

# Second-Party Opinion

## PAN Sustainable Financing Framework

### Evaluation Summary

Sustainalytics is of the opinion that the PAN Sustainable Financing Framework is credible and impactful and, with respect to the issuance of bonds, notes, loans and credit transactions, aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2021, Green Loan Principles 2023 and Social Loan Principles 2023. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Clean Transportation, Renewable Energy, Water Sanitation, Socio-economic Advancement and Empowerment, Autonomous Employees and Micro Enterprises Financing and Microfinance, and Affordable Housing – are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles, and Social Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to a positive environmental and social impact and advance the UN Sustainable Development Goals, specifically SDGs 1, 6, 7, 8, 10, and 11.



**PROJECT EVALUATION AND SELECTION** PAN’s funding team, in collaboration with the ESG Commission, will be responsible for evaluating and selecting projects. PAN’s internal environmental and social risk analysis process applies to all allocation decisions made under the Framework. Sustainalytics considers that the project selection process aligns with market practice.



**MANAGEMENT OF PROCEEDS** PAN’s Treasury Team will be responsible for the allocation and management of proceeds. PAN intends to allocate the bond proceeds within 36 months of issuance. The unallocated proceeds will be temporarily held in cash or cash equivalent instruments. This is in line with market practice.



**REPORTING** PAN commits to report on the allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include details of the list of portfolios financed by the loans and securities, including the description of the type of loans, the corresponding allocated amount, the quantity of loans per portfolio financed, average maturity, the allocated amount versus total amount, the proportion of new financing compared to refinancing and the amount of non-performing loans per portfolio. In addition, PAN intends to report on relevant impact metrics. Sustainalytics views PAN’s allocation and impact reporting as aligned with market practice.

### Alignment of Deposits and GICs with Market Expectations

The PAN’s Sustainability Financing Framework includes deposits as eligible financial products. Sustainalytics is of the opinion that the principles of impact and transparency that underlie the sustainable investment industry, as well as many of its norms and standards, are applicable to deposits, and that PAN’s internal processes and the use of funds aligns with those principles.



<b>Evaluation Date</b>	May 11, 2023
<b>Issuer Location</b>	São Paulo, Brazil

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## Introduction

Banco PAN (“PAN”, the “Issuer” or the “Bank”) is a Brazilian financial institution headquartered in São Paulo, Brazil. The Bank provides various banking services including credit, transactional, insurance, banking and investment services to personal clients. The Bank employs more than 2,892 employees and operates in Brazil. As of March 2023, the Bank held more than BRL 39.3 billion (USD 7.8 billion) in its credit portfolio and served more than 25.2 million clients across Brazil.<sup>1</sup> PAN is part of BTG Pactual’s Prudential Conglomerate, which maintains ownership of 72% of PAN’s total shares.

PAN has developed the PAN Sustainable Financing Framework, dated May 2023 (the “Framework”), under which it intends to issue sustainability bonds, notes, credit transactions, loans (including guarantee lines and letters of credit)<sup>2</sup> and deposits, and use the proceeds to finance or refinance, in whole or in part, existing or future assets that are expected to create a positive environmental and social impact in Brazil. The Framework defines eligibility criteria in six areas:

1. Clean Transportation
2. Renewable Energy
3. Water Sanitation
4. Socioeconomic Advancement and Empowerment
5. Autonomous Employees and Micro Enterprises Financing and Microfinance
6. Affordable Housing

PAN engaged Sustainalytics to review the PAN Sustainable Financing Framework, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), Social Bond Principles 2021 (SBP),<sup>3</sup> Green Loan Principles 2023 (GLP), and Social Loan Principles 2023 (SLP).<sup>4</sup> The Framework has been published in a separate document.<sup>5</sup>

### Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>6</sup> opinion on the alignment of the reviewed Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021, as administered by ICMA, and the Green Loan Principles 2023 and Social Loan Principles 2023, as administered by LMA, APLMA, and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.13, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of PAN’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. PAN representatives have confirmed (1) they understand it is the sole responsibility of PAN to ensure that the information provided is

<sup>1</sup> Banco PAN, “Financial Highlights Results 4Q22”, at: <https://ri.bancopan.com.br/default.aspx?linguagem=en>

<sup>2</sup> The Bank has communicated to Sustainalytics that it does not intend to issue revolving credit facilities under the Framework.

