

## About this report:

Banco Hipotecario has signed the principles for responsible banking in September 2019, in the last two years we have been working in align the strategy, products and services to sustainable practices, improve the development of our clients and communities and making these principles as part of our corporate strategy.

We align our strategy with the Sustainable Development Goals through our four main pillars of our Sustainability Strategy:



Reporting and Self-Assessment Requirements	Bank's summary	Reference(s)/ Link(s) to bank's full response/ relevant information
<b>Principle 1: Alignment</b> We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.		
<b>1.1</b> Describe (high-level) your bank's business model, including the main customer segments served, types of products and services provided, the main sectors and types of activities, and where relevant the technologies financed across the main geographies in which your bank has operations or provides products and services.	<p>Banco Hipotecario is a state bank owned from El Salvador. We provide products and services in the retail, business, and corporate banking business areas, which include home loans, vehicle finance, commercial loans (service sectors), transport, agriculture, serving retail, SME, and governments.</p> <p>During 2021 43.5% were destined to support the SME's, 12.2% to gubernamental institutions, 7.8% in consumer lending and 6.7% for microenterprises.</p>	<p>See the section "Finance management" on p. 14 of our 2021 annual report.</p> <p><a href="https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/">https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/</a></p>
<b>1.2</b> Describe how your bank has aligned and/or is planning to align its strategy to be consistent with and contribute to society's goals, as expressed in the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks.	<p>The Sustainability strategy was defined, because of the materiality analysis conducted in 2020, priority areas of the financial sector in sustainability issues were known. Based on the priority issues, 4 pillars were defined to generate actions in priority areas of sustainability. Contributing directly to 11 SDG targets and aligned to relevant national frameworks.</p>	<p>See the section "Sustainability report on p. 37 of our 2021 annual report.</p> <p><a href="https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/">https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/</a></p>



## Principle 2: Impact and Target Setting

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

### 2.1 Impact Analysis:

Show that your bank has identified the areas in which it has its most significant (potential) positive and negative impact through an impact analysis that fulfills the following elements:

**a) Scope:** The bank's core business areas, products/services across the main geographies that the bank operates in have been as described under 1.1. have been considered in the scope of the analysis.

**b) Scale of Exposure:** In identifying its areas of most significant impact the bank has considered where its core business/its major activities lie in terms of industries, technologies and geographies.

**c) Context & Relevance:** Your bank has taken into account the most relevant challenges and priorities related to sustainable development in the countries/regions in which it operates.

**Scope:** BH's geographic coverage is national, where the loan portfolio is concentrated in retail and corporate banking.

**Scale of Exposure:** The main sectors financed are transportation (representing 113.5 million of our business portfolio) (mainly urban and suburban land transportation), and agriculture 43.7 million. The retail portfolio is concentrated in personal service loans (100%) (including consumer loans, mortgage loans, vehicles, student loans).

**Context and relevance:** In terms of challenges and priorities in El Salvador, areas such as biodiversity loss, climate change, single-use waste, financial inclusion, gender equality are relevant according to publications on social networks and government websites and engagement with stakeholders (Ministry of Environment, ISDEMU and other state banks).

See the section "Financial management" on p. 14; "Sustainability report" on p. 45-47 of our 2021 annual report and our web site

<https://www.bancohipotecario.com.sv/nuestras-iniciativas/>

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Reporting and Self-Assessment Requirements	Bank's summary	Reference(s)/ Link(s) to bank's full response/ relevant information
<p><b>d) Scale and intensity/salience of impact:</b> In identifying its areas of most significant impact, the bank has considered the scale and intensity/salience of the (potential) social, economic and environmental impacts resulting from the bank's activities and provision of products and services.</p> <p>(your bank should have engaged with relevant stakeholders to help inform your analysis under elements c) and d))</p> <p>Show that building on this analysis, the bank has</p> <ul style="list-style-type: none"> <li>• Identified and disclosed its areas of most significant (potential) positive and negative impact</li> <li>• Identified strategic business opportunities in relation to the increase of positive impacts / reduction of negative impacts</li> </ul>	<p><b>Scale and intensity:</b> based on the impact areas yielded in the impact analysis tool and our credit portfolio we have been working with the microenterprise sectors for the issue of financial inclusion and gender, in addition, the agricultural sector also has an impact on land use change, the use of agrochemicals, burning for sugar cane harvest, financing of agro-industrial projects (beneficiaries, large scale infrastructure) are factors that affect the loss of biodiversity and the generation of different types of waste.</p> <p>Therefore, during this year we worked in alliances with government agencies to work on financial education with a gender focus, the creation of special lines of credit to support inclusive sectors and support for agricultural products to generate impact in the areas of biodiversity, gender and financial inclusion.</p>	<p>See the section "Financial management" on p. 14; "Sustainability report" on p. 45-47 of our 2021 annual report and our web site</p> <p><a href="https://www.bancohipotecario.com.sv/nuestras-iniciativas/">https://www.bancohipotecario.com.sv/nuestras-iniciativas/</a></p> <p><a href="https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/">https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/</a></p>



Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Impact Analysis.

