2023

Report on Social, Environmental and Climate Risks and Opportunities | GRSAC Report

Purpose

In recent years, society as a whole has become acutely aware of the social, environmental and climate challenges facing this and future generations. In the corporate world, this has given rise to an urgent need to integrate Environmental, Social and Governance (ESG) issues into planning and risk management in order to build sustainable and resilient businesses.

In Itaú Unibanco, we recognize the influence our business have on businesses in almost every sector of the economy, and on the lives of our millions of clients. The journey towards a more sustainable business and supply chain started over 20 years ago and into the future.

This document brings together the information and disclosures regarding Itaú Unibanco required by the Central Bank of Brazil (BACEN) through the following regulations: (i) Resolution No. 139 of the Central Bank of Brazil, of September 15, 2021, which requires the disclosure of a Report on Social, Environmental and Climate Risks and Opportunities (GRSAC Report); and (ii) Regulatory Instruction No. 153 of the Central Bank of Brazil, of September 15, 2021, which sets the standard tables for the purposes of the disclosures in the GRSAC Report.

GVR Table

Governance in the management of social risk, environmental risk, and climate risk

Itaú incorporates Social, Environmental and Climate Risk management into an integrated and cross-cutting governance structure, and different aspects of the issue are addressed at different levels of authority (strategic, tactical, operational, controls and compliance). At the Board of Directors level, the topic is addressed by the Risk and Capital Management Committee (CGRC), the Environmental, Social and Climate Responsibility Committee, and the AuditCommittee (CAud). At the executive level, joint bodies are established with the participation of the Chief Executive Officer (CEO) and the Chief Risk Officer (CRO), who are represented by the Superior Environmental, Social and Climate Risks Committee (Superior CRSAC) and the Superior ESG Council. To complete our organization in this area, we have other board-level committees such as the Social, Environmental and Climate Risks Committee (CRSAC), the **Itaú BBA ESG Committee**, which includes the CEO of Itaú BBA, and the Itaú BBA Products Committee.

The Board of Directors and the Executive Committee oversee through Committees which meet regularly to discuss, provide guidance and made decisions about social risk, environmental risk and climate risk, taking into account its potential impact, risk management and business opportunities. The Board of Directors is responsible for establishing the guidelines, policies and authority levels for the management of risk and capital, approving risk appetite limits, reviewing risk appetite metrics, including those that monitor the concentration of the Company's loan portfolio in industries with high levels of Environmental, social and climate risks.

The Risk Management and Capital Committee (CGRC) is responsible for supporting the Board of Directors in the discharge of the above responsibilities with respect to the management of risks and capital. The matters discussed by the CGRC, including the risk appetite metrics, the work, discussions, resolutions and recommendations, are reported by its chair to the Board of Directors. The CGRC also coordinates its activities with the Social, Environmental and Climate Responsibility Committee, which meets at least three times a year, with the participation of some Board members, and has the mandate is to oversee any actions related to the implementation of the Social, Environmental and Climate Risk Policy (PRSAC). The guidelines of the PRSAC are based on our ESG strategy, which is made up of positive impact commitments, each of which has Social, Environmental and climate targets which are regularly monitored by the Board of Directors.

Lastly, the Audit Committee is responsible for overseeing internal control and risk management processes, the activities carried out by the Internal Audit function, and the activities of the Conglomerate's independent auditors. It reports directly to the Board, meets at least quarterly, and social, environmental and climate issues are discussed at least twice a year.

At the Executive Committee level, the Superior Social, Environmental and Climate Risk Committee (Superior CRSAC) is responsible for assessing and resolving on matters that required to be submitted to the Executive Committee due to their complexity and materiality, particularly those associated with reputational risk. The Chief Risk Officer (CRO) is responsible for the risk structure, for the integration of Social, Environmental and Climate Risks into the institution's global risk management framework, for setting the Social, Environmental and Climate Risk Policy, and for liaising with regulators.

At the Executive Committee level, the Superior ESG Council, which is held three times a year, is responsible for monitoring the work of the bank in relation to the main ESG and climate requirements of the market, regulators and civil society. It is also responsible for approving the projects and resources necessary to address priority gaps in the effectiveness of the PRSAC, including recommendations for improvements, and these matters may be submitted to the Board of Directors where required. Meanwhile, the Itaú BBA ESG Committee, which operates at a more tactical level, is responsible for: (i) implementing industry decarbonization strategies and action plans; (ii) ensuring and monitoring the achievement of the target of granting R$400 billion in financing to positive impact industries by 2025; and (iii) monitoring and resolving upon Itaú BBA's ESG and climate matters. It meets every quarter and can submit matters to the Superior ESG Council where required.

