 Issuer: decide to obtain financing and allocate it to a social, green or sustainable project (SVS)

2 Independent review: verify compliance with the principles of the category that corresponds (SVS)

3 Organizer: coordinate the terms and conditions of the structuring with your advisor financial (type, amount, term, etc.)

4 BVP and LC: complete the registration requirements of the Panama Stock Exchange and the Latin American Central of Values

5 SMV: obtain the pertinent authorization from the Superintendency of the Securities Market Panama

6 Public offer: disclose the informative prospectus and the terms and conditions of the offer

7 Placement: issue the security on the market through the BVP

8 Resources: allocate the issuance resources to the project (s)

9 Transparency: comply with disclosure and transparency requirements

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