Draft *Regulation for the management of Environmental-Social risks and risks due to Climate Change in the loan portfolio* "

The National Council of Supervision of the Financial System Article XX of the Minutes of Meeting XX held on XX of XX of 2019,

c onsidering that:

arranged :
Submit in public consultation, in compliance with the provisions of article 361, numeral 2, of the General Law of Public Administration, the project " ***Regulation of management of Environmental-Social risks and risks due to Climate Change in the loan portfolio*** " , Agreement SUGEF XX - 19, with the understanding that, within a maximum period of 20 business days, counted from the business day following the date of publication in the official newspaper La Gaceta, they should be sent to the office of the General Superintendent of Financial Entities, their comments and observations on the matter. In addition, the electronic file with the comments and observations should be sent to the email account: normaenconsulta@sugef.fi.cr, in Word format.

Without detriment to the foregoing, those consulted can present their observations and comments in a consolidated manner through the unions and chambers that represent them.

MANAGEMENT REGULATIONS FOR SOCIAL-ENVIRONMENTAL RISKS AND CLIMATE CHANGE RISKS IN THE CREDIT PORTFOLIO

CHAPTER I
GENERAL DISPOSITION

Article 1. Purpose
This regulation establishes the minimum obligations related to the management of Environmental-Social risks and risks due to Climate Change that the entities authorized by SUGEF to carry out financial intermediation must comply , depending on the nature, complexity and size of the operations carried out by them. , that are susceptible to this type of risk.

Article 2. Scope
This Regulation applies to legal persons authorized by SUGEF to carry out financial intermediation.

Article 3. Definitions
For the purposes of this Regulation and its general guidelines, the definitions described below are established, which will be expanded through the general guidelines of this Regulation.

a) Maximum authority.
b) Superior Administration.
c) Loan portfolio.
d) Customer.
e) Financial intermediary.
f) Materiality.
g) Risks due to Climate Change.
h) Transition risks.
i) Physical risks .
j) Risks due to changes in public policies.
k) Legal risks.
l) Technological risks.
m) Market risks.
n) Reputational risks.

CHAPTER II

RISK MANAGEMENT

Article 4. Environmental-Social Responsibility Policy
Financial intermediaries must establish and implement an Environmental-Social Responsibility Policy, in accordance with the minimum characteristics established in the general guidelines to these Regulations.
The Policy must be periodically evaluated, and guarantee an adequate integration with the other institutional policies.
Both the Policy and its evaluations must be known and approved by the highest authority of the financial intermediary.

Article 5. Management Risk
All financial intermediaries must establish a management system for Environmental-Social risks and Climate Change risks to which their credit portfolios are affected. This system must be approved by the highest authority of the financial intermediary.

Article 6. Identification, classification, evaluation, monitoring and mitigation of risks
Financial intermediaries must identify, classify, evaluate, monitor and mitigate Environmental-Social risks and Climate Change risks in their loan portfolio.
The highest authority of the financial intermediary must know the Environmental-Social risks and the risks due to Climate Change identified by the financial intermediary in its loan portfolio, as well as the way in which they will be managed.
In the general guidelines to this Regulation, what is indicated above is expanded.

Article 7. Risk management manual.
Financial intermediaries must prepare a physical or electronic document called *the Environmental-Social and Climate Change Risk Management Manual* , which describes the processes of the management system for said risks.
The highest authority of the financial intermediary must approve the Manual and must implement it through senior management.
The Manual must describe the processes of the risk management system, as indicated in the general guidelines to these Regulations.

Article 8. Risk classification
The financial intermediary must assign a risk category to each loan or credit facility, using a risk classification procedure.
The minimum elements and criteria that the risk classification procedure must consider will be defined in the general guidelines to these Regulations.

Article 9. Plan for risk management
The financial intermediary must develop a plan to manage Environmental- Social risks and Climate Change risks, for the products of its loan portfolio that require it .
The plan must be approved by the financial intermediary, in accordance with the tolerance limits established by the latter, prior to the disbursement of the money or authorization of the credit facility.
The general guidelines to these Regulations establish the minimum elements for compliance with the provisions of this article.

CHAPTER III
STRUCTURE FOR RISK GOVERNANCE

Article 10. Governance
All financial intermediaries must establish a governance structure to manage Environmental-Social risks and Climate Change risks of their loan portfolio.
The general guidelines to these Regulations establish the minimum elements and characteristics for compliance with the provisions of this article.