We have undertaken the impact analysis and identified the most significant impacts that are associated with our retail and business banking portfolio, with actions in this year in the areas of financial inclusion and gender equality.

Reporting and Self-Assessment Requirements	Bank's summary	Reference(s)/ Link(s) to bank's full response/ relevant information
<p><b>2.2 Target Setting</b></p> <p>Show that the bank has set and published a minimum of two Specific, Measurable (can be qualitative or quantitative), Achievable, Relevant and Time-bound (SMART) targets, which address at least two of the identified "areas of most significant impact", resulting from the bank's activities and provision of products and services.</p> <p>Show that these targets are linked to and drive alignment with and greater contribution to appropriate Sustainable Development Goals, the goals of the Paris Agreement, and other relevant international, national or regional frameworks. The bank should have identified a baseline (assessed against a particular year) and have set targets against this baseline.</p>	<p>During 2021, we worked on our financial inclusion strategy, defining key objectives that will allow us to support sectors of the economy that do not have access to the formal financial system.</p> <p>On the other hand, through the BH Green Credit program, we have defined loan placement objectives focused on energy efficiency, renewable energy and sustainable production.</p> <p>These goals drive the integration of our portfolios with SDG 9 (Build resilient infrastructure, promote sustainable industrialization and foster innovation), 13 (Take urgent action to combat climate change and its impacts) and 8 (Decent work and economic growth).</p> <p>We will seek to work closely with customers in these high-impact sectors to</p>	<p>See the section "Sustainability report" on p. 43-47 of our 2021 annual report</p> <p><a href="https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/">https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/</a></p>



Show that the bank has analysed and acknowledged significant (potential) negative impacts of the set targets on other dimensions of the SDG/climate change/society's goals and that it has set out relevant actions to mitigate those as far as feasible to maximize the net positive impact of the set targets.

support their transition, as a first approach through talks and training to promote the benefits of our products or services for their transition.

During 2022, we will continue to work closely with the business and risk areas to understand what is needed to align with the collective commitment to climate action within our portfolio and respond to the Paris pledge.

See the section "Sustainability report" on p. 43-47 of our 2021 annual report

<https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/>

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Target Setting.

In 2021 the strategy for financial inclusion is defined, being an impact area defined by the bank to work on, and there is progress in the BH Green Credit Program with its objective. Work will continue in the other areas of gender impact and to respond to the commitment to climate action.

## 2.3 Plans for Target Implementation and Monitoring

Show that your bank has defined actions and milestones to meet the set targets.

Show that your bank has put in place the means to measure and monitor progress against the set targets. Definitions of key performance indicators, any changes in these definitions, and any rebasing of baselines should be transparent.

During 2021, a diagnosis of the implementation of the PRB was made and a work plan was developed, defining specific activities that will allow us to respond to the defined objectives and the fulfilment of the PRBs; in 2022 the first actions of the plan will begin. The progress and follow-up of the actions are monitored through the Identity and Sustainability Management and reported to the Sustainability Committee.

See the section "Sustainability report" on p. 53 of our 2021 annual report

<https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/>



Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Plans for Target Implementation and Monitoring.

We have established the KPIs for financial inclusion and the BH Green Credit Program loans, as well as a work plan for the implementation of the principles.

## 2.4 Progress on Implementing Targets

For each target separately:  
Show that your bank has implemented the actions it had previously defined to meet the set target.  
Or explain why actions could not be implemented / needed to be changed and how your bank is adapting its plan to meet its set target.

Report on your bank's progress over the last 12 months (up to 18 months in your first reporting after becoming a signatory) towards achieving each of the set targets and the impact your progress resulted in. (where feasible and appropriate, banks should include quantitative disclosures)

The actions considered in the 2020 report with the transportation sector were not carried out since, during 2021, the impact areas defined by the 2020 impact analysis were reviewed and work focused on defining a strategy for financial inclusion, implementing actions for this impact area throughout the year. On the other hand, the BH Green Credit Program was developed throughout the year, with progress in its indicators.

See the section "Sustainability report" on p. 43-47 of our 2021 annual report

<https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/>

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing Targets

Work during 2021 focused on actions for the financial inclusion impact area and follow-up on the implementation of the BH Green Credit Program. During 2022, actions will be contemplated for the other areas of gender and climate impact.

### Principle 3: Clients and Customers

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

**3.1** Provide an overview of the policies and practices your bank has in place and/or is planning to put in place to promote responsible relationships with its customers. This should include high-level information on any programmes and actions implemented (and/or planned), their scale and, where possible, the results thereof.

Banco Hipotecario has its own environmental and social management system that allows in the lending process to ensure that clients subject to credit comply with local legislation and regulations in force regarding environmental protection, health, and safety.

The environmental and social management system has an exclusion list that can be aligned with international standards such as the IFC performance standards. By implementing it, we can see positive results as we have defined not to finance any activity with high exposure to different legal or reputational credit risks, which allows us to have only suitable sectors and no negative impacts to the environment or society where we operate. Therefore, we currently have a constantly staff training programme in place to ensure that staff are adequately trained in environmental and social risk programme.

