

Procedures to Environmental and Social (E&S) Risk - Credit

Publication date: [May 26, 2021]

Summary

It provides environmental and social (E&S) guidelines for credit relationships and credit risk operations with Itaú Unibanco's clients in Brazil

1. Purpose

To provide environmental and social guidelines for credit relationships and credit risk operations with Itaú Unibanco's clients in Brazil.

The criteria of this Procedure are applied in our E&S risk assessment of clients, real estate collateral and credit risk operations, including project finance operations.

This document is a simplified version of the existing internal procedures.

2. Rules

2.1 List of Excluded Activities

Specific criteria must be met to keep on client and supplier relationships. In compliance with the principles set out in our Sustainability and Environmental and Social Responsibility Policy, especially the principle that addresses respect for and protection of human rights, the institution understands that the economic activities performed under the conditions described below are contrary to its principles and values:

- use of forced or compulsory labor;
- use of child labor in violation of legislation;
- encouragement and/or exploitation of prostitution, including child prostitution.

2.2 E&S Risk Assessment of Large Companies and Agricultural Producers

Based on relevance and proportionality principles, the E&S risk of Large Corporate clients is rated high, medium and low and directly affects their overall risk rating. This ranking process is based on the E&S impacts of the client's industry and takes into consideration sustainability parameters such as energy and water consumption, air emissions, and occupational health and safety (OHS) criteria for employees, as well as management criteria that can mitigate sectoral impacts.

Additionally, clients that operate in sensitive sectors are assessed by a specific E&S risk methodology.

2.2.1 Analysis of Sensitive Sector's Clients

Taking into account the significant E&S impact potential of these sectors, Itaú Unibanco has a specific methodology for clients of the sectors below, classified as Sensitive Sectors:

- Mining
- Steel Industry and Metallurgy
- Oil and Gas
- Chemicals and Petrochemicals
- Textile
- Pulp and Paper
- Wood
- Agribusiness – Pesticides and Fertilizers
- Agribusiness - Rural Producers
- Agribusiness – Slaughterhouses

Procedures to Environmental and Social (E&S) Risk - Credit

Publication date: [May 26, 2021]

- Energy
- Real Estate
- Arms Industry
- Tobacco Industry/Agribusiness - Tobacco

For clients that operate in the Arms and in the Tobacco/Agribusiness – Tobacco industries, we have specific rules for credit approval, such as restriction on some credit lines and senior-level approval.

For other sensitive sectors, an individualized E&S risk methodology is applied for credit granting and renewal, impacting the related decision-making and client risk rating. Consequently, it results in different E&S ranking of clients within the same sector.

2.3 Analysis of Credit Risk Operations

Operations in which Itaú is able to, previously and expressly, identify the borrower's purpose of the use of funds as having the potential to generate E&S impact are subject to E&S risk assessment. Additionally, an E&S risk assessment is also carried out for operations subject to these requirements, whether due to legal or funding requirements or voluntary agreements entered into by Itaú. The types of products and operations subject to E&S risk assessment and the related specific guidelines are described in internal procedures and manuals.

All loans and financing must include at least contractual clauses that require the compliance with E&S legislation.

2.3.1 Project Finance

Project finance, including bridge loans, is among the types of operations assessed by us. The E&S due diligence is based on international good practices guidelines and includes risk identification, measurement and mitigation steps. For long-term financing, the E&S risk is also monitored through a contractually defined Action Plan aimed at fostering the adoption of best practices by the client over the financing term.

In the event the operation fits the cutoff criteria set by the Equator Principles III, it will also have to comply with the International Finance Corporation (IFC) Performance Standards and the World Bank Group's Environmental, Health, and Safety (EHS) Guidelines. It is possible that the technical support of an independent consulting services is provided over the analysis and monitoring process.

2.4 Recognition of Real Estate Collateral

The acceptance of real estate mortgage and trust receipt as collateral in lending deals is preceded by an E&S due diligence process to identify any indications of contamination or forest liabilities, as described in internal policies.

In case of contamination or forest liability identification, the E&S Risk – Business department must carry out a risk assessment and/or request further information, which can include an investigation report.