

Executive Summary

CIFI 2013 Annual Environmental and Social Performance Report (AESPR)

For confidentially reasons, CIFI prepared this executive summary (a limited version of the full report). The full version of the AESPR was prepared by ERM.



1 INTRODUCTION

1.1 OBJECTIVES

In July 2014, Environmental Resources Management, Inc. (ERM) prepared the Annual Environmental and Social Performance Report (AESPR) for CIFI's 2013 fiscal year (FY) (January through December 2013). CIFI presents the following executive summary addressing the main findings.

The AESPR provides an independent review of CIFI's compliance with its Environmental and Social Management System (ESMS) and its effectiveness in environmental and social risk management for the projects CIFI is involved in. The AESPR also identifies opportunities for continuous improvement in ESMS.

The review includes an analysis of the projects that CIFI was involved in during the period under review, including projects retained in portfolio from 2012, referred to as 'Carry Over' (CO) projects, and projects disbursed during 2013, referred to as 'New Projects' (NP). Note that the projects appraised, approved by the Credit Committee and reaching financial close are not reported as part of the AESPR detailed project review; however they were indicated as part of the Equator Principles reporting requirements.

All recommendations from the FY 2012 AESPR with regard to the application and implementation of CIFI's ESMS were addressed. In addition, a number of recommendations were made on projects with regard to the information provided by CIFI's for the environmental and social performance review; however, it is understood that for some projects, the availability of information is beyond CIFI's control.

CIFI'S PORTFOLIO

In 2013, CIFI's portfolio retained 27 CO projects from 2012 and disbursed 5 NPs, including 2 new bridge loans (BL). A list of the FY2013 NPs is presented in *Table 2* and the list of CO projects is presented in *Table 3*.

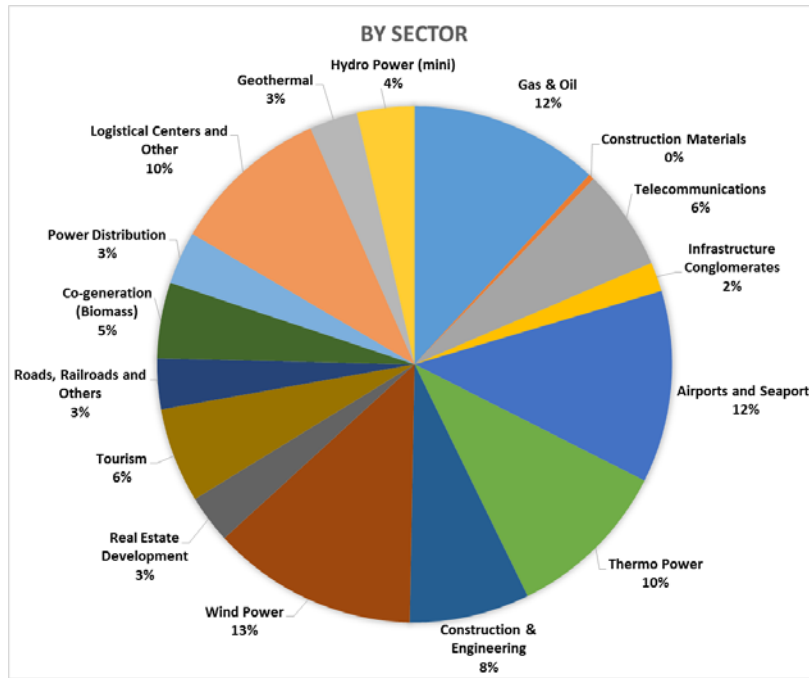
Of the 32 projects (i.e., CO and NP) with CIFI involvement, 3 were classified as Category A and 29 were classified as Category B, representing 9% and 91% respectively of CIFI's total exposure - refer to *Table 1*. No projects were designated as Category C.

Of these, 5 projects were originated by CIFI; 25 by MFIs or EPFIs (other than CIFI) and 2 by other institutions.