At the Board of Officers level, the forum that is part of Itaú Unibanco's Social, Environmental and Climate Risk governance is The Social, Environmental and Climate Risk Committee (CRSAC), which is composed of departments and employees that are specialized in social risk, environmental risk and climatic risk, with its main duties being to resolve upon institutional and strategic matters, the institution's public positions and commitments/pacts assumed, as well as the reputational risk associated with social, environmental and climate events involving clients, products, services and operations. It is also responsible for: (i) recommending roles and responsibilities for the management of social risk, environmental risk and climatic risk; (ii) monitoring compliance with the policies and procedures related to Social, Environmental and Climate Risk management; and (iii) submitting resolutions to the executive level, when required.

Product governance takes place through specific forums responsible for assessing different aspects of products, based on specific criteria that may lead to the assessment of Social, Environmental and Climate Risks, such identifying greenwashing risks or factors that indicate the need to establish product-specific due diligence processes.

The Board of Directors receives information about social risk, environmental risk and climate risk through reports as a result of the committees' responsibilities. For example, the Social, Environmental and Climate Risk appetite metrics are periodically monitored, and reported to the Board of Directors, which recommends preventive measures to be taken to ensure that exposure remains within the limits established and in line with the bank's strategy.

In line with our Directors' Compensation Policy, environmental, social and governance issues affect the remuneration of Directors and employees involved in activities, businesses and commitments related to the ESG agenda, through performance indicators, projects and initiatives included in the individual performance criteria. The themes connect to our ESG strategy, which is represented by the Positive Impact Commitments.

In 2023, the CEO was assessed by a 5% weight objective for ESG and climate issues, the result of which impacted his variable compensation. This objective was linked to the metric of financing R$400 billion for sustainable development, including sectors with a positive impact on the climate. For the 2024 evaluation cycle, not only the CEO, but also the executives who have greater responsibility for implementing the sustainability strategy, dedicated a weight of 5% to objectives linked to social, environmental and climate challenges.

These objectives were defined according to the accountability of each area, duly broken down from the executive level to the managerial and operational levels.

Itaú BBA's CEO also has his target linked to the R$400 billion financing metric for sustainable development, as well as including the challenge of defining sectoral decarbonization objectives.

The challenge of engaging and training teams in relation to the climate strategy is also reflected in the targets contract of the Wholesale commercial directors and our CSO, who also has the challenge of acting on the advocacy agenda, positively influencing climate policies, as well as acting on the evolution of the net zero agenda by establishing sectoral decarbonization objectives.

These challenges are reflected in the objective contracts of employees from the most diverse teams and monitored through performance indicators, implementation of projects and initiatives defined in the individual objective contract at various hierarchical levels.

EST Table

Strategies for handling social risk, environmental risk and climate risk

Social, environmental and climate risks represent the possibility of losses arising from social, environmental and climate events related to the institution's operations, whether they arise from dealings with counterparties or from relationships with suppliers, or are linked to the transition to a low-carbon economy, or to physical changes in weather patterns. These risks have the potential to materialize through traditional risk, such as credit, market, liquidity and operational risks, which may lead to possible financial losses and reputational damage.

Itaú Unibanco's Social, Environmental and Climate Risk management strategy was initiated through credit risk management, taking into consideration the likelihood of materialization of various risks, but has since expanded, including into the more traditional risk, as well as in capital management, with exercises integrated with other traditional risk and stress tests. In addition to the possible materialization of traditional risks, the internal assessment methodology for credit risk also takes into account the potential reputational impact of Social, Environmental and Climate Risks. Accordingly, in 2023, as part of the continuous improvement of the methodologies and seeking to provide more clarity on the process of rating of Reputational Social, Environmental and Climate Risks, objective criteria for identifying and measuring Reputacional Social, Environmental and Climate Risks were defined and incorporated into our procedures, in accordance with the principles of materiality and proportionality.

Different methodologies and tools, based on international and national best practice, are used to identify, measure, assess, monitor and disclose Social, Environmental and Climate risks in credit management, also incorporating governance management framework, such as the existence of a Board of Directors, independent auditors, among others, in the management of our clients' business.

These methodologies comply with the main rules on corporate governance and Social, Environmental and Climate risk management, with the principles of relevance and proportionality, and with market best practice, including:

- Bank Self-regulation System (SARB) No. 14/2014 and No. 26/2023, of the Brazilian Federation of Banks (FEBRABAN);
- The Equator Principles on financial support to projects;
- The Performance Standards of the International Finance Corporation (IFC), which is the private arm of the World Bank Group;
- IFC's Practical Guide to Corporate Governance;
- The World Bank Group's Environmental, Health, and Safety (EHS) Guidelines.

The climate risk management framework is based on a methodology supported by reports and documents from Standards-setting orgs such as the Financial Stability Board (FSB), the World Economic Forum, the International Monetary Fund, the Bank for International Settlements (BIS), and the Network for Greening the Financial System (NGFS), among others.

Additionally, the analysis of social, environmental and climate risks takes into account the industry, size and region of the analyzed client. With respect to products, the analysis of social, environmental and climate risks takes into account, for example, the term of the operation. The different analyses are presented below.

Client Social, Environmental and Climat analysis

The Social, Environmental and Climate Risk management strategy involves the assessment of clients and the use of Social, Environmental, climate and governance information when approving and renewing credit limits and maintaining clients relationships.

