



ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT POLICY

1. PURPOSE OF THE POLICY

Canadian companies operate successfully in virtually every industry sector and are world leaders in many. Canadian companies have established a reputation, both in Canada and abroad, for conducting business in a fair, open and responsible manner. As a partner that facilitates international business for Canadian companies, Export Development Canada (EDC) shares responsibility for that reputation, and seeks through its operating principles and policies to support and enhance it.

This Policy stems from EDC's Code of Business Ethics and is an integral part of EDC's Corporate Social Responsibility Statement of Commitment. This Policy sets out specific commitments regarding environmental and social¹ risk management and applies to all of EDC's business. As set out below, EDC will partner with its clients to achieve compliance with this Policy.

2. OUR COMMITMENTS

EDC is committed to assess environmental and social risk in the transaction decision-making process, to advocate best practices with its counterparts, and to strive for high standards of mitigation and monitoring of projects it supports while ensuring this does not unduly hinder EDC's ability to support Canadian companies as they compete in global markets.

As part of these commitments EDC:

- monitors changes to World Bank Group and other internationally accepted environmental, social risk management and disclosure practices and updates its procedures accordingly; and
- advocates the adoption of international best practices by other international financial institutions, and by those with whom EDC does business.

Also as part of these commitments, in connection with transactions for which environmental and social considerations are regarded as relevant by EDC, we will:

¹ In the context of this Policy, social risk refers solely to risks defined within the IFC Performance Standards as: labour and working conditions, community health, safety and security, land acquisition and involuntary resettlement, indigenous peoples, and cultural heritage. It should be noted that EDC has addressed human rights more broadly within its Statement on Human Rights.

- integrate internationally accepted risk management practices into its decision-making process with respect to transactions;
- ensure that transactions comply with host country laws and regulations;
- take into account relevant multilateral environmental agreements signed by Canada; and
- disclose relevant information to ensure public accountability while respecting customer confidentiality.

EDC has also defined other corporate social responsibility commitments which complement this Policy and support EDC's Corporate Social Responsibility Statement of Commitment. These include:

- EDC's Environmental and Social Review Directive;
- EDC's Disclosure Policy;
- EDC's Anti-Corruption Policy Guidelines; and
- EDC's Statement on Human Rights.

3. ENVIRONMENTAL AND SOCIAL REVIEW

EDC has implemented a suite of review processes that fall under this Policy, as illustrated in Annex 1.

These processes range along a spectrum, depending on the nature of the transaction. They include:

- (a) financial officer screening of individual transactions;
- (b) exporter declarations that they are not aware of any significant environmental consequences of their transaction and/or business;
- (c) formal risk reviews by EDC's own Environmental Advisory Services team;
- (d) application of the "Revised Council Recommendation on Common Approaches on Environment and Officially Supported Export Credits" (the "OECD Common Approaches") adopted by Members of the Export Credits Group of the Organisation for Economic Co-operation and Development;
- (e) application of the Equator Principles, an initiative among commercial banks and other international financial institutions to assess and manage environmental and social risks in limited or non-recourse project financing transactions; and
- (f) application of EDC's Environmental and Social Review Directive (ERD), a legally binding requirement under the laws of Canada that is relevant for larger, project-related transactions.

Each of these review processes are described in further detail below and the applicable scope and threshold of each are summarized in Annex 1. The processes described under (d) through (f) are specific to the reviews of projects.²

² *A project is a physical development that is or will be greenfield, or a major extension or transformation-conversion thereof, and which in each case is planned or occurring and is industrial, commercial or infrastructure-related in nature.*

(a) Financial Officer Screenings: EDC's financing, insurance³ and equity transactions below USD 5 million are screened by EDC's financial officers for environmental and social risks, the presence of which may require further due diligence or influence EDC's decision to support the transaction.

(b) Exporter Declarations: For contract insurance and bonding and accounts receivable insurance transactions, EDC requests a declaration from clients stating that the client is not aware of significant environmental risks associated with the business EDC is being asked to support.

(c) Risk Reviews: Environmental and social risk shares priority with credit, political, economic, technical and reputational risk assessment in EDC's transaction decision-making process. When EDC's support is above USD 5 million,⁴ EDC's Environmental Advisory Services Team undertakes a review of environmental and social risks that EDC deems to be relevant to the transaction. Transactions are assessed using recognized methodologies to provide an opinion on the degree of associated risk. Transactions may pose a variety of risks and EDC takes this into account in its analysis, which may involve reviewing relevant information such as that pertaining to the industry sector, the nature of the transaction, regulatory requirements, and the track record and corporate environmental and social risk management policies and procedures of key parties. EDC may also take into account commitments its clients have made in accordance with corporate social responsibility initiatives, standards and guidelines. An illustrative list of corporate social responsibility initiatives, standards and guidelines is provided in Annex 2.

(d) OECD Common Approaches: The OECD Common Approaches establish the process to be followed by export credit agencies (ECAs) in evaluating the environmental and social impacts of projects that they may support. The OECD Common Approaches also establish criteria to be followed by the ECA and the Project Sponsor for the public disclosure of information related to such projects.

(e) Equator Principles: In fulfilling its mandate as Canada's official ECA, EDC partners with other commercial lenders in transactions. EDC has adopted the Equator Principles which aim to ensure that projects supported by its members are developed in a manner that is socially responsible and that reflects sound environmental management practices through application of the International Finance Corporation Performance Standards on Social and Environmental Sustainability ("IFC Performance Standards").

(f) Environmental and Social Review Directive (ERD): The ERD, a binding requirement under the laws of Canada, sets out EDC's legal obligation to undertake environmental and social reviews for larger, project-related transactions. The ERD requires that EDC make a determination of whether EDC is justified in supporting a particular project. EDC's ERD is designed to align with the OECD Common Approaches.