Table 1 Risk Categorization of 2013 Projects

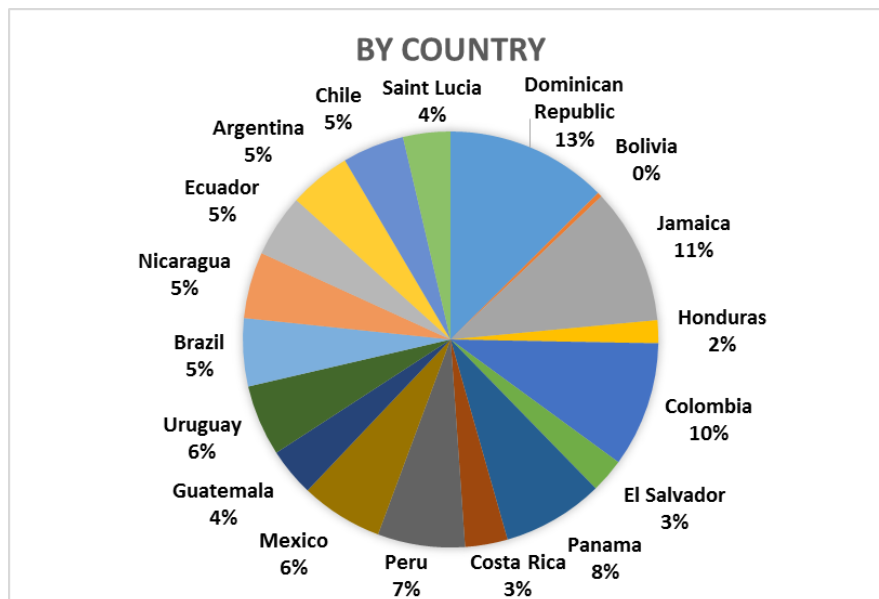
Classified as	Category A	Category B	Category C	Total
Carry Over (CO)	3	24	0	27
New Project (NP)	0	3	0	3
NP-Bridge Loan (BL)	0	2	0	2
Total	3	29	0	32
%	9%	91%	0%	100%

CIFI Exposure by Sector as of December 2013



Source: CIFI, December 2013.

CIFI Portfolio by Country as of December 2013



Source: CIFI, December 2013.

Table 2 CIFI 2013 Portfolio - New Projects (NP)

#	Company	Country	Sector	Borrower	Lead Arranger (s)	MFI or EPFI	Structure	CIFI Risk Category
1	Carapé	Uruguay	Wind Power	Fingano S.A. and Vengano S.A.	IFC	MFI	Corporate Finance - Bridge Loan	B
2	Chevron DR - Marlin II	Dominican Republic	Oil & Gas	Gulfstream Petroleum Caribbean Holdings, S.DE.R.L. / GB Group	CIFI	EPFI	Project Finance	B
3	Construmax S.A.	Colombia	Construction & Engineering	Constructora Perfil Urbano S.A.	CIFI	EPFI	Corporate Finance	B
4	Hidrosanbartolo	Ecuador	Hydropower	Hidrosanbartolo S.A.	IIC	MFI	Project Finance	B
5	Indomina Studios	Dominican Republic	Logistical Centers and Other	Indomina Group	IFC	MFI	Corporate Finance - Bridge Loan	B

Table 3 CIFI 2013 Portfolio - Carry Over (CO) Projects

#	Company	Country	Sector	Borrower	Lead Arranger (s)	MFI or EPFI	Structure	CIFI Risk Category
1	Undisclosed Project Name ¹	Panamá	Thermal Power	Project Name Undisclosed	West LB/HSBC	EPFI	Project Finance	B
2	Blue Power & Energy S.A. - La Fe / San Martin	Nicaragua	Wind Power	Blue Power & Energy S.A.	BICSA	MFI	Project Finance	B

¹Undisclosed Project Name means, that CIFI doesn't have the right to disclose the company name.