The assessment of clients places a significant weighting on the Social Risk dimension, which includes priority topics regarding the protection of human rights, including the rights of indigenous peoples. For example, Itaú Unibanco has a List of Excluded Activities which go against the bank's principles and values, including the use of compulsory labor, the use of child labor in violation of legislation and and exploitation in the form of prostitution.

Accordingly, we check potential counterparties against the Register of Employers that have subjected workers to compulsory labor (as established by Interministerial Administrative Rule MTPS/MMIRDH No. 4 of November 5, 2016) and/or that have received negative coverage in the media, based on monitoring and subsequent assessment by specialized teams. Such findings may result in the impediment of access to new credit, contracting and/or renewing suppliers, contracting insurance, and consequent systematic blocking of corporate and individual in any of the segments served by Itaú Unibanco.

Industry categorization

categorization process, which takes into account the risks inherent in the economic sectors in which clients operate, and industries may generate negative impacts on society, environment and the climate. To this end, sustainability parameters, such as the consumption of energy and water, in addition to deforestation risk, the level of air emissions, risks to employees' health and safety, and the risk of disasters, among others, are taken into account.

Individual Categorization

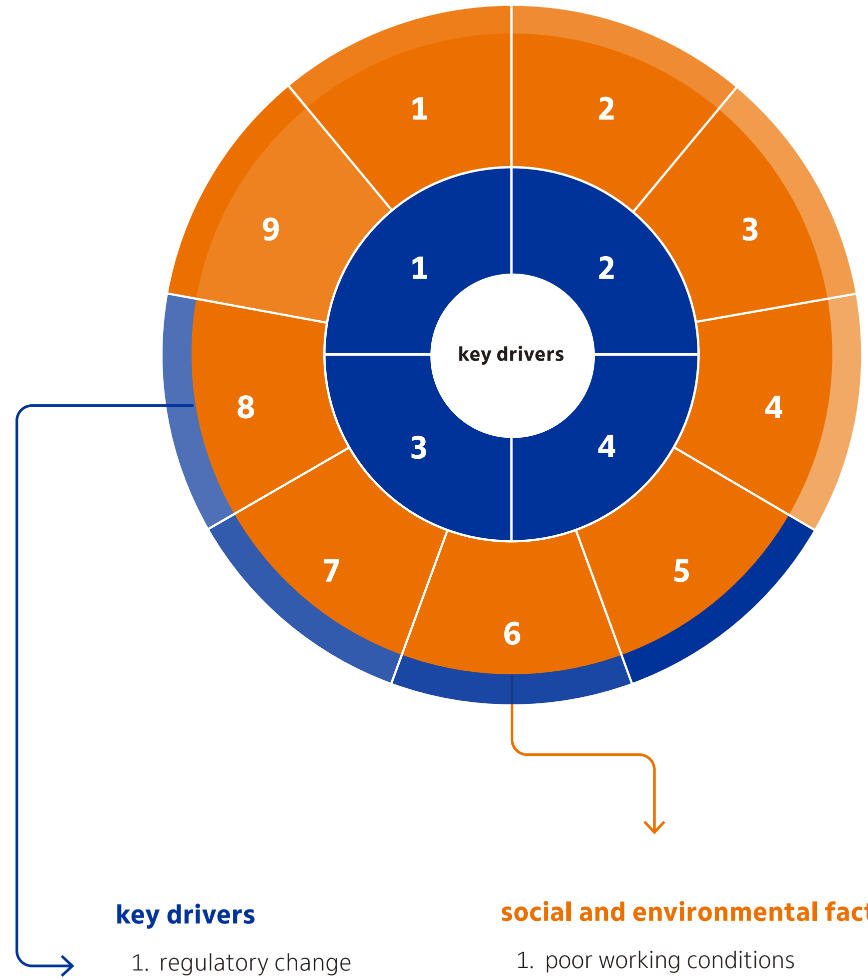
For large clients, in addition to industry risks, individual risks are taken into consideration, such as inclusion in sustainability indexes, which may indicate the adoption of management practices to mitigate risks, as well as the client's sensitivity the physical and transition effects of climate change. These factors can positively or negatively impact the industry-based risk categorization initially proposed.

The risk categorization resulting from this analysis is included in the calculation models of the credit risk rating for the clients assessed, serving as a basis for capital pricing and allocation.

Sensitive industries

As mentioned above, for large companies, the industry in which they operate is an important factor in defining the scope and coverage of the Social, Environmental and Climate Risk analysis. Accordingly, sensitive industries are those that are more likely to represent material Social, Environmental and Climate Risks, and therefore, based on the relevance and proportionality criteria, clients from these industries are subject to individual analysis, and the results, as well as the results of the Individual Categorization set out in item 1.1.2 above, are used as inputs for the social, environmental and climate variable in the calculation of the client's credit risk rating, thus enabling more accurate capital pricing and allocation.

