

E&S Risk Mitigation in Project Finance - Case Studies 2025

This paper aims to inform and share knowledge about the social, environmental and climate due diligence adopted by Itaú Unibanco in the project financing process.

Itaú Unibanco Holding S.A.





Why do we do this?

For Itaú Unibanco, the customer is at the center of everything. A significant part of the value that our operations can bring to society - and, of course, to our clients - depends on our commitment to building a sustainable future through our business.

By including the social, environmental and climate dimensions in our risk management, we assume the role of agents of transformation, contributing to the revision of market practices, creating value for our current society and for future generations.

When it comes to project financing operations, where we know what and/or where our funds are going, our responsibility can be even greater.

For this reason, our socio-environmental due diligence is carried out prior to closing these transactions and we have a robust process for monitoring socio-environmental compliance throughout the duration of our contracts, which can even include on-site visits.

Since 2004 we have been a signatory to the Equator Principles - a set of guidelines and criteria aimed at identifying and assessing social and environmental risks and impacts in consultancy and project financing, bridge loans and project-related corporate guarantees.

In addition, even for project finance operations for which the Equator Principles are not mandatory, we carry out a socio-environmental due diligence that includes the phases of identification, mitigation,

management and monitoring of socio-environmental and climate risks ("SEC risks").

We understand that part of our role as agents of transformation is to share knowledge and good practices. To this end, we are sharing our practices and what we have learned from managing SEC risks in project finance operations.

How we do this?

Socio-environmental and climate risk management is applied to all project financing, including bridge loans, and begins before the deal is closed. The signing and disbursement of contracts are subject to a prior assessment of the topics related to the issue

In applying the Equator Principles, we are guided by the best practices in the international market and focus our efforts on engaging all stakeholders in a robust and transparent due diligence. In this sense, the analysis begins with the prior categorization of the project based on material and sensitive issues, such as its impact on traditional populations, climate change and human rights, in accordance with the IFC Performance Standards.

The analysis then progresses to a more in-depth and detailed level and, in addition to the impacts, we assess the management practices adopted to address these impacts. All of this is then compared to the standards set by IFC and local laws.

The categorization of the project can vary between high, medium or low risk. If gaps are identified between the impacts and the mitigating measures adopted, we demand improvements in the project's socio-environmental management system and an action plan can be drawn up to be included in the contract and monitored periodically throughout the duration of the financing.

In addition, socio-environmental and climate factors have a direct impact on the project's final risk rating, allowing for more accurate pricing, as well as for better capital allocation based on the risks identified or mitigants found.

To find out more about our socio-environmental and climate due diligence process and the number of project-related deals closed in the last year, check out the information available in our [ESG Report](#).



Case 1 – Social-Environmental and Climate Risk Assessment in Projects Near Sensitive Areas

One of the practices in the financial market for financing projects is to request bank guarantees. A Completion Guarantee Letter for projects ensures the completion of a financed project, especially in infrastructure or construction projects. If the borrower does not complete the work as agreed, the institution issuing the guarantee can choose between finishing the work or compensating the financier. Although the guarantee does not represent direct financing for the development of the project, it facilitates access to the resources needed to install the project.

Itaú's internal due diligence indicates that all operations linked to projects must go through a social, environmental and climate risk analysis, requiring, at the very least, that the project is in order with regard to environmental permits, impacts on sensitive areas and a review of judicial and administrative proceedings in socio-environmental matters. When carrying out the socio-environmental and climate risk analysis for the

issuance of an energy project bond, it was found that the project is located in a municipality where there are quilombola settlements that have not yet been recognized by the federal agency responsible, but that despite this, with a preventive approach, possible damage to these communities should be considered in our assessment, so that we could verify if the client had acted carefully in relation to the issue. After being asked about these possible impacts, the client informed us of the existence of a recommendation from the Public Prosecutor's Office to the environmental agency to consult the communities, even though there were no direct impacts according to the environmental studies.

In order to prepare the client for possible requests and to alert them to the necessity of considering possible extra costs related to the issue when allocating resources for the project, the client was asked to present a plan for dealing with this demand, and conversations were held with the aim

of sharing experiences about other projects that have gone through the prior consultation process, highlighting the history of the most common requests from affected communities in similar situations.

Given the client's willingness and commitment, as well as the condition precedent of meeting the environmental agency's demand for the issuance of the guarantee letter, there was comfort in proceeding with the operation.

In addition, Itaú recently renewed this guarantee letter and the status of compliance with the agreements made with the quilombola communities was checked again, ensuring that the project did not face the risk of delays and unexpected cost overruns due to possible complaints from the community.

Case 2 – Solutions to Enable Operations Related to Projects with Social and Environmental Issues

Itaú believes that one of the pillars of excellent ESG governance is the concept of relevance and proportionality in the ESG assessment of its operations. This means admitting that it is impossible to apply the same evaluation criteria to every sort of operation. Therefore, the ESG assessment strategy must be proportional to the respective associated risks or exposure.