Article 11. Maximum authority.
The responsibility for the efficient and correct management of Environmental-Social risks and risks due to Climate Change lies with the highest authority of the financial intermediary.
The highest authority of the financial intermediary must assess the need to create a specific committee for Environmental-Social risks and risks for Climate Change.
In the general guidelines to this Regulation, what is regulated in this article is expanded.

Article 12 . Superior Administration
The Higher Administration must implement the Environmental-Social Responsibility Policy and the management of Environmental-Social risks and for Climate Change, approved by the highest authority of the financial intermediary.

Article 13. Functions for risk management
The administrative unit (s) or the person (s) responsible (s) designated by the superior administration of the financial intermediary, must ensure the management of Environmental-Social risks and Climate change.
The general guidelines to these Regulations establish the minimum requirements for compliance with the provisions of this article.

CHAPTER IV
MONITORING AND INFORMATION PROCESSING

Article 14. Monitoring
The financial intermediary must carry out a monitoring process, regarding the final destination of the money disbursements or authorization of the credit facility granted to its clients, through its credit portfolio.
In the general guidelines to this Regulation, what is regulated in this article is expanded.

Article 15. Warning signals
The financial intermediary must identify and analyze the warning signs that may arise through monitoring processes or by any other means, related to Environmental-Social and Climate Change risks, in its loan portfolio .
In the general guidelines to this Regulation, what is regulated in this article is expanded.

Article 16. Information systems and internal communication mechanisms
The financial intermediary must have the information systems and internal communication mechanisms required by its Environmental-Social and Climate Change risk management system .
Such information systems and internal communication mechanisms should allow information sensitive about exposure to the Environmental and Social Risk and Climate Change to be transferred to the supreme authority of the financial intermediary and the Risk Committee, if any, of clear and timely.
In the general guidelines to this Regulation, what is regulated in this article is expanded.

Article 17 . Divulgation
Financial intermediaries must disclose all the aspects referred to in this regulation in terms of governance, policies, impact on strategy, risk management and other aspects related to Environmental-Social risks and risks due to Climate Change, at least maintaining that information on your website or other medium in the absence of that.
In the general guidelines to this Regulation, what is regulated in this article is expanded.

CHAPTER V
SPECIAL CREDIT OPERATIONS

Article 18 . Special considerations for credit operations for more than US $ 10,000,000.00
For the granting of financing (loan or credit facility) for US $ 10,000,000.00 (Ten million US dollars) or more, financial intermediaries must include internal policies and requirements related to international standards such as Equator Principles and the Performance Standards of the “International Finance Corporation ” (IFC) to analyze and approve financings that fall within these amount ranges.
In the general guidelines to this Regulation, what is regulated in this article is expanded.

Additional provisions

First additional provision: ***Policies and procedures*** .
Financial intermediaries must document, through policies and procedures, approved by their highest authority, the provisions contained in this Regulation, its general guidelines and its modifications.

Transitory dispositions

First transitory provision: ***Action plan***

All supervised financial intermediaries must establish an action plan for the implementation of the measures indicated in these regulations, which must not exceed a period of one year. Said Action Plan must define the schedule and the actions required for the adaptation of the organizational and operational structure of the financial intermediary and must be approved by its highest authority. The Action Plan will be made available to SUGEF when it so requires.

Final provisions

First final provision: ***General guidelines or agreements of the Superintendent***
The Superintendent must issue, by means of a reasoned resolution, the general guidelines or agreements necessary for the application of the provisions contained in this Regulation, which will form an integral part thereof. Additionally, you may modify them at any time, in which case you must notify the financial intermediaries, through the means you deem appropriate.
The general guidelines to these Regulations clarify or explain the provisions and / or elements established in these Regulations.

Second final provision:
These Regulations will enter into force **three months** after their publication in the official newspaper "La Gaceta".

GUIDELINES GENE RALES

GENERAL DISPOSITION

Article 1. Purpose
The Regulation and these general guidelines establish minimum obligations for financial intermediaries, aimed at managing Environmental-Social risks and risks due to Climate Change .

Article 2. Scope
The provisions of the Regulations and these general guidelines shall apply to all legal entities authorized by SUGEF to carry out financial intermediation, taking into account their nature and the characteristics of their credit operations or credit facilities granted to their clients.