For these cases, the analysis includes social factors, such as impacts on traditional communities, occupational health and safety and supply chain management, and environmental factors, such as the occurrence of deforestation, embargoes and environmental assessment notices, water consumption and good management practices, use of hazardous materials, the physical risks of structures (dams), overlapping with and/or proximity to conservation units, waste management, and physical and transition climate events, such as climate sensitivity, susceptibility to water shortages in a future climate scenario with high emissions, an assessment of the volume of greenhouse gas emissions and the financial capability to offset these emissions via carbon credits, emissions reduction and/or Net Zero policies and practices. Additionally, the methodology used also addresses governance aspects, such as the independence and diversity of the Board.



key drivers

1. regulatory change
2. technological change
3. litigation trends
4. operational and market barriers

social and environmental factors

1. poor working conditions
2. solid waste
3. air emissions
4. hazardous materials and pesticides
5. climate change
6. effluents
7. consumption of natural resources
8. contamination of water or soil
9. health and safety issues

Product Social, Environmental and Climate analysis

The Institution's strategy also provides for the management of the Social, Environmental and Climate Risks for its products at all stages of governance, from the conception of new products to their renewal and their management. In these cases, the due diligence procedures, and the events which entail Social, Environmental and Climate Risks to be addressed are defined in accordance with the specific characteristics and the structure of the product/operation, for example, the geographical region.

The product social, environmental and climate analysis covers the same types of events as the client analysis, including the list of excluded activities, for example, impacts on traditional communities (social), deforestation and pollution (environmental) and the volume of air emissions (climate).

In addition to these events, the product analysis may also, based on relevance and materiality criteria, include other aspects such as the maturity of the project licensing process, the existence of a Biosecurity Quality Certificate, indications of soil contamination and, for more complex transactions, the criteria of the Equator Principles, as traditionally happens with long-term project finance transactions (Project Finance).

For both client and product analyses, the identification of risk events is based on publicly available information disclosed by clients, the media or available in databases provided by public bodies and/or relevant institutions such as the Brazilian Institute for the Environment and Renewable Natural Resources (IBAMA), the "Register of Employers that have subjected workers to compulsory labor", the Adapta Brasil platform of the Ministry of Science, Technology and Innovation (MCTI), the Chico Mendes Institute for Biodiversity Conservation (ICMBio), and the National Mining Agency, among others, as well as data provided directly by the clients themselves or by contracted third parties.

Due to the risk of loan losses arising from social, environmental and climate events in relation to both clients and products, as described above, Itaú Unibanco has developed an internal process to identify losses based on aspects such as: embargoes imposed by IBAMA, compulsory labor, child labor and prostitution, extreme environmental events/disasters, non-compliance with contractual environmental and social obligations, as well as individual assessments of Social, Environmental and Climate Risks. In 2023, no loan losses related to social, environmental and climate events were identified.

Analysis of scenarios

Itaú carries out scenario analyses for both physical risks and transition risks, to assess the resilience of your clients' businesses and the possible impacts, including physical damage, associated with climate risks. These analyses are based on the various international frameworks which encourage scenario analyses, such as the Task Force on Climate-Related Disclosures (TCFD) and, more recently, the International Financial Reporting Standards (IFRS).

For the physical scenario analysis, Representative Concentration Pathway (RCP) scenarios developed by the Intergovernmental Panel on Climate Change (IPCC) were analyzed to map their potential impacts on the bank's portfolio and serve as a basis for building the macroeconomic scenarios used in the stress tests.

For the transition scenario analysis, the various Network for Greening the Financial System (NGFS) scenarios were analyzed and assessed in order to understand the particularities of each one, the possible variables, and those scenarios with narratives which best fit the current and future outlook in Brazil. These scenarios are then used as a basis for building internal scenarios for use in the bank's stress test exercises.

Assessment of resilience to physical risk

For the analysis of the physical risk scenarios, three different exercises were carried out to map the impacts of physical risks on the loan portfolio and stress test projections.

In the first exercise, the physical risks were mapped based on scenarios adapted to the characteristics of the regions in which the bank operates. These analyses took into consideration the conclusions of the IPCC, disclosed through RCP Scenario 8.5, which was treated as a pessimistic scenario, and RCP Scenario 4.5, which was treated as a optimistic scenario, based on the projections of widely-used tools such as Adapta Brasil, developed by the Ministry of Science, Technology and Innovation (MCTI), and the Climate Change Knowledge Portal (CCKP), presented by UNEP-FI's Working Group on TCFD, of which Itaú has been a member since 2018.

Based on the physical risk rating indicated by the Adapta Brasil methodology, individual Brazilian municipalities can be rated as very low or very high risk for different climate events. These ratings allow an assessment of the distribution of the loan portfolio across the locations indicated by the respective risk levels for the different climate events. Comparing the images below, one can see the changes in risk levels between the current scenarios and the pessimistic and optimistic scenarios for 2030, indicating a change in behavior concentrated in the Southeast and Northeast regions, and obtain insights for climate risk management.