<sup>3</sup> The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

<sup>4</sup> The Green Loan Principles and Social Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at: <https://www.lsta.org/content/green-loan-principles/#> and <https://www.lsta.org/content/social-loan-principles-slp/>

<sup>5</sup> The PAN Sustainable Financing Framework is available on Banco PAN’s website at:

<https://ri.bancopan.com.br/show.aspx?idCanal=Nna6ZxvAEo6v+SkvmRm7Sg==&linguagem=pt>

<sup>6</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and PAN.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. Upon twenty-four (24) months following the evaluation date set stated herein, PAN is encouraged to update the Framework, if necessary, and seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that PAN has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the PAN Sustainable Financing Framework

Sustainalytics is of the opinion that the PAN Sustainable Financing Framework is credible, impactful and aligns with the four core components of the GBP, SBP, GLP and SLP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
  - The eligible categories – Clean Transportation, Renewable Energy, Water Sanitation, Socioeconomic Advancement and Empowerment, Autonomous Employees and Micro Enterprises Financing and Microfinance, and Affordable Housing – are aligned with those recognized by the GBP, SBP, GLP and SLP.
  - PAN has established a three-year look-back period for its refinancing activities, which Sustainalytics views to be in line with market practice.
  - Under the Clean Transportation category, the Bank may finance electric, hybrid, and non-motorized vehicles to low-income individuals.<sup>7</sup> Sustainalytics notes the following:
    - The financing to hybrid vehicles will be limited to vehicles that are below the 75 gCO<sub>2</sub>/km direct emissions threshold. The Bank intends to employ the New European Driving Cycle (NEDC) as a test procedure to determine whether vehicles are below the 75 gCO<sub>2e</sub>/km threshold. Sustainalytics considers best practice to be use of the World Harmonized Light-duty Vehicle Test Procedure (WLTP), as it replicates realistic driving conditions and yields more accurate emissions results.<sup>8</sup>
    - Sustainalytics considers this to be in line with market practice.
  - Under the Renewable Energy category, the Bank intends to provide financing for solar panels to private households. Sustainalytics considers investments in this category to be in line with market practice.

<sup>7</sup> PAN defines low-income individuals as those with a monthly income equal to or lower than the minimum wage.

<sup>8</sup> The NEDC test procedure, while still used worldwide, uses theoretical driving data, which can lead to material differences in terms of vehicles' CO<sub>2</sub> emissions compared to the WLTP.

Transport & Environment, "Mind the Gap 2016 – Report", at: <https://www.transportenvironment.org/discover/mind-gap-2016-report/>