See the section “Risk Management” on p. 31 and “Sustainability report” on p. 45-47 of our 2021 annual report

<https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/>



**3.2** Describe how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities. This should include information on actions planned/implemented, products and services developed, and, where possible, the impacts achieved.

In 2021 we maintained online training for our employees on environmental issues and financial inclusion for their implementation.

On the other hand, financial education workshops were held for sectors with a focus on gender and microenterprises, where business executives are facilitators of these talks. In addition, the "Ecological Credit Program", which focuses on loans for investments in energy efficiency (EE), renewable energies (RE) and sustainable production (SP), has had positive results in its first year, with the placement of 12 loans with a total amount of \$10,037,387.19.

See more in "Sustainability report" on p. 43-45 of our 2021 Annual report.

<https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/>

## Principle 4: Stakeholders

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

**4.1** 4.1 Describe which stakeholders (or groups/types of stakeholders) your bank has consulted, engaged, collaborated or partnered with for the purpose of implementing these Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders and what issues were addressed/results achieved.

During 2021, we have worked with different state institutions to bring our products and services to different areas of the country. Financial education workshops have been held for women in programs of the Ministry of Local Development and UN Women's MELYT Program.

See more in "Sustainability report" on p. 41,47-48 and p. 52 of our 2021 Annual report.

<https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/>

On the other hand, we have worked with the National Cleaner Production Center to measure the carbon footprint of the administrative building, Senda Florida.

We also participated in the work of the National Council for Financial Inclusion. Work continued in conjunction with the Green Protocol, through monthly sessions.

## Principle 5: Governance & Culture

We will implement our commitment to these Principles through effective governance and a culture of responsible banking

**5.1** Describe the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant positive and negative (potential) impacts and support effective implementation of the Principles.

The sustainability policy was approved, which manages the 4 pillars that allow BH to address environmental, social and governance issues at all levels. The sustainability committee initiated meeting 2021 and meets monthly, guiding and following up on the integration of sustainability in the bank.

See “Sustainability report” on p. 37-38 of our 2021 Annual report.

<https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/>

**5.2** Describe the initiatives and measures your bank has implemented or is planning to implement to foster a culture of responsible banking among its employees. This should include a

Within the transparency and ethics pillar that seeks through BH values to permeate a culture of Sustainability and responsible banking, along with this we provide online training for employees on

See “Sustainability report” on p. 38 of our 2021 Annual report.

<https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/>



high-level overview of capacity building, inclusion in remuneration structures and performance management and leadership communication, amongst others.

sustainability, including the Principles for Responsible Banking, quarterly sustainability bulletins where we can show the progress and activities carried out in the reported quarter. In addition, sustainability training is provided for new staff as part of an induction program that includes the principles and work of the bank.

### 5.3 Governance Structure for Implementation of the Principles

Show that your bank has a governance structure in place for the implementation of the PRB, including:

- a) target-setting and actions to achieve targets set
- b) remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected.

Identity and Sustainability Management is responsible for monitoring progress and identifying any unexpected negative impacts. The sustainability committee has oversight over the setting of objectives, the measures put in place to achieve the objectives and when necessary, establish measures to address unforeseen negative impacts.

See “Sustainability report” on p. 37-38 of our 2021 Annual report.

<https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/>

Please provide your bank’s conclusion/ statement if it has fulfilled the requirements regarding Governance Structure for Implementation of the Principles.

The bank has a sustainability policy that guides it with 4 strategic and transversal pillars in the institution. Through the identity and sustainability management, the action plans are executed and the sustainability committee meets monthly to follow up on the work plan and the actions of the 4 pillars of the policy, which contribute to the PBR.



## Principle 6: Transparency & Accountability

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

### 6.1 Progress on Implementing the Principles for Responsible Banking

Show that your bank has progressed on implementing the six Principles over the last 12 months (up to 18 months in your first reporting after becoming a signatory) in addition to the setting and implementation of targets in minimum two areas (see 2.1-2.4).

Show that your bank has considered existing and emerging international/regional good practices relevant for the implementation of the six Principles for Responsible Banking. Based on this, it has defined priorities and ambitions to align with good practice.

Show that your bank has implemented/is working on implementing changes in existing practices to reflect and be in line with existing and emerging international/regional good practices and has made progress on its implementation of these Principles.

In 2021, a diagnosis was made on the implementation of the PBR that allows us to see the gaps and define an action plan for the following years. The action plan has specific activities for each principle divided in for years of implementation.

The financial inclusion strategy was developed along with its objectives to respond to this area of impact and the sustainability strategy with its 4 pillars has been defined.

On the other hand, we adhered to the Women's Empowerment Principles to define specific actions that allow us to practice gender equality in the institution and to be able to address the issue.

We have participated and will continue to participate in several initiatives to ensure that good practices in sustainability are carried out to help organizations and companies to address the issue.

See "Sustainability report" on p. 53 of our 2021 Annual report.

<https://www.bancohipotecario.com.sv/informacion-corporativa/gobierno-corporativo/memoria-de-labores-2021/>

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing the Principles for Responsible Banking

The Bank has made progress during the year in the implementation of the principles. In 2022 the work will continue and consider impact areas that have not yet been fully developed such as gender and climate.