IPCC scenarios evaluated

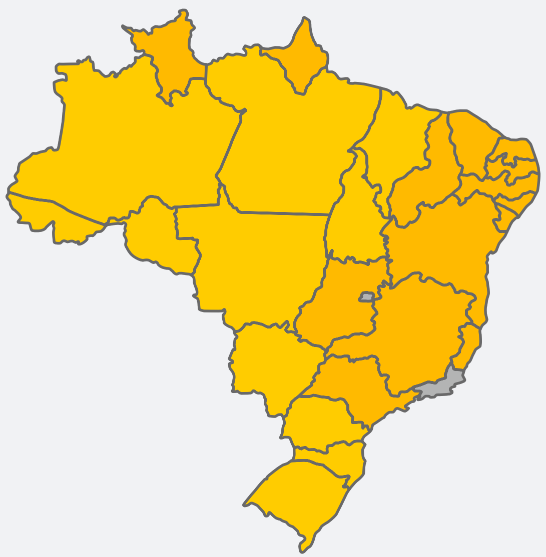
RCP 8.5

- Temperature up to 5º C
- High CO_2 emissions

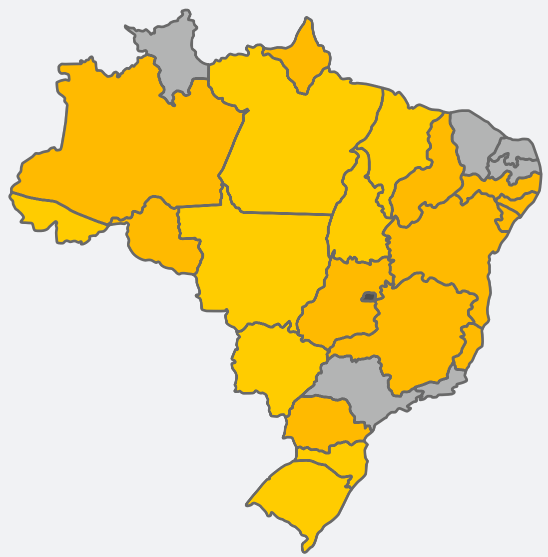
RCP 4.5

- Temperature up to 3º C
- Medium CO_2 emissions

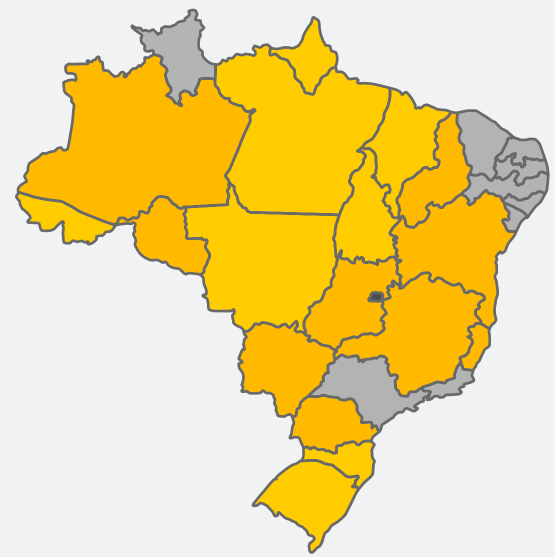
Current



RCP 8.5
2030 (pessimistic)



RCP 4.5
2030 (optimistic)



Assumptions

- Physical risks taken into consideration:

Risk of drought
Risk of flood
Risk of landslide
Risk of intense rain

Scope: All operations of the bank's credit in Brazil vision.

Very low
Low
Medium
Low
High

Additionally, two exercises were developed to assess the impacts of extreme physical risk events from two additional perspectives. The first, based on academic studies and on the assessment of certain recent events, studied the impact of intense rains on the bank's loan portfolio.

In another approach, based on the RCP scenarios for the risk of drought, the impact of a water restriction scenario was replicated, inspired by an event that happened in 2000, and the impact was simulated for the economy as a whole as well as through macroeconomic projections, and the potential impacts on the bank's balance sheet were analyzed. Both studies were developed as part of Itaú Unibanco's Stress Test program, under which ongoing studies are conducted, seeking to expand the stress testing approach to incorporate climate aspects.

*Risk map for drought for 2030.
Balance sheet stress tests are tools to assess and measure potential risks to the financial system and institutions, which are widely recognized and extensively used by the industry, the market and regulators.

Assessment of resilience to transition risk

For the purpose of the analysis of transition scenarios, the four NGFS scenarios were used, based on the latest report disclosed by this body as part of Phase IV. These scenarios are based on estimates of how the transition to a low-carbon economy will unfold, how this affects the concentrations of greenhouse gases in the atmosphere, and what impacts the greenhouse gas concentrations will have on variables such as GDP and carbon prices.

In general, in line with the benchmarks carried out and the best practices reported by the main oversight bodies, a number of transition scenarios were analyzed for use in the stress tests, based on two approach.