- Under the Water Sanitation category, PAN may finance sanitation infrastructure for individuals to connect household sewage to the public sanitation grid. Sustainalytics considers this to be in line with market practice.
- In the Socioeconomic Advancement and Empowerment category, PAN may provide Motorcycle,<sup>9</sup> FGTS-backed financing,<sup>10</sup> and payroll loans<sup>11, 12</sup> to social-economically vulnerable populations. Sustainalytics notes the following:
  - PAN defines target populations based on income, or gender minorities, marginalized communities (black and Indigenous peoples) or victims of natural disasters.
  - Under the Socioeconomic Advancement and Empowerment category, PAN intends to provide financing for individuals residing in rural or urban regions with monthly incomes equal to or lower than Brazil's minimum wage. Sustainalytics notes that minimum wage in Brazil is c.25% higher than the per capita median income. To contribute meaningfully to financial inclusiveness, Sustainalytics considers it good practice for PAN to define a target population for low-income individuals, with an upper threshold at or below the median income of the region. Sustainalytics further notes that PAN will offer loans for these target groups, with delayed down payments, reduced interest rates and flexible restructuring options, which are financially beneficial for individuals who do not have cash readiness. Nevertheless, given the higher thresholds targeted, Sustainalytics encourages PAN to report on the positive social impact of financing loans allocated to below median income populations in Brazil.
- Under Autonomous Employees and Micro Enterprises Financing and Microfinance, PAN may provide financing to enterprises that have an annual revenue threshold below BRL 300,000 (USD 60,130). Sustainalytics considers the intent to increase access to financial services for micro, small and medium-sized enterprises (MSMEs) in a developing economy, such as Brazil, to be impactful and aligned with market practice.
- In the Affordable Housing category, PAN contemplates providing mortgage loans for urban and rural housing to low- and moderate-income individuals as defined previously. This financing is targeted at low-to-moderate income individuals and families, in accordance with Faixa 1, 1.5 and 2 of the "Minha Casa, Minha Vida" (MCMV) programme, administered by the Ministry of Cities, and the Brazilian federal government. Sustainalytics views the financing of affordable housing projects in Brazil on par with the level of affordability guaranteed by the referenced government programme to be aligned with market practice.
- Project Evaluation and Selection:
  - PAN's funding team, in collaboration with the ESG Commission will be responsible for evaluating and selecting eligible projects per the eligibility criteria defined in the Framework.
  - The Bank has established an Environmental and Social Risk Analysis Process to assess all credit operations, and to identify and mitigate any environmental and social risks associated with the eligible projects. For additional details, see Section 2.
  - Based on the established process for project selection and the presence of risk management processes, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - PAN's Treasury Team will be responsible for the allocation and management of the bond proceeds.
  - The Bank intends to achieve full allocation of bond proceeds within 36 months of each issuance. Unallocated proceeds will be temporarily held in cash or cash equivalent instruments in line with PAN's treasury management processes.
  - Instruments issued under the Framework may include multi-tranche loan facilities. The Bank intends to label only those tranches of such facilities whose proceeds will be allocated according to the eligibility criteria in the Framework. This is aligned with market practice.

<sup>9</sup> PAN confirmed to Sustainalytics that financing of motorcycles will be limited to those vehicles that are below the 75 gCO<sub>2</sub>/km direct emissions threshold.

<sup>10</sup> The Fundo de Garantia do Tempo e Serviço, (FGTS), is the Severance Indemnity Fund for employees created by the Federal Government in 1967 to protect workers terminated without a just cause.

<sup>11</sup> Payroll loans are a Brazilian government programme where financing is obtained from the individual's retirement fund and is paid in advance. The government covers financing for 70% of the upfront salary, and the Bank will cover the remaining 30%.

<sup>12</sup> The FGTS and payroll loans provide financing at approximately a 2% interest rate as established by the government.

- Based on the management of the bond proceeds and the disclosure on the temporary use of unallocated proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - PAN intends to report on the allocation and impact of proceeds on its website, on an annual basis, until full allocation.
  - Allocation reporting will include details of the list of portfolios financed by the loans and securities, including a description of the type of loans, the corresponding allocated amount, the quantity of loans per portfolio financed, the average maturity, the allocated amounts versus the total amount, the proportion of new financing compared to refinancing, and the amount of non-performing loans per portfolio.
  - The impact reporting is expected to provide category wide impact of the projects against respective key performance indicators, including i) avoided carbon emissions in tCO<sub>2</sub>, ii) annual renewable energy generation (in MWh or GWh), iii) increase of households with sanitation infrastructure access, and iv) number of loans provided to individuals in vulnerable communities.
  - Based on the Bank's commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

#### **Alignment of deposits and GICs with market expectations**

Sustainalytics is of the opinion that the Framework is credible and that the deposits will fund overall impactful social and environmental projects. Sustainalytics further notes the alignment of the Framework with the concepts underpinning the sustainable finance market, namely those of impact and transparency.