Article 3. Definitions
For the purposes of this Regulation and its general guidelines, the following definitions are established:

a) Maximum authority: Collegiate body, responsible for the financial intermediary (Board of Directors, Board of Directors or equivalent body), according to the legal nature of the financial intermediary in question.

b) Senior Administration: Natural person who, due to his function, position or position, exercises or represents the highest administrative authority in a legal person, or intervenes or has the possibility of intervening in the making of important decisions within said legal person.

c) Credit portfolio: Corresponds to all those loans or credit facilities granted by the financial intermediary to its clients, which by their nature require the preparation of an Environmental-Social and Climate Change risk analysis, which determines their viability and social impact. , environmental or climatic, in the area of influence.

d) Client: Natural or legal person, with whom the financial intermediary establishes a commercial relationship, maintains it or terminated it, with respect to the financial products and / or services offered.

e) Financial intermediary: These are those legal entities authorized to carry out financial intermediation by the General Superintendency of Financial Entities, hereinafter referred to as SUGEF.

f) Materiality: Degree of exposure to risk of the activities and operations of the institution

g) Climate Change Risks : These are those risks that may arise due to changes in the state of the climate, either due to natural variability or as a result of human activity, which persist over time for a prolonged period, These are divided into two main categories: transition risks and physical risks, and their materialization and effect occur in the long term, beyond the analysis periods usually considered for traditional financial risks.

h) *Transition risks* : They are those linked to the transition to a low-carbon economy in response to climate change, they are associated with the fight against climate change in each country, in which the reduction of greenhouse gas emissions usually plays a major role. These include risks from changes in public policies, legal risks, technological risks, market risks, and reputational risks.

i) *Physical risks* : These are those that arise as a result of climatic and geological events and changes in the balance of ecosystems, they can be gradual (for example, sea level rise or desertification) or manifest abruptly (such as storms or droughts), and in any case they entail physical damage to the assets of the companies, interruption in the supply chain or increase in the expenses necessary to face them.

j) *Risks due to changes in public policies* : These are the risks arising from new measures that attempt to restrict actions that contribute to the adverse effects of climate change or that seek to promote adaptation to climate change.

k) *Legal risks* : These are the risks that originate from the demands of public and private actors when considering that the financial intermediary did not properly mitigate the impacts, did not apply appropriate adaptation measures or did not sufficiently disclose the material financial risks related to Environmental risks. -Social and Climate Change.

l) *Technological risks* : These are the risks that originate from the waste of technologies or innovations that support the transition to energy efficient economic systems that could improve the competitiveness, production, distribution of costs and demand for products and services of the Financial Intermediary.

m) *Market risks* : These are the risks that originate from changes in the supply and demand of certain products and services as the interested parties begin to take into consideration the risks and opportunities related to Environmental-Social risk and Change. Climate.

n) *Reputational risks* : These are risks linked to changes in the perception of consumers and the community about how much the Financial Intermediary contributes to or threatens the transition to a low-carbon economy.

RISK MANAGEMENT

Article 4. Environmental-Social Responsibility Policy

4.1 The Environmental-Social Responsibility Policy, defined by each financial intermediary, will be consistent with its nature, complexity and volume of operations, as well as with its risk profile, which must contain guiding principles and ideas that guide business decisions and relationship with the beneficiaries of the credit products offered by the institution, in terms of the impact that the financed activities may have on society and the environment in general. This policy will be evaluated periodically, according to the deadlines established by the financial intermediary.

4.2 The highest authority of the financial intermediary will know and approve the aforementioned evaluations.

4.3 The financial intermediary will guarantee that the Environmental-Social Responsibility Policy is integrated with the other institutional policies such as credit, risk management, etc.

Article 5. Risk management

5.1 The risk management system implemented by the financial intermediary will enable the identification, classification, evaluation, monitoring and mitigation of Environmental-Social risks and the risks due to Climate Change that affect the financial intermediary's credit portfolios.

5.2 The management system for Environmental-Social and Climate Change risks will be documented in a manual, physically or electronically, and approved by the highest authority of the financial intermediary.

Article 6. Identification, classification, evaluation, monitoring and mitigation of risks

6.1 Financial intermediaries will identify, classify , evaluate, monitor, and mitigate, Environmental-Social risks and Climate Change risks in their loan portfolio. Regarding the foregoing, financial intermediaries will determine the potential impacts of said risks on business, strategy and financial planning, in the short, medium and long term, in accordance with their internal policies .