The first approach, named bottom-up, studied the potential impact on the credit assessment of clients from carbon-intensive industries which are significant to the bank's loan portfolio, in carbon pricing scenarios. Some pricing, fees and offsetting scenarios, as well as a potential impact interval, were assessed.

On the other hand, under the top-down approach, expected additional shocks to the economic indicators under a scenario involving a transition to a low-carbon economy were incorporated into the physical climate risk scenarios previously mentioned. Once this effect was incorporated, the potential impacts were studied as part of Itaú Unibanco's current Stress Test program.

The results of the climate stress testing are part of the capital adequacy and sufficiency (ICAAP) exercise, and no material impacts on Itaú Unibanco's capital planning and adaptive capacity were identified in addition to those already in place as part of the proper management of the Social, Environmental and Climate Risks.

GER Table

Environmental risk, social risk and climate risk management processes

Undertaking and managing risks is the essence of Itaú Unibanco's activities, and is the responsibility of all employees. The bank's risk appetite defines the nature and the level of acceptable risk, and the risk culture guides the strategic management initiatives and tools to mitigate risk and generate opportunities. The organizational risk management structure complies with the applicable Brazilian and international regulations, and is aligned with market best practice. The risk management model consists of three lines of governance: the business areas bear primary responsibility for risk management (identification, assessment, control and reporting), are tracked by the risks area, which assesses risks according to the established policies, procedures and risk appetite. Finally, the third line of governance is the internal audit function, which performs an independent assessment and reports to the Board of Directors.

Social, Environmental and Climate Risk management is part of this risk management framework of the bank, and is carried out based on the same model applied to business risks, in an integrated, cross-cutting manner, based on the three lines of defense strategy, on executive responsibility, and on the management process.

Business units manage the Social, Environmental and Climate Risks inherent in their activities based on the applicable internal policies, with specialized support from the risk and legal offices, based on management best practice across the different dimensions on which Social, Environmental and Climate Risks may materialize.

Additionally, Social, Environmental and Climate Risks are subject to assessment and monitoring actions, as part of the internal mapping of processes, risks, controls, the monitoring of regulatory updates and the recording of occurrences in internal systems. Following the risk identification process, the next stages are prioritization, risk response, monitoring and reporting, completing the risk management at Itaú Unibanco. In 2023, the Integrated Social, Environmental and Climate Risk View Panel tool was created to help manage Social, Environmental and Climate Risks based on data, and reports periodically to the Social, Environmental and Climate Risk Committee (CRSAC).

Finally, acting in independently, the internal audit team assesses the risk, control and governance management environment.

Itaú has a structured process, based on the principle of relevance, to identify, on a timely basis, any policy, legal or regulatory changes that may impact the transition climate risk of the Financial System. Also seek to contribute to debates on bills at the federal, state and municipal levels, and respond to notices for public consultation on the climate agenda. More specifically, legislative proposals are monitored, analyzed and, based on the probability of approval and an analysis of the financial and reputational risks, strategies are developed within the scope of the legislative process. With respect to changes in policies, we identify, capture, analyze, indicate the matter (for example, in terms of its Social, Environmental and Climate Risks) and report them to the departments to act on regulatory compliance, as well as on monitoring the implementation of action plans.