- Impact
  - The Framework will advance the sustainability objectives of the Bank by investing in projects with a positive environmental and social impact. Please refer to the Use of Proceeds criteria above for further information.
- Transparency
 

Transparency is recognized as a key principle with regards to sustainable finance, as it provides assurance that investments deliver a positive impact. Sustainalytics highlights the following elements of the Framework that facilitate transparency to clients:

  - Disclosures regarding management of proceeds
    - PAN will earmark the deposit proceeds separately from bond proceeds to avoid risks of double accounting. The Bank will ensure that the overall proceeds raised from green, social, and sustainable deposits do not exceed the amount that is available for investment that has not already been financed by another instrument.
    - PAN intends to allocate the proceeds towards eligible projects within 36 months of issuance.
    - Pending allocation, unallocated proceeds will be held in cash or cash equivalent instruments in line with PAN's treasury management processes. Sustainalytics considers this level of disclosure to investors as sufficient to ensure the credibility of the management of proceeds.
    - The Bank has informed Sustainalytics that fixed-term deposits with a term period of 1 month to 5 years will be financed under the Framework.
  - Reporting
    - PAN will provide consolidated annual allocation and impact reports. These reports will include environmental and social impact metrics and information regarding the proceeds of all sustainable financing instruments, including deposits, to ensure accurate funding and asset pool matching of funds.
    - PAN has confirmed to Sustainalytics its intent to ensure no double accounting across all allocation and impact reporting commitments made under the Framework.

#### **Alignment with Sustainability Bond Guidelines 2021**

Sustainalytics has determined that, with respect to the issuance of bonds, notes, loans and credit transactions, the PAN Sustainable Financing Framework aligns with the four core components of the GBP, SBP, GLP, and SLP. For detailed information please refer to Appendix 1: Sustainability Bond/ Sustainability Bond Programme External Review Form.

## Section 2: Sustainability Strategy of PAN

### Contribution to PAN's sustainability strategy

PAN's sustainability strategy focuses on the integration of climate change and natural resource management into its lending and operational practices. The Bank's actions are divided into two primary areas: i) decarbonizing its investment portfolio and operations, and ii) promoting the efficient use of energy and water resources.<sup>13</sup>

PAN has defined 10 material topics, including corporate governance and integrated risk management in its ESG strategy, and in 2021, the Bank incorporated an ESG Agenda into its Financial and Investor Relations Department. PAN implemented a programme to measure and report its scope 1, 2 and 3 GHG emissions in 2020, and it offset all its 2022 emissions through the purchase of carbon credits from the REDD+ Envira Project, which focuses on reducing emissions from deforestation and forest degradation of 39,301 hectares.<sup>14</sup>

In 2022, the Bank committed to measuring the carbon emissions of its active vehicle portfolio using the Partnership for Carbon Accounting Framework guidelines, reporting a total of 500 tCO<sub>2</sub>e for the year.<sup>15</sup> Additionally, to promote micro entrepreneurs and access to digital financial services for low-income and vulnerable populations, the Bank raised USD 150 million in 2021 by issuing a syndicated loan with the International Development Bank. In the following year, the Bank invested BRL 1.5 million (USD 300,000) in more than 17 projects that promote financial education, Brazilian culture, and health and sports.

The Bank joined the United Nations Global Compact in 2021 and is committed to the Ten Universal Principles of Global Compact<sup>16</sup> and the UN Agenda 2030.<sup>17</sup> In 2022, the Bank achieved the Gold Standard of the Brazilian GHG Protocol Program, and scored a B on the Carbon Disclosure Project Climate Resilience Index.<sup>18</sup> Furthermore, at the beginning of 2023, PAN has been selected to compose Brazil's B3 (Stock Exchange) Carbon Efficiency Index (ICO2 B3)<sup>19</sup> and the Corporate Sustainability Index (ISE B3),<sup>20</sup> demonstrating its commitment to foster a transition to a low-carbon economy and corporate sustainability.<sup>21</sup>

While Sustainalytics recognizes PAN's commitment to measure and report the GHG emissions for its operations, Sustainalytics encourages the Bank to assess and disclose sustainability information that is material to the Bank's investments. Sustainalytics also recognizes the Bank's commitment to integrating ESG-related considerations into its business strategies and investment in social projects, and encourages the Bank to set quantified, time-bound sustainability targets and provide robust reporting on its progress to further strengthen its sustainability practices.

### Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards financing loans to individuals or qualified MSMEs that are expected to have a positive environmental and social impact. However, Sustainalytics is aware that such eligible investments could also lead to negative environmental and social outcomes. Potential social risks associated with such investments include risks related to business ethics, predatory lending, and stakeholder and community relations.

Sustainalytics is of the opinion that PAN is able to manage and mitigate potential risks through the implementation of the following:

- The Bank has in place a Code of Conduct and Ethics, which applies to its employees, administrators, partners, and contracted third parties. The code provides guidance on the Bank's activities related to compliance with laws and regulations, business ethics, stakeholder engagement and community relations, corruption and bribery, money laundering, labour and human rights, occupational health and safety, and social and environmental issues.<sup>22</sup> The Bank operates a Reporting Channel that

<sup>13</sup> Banco PAN, "Annual Report 2022", at: <https://ri.bancopan.com.br/show.aspx?idCanal=Nna6ZxvAEo6v+SkvmRm7Sg==&linguagem=pt>

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> United Nations Global Compact, "The Ten Principles of the UN Global Compact", at: <https://unglobalcompact.org/what-is-gc/mission/principles>

<sup>17</sup> Banco PAN, "Annual Report 2021", at: <https://ri.bancopan.com.br/Download.aspx?Arquivo=Z8R/V7PqzF/AqGG5eEkwew=&linguagem=en>

<sup>18</sup> The PAN Sustainable Financing Framework is available on Banco PAN's website at:

<https://ri.bancopan.com.br/show.aspx?idCanal=Nna6ZxvAEo6v+SkvmRm7Sg==&linguagem=pt>

<sup>19</sup> B3, "Carbon Efficient Index (ICO2 B3)", at: [https://www.b3.com.br/en\\_us/market-data-and-indices/indices/sustainability-indices/carbon-efficient-index-ico2-b3.htm](https://www.b3.com.br/en_us/market-data-and-indices/indices/sustainability-indices/carbon-efficient-index-ico2-b3.htm)

<sup>20</sup> B3, "Corporate Sustainability Index (ISE B3)", at: [https://www.b3.com.br/en\\_us/market-data-and-indices/indices/sustainability-indices/corporate-sustainability-index-ise-b3.htm](https://www.b3.com.br/en_us/market-data-and-indices/indices/sustainability-indices/corporate-sustainability-index-ise-b3.htm)

<sup>21</sup> Banco PAN has communicated to Sustainalytics that the Bank is listed on both ICO2 B3 and ISE B3.

<sup>22</sup> Banco PAN, "Código de Conduta e Ética", at: <https://ri.bancopan.com.br/Download.aspx?Arquivo=OLMjKpxZ+GJAWsg4j+Ri7w==&linguagem=en>

allows its employees, suppliers, partners and third parties to report violations of guidelines, laws and regulations set in the Code of Conduct and Ethics and standards in a timely manner.<sup>23, 24</sup>

