

Environmental and Social Management Report
Itaú Unibanco Women-Owned MSME Financing Partnership
(BR-L1437)

I. Project Description and Background

- 1.1 The proposed project (the “Loan”) will support the Itaú Unibanco S.A. (“Itaú”)’s credit portfolio to MSMEs owned by women¹ in Brazil, in order to address the limited financing available for companies in this market segment. The project will be executed as part of the women entrepreneurshipBanking (“weB”)² initiative, and build upon Itaú *Mulher Empreendedora* program to strengthen its value proposition to women entrepreneurs in Brazil.
- 1.2 The Project consists of a senior unsecured A/B term loan of approx. US\$350 million, including: (i) an A-Loan of up to US\$100 million funded by IDB, and (ii) a B-Loan of approx. US\$250 million.

II. Project Status and Compliance

- 2.1 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this Project is classified as a financial intermediary and as such is not categorized according to its potential environment and social (E&S) impacts and risks.
- 2.2 Itaú has confirmed that it is in compliance with Directive B.2 (country laws and regulations) of IDB Environmental and Safeguards Compliance Policy, complying with all applicable legal and regulatory environmental, social, health and safety, and labor (ESHS&L) laws and regulations.
- 2.3 Itaú has an environmental and social management system (ESMS) in place, which applies to all its transactions and detailed specific requirements commensurate to the risk of the operations. Itaú’s financing limit under the project will be up to US\$1 million. Its dominant women portfolio concentration is in Retail 49%, Services 42% and Industry 8% and the average sub-loan is approximately US\$7,000 with a tenor of 9.3 months in average. Based on management capacity and portfolio composition, this operation is classified as low risk.

III. Environmental and Social Risks and Impacts

- 3.1 The ESHS impacts and risks associated with loans to MSMEs in Itaú’s portfolio are likely to be low in nature in light of the dominance of low risk sectors. Any likely significant environmental and social impacts would relate to lending in the industry sector. The ESHS risks and impacts could include, for example: i) Hazardous materials, wastewater, solid and liquid waste, emissions to air, energy consumption, exposure to physical, chemical or biological hazards, heat, noise, and radiation.

1 Women-Owned MSMEs are defined as being controlled at least by 51% of women.

2 weB was launched during the Summit of the Americas in Colombia (04/2012) as a joint effort between IDB’s Structured and Corporate Finance (SCF) Department’s beyondBanking Program and Multilateral Investment Fund (MIF)’s Line of Activity for Promoting Small Enterprise Financing (LASEF). See weB factsheet: <http://www.fomin.org/Portals/0/Topics/Factsheet-womenentrepreneurshipBanking2014.pdf>, and video: <https://www.youtube.com/watch?v=YAILKWrihxU&feature=youtu.be&list=UUtjrJVL5gkWEHv0rLHISJ5A>.

- 3.2 Given the presence of indigenous groups among Brazil's population, it will be important to ensure that Itaú's has sound lending policies to address any negative potential impacts on indigenous groups, ensure fair lending practices, and to the extent possible promote access to credit by indigenous women entrepreneurs.
- A. Environmental and social risks associated with Itaú's facilities and human resources practices, and other considerations
- 3.3 Itaú states that is fully in compliance with the labor legislation and standards, although they are aware that in some occasions, instances of inappropriate behavior can take place. When this occurs, Itaú posture is one of transparency and endeavor to resolve the problem, which has arisen. For example, Itaú is currently implementing technological improvements to their systems for controlling the daily routine and to maintain an open dialog with the labor unions on the definition and monitoring of Itaú team's professional targets. In addition, Itaú always strives to maintain a dialog with all parties to their labor contingencies, such as the Public Prosecutor's Office, Judiciary, Labor Unions and civil society as a whole in order to arrive at the required solutions.
- 3.4 Itaú indicated that its finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage). Itaú's guidelines for employee compensation (salary, pay raise, benefits) and analysis (evaluations) are based on the local legislation, following also Brazil labor regulations.