³ *Accounts Receivable Insurance transactions excepted.*

⁴ *Exceptions are: 1) Accounts Receivable Insurance transactions, and 2) transactions that are captured by review processes described under d-f.*

The project review requirements of EDC's ERD, the OECD Common Approaches and the Equator Principles (d-f above) are generally aligned. Common elements of these review processes include:

Categorization: Projects are screened for their potential adverse environmental and social effects and are categorized as A, B, or C. EDC's information requirements and the extent of EDC's review are linked to the project's category. Exporters and/or sponsors are required to submit environmental and social assessment documentation for review by EDC. The assessment will be relevant and appropriate to the risks and impacts of the project.

Project review and benchmarking: EDC assesses the design of a proposed project against applicable standards. These standards are specified in the ERD; generally, EDC benchmarks projects to the IFC Performance Standards. EDC may also benchmark projects to other internationally recognized standards that EDC considers to meet or exceed the requirements of the IFC Performance Standards.

Benchmarking involves a detailed review and comparison of the project's design and environmental and social assessment and management plans against host country or international standards (whichever is more stringent). EDC's Environmental Advisory Services team is responsible for conducting benchmarking and may employ independent external experts to support the review, particularly for project financing transactions, and may conduct a site visit.

The IFC Performance Standards set out outcomes for projects to achieve through means that are appropriate to the nature and scale of the project and commensurate with the level of risks and impacts. Where EDC reviews a project against the IFC Performance Standards, EDC expects the project to meet the requirements of the IFC Performance Standards within a reasonable period of time. EDC may require a project sponsor to devise an action plan to describe and prioritise the mitigation measures, corrective actions and monitoring activities necessary to manage impacts and risks in a manner consistent with good international industry practice. Where EDC identifies any adverse gaps against the applicable benchmark standards, EDC requires such gaps to be explained to EDC's satisfaction.

Stakeholder engagement: EDC expects for Category A and, as determined appropriate by EDC, Category B projects that engagement with affected stakeholders, if any, will be undertaken in a structured and culturally appropriate manner in accordance with the requirements of the IFC Performance Standards or other applicable benchmark standard as set out in EDC's ERD. Stakeholder engagement may include disclosure, consultation and grievance mechanism activities to be undertaken by the project sponsor scaled to the risks and impacts of the project.

Monitoring: Monitoring is an integral part of EDC's environmental and social risk management process. Through loan or insurance documentation, EDC expects compliance with host country laws and regulations, including the environmental standards of the host country. EDC may employ other

mechanisms to ensure projects are constructed and operated as designed. These include provisions in the loan or insurance documentation that may require, for example:

- compliance with action plans;
- timely reporting of incidents and accidents;
- submission of monitoring reports on an appropriate frequency; and
- access to the project site and related documentation.

EDC's project monitoring process typically involves reviewing monitoring reports prepared and submitted by a borrower or client on a scheduled basis, as well as other project information such as updated management plans. Site visits are undertaken as required. Where non-compliance with a loan or insurance policy requirement occurs, EDC first seeks to resolve the issue with the relevant counterparty so that the project is brought back into compliance. If compliance is not reestablished, EDC may exercise such remedies as are provided in the relevant loan or insurance documentation, including demanding repayment of a loan or cancellation of insurance cover.

This suite of review processes (a-f above) is complemented by EDC's Disclosure Policy, which articulates EDC's commitment to transparency subject to commercial and statutory confidentiality limitations.

In all of the above processes, EDC's clients are responsible for managing the environmental and social risks of the business that EDC is asked to support and for the provision of relevant documentation to EDC as required.

4. CLIMATE CHANGE AND ENVIRONMENTAL FOOTPRINT

EDC is wholly-owned by the Government of Canada and operates in a manner consistent with the Canadian government's climate change policies and initiatives. Given our large and diverse client base, part of our business involves support for Canadian companies in sectors where significant greenhouse gas (GHG) emissions are generated. EDC's activities in these sectors, as with all sectors, are guided by sound financial and environmental risk management principles. EDC will continue to rely on these principles while also staying abreast of emerging due diligence practices, GHG emission reduction technologies and carbon markets.

EDC recognizes that action by multiple players including governments, companies and the financial sector is required to mitigate the effects of climate change. As such, EDC will consider various ways that balance cost and technical feasibility when approaching this issue including:

- Engaging with our clients to understand and assess the carbon and climate risks and opportunities associated with their business.

- Evaluating climate change risks at a project level to ensure that projects are designed to incorporate technically and financially feasible and cost-effective options for mitigation and adaptation to climate change.
- Expecting proponents of Category A and B projects to provide estimates of greenhouse gas emissions using established methodologies such as the Greenhouse Gas Protocol and consistent with IFC Performance Standards, and supporting common ECA reporting objectives.
- Facilitating the export of environmental goods and services, including those related to GHG emission reductions through EDC's EnviroExports Program aimed at supporting Canada's environmental industry.

The above activities will be supported by research on relevant issues concerning the interrelationship between climate risks and financial practices.

EDC is also committed to measuring and managing its own operational environmental footprint, specifically in the areas of paper usage, energy and water consumption, and business travel. EDC discloses annual environmental footprint performance indicators such as paper, electricity and water consumption for its head office buildings, and total corporate business travel through its annual corporate social responsibility reporting.

5. ROLES AND RESPONSIBILITIES

EDC's commitment to environmental responsibility begins with its employees, who subscribe annually to a rigorous Code of Conduct which outlines how the values set forth in EDC's Code of Business Ethics apply to all employees. Employees of the Corporation are responsible for adhering to the policies and procedures set forth in