- Regarding predatory lending with respect to the Bank's customers and users, PAN has communicated to Sustainalytics that it prohibits the following practices in its lending activities: use of false claims, products that do not match the customer's profile, combined sales, and omission or imposition of difficulties for the full and complete understanding of the products and services.<sup>25</sup> In addition, the Bank establishes vulnerability scores for its customers and users based on their vulnerability characteristics, such as socioeconomic background, to prevent over-indebtedness when guiding its customers on the use of the Bank's products and services.<sup>26</sup>
- To further address risks related to predatory lending, PAN has communicated to Sustainalytics that it complies with Brazil's Law 4,595 (the "Law"), and the National Financial System, which establishes the Brazilian Central Bank (Banco Central do Brasil or "BACEN") as the supervising authority for financial institutions. The Law requires financial institutions to appoint an ombudsman and regulates its requirements including those related to the minimum standards for customer services. BACEN can receive and register complaints from customers dissatisfied with the financial institution.<sup>27</sup> Additionally, Brazil's Consumer Defense Code, (Código de Defesa del Consumidor or "CDC") prohibits financial institutions from charging customers higher interest rates than that stipulated by regulations or transferring deposit accounts without prior authorization from consumers.<sup>28</sup> The Bank also commits to preventing all forms of forced, child and slave labour and respecting human rights in accordance with the UN Guiding Principles on Business and Human Rights<sup>29</sup> in its value chain.<sup>30</sup>
- The Bank has in place an exclusive environmental and social risk analysis process for new clients, partners and suppliers to avoid engaging in high-risk relationships and contracts. The Bank evaluates new clients through identified exclusion factors, such as Child and Slavery Workforce and ESG filters, including legal processes such as violence against women and drug trafficking and embargoed areas. The Bank also monitors and reevaluates relationships with clients, suppliers and bank correspondents every 12 to 18 months.<sup>31</sup> The Bank's ESG Commission supports the board of directors in adopting and evaluating the Social Environmental and Climate Responsibilities Guidelines to identify and mitigate environmental and social risks.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that PAN has implemented adequate measures and is well positioned to manage and mitigate known environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

All six use of proceeds categories are aligned with those recognized by the GBP, SBP, GLP and SLP. Sustainalytics has focused on one below where the impact is specifically relevant in the local context.

#### Importance of socio-economic empowerment through financing MSMEs for economically vulnerable populations in Brazil

MSMEs in Brazil account for 98.5% of all legally constituted companies and 27% of the country's GDP.<sup>32</sup> Despite the important role that MSMEs play in supporting Brazil's citizenry and economy, these businesses

<sup>23</sup> Ibid.

<sup>24</sup> Banco PAN, "Código de Conduta e Ética para Fornecedores e Parceiros", at: <https://ri.bancopan.com.br/Download.aspx?Arquivo=mvzBM681tFtfhLTIP0nhrw==&linguagem=en>

<sup>25</sup> Banco PAN, "Código de Conduta e Ética para Fornecedores e Parceiros", at: <https://ri.bancopan.com.br/Download.aspx?Arquivo=mvzBM681tFtfhLTIP0nhrw==&linguagem=en>

<sup>26</sup> Banco PAN has shared its confidential document- "Política Corporativa: Relacionamento Com Clientes E Usuários De Produtos E Serviços" with Sustainalytics.

<sup>27</sup> Bonamin, A. et al. (2022), "Banking Regulation in Brazil: Overview", Thomson Reuters Practical Law, at: [https://uk.practicallaw.thomsonreuters.com/w-006-8837?transitionType=Default&contextData=\(sc.Default\)&firstPage=true#co\\_anchor\\_a735889](https://uk.practicallaw.thomsonreuters.com/w-006-8837?transitionType=Default&contextData=(sc.Default)&firstPage=true#co_anchor_a735889)

<sup>28</sup> Balduccini, B. et al. "Banking Laws and Regulations 2023: Brazil", Global Legal Insights, at: <https://www.globallegalinsights.com/practice-areas/banking-and-finance-laws-and-regulations/brazil>

<sup>29</sup> UNGC, "Guiding Principles for Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy', Framework", (2011), at: <https://unglobalcompact.org/library/2>

<sup>30</sup> Banco PAN, "Código de Conduta e Ética", at: <https://ri.bancopan.com.br/Download.aspx?Arquivo=OLMjKpxZ+GJAWsg4j+Ri7w==&linguagem=en>

<sup>31</sup> The PAN Sustainable Financing Framework is available on Banco PAN's website at: <https://ri.bancopan.com.br/show.aspx?idCanal=Nna6ZxvAEo6v+SkvmRm7Sg==&linguagem=pt>

<sup>32</sup> OECD, "Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard, Brazil", at: <https://www.oecd-ilibrary.org/sites/91ccd722-en/index.html?itemId=/content/component/91ccd722-en>

face several challenges given the conditions of the economic environment in which they operate. For instance, Brazil's insufficient integration into the global supply chain makes it challenging for many local SMEs in rural areas to participate in international trade and successfully scale their businesses.<sup>33</sup> The OECD cites a stark productivity gap between SMEs and large companies in Brazil, much of which has been attributed to limited innovation and export propensity among Brazilian SMEs.<sup>34</sup>