#	Company	Country	Sector	Borrower	Lead Arranger (s)	MFI or EPFI	Structure	CIFI Risk Category
3	Undisclosed Project Name	Argentina	Oil & Gas	Project Name Undisclosed	IFC	MFI	Corporate Finance	B
4	Caucedo Port II	Dominican Republic	Airports and Seaports	Caucedo Investments Inc.	IFC	MFI	Corporate Finance	B
5	Chevron - Marlin II (Bigio Bridge Loan)	Jamaica	Oil& Gas	GB Group	IIC	MFI	Project Finance	B
6	Continental Towers Holding Corp.	Central America	Telecommunications	Continental Towers	IFC	MFI	Project Finance	B
7	Undisclosed Project Name	Brazil	Oil & Gas	Undisclosed Project Name	IDB	MFI	Project Finance	B
8	Undisclosed Project Name	Saint Lucia	Telecommunications	Undisclosed Project Name	Citibank	EPFI	Corporate Finance	B
9	Undisclosed Project Name	Chile	Co-Generation (Biomass) Power	Undisclosed Project Name	IIC	MFI	Project Finance	B
10	Undisclosed Project Name	Honduras	Thermal Power	Undisclosed Project Name.	CABEI	MFI	Corporate Finance	B
11	Eurus	México	Wind Power	Eurus S.A.P.I. de C.V.	IFC/IDB	MFI	Corporate Finance	A
12	Undisclosed Project Name	Ecuador	Construction & Engineering	Undisclosed Project Name	IFC	MFI	Corporate Finance	B
13	FCC	Panamá	Construction and Engineering	FCC Construcción de Centroamérica	CIFI	EPFI	Corporate Finance	B
14	Hidro Santa Cruz, S.A. - Canbalam	Guatemala	Hydroelectric Power	Hidro Santa Cruz, S.A.	CIFI	EPFI	Project Finance	B
15	Hychico S.A.	Argentina	Wind Power	Hychico S.A.	IIC	MFI	Project Finance	B

#	Company	Country	Sector	Borrower	Lead Arranger (s)	MFI or EPFI	Structure	CIFI Risk Category
16	Undisclosed Project Name.	Guatemala	Co-Generation (Biomass) Power	Undisclosed Project Name	Bancolombia	EPFI	Corporate Finance	B
17	ICE	Costa Rica	Energy and Telecommunications	Instituto Costarricense de Electricidad	IDB	MFI	Corporate Finance	B
18	Los Portales S.A.	Perú	Tourism	Los Portales S.A.	CIFI	EPFI	Corporate Finance	B
19	Mezapa Construction Loan	Honduras	Hydroelectric Power	Sociedad Energética Mesoamericana S.A.	BCIE	EPFI	Project Finance	B
20	Oleoducto de Crudos Pesados (OCP)	Ecuador	Oil& Gas	OCP Ltd., and OCP Ecuador, S.A.	WestLB	EPFI	Project Finance	A
21	Undisclosed Project Name	Nicaragua	Geothermal Power	Undisclosed Project Name	CABEI	MFI	Corporate Finance	B
22	Seawind Key Investments Ltd,	Jamaica	Tourism	Seawind Key Investments Ltd, and Caribbean Key Holdings Inc.	NCB Jamaica Ltd.	-	Corporate Finance	B
23	Undisclosed Project Name	Bolivia	Construction Materials	Undisclosed Project Name.	CAF	-	Corporate Finance	B
24	Undisclosed Project Name	Colombia	Airports and Seaports	Undisclosed Project Name	IFC	MFI	Project Finance	A
25	Undisclosed Project Name	Argentina	Airports and Seaports	Undisclosed Project Name	IIC	MFI	Corporate Finance	B
26	Undisclosed Project Name	Colombia	Thermal Power	Undisclosed Project Name	IFC	MFI	Corporate Finance	B
27	Undisclosed Project Name	Jamaica	Thermal Power	Undisclosed Project Name	IFC	MFI	Project Finance	B

3.1

APPLICATION OF CIFI'S ESMS

Since 2009, CIFI has gradually been taking a more active role in transactions, and is more frequently taking the role of the lead arranger in syndications. During 2013, CIFI's business development strategy has moved dramatically to direct origination of projects. CIFI is aiming to make its portfolio sustainable in addition to fully complying with environmental and social policies (i.e., IFC Performance Standards and Equator Principles). CIFI expects that added control on the transactions will allow CIFI to enforce its E&S policies, build a direct relationship with clients, and establish a good regional reputation.