Credit Risk

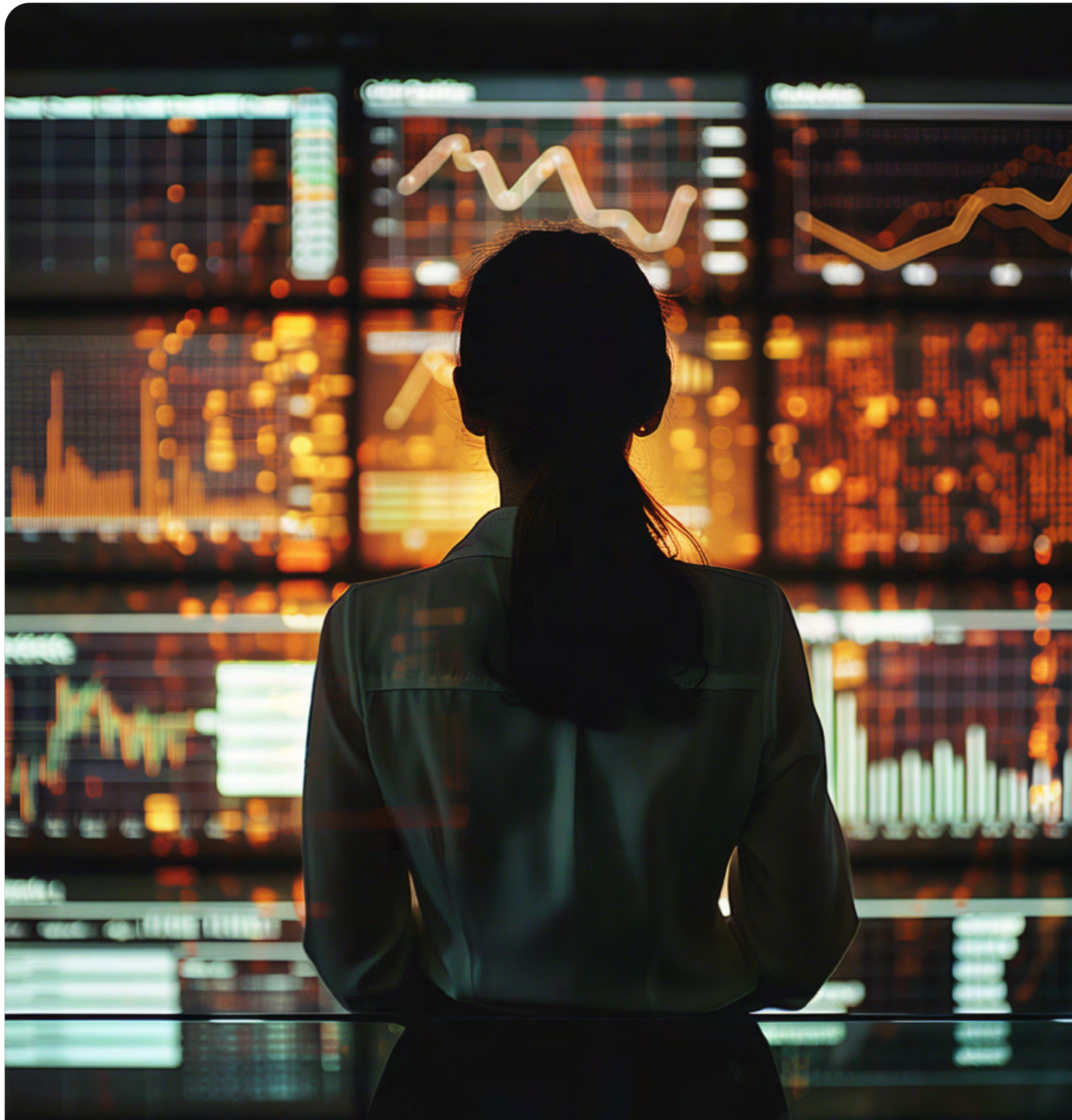
On the Credit Risk dimension, the identification, measurement and assessment of social, environmental and climate risks follow guidelines defined in the internal procedures of the Risk Department, which are checked by the business areas and credit departments during the client assessment stages for credit granting and renewal, providing and monitoring guarantees, and in the assessment and monitoring of project finance and structured operations.

For clients, this process includes checking the involvement of all clients in the activities on the List of Excluded Activities, for example, by checking the counterparty against the Register of Employers that have subjected workers to compulsory labor, or checking for unfavorable media coverage, and may result in the denial of further credit. This checking also extends to companies and individuals, regardless of their relationships with the bank, and may restrict their acceptance as new clients.

Different methodologies and tools are used to rate the Social, Environmental and Climate Risks of clients as high, medium and low risk, based on the industry risks associated with individual clients criteria, resulting in consequences, such as impacts on the credit risk rating, or an inability to contract credit operations.

Accordingly, taking into consideration that large companies have a greater potential impact on society, the environment and the climate, all clients in the large companies segment (with a revenue higher than R$500 million) undergo an individual client categorization process, which is included in the calculation models for the credit risk rating, and serves as a basis for capital pricing and allocation.

Because the client's industry is also an important factor in the definition of the scope and coverage of the Social, Environmental and Climate Risk analysis, for clients in the large companies segment that operate in sensitive industries, such as: Agribusiness – Pesticides and Fertilizers, Agribusiness – Cold Storage Plants, Energy, Real Estate, Wood, Metallurgy and Steel and Iron, Mining, Oil and Gas, Pulp and Paper, Agricultural Producers, Chemicals and Petrochemicals, Textiles and Apparel Retail, at the time of granting and renewing a line of credit, further methodologies and tools are applied in addition to the ESG assessment, strengthening the decision making processes which are integrated into credit granting and pricing. The assessment mentioned above covers qualitative and quantitative aspects, and



takes into consideration the possibility of social, environmental and climate issues affecting the reputation, financial performance and sustainability of the clients' business – such as litigation arising from environmental accidents, or costs associated with regulatory and technological changes arising from the transition to a more sustainable economy.

All of the analyses described in this section are periodically renewed, and make it possible to monitor the practices adopted by clients and consequently to monitor Social, Environmental and Climate Risks.

In addition to the Social, Environmental and Climate Risks associated with the economic sector, stricter procedures are applied to clients who operate in more sensitive geographical regions, as well as to products specifically aimed at those regions, for example the Amazon biome. For clients, for example, a methodology was developed in compliance with the requirements of SARB 26 to curb the financing of cold storage plants operating in the Legal Amazon and in the state of Maranhão, which purchase cattle from illegal deforestation areas (direct and indirect suppliers up to the first level, with increasing traceability requirements for the latter).