Meanwhile, Brazil's federal government has used loan subsidies as the main instruments to encourage SME development.<sup>35</sup> However, despite the efforts made, the share of SME loans in total business loans decreased from 55% in 2007 to 36% in 2018, underscoring the financial gap that Brazilian SMEs face. This gap can be attributed to a number of challenges such as receiving little public and private sector credit for long-term viability credit primarily because of high-interest rates, short loan maturities and a lack of property collateral or credit history, highlighting the unfavourable market conditions for such businesses in Brazil.<sup>36</sup>

In 2019, the Brazilian Ministry of Economy established the Under-Secretariat of Micro and Small Enterprises, which aims to improve the operating environment for SMEs by creating greater coordination for finance and credit access, among other measures.<sup>37</sup> Moreover, the Brazilian National Bank for Economic and Social Development, a federal public company associated with the Brazilian Ministry of Economy, spent 52% of its outlay on MSMEs in 2020, compared to 30.8% in 2016, which reflects that expanding MSMEs' access to credit is a new policy priority.<sup>38</sup>

Given the above-mentioned context, Sustainalytics is of the view that PAN's provision of financing to MSMEs in Brazil is expected to play a positive role in fostering economic and social development and contribute to socioeconomic empowerment in the country.

### Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the PAN Sustainable Financing Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Water Sanitation	6. Clean Water and Sanitation	6.b Support and strengthen the participation of local communities in improving water and sanitation management
Socioeconomic Advancement and Empowerment	1. No Poverty 8. Decent Work and Economic Growth 10. Reduce Inequalities	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new

<sup>33</sup> OECD, "SME and Entrepreneurship Policy in Brazil 2020", at: <https://www.oecd-ilibrary.org/sites/cc5feb81-en/index.html?itemId=/content/publication/cc5feb81-en>

<sup>34</sup> Ibid.

<sup>35</sup> OECD, "SME and Entrepreneurship Policy in Brazil 2020", at: <https://www.oecd-ilibrary.org/sites/cc5feb81-en/index.html?itemId=/content/publication/cc5feb81-en>

<sup>36</sup> Ibid.

<sup>37</sup> OECD, "Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard, Brazil", at: <https://www.oecd-ilibrary.org/sites/91ccd722-en/index.html?itemId=/content/component/91ccd722-en>

<sup>38</sup> Ibid.

		technology and financial services, including microfinance
	8. Decent Work and Economic Growth	8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all
	10. Reduce Inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
Autonomous Employees and Micro Enterprises Financing and Microfinance	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium sized enterprises, including through access to financial services.  8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all
Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums

## Conclusion

PAN has developed the PAN Sustainable Financing Framework under which it may issue sustainability bonds, notes, loans, credit transactions and deposits, and use the proceeds to finance eligible assets. Sustainalytics considers that the assets funded by the proceeds are expected to provide positive environmental and social impacts.

The PAN Sustainable Financing Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the PAN Sustainable Financing Framework is aligned with the overall sustainability strategy of the Bank and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 1, 6, 7, 8, 10, and 11. Additionally, Sustainalytics is of the opinion that PAN has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that PAN is well positioned to issue the specified sustainable finance instruments and that the PAN Sustainable Financing Framework is robust, transparent and, with respect to the issuance of bonds, notes, loans and credit transactions, in alignment with the four core components of the Green Bond Principles (2021), Social Bond Principles (2021), Green Loan Principles (2023), and Social Loan Principles (2023).