During FY 2013, CIFI made major improvements to its ESMS, including revisions to fully align with the updated IFC Performance Standards and the Equator Principles III. CIFI has demonstrated a continuous improvement approach to its ESMS. The revisions implemented in February 2013 continue to have the ESMS fully integrated into the investment cycle (identification, pre-screening, screening and approval (or rejection) process and portfolio E&S monitoring).

Responsibilities for ESMS oversight and implementation include two E&S Coordinators that provide support to origination and review ESMS compliance, an E&S Manager with overall responsibility for policy compliance, Portfolio Officers with E&S monitoring responsibilities and the final review and approval from the Managing Director and CEO. These responsibilities have been appropriately assigned within CIFI, contributing to an effective E&S performance.

Of note to these improvements are additional tools that allow the process to be more functional. For example, aligning the ESQ (to be completed by the borrower) and the Screening Form (to be completed by CIFI) to the requirements of IFC Performance Standards, which in turn follow the same structure as the E&S due diligence reports. This streamlining of tools helps CIFI ensure that all critical aspects of review are considered and tracked throughout the process. Other important elements established for document control include the Semi-Annual Report; Transfer Checklist and E&S component of the electronic database for projects.

CIFI is in general compliance with its ESMS. CIFI staff is aware of the process and follow the ESMS requirements, which are embedded in the credit process. There are specific checkpoints to ensure that the process is met, while there is also enough flexibility to account for a realistic approach depending on CIFI's involvement.

3.1.1 *Applicable Policies*

CIFI has applied the corresponding policies to each project, based on the applicable policy approach established in its ESMS.

3.2 *EQUATOR PRINCIPLES*

In the audit report, ERM has evaluated compliance with the EPs across CIFI's project finance transactions. Those project finance transactions for which CIFI was the arranger are materially compliant with the EPs.

Additionally, in those New Projects (i.e., post EPs adoption date) for which CIFI was part of an international bank syndicate or multilateral A/B loan, CIFI has systematically attempted to include compliance with the EPs as a requirement in the loan agreement. CIFI's leverage is limited when dealing with big international financial institutions and is usually dependent on those institutions for E&S compliance. Nevertheless, these institutions have also improved in the diligence and requirements for project finance.

CIFI applies EP's following its Applicable Policy Approach, which accounts for EP requirements, as well as the requirements of CIFI's shareholders. With the approval of EP III in 2013 and the more detailed guidance on the application of EPs for project-related corporate loans and bridge loans, CIFI has been following this guidance when part of a syndicate. In those cases where CIFI is part of a syndicate of smaller banks, CIFI has been generally successful in requiring compliance with the EPs and IFC, even when other EPFIs involved would not require compliance. As discussed previously, CIFI's compliance with the EPs is less systematic in cases where CIFI has less influence over projects and in particular when the transaction involves general corporate finance or bond purchases or CIFI's participation is smaller.

In general, CIFI has been more focused on requiring projects to be compliant with the EPs/IFC PSs and the WBG EHS Guidelines when acting as arranger or co-arranger and less strict when purchasing bonds, which is in line with CIFI's risk management approach.

CIFI reports beyond EP requirements on its website. Based on clarifications made by CIFI during preparation of this report, CIFI's EP report includes the projects Screened during the year under review (i.e., projects appraised and approved by the Credit Committee), whereas the AESPR reports on projects disbursed during the year of review. Therefore, the EP reporting does not coincide with the AESPR report.