IV. Environmental and Social Management

A. Itaú's Environmental and Social Management System (ESMS)

- 4.1 Itaú has a strong and evident commitment to environmental and social management that dates back to 2000 when Itaú BBA, incorporated an Environmental Risk System into its credit approval process. In 2004, Itaú became signatory of the Equator Principles and in 2007 they chaired the Equator Principles Financial Institutions Steering Committee (EPFI). That same year Itaú approved its Socio-Environmental Policy. In 2010 its environmental and social risk analysis process was certified ISO 9000 and in 2011 it was selected Sustainable Bank of the Year by the Financial Times and the International Finance Corporation (IFC).
- 4.2 Itaú has developed an Environmental and Social Risk policy which sets forth the process on how Itaú approaches the environmental and social aspects not only related to the loans it grants, but also the clients' management capacity. This policy has been divided by sectors and for this project the applicable policy will be NN-34 specifically for retail trade.
- 4.3 Following a risk approach, Itaú categorizes its clients as likely to generate high (A), medium (B) or low (C) environmental risks. This categorization is based on the social and environmental aspects of the sector in which they operate. The sectors are evaluated by sustainability criteria such as energy use, water use, release wastewater, solid waste disposal, air emissions and risks for health and safety. In addition, independently of the risk category of the clients, these are verified against an Exclusion List and a List of Restrictions. Itaú does not grant loans to companies related to activities that encourage prostitution, use child labor or are included in the national register of employers that have kept workers in conditions similar to slavery. The second list includes companies operating within the segments of production or trade of firearms; ammunition and explosives;

extraction and production of wood and production of firewood and charcoal from native forests; fishing activities; extraction and industrialization of asbestos; and meat processing. Itaú has also committed to comply with IDB Exclusion List for operations financed with IDB proceeds.

- 4.4 As part of the E&S management procedures, Itaú requires Environmental Licenses in the following cases: i) transfers from BNDES and ii) rural credits specifically for: a) Construction or expansion of improvements and permanent installations; b) Irrigation works dams, drainage, soil protection and recovery; c) Deforestation, land clearing, afforestation and reforestation; d) Planting or expansion of sugarcane plantations; e) planting of permanent crops; and f) planting of pastures. Any rural credit operation located in the Amazon Biome must have an Environmental Permit, in its absence is required a document issued by the environmental agency stating the progress of the regularization process. For biotechnology operations, Itaú verifies the Certificate of Quality in Biosafety (CQB) issued by CTNBio to provide the financing.
- 4.5 Environmental and social aspects at Itaú are managed by (i) the Sustainability Area, which is responsible for the mainstreaming of sustainability within Itaú Group, (ii) environmental and social risk analysis area, responsible for credit analysis of small and medium enterprises (SMEs), and (iii) compliance area, responsible for overseeing implementation of the institutional and sectorial environmental and social policy.
- 4.6 Given the nature of this operation, the overall potential environmental impacts and risks are considered low and manageable through the risk management systems at Itaú. The majority, if not all of these projects, would be considered, assessed, approved and monitored following the provisions of Itaú's environmental risk management for SMEs, which is based on best practices by considering both the potential impacts and risks of the underlying activity being financed and the capacity of the client to manage these risks. Itaú's proven experience, capacity, track record and overall approach is considered adequate for managing this operation.

V. Environmental and Social Requirements

- 5.1 For this operation which involves women-owned MSME Financing, the Bank has categorized the operation as low risk and will require the client as part of the Loan Agreement to:
- (i) Comply with all applicable Brazilian environmental, social, health and safety, and labor regulatory requirements, and in relation to the financing of MSMEs to ensure that each loan complies with: (a) in-country regulations; (b) the IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations; (c) the Fundamental Principles of the Rights at Work; and (d) Itaú's Environmental and Social Procedures (NN-34).

VI. Supervision

- 6.1 The IDB will supervise the environmental and social aspects related to the use of the proceeds of the IDB loan either by an in-house specialist or with external consultants, and if necessary, will require means of enhancing management of impacts and risks.