## Appendix

### Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

#### Section 1. Basic Information

Issuer name:	Banco PAN
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	PAN Sustainable Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	May 11, 2023
Publication date of review publication:	
Original publication date <i>[please fill this out for updates]</i> :	

#### Section 2. Review overview

##### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

##### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other <i>(please specify)</i> :                        |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

##### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

#### 1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories for the use of proceeds – Clean Transportation, Renewable Energy, Water Sanitation, Socio-economic Advancement and Empowerment, Autonomous Employees and Micro Enterprises Financing and Microfinance, and Affordable Housing – are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles, and Social Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to a positive environmental and social impact and advance the UN Sustainable Development Goals, specifically SDGs 1, 6, 7, 8, 10 and 11.

#### Use of proceeds categories as per GBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy   | <input type="checkbox"/> Energy efficiency   |
| <input type="checkbox"/> Pollution prevention and control  | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input checked="" type="checkbox"/> Clean transportation   |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management  | <input type="checkbox"/> Climate change adaptation   |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                             | <input type="checkbox"/> Green buildings   |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify):   |

If applicable please specify the environmental taxonomy, if other than GBPs:

#### Use of proceeds categories as per SBP:

- |   |  |
|---|--|
| <input type="checkbox"/> Affordable basic infrastructure  | <input type="checkbox"/> Access to essential services  |
| <input checked="" type="checkbox"/> Affordable housing  | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security  | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment                      |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify):   |

If applicable please specify the social taxonomy, if other than SBP:

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

PAN's funding team, in collaboration with the ESG Commission, will be responsible for evaluating and selecting projects. PAN's internal environmental and social risk analysis process applies to all allocation decisions made under the Framework. Sustainalytics considers that the project selection process aligns with market practice.

### Evaluation and selection

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives                                 | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available                | <input type="checkbox"/> Other (please specify):  |

### Information on Responsibilities and Accountability

- |   |   |
|---|---|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify):  |   |

## 3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

PAN's Treasury Team will be responsible for the allocation and management of proceeds. PAN intends to allocate the bond proceeds within 36 months of issuance. The unallocated proceeds will be temporarily held in cash or cash equivalent instruments. This is in line with market practice.

- |   |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify):  |

### Additional disclosure:

- |   |   |
|---|---|
| <input type="checkbox"/> Allocations to future investments only                             | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements                             | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements          |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify):  |

#### 4. REPORTING

Overall comment on section (if applicable):

PAN commits to report on the allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include details of the list of portfolios financed by the loans and securities, including the description of the type of loans, the corresponding allocated amount, the quantity of loans per portfolio financed, average maturity, the allocated amount versus total amount, the proportion of new financing compared to refinancing and the amount of non-performing loans per portfolio. In addition, PAN intends to report on relevant impact metrics. Sustainalytics views PAN's allocation and impact reporting as aligned with market practice.

##### Use of proceeds reporting:

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify):                 |

##### Information reported:

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Allocated amounts       | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input checked="" type="checkbox"/> Other (please specify): |   |
- List of portfolios financed by the loans and securities proceeds, including, the description of type of loans, the corresponding allocated amount (in R\$), quantity of loans per portfolio financed, average maturity;
- Refinancing vs. new financing;
- Amount of non-performing loans per portfolio (%);

##### Frequency:

- |  |                                      |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual       | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): |                                      |

##### Impact reporting:

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify):                 |

##### Information reported (expected or ex-post):

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings                         |
| <input type="checkbox"/> Decrease in water use              | <input type="checkbox"/> Number of beneficiaries                           |
| <input type="checkbox"/> Target populations                 | <input checked="" type="checkbox"/> Other ESG indicators (please specify): |

Increase of households with sanitation infrastructure access;  
Number of units financed/families supported;  
Number/volume of loans provided to target groups per type of loan;  
Number of loans provided to individuals in vulnerable communities;

**Frequency:**

- Annual  Semi-annual  
 Other (please specify):

**Means of Disclosure**

- Information published in financial report  Information published in sustainability report  
 Information published in ad hoc documents  Other (please specify):  
Annual reviews available on its website  
 Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)**

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- Consultancy (incl. 2<sup>nd</sup> opinion)  Certification  
 Verification / Audit  Rating  
 Other (please specify):

**Review provider(s):**

**Date of publication:**

**ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP**

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been

implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.

- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

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