It should be noted that Principle 10 of EPs requires that *“The EPFI will report publicly, at least annually, on transactions that have reached Financial Close and on its Equator Principles implementation processes and experience, taking into account appropriate confidentiality considerations. The EPFI will report according to the minimum reporting requirements detailed in Annex B.”* Annex B then indicates *“The EPFI will report on the total number of Project Finance transactions and total number of Project-Related Corporate Loans that reached Financial Close during the reporting period. [...] Data for Bridge Loans, due to their nature, are not subject to specific reporting requirements.”*²

CIFI has reported beyond this requirement, including projects “Screened” or approved by the Credit Committee, following the EP “Guidance Note on Equator Principles Implementation Reporting”³. Going forward, CIFI could only report on projects reaching Financial Close (i.e., signing of the loan agreement) and the information in *Table 4.1* of this report, that compares the projects reviewed/ approved by Credit Committee and Disbursed. Bridge loans do not need to be reported on, as CIFI currently does.

² http://www.equator-principles.com/resources/equator_principles_III.pdf

³ http://www.equator-principles.com/resources/ep_implementation_reporting_guidance_note.pdf

Table 4.1 Equator Principles Annual Report 2013

Loan Number	Approval Date	Environmental Category	Infrastructure Sector	Structure Type	Applicable IFC PS	Status	Independent Review
201302130494	Feb-2013	B	Health Care facility	Project-Related Corporate Loan	1,2,3,4	Appraisal Stage	yes
201303130502	Mar-2013	B	Logistical Centers & Other	Project Finance	1,2,3,4	Executed	yes
201304170508	May-2013	B	Logistical Centers & Other	Project Finance	1,2,3,8	Appraisal Stage	yes
201308070527	Aug-2013	B	Wind Power	Project Finance	1,2,3,4	Appraisal Stage	yes
201310300536	Oct-2013	B	Hydro Power (mini)	Corporate Loan	1,2,3,4,6	Appraisal Stage	yes
201310300539	Oct-2013	B	Construction & Engineering	Corporate Loan	1,2,	Appraisal Stage	No

All our projects are in Latin American and are in Non-designated Countries, as they are not found on the list of Designated Countries on the Equator Principles Association website www.equator-principles.com.

4.1 ESMS RECOMMENDATIONS FOR 2014

As CIFI becomes more of a lead arranger, it will need to focus more on the Screening and Due Diligence stage of its transactions. The ESDD should be streamlined and focused on the key risks expected for the sector and specific for the country and project. Past performance of the borrower is also important to be assessed, including the borrower's ability to implement requirements and host country regulations. Likewise, on projects where CIFI is the lead arranger, it will need to ensure that all portfolio information is requested, followed through and documented/ maintained.

Based on ERM's review of CIFI's ESMS implementation, the following recommendations and observations are provided to allow CIFI to maintain and further improve its E&S performance and risk management:

1. Continue focusing implementation of the ESMS on projects where CIFI is the arranger as well as on higher risk projects (e.g., A's and B's in higher risk sectors or new projects originated by non-MFI and non-EPFI entities) and reaching out to external due diligence when necessary.
2. Continue expending less effort on the application of the ESMS to those transactions where risk is relatively low and experience has shown the likelihood of influencing outcomes and/or obtaining sufficient monitoring information is low, for example bond transactions.
3. Towards the end of 2013, CIFI developed an Annual E&S Monitoring template to systematize the monitoring information provided by clients. Going forward, CIFI should ensure this template is provided to, and completed by, its clients to obtain relevant E&S information on an annual basis.
4. Proactively work with portfolio clients requesting Environmental and Social monitoring information early during the fiscal year (e.g., October) to improve on timing of information flow, especially if prepayment or repayment is expected. Consider incorporating specific reporting conditions in the loan agreements regarding reporting prior to repayment/ prepayment.
5. Continue the Semi-Annual ESMS Internal Compliance reviews. These are useful in monitoring ESMS alignment on a more frequent basis, without being overly cumbersome or time-consuming to produce. However, the Semi-Annual Reports need to align the terminology used for 'New Projects' and 'Carry Over' to avoid confusion with the terminology used in the AESPR. In addition, it is recommended that a template with predetermined headings is

developed for the semi-annual reviews to increase efficiency when input is being collated and to streamline report production. This will also help to ensure consistency in the review process if staff or responsibilities change within CIFI as the institution grows. A summary table with all projects reported in the 6-month period and their status (e.g., approved by Credit Committee or disbursed) should also be included in the report.