6.2 The foregoing will be documented through reports, physically or electronically.

6.3 The aforementioned reports will be known and approved by the highest authority, the financial intermediary.

Article 7. Risk management manual.

7.1 The *Management Manual for Environmental-Social and Climate Change risks* , prepared by financial intermediaries either physically or electronically, will describe the processes of the Environmental-Social and Climate Change risk management system.

7.2 The Manual will clearly describe, at least the following:

- **a)** The processes applied for the identification, classification, evaluation, monitoring and mitigation of Environmental-Social risks and Climate Change risks, and how these processes are integrated into the global risk management of the financial intermediary.
- **b)** The allocation of the necessary resources (*infrastructure, methodology and personnel*) for this purpose.
- **d)** The means for identifying situations faced by the recipients of loans or credit facilities susceptible to this type of risk and measures for their mitigation.
- **e)** The organizational structure, division of functions and system of delegation of authority for the management of these risks.
- **f)** The minimum requirements that recipients of loans or credit facilities must meet, in Environmental-Social matters, in accordance with the risk appetite of the financial intermediary.
- **g)** Tolerance limits.
- **h)** Communication strategies within the entity.
- **i)** Measurement methods, if there are n, and name of the person (s) responsible for the measurement.
- **j)** Monitoring frequency and name of the person (s) responsible.
- **k)** Reports, reports and their periodicity and purposes.

Article 8. Risk classification.

8.1 To assign a risk category to each loan or credit facility, the financial intermediary will design and implement a risk classification procedure, using, but not limited to, the following criteria:
a) Economic activity or sector in which the loan or credit facility will be applied.
b) Geographic area of the final destination of the loan or the credit facility granted, including the location of the counterparties with which transactions and business will be carried out.
c) D Estino end of the loan or credit facility.

8.2 The criteria or variables used to assign a risk category to each loan or credit facility will be justified both for their inclusion and for their exclusion.

8.3 The financial intermediary will classify the loans or credit facilities in one of the following three categories:
a) High risk.
b) Moderate risk.
c) Low risk.

8.4 The financial intermediary will document, physically or electronically, the procedure for the risk classification of loans or credit facilities.

8.5 The classification procedure and its modifications will be known and approved by the highest authority of the obligated subject.

Article 9. Plan for risk management

9.1 The plan will be prepared by the financial intermediary as the process of identification, classification, evaluation, monitoring and mitigation of Environmental- Social risks and Climate Change risks is developed , considering, at least:

a) The particularities of the client, according to their nature, activity, qualities or characteristics, at the beginning and during the commercial relationship they maintain.
b) Type of project: Amount and destination of the funds requested from the financial intermediary.
c) Geographical location: Areas in which the client carries out its activity, both locally and internationally, or areas to which the disbursement of money or authorization of the credit facility approved by the financial intermediary is destined .
d) Products and services: if it is new or existing offered by the client.

9.2 The control and monitoring of the risk management plan will be applied, according to the type of loan or the credit facility granted to the client and with the periodicity established by the financial intermediary, for example:
a) High risk, every six months .
b) Moderate risk, every year.
c) Low risk, every three years **.**

9.3 The financial intermediary, according to the results of the application and / or follow-up of the risk management plan, will establish corrective measures that make it possible to correct the weaknesses evidenced, with actions, responsible parties, and deadlines for their correction.

9.4 The financial intermediary will document and keep at the disposal of the Superintendency and other competent authorities, the results of the application of the plan and the corresponding decision-making.

STRUCTURE FOR RISK GOVERNANCE

Article 10. Governance

10.1 The governance structure to manage Environmental-Social risks and risks due to Climate Change, of the credit portfolio of financial intermediaries, will be consistent with the nature, complexity and volume of their operations, as well as with their risk profile. .

10.2 The structure mentioned in the previous point will provide the necessary conditions for the implementation of actions, compliance monitoring, evaluation of their effectiveness and identification of deficiencies in their implementation and will verify if the management of these risks is adequate.

10.3 governance structure ~~s~~ at least establish the necessary conditions for:
a) The highest authority of the financial intermediary exercises vigilance over Environmental-Social risks and risks due to Climate Change.
b) The senior management of the financial intermediary carries out the adequate management of Environmental-Social risks and risks due to Climate Change.