For project finance transactions, whether through the credit market or the capital market, the process of identifying, measuring and assessing Social, Environmental and Climate Risks begins with the gathering of relevant technical and legal information, including an analysis of regional sensitivity to Social, Environmental and Climate Risks, and the sponsor's level of environmental and social management and governance, resulting in the categorization of the project's risks as high, medium or low. After the initial stage, a more detailed assessment is prepared, which may include a variety of social, environmental and climate subjects based on the applicable legislation and market best practice, tailored to the industry and the region in which the Project will be implemented.

LEARN MORE

› Examples of environmental and social diligence for Itaú Unibanco's projects may be found in the "**Experience in Mitigating Environmental and Social Risks in Project Finance**" report. →

Risk mitigation is part of the risk management process, and may be carried out in different ways depending on the type of analysis, guided by the principles of relevance and proportionality. For project finance transactions, if compliance with or adherence to good practices is not identified, contractual conditions may be established on the monitoring and release of the financial resources, in order to encourage the adoption of best practice by clients, and compliance with the requirements established by Itaú.

Also, in the case of long-term financing, depending on the Social, Environmental and Climate Risk rating, an action plan may be agreed upon with the client, to be monitored once or twice a year, over the entire duration of the contract, by a specialized department or independent consultant. Each monitoring cycle may include visits to the project site, document reviews and discussions with the client and the financing agents.

Additionally, with respect to transactions in which the bank primarily assumes the risks associated with the cash flow from the project, a specific credit model is used, under which the categorization of Social, Environmental and Climate Risks directly affects the rating of the project's credit risk, allowing for more accurate pricing and better capital allocation.

For financing to be allocated to a specific agricultural property, possible illegal deforestation and other risk situations at the financed properties are monitored on a daily basis using a georeferencing tool.

Within the scope of Social, Environmental and Climate Risk management, for credit granting in which real estate is placed as a guarantee, Itaú Unibanco has processes for the appraisal of properties, which include, among other things, social, environmental and climate aspects, both at the time when the guarantee is established, and over the term of the guarantee. With respect to climate aspects, a topographic data survey of the property takes into account data such as flooding areas, floods/inundation, the risk of building collapse or slope failure.

For urban real estate guarantees, an environmental and social analysis of the property offered as a guarantee is carried out upon receipt of a Survey of Contamination Indications (LIC), a standard document used by financial institutions that are signatories to FEBRABAN's Bank Self-Regulation System, under SARB Regulation No. 14/2014, which contains information on the history of use of the property, its current use, data on the use of the surrounding areas, and which shows, where applicable, any indications of contamination. When indications of contamination or other restrictions on use are identified, an in-depth analysis is carried out by a technical team from the institution, and a Preliminary Environmental Assessment, a Confirmation Investigation or another related study may be requested, as required. In addition to the environmental and social assessment at the time when the real estate guarantee is established, Itaú Unibanco also carries out a reappraisal of the properties in accordance with the rules provided for in the internal procedures.

For the establishment of rural real estate guarantees, in-person and/or remote reports are used to check for possible forest liabilities and/or overlapping with sensitive areas, such as conservation units, indigenous land or slave-descendant communities. Where overlaps with risk areas are found, an in-depth analysis is carried out by a technical team from Itaú Unibanco.

Itaú Unibanco has a sound Risk Appetite framework that assesses, for example, concentrations in particular industries and segments, among other metrics. In particular, for measuring, monitoring and controlling the health of the loan portfolio with respect to its exposure to Social, Environmental and Climate Risks, the risk appetite framework includes two specific metrics for monitoring the concentration of our portfolio in industries with high environmental and social risks, and in industries which are highly exposed to climate risks, whether physical or transitional.

Operational Risk

Based on market best practice and the practices provided for in SARB No. 14, mostly assuring the requirements provided for in Resolution No. 4,943 of the Central Bank of Brazil (BACEN), criteria were defined to identify operational losses related to social, environmental and climate events, as part of a broad approach, to which the Risk, Legal and Equity departments contributed. These events may, for example, relate to administrative and legal proceedings in which the institution is a defendant, or to damage to physical assets, all related to social, environmental and climate events.

Once such an identification is made, it is incorporated into the existing operational loss base generation process, and becomes part of the operational risk monitoring and management framework, which takes place every month. As part of this process, significant losses and provisions were not observed as part of the history of losses for a period of 12 months, and they were always 5% or below of the total operational losses for the respective period.

Market and Liquidity Risk

As in the case of Operational Risk, the incorporation of the Social, Environmental and Climate Risk into the Market and Liquidity Risk management framework follows the stages of identification and measurement of potential impacts and sensitivity, which are then incorporated into the existing framework of limits, controls and risk appetites.

Once the assets, liabilities or positions that are more sensitive to Social, Environmental and Climate events are identified, we assess the potential impact on the pricing and management indicators of each discipline (e.g. VaR, LCR, NSFR).

Just as in the case of operational risk, as part of this process, no significant impacts of Social, Environmental and Climate Risk events have been observed during the market and liquidity risk management process.

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