

# Environmental, Social and Climate Risks – Clients and Credit Risk Operations

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## Summary

This document consolidates environmental, social and climate guidelines for credit relationship and credit risk operations with Itaú Unibanco's clients in Brazil.

## 1. Purpose

To consolidate guidelines for the management of environmental, social and climate risks associated with credit relationship and credit risk operations with Itaú Unibanco's clients in Brazil.

The criteria of this Procedure are applied to our assessment of environmental, social and climate risks associated with clients, real estate guarantees and credit risk operations, which include project finance operations.

This document is a public and simplified version of existing internal procedures.

## 2. Procedures

### 2.1 List of Excluded Activities

When evaluating priority themes for the protection of human rights, specific social criteria must be met to Itaú establishes and maintains relationships with clients (Individuals and Companies in the Retail and Wholesale Business segments) and suppliers. In compliance with the principles established in the Environmental, Social and Climate Responsibility Policy and the Social, Environmental and Climate Risks Policy, Itaú adopts a List of Excluded Activities that comprises activities involving the use of forced labor, use of child labor in disagreement with legislation, and exploitation of prostitution.

Accordingly, if any involvement of individuals or companies with any of the aforementioned activities is found, it may result in an internal systemic blocking of the natural or legal entity involved, regardless of their relationship with Itaú Unibanco, and the resulting prevention to start a relationship or access new credit facilities.

### 2.2 Debt-to-income ratio

In order to avoid debt-to-income of retail individual customers and preserve their bankability, a debt threshold is set based on the client's overall income and regulated in internal policies.

### 2.3 Sector categorization

The sectoral categorization of environmental, social and climate risks into high, medium, and low take into consideration the risks inherent in the economic sectors in which clients operate that can generate negative impacts on society, the environment, and the climate. To this end, we observe certain sustainability parameters, such as energy and water consumption, risk of deforestation, level of atmospheric emissions, and risks to worker health and safety.

### 2.4 Client categorization

In addition to sectoral risks, environmental, social and climate risks associated with Large companies are categorized according to individual aspects, such as joining sustainability indexes, thus signaling the adoption of management practices for risk mitigation, and the client's climate sensitivity, which measures how sensitive it is to the physical and transition effects of climate change, which can either improve or worsen impact the initially proposed categorization of sectoral risks constituting a variable that directly influences client's risk rating.

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## 2.5 Sensitive sectors

Corporate clients who operate in the sectors below, classified as Sensitive Sectors, are assessed on a one-to-one basis through a methodology specifically designed for environmental, social and climate risks:

- Agribusiness – Pesticides and Fertilizers;
- Agribusiness - Agricultural Producers;
- Agribusiness – slaughterhouses;
- Energy;
- Real Estate;
- Wood;
- Mining;
- Metallurgy, and Steel and Iron;
- Pulp and Paper;
- Oil and Gas;
- Chemicals and Petrochemicals;
- Textile.

This assessment is based on certain social criteria, such as the impact on traditional communities, occupational health and safety conditions; environmental criteria, such as deforestation and consumption of water resources; physical climate and transition criteria, such as susceptibility to water scarcity amid a future climate scenario with high volume of emissions and greenhouse gas emissions; as well as governance aspects, such as the independence and diversity of the Board. Themes and criteria are addressed according to their significance to the client's sector of activity, covering qualitative and quantitative aspects and taking into consideration their possible impact on the reputation, financial performance, and sustainability of the businesses.

In addition, the assessment may take into account any good practices and commitments adopted by the client that might indicate the mitigation of those risks.

Environmental, social and climate risks are assessed on an individualized basis upon the granting and renewal of the credit facility, differentiating the environmental and social categorization of clients in the same sector and impacting decision-making and the client's credit risk rating.

Farmers clients (individuals and companies) are submitted, due to their specific features, to different methodologies for an individualized analysis of environmental, social and climate risks, covering at least the existence of environmental embargoes and penalties. The degree of completeness of this assessment varies according to pre-established financial and operational parameters and, can affect the credit pricing of these clients as well.

## 2.6 Sectors subject to specific rules

In addition to the individualized assessments described above, for clients in slaughterhouses sector that operate in the Amazon Biome and Maranhão State, we follow, as signatories to the self-regulation system of the Brazilian Federation of Banks (Febraban), the provisions set forth in SARB Directive No. 26 by applying guidelines and procedures to promote the financing of activities in the meat supply chain not associated with illegal deforestation.

The tobacco and firearms industries are subject to stricter approval rules for credit granting and, for the Tobacco industry, additional restriction on credit facilities is applied to gradually reduce the portfolio's exposure to this industry by 2025.

In addition to these industries, Itaú adopted a coal phase out commitment for clients operating in the thermal coal industry (except for steel and iron) focused on the gradual reduction of credit exposure by 2030 and have established restrictions for unconventional oil and gas exploration operations in the Arctic and in oil sands.

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### **2.7 Credit risk operations assessment**

Operations, in which Itaú is able to previously and expressly identify the use of proceeds as having the potential to generate environmental, social and/or climate negative impacts, are subject to environmental, social and/or climate risk assessment. An assessment is also carried out for operations subject to environmental and social requirements, whether due to legal or funding requirements or to voluntary agreements entered into by Itaú. The types of products and operations subject to environmental, social and climate risk assessment and the specific guidelines to perform it are outlined in internal procedures and manuals.

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

#### **2.7.1 Project Finance**

Project finance, including bridge loans, is among the types of the operations assessed by Itaú. The E&S due diligence is based on international good practices guidelines and includes risk identification, measurement and mitigation steps. For long-term project finance, environmental, social and climate risks are also monitored through a contractually defined Action Plan aimed at fostering compliance with applicable laws and regulations, as well as the adoption of best practices by the client over the financing term.

In the event the operation fits the cut-off criteria set by the Equator Principles IV, 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. For some transactions, technical support from an independent E&S consulting services may be provided, as per required by the Equator Principles, over the analysis and monitoring process.

### **2.8 Recognition of Real Estate Collateral**

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

In addition to the E&S assessment at the real estate pledged agreement, Itaú Unibanco also carries out a reappraisal of properties according to the rules provided for in the internal procedure.