Article 11. Maximum authority

11.1 The highest authority of the financial intermediary, as responsible for it , is responsible for ensuring the efficient and correct administration of Environmental-Social risks and risks due to Climate Change.

11.2 By virtue of its responsibility, the highest authority of the financial intermediary will assess the need to have a specific committee on Environmental-Social risks and risks due to Climate Change, its composition, as well as the responsibilities and functions assigned to it. If the creation of this Committee is considered appropriate, the financial intermediary will disclose its existence and composition, both internally and externally, as appropriate.

11.3 The highest authority of the financial intermediary will be responsible for the definition and periodic evaluation of the Environmental-Social Responsibility Policy.

Article 12 Senior Administration

The Higher Administration, as the highest administrative authority of the financial intermediary, will implement the Environmental-Social Responsibility Policy and will implement the processes and tasks necessary for the efficient and correct administration of Environmental-Social and Climate Change risks, approved by the highest authority of the financial intermediary.

Article 13. Functions for risk management

In relation to the management of Environmental-Social and Climate Change risks, the administrative unit (s) or the person (s) responsible (s) designated by the superior administration of the financial intermediary to ensure the efficient and correct management of the aforementioned risks, at least it will perform:

a) The Proposal of the corresponding policies .
b) The design and permanent updating of the necessary manuals .
c) The development of methodologies and support the different units of the institution in their application .
d) The evaluation of these risks prior to the formalization of loans or credit facilities granted by the financial intermediary to its clients , as well as their subsequent monitoring .
e) The development and communication of the corresponding reports .
f) Identification of training needs.

MONITORING AND INFORMATION PROCESSING

Article 14. Monitoring

14.1 The financial intermediary, during the monitoring process, related to the final destination of the disbursements, will ensure that both the risk assessment and the risk categorization, carried out at the beginning of the commercial relationship, is (are) consistent. with the current scenario , product of the monitoring carried out.

14.2 The obliged subject may use information from any national or international body to make its assessments and determine the risk exposure factors, which facilitate the monitoring and identification of red flags.

Article 15. Warning signals

The financial intermediary will identify and proceed with the respective analysis of everything that it determines as a warning sign, regarding Environmental-Social risks and Climate Change, which through monitoring processes or by any means may arise, in relation to the disbursements made or approved credit facilities of your credit portfolio, to detect unusual situations, and establish the action plans that are required.

Article 16 . Information systems and internal communication mechanisms

16 .1 The financial intermediary will have available information systems and internal communication mechanisms that assist in the management of Environmental-Social risk and the risk of Climate Change , which, in accordance with the degree of tolerance, the business strategy and the risk profile of the financial intermediary, will contribute to the management of the aforementioned risks and with the adequate and timely internal communication, to the areas and agencies involved, about the result (s) of that management and the impact (s) (s) expected (s).

16 .2 The information systems and internal communication mechanisms will allow the highest authority of the financial intermediary and the Risk Committee, if it exists, to have clear and timely information on exposure to Environmental-Social and Exchange risks. Climate. As well as, the availability of the pertinent reports and the corrective action plans and improvements that are required to be implemented in the management process of those risks.

Article 17 . Divulgation

Financial intermediaries will disclose on their website, or other means in the absence thereof , aspects related to the management of Environmental-Social risk and the risk of Climate Change , in accordance with the degree of tolerance, the business strategy and the profile of risk of the financial intermediary, and on which it has defined its governance, policies, impact on strategy, risk management and other related aspects.

SPECIAL CREDIT OPERATIONS

Article 18. Special considerations for credit operations for more than US $ 10,000,000.00

When a financial intermediary approves the disbursement of a loan or a credit facility for an amount greater than US $ 10,000,000.00 (Ten million US dollars of the United States of America), they will verify that policies and requirements related to international standards have been included. such as the Equator Principles and / or the Performance Standards of the “International Finance Corporation ” (IFC) , for the analysis and approval of financing located within the ranges of amounts such as the one mentioned above.

The foregoing includes having evidence that the recipient of the credit (loan or credit facility) at least performed:
a) The proper identification of the area of influence and maintains an open dialogue with the possible affected communities (*including mechanisms for handling complaints),*
b) The evaluation of the potential socio-environmental impacts and is taking the corresponding mitigation measures,
c) The evaluation of the possible impacts that Climate Change could have on the project or activity financed.
d) Categorization of projects by risk and evaluation by an independent reviewer.