For more complex operations, Itaú's ESG analysis is very wide and approval depends on a positive evaluation in all aspects evaluated. The following example shows a highly complex case in which the ESG issue was assessed from several different perspectives, which required adjustments to the structure of the operation in order to meet all the ESG criteria examined.

The operation in question needed to be directed towards certain specific investments focused on efficiency and reducing greenhouse gas emissions, as required by the funding, which required an assessment of a range of good ESG practices from the borrower.

In addition, the operation had to follow ESG internal governance criteria.

The project structured with the client met the funding requirements because, first of all, the client really had a range of good ESG practices that are even disclosed in its annual report. For example, its social inclusion policies. In addition, the proposed project met the framework criteria required by the funding, since it involved replacing a painting process in its production that consumed a lot of fossil fuels.

The solution was to replace the paint applicators with more efficient equipment that could be powered by renewable energy. The proposed change would result in a 25% saving in energy consumption and the use of 100% renewable energy to run the process, which is particularly impressive considering that this process accounted for around 95% of the emissions from the factory that will receive the project.

Although the funding criteria were met and the operation had a clear ESG

appeal, there was also a need to meet the internal criteria for approving the operation. In general, the criteria were satisfactory. However, one of the criteria evaluated presented the point of concern that resulted in a change in the structure of the operation: in order to finance a project, the bank's ESG criterion is the requirement for an environmental permit. In this case, the factory had the appropriate environmental licenses to operate. However, it would be necessary to obtain a specific environmental license to replace the painting process. However, it would be necessary to obtain a specific environmental license to replace the painting process.

In order to solve this issue, we had to ask for all the costs associated with implementing the operation to be opened up. With this information, we separated the costs that depended on the environmental permit (for example,

the work to adapt the painting area) from the costs that did not depend on this document (for example, the

purchase of new equipment). So, in order not to renounce the bank's ESG criteria and to find a solution compatible with the scenario identified, we proposed splitting the operation in two. The part that does not depend on licensing can be financed immediately. The part that depends on the license is subject to the presentation of this document.

This shows Itaú's diligence when it comes to analyzing socio-environmental risks, in order to ensure that the bank's internal governance and public commitments are respected but also acting to guarantee the viability of financial operations with a positive ESG perspective by supporting the client in the search for a suitable solution.

Case 3 – Engaging Clients to Access Credit Lines for Sustainable Projects

Despite the notable progress made in terms of coverage of sanitation sector activities in recent years, when Brazil reached, by 2023, the mark of around 85% of households with access to the general water supply network and 70% of sewage disposal being done by the general network; the universalization of sanitation services still has room for new investments and is one of the main pillars of infrastructure that directly impacts the economy, public health and the management of natural resources.

In this sense, Itaú plays an important role in the financing of sanitation projects, observing compliance with the targets established by the new Sanitation Legal Framework; enabling the granting of credit through financial instruments that use its own funding, capital markets or specific fundings aimed at sustainable projects; as well as monitoring the management and performance of the sanitation companies of which it is a lender.

Therefore, we highlight below a practical case of Itaú's work as a financial institution that also assumes the role of ESG advisor in the process of supporting and engaging a large Brazilian sanitation company to access a line of credit granted under a program that incorporates climate, environmental, social and governance criteria, providing resources to finance sustainable projects.

During the client engagement process, Itaú played a key role in presenting not only the concept and financial conditions of this new credit line, but also the requirements needed to access it. In this way, the engagement of the commercial, credit, risk and legal areas that deal with ESG issues at the bank - from the very first conversations with the company - was crucial to building the client's engagement as a potential candidate for borrowing these financial resources.



Initially, the company was presented with the program's prioritization criteria that must be met by the projects selected to receive the financial resources raised: at this point, Itaú supported the company in the process of identifying these criteria and their respective indicators and calculation methodology for monitoring their progress.

A practical example of a prioritization criterion is the potential reduction in income inequality from the implementation of the projects, which can be measured by the number of beneficiaries registered with the Social and Vulnerable Tariff in the areas where the program is implemented.

Immediately after evaluating the prioritization criteria, culminating in the choice of the selected projects, Itaú began the risk analysis by combining the topics already usually considered by the bank in project financing operations with the topics required by the program as indispensable in this evaluation, such as, for example, the regularity of environmental permits, the assurance of not causing damage to the ecological conditions of water bodies and the

assurance of not violating the rights of traditional communities, among others.

After completing the previous stages, Itaú did not identify any relevant gaps related to the ESG and socio-environmental and climate risk issues assessed in the projects, but only the non-applicability of some of these items, formally declared by the company and technically consistent with the installation sites and the activities to be carried out in their implementation

Finally, with regard to monitoring the performance and socio-environmental management of the projects, for each of the aspects considered in the risk analysis prior to signing the contract, a formalized contractual monitoring plan was drawn up, which must be reported on annually by the client in order to guarantee that the indicators defined by Itaú and the company - directly aligned with the specific ESG requirements of the credit line taken out - are met until the operation matures, and there are even penalties that can be applied to the company in the event of non-compliance with the monitored items.