6. The E&S Risk Categorization Matrix (ESMS Screen) is a useful tool to determine the relevant transaction risk of each project. The ESMS Screen does not include a category for Corporate Loans. Even though it includes options for greenfield, expansion and refinance, it is not evident where Corporate Loans should be mapped. Such a category could be incorporated to more clearly determine the risk exposure for those transactions.
7. CIFI publicly discloses its AESPR; however, the ESMS is not public. CIFI should disclose its E&S Policy and Guidelines, ESMS overview, Exclusion List and other elements to allow potential borrowers to understand CIFI's E&S risk management approach and process.
8. CIFI's ESMS made direct reference to IIC's guidelines. IIC is no longer a shareholder since October 2013 and its policy is no longer a requirement. CIFI should consider revising and changing this during the next ESMS revision.
9. Ensure that the EP Report is consistent with the EP requirements (i.e., reporting on projects reaching Financial Close) and including a summary level of projects appraised/ approved by Credit Committee and Closed.

In the FY 2012 Annual E&S Performance Report prepared for CIFI by ENVIRON, it was recommended that *"for future iterations of this report, CIFI only provide pertinent documentation for new and portfolio projects to the external consultants retained to prepare the annual audit"*. While the extent of documentation supplied *"did evidence the thoroughness of CIFI's due diligence"*, not all were essential for reviewing ESMS compliance. Similarly, it is recommended that CIFI only supply the following documentation in the future:

New Projects:

- Environmental and Social Screening Documents;
- Environmental and Social Questionnaire;
- Credit Offering Memorandum (COM);
- Executed Loan Agreement;
- Key Due Diligence documentation; and
- Transfer Checklist;

Carry Over Projects:

- Documentation recording E&S monitoring during previous fiscal year (including completed Annual E&S Monitoring reports);
- Historical tracking matrix containing relevant information from previous years, including the original project initiation (i.e., that indicated for New Projects).

Finally, ERM recommends that CIFI maintain a central project/transaction 'tracker' (Excel spreadsheet) to log the ongoing development of the E&S aspects of a project throughout the financial year, plus its prior history. CIFI already completes a 'List of Projects' spreadsheet, presenting basic information for each project, however, ERM suggests that this is modified to incorporate key information on each project (e.g., origination information, greenfield/ expansion/ refinance/ corporate, key milestones, information gathered through Transfer Checklists, key communications, etc.). That would allow the tracker to serve as a summary of each project's development, providing a chronological E&S history that can be hyperlinked to the relevant documents in CIFI's network. This would assist external parties in undertaking of the annual performance review, as well as being a single point-of-reference for members of CIFI's team who are unfamiliar or new to a particular project, to check and track E&S requirements at each stage of the investment cycle. This could also be done in the IMS electronic system database, should the software allow for this information to be processed.

5 *PROJECT-SPECIFIC CONCLUSIONS AND RECOMMENDATIONS*

5.1 *CARRY-OVER PROJECTS, 2013*

Several existing projects in CIFI's portfolio showed exemplary performance in 2013 in terms of submission of E&S monitoring information to CIFI and in responding to CIFI's recommendations and request for additional information, such as Mezapa. Other projects provided adequate information to allow CIFI to monitor their E&S performance, such as [Undisclosed Project Name], Caucedo Port, Instituto Costarricense de Electricidad (ICE) and [Undisclosed Project Name]. In other cases, CIFI received inadequate or partial information for 2013, or did not receive any E&S monitoring information.

5.2 *NEW PROJECTS, 2013*

In 2013, adequate due diligence was conducted for new projects, commensurate with the level of risk; and sufficient and relevant E&S project information was provided. This reflects CIFI's correct implementation of its ESMS and procedures. CIFI has taken proactive risk management measures on some projects (i.e., Carapé, Construmax) and is liaising with lead lenders to monitor E&S performance on other projects (i.e., Chevron DR - Marlin II, Hidrosanbartolo, Indomina), as reported in the Semi-Annual ESMS Internal Compliance Report. No critical gaps were identified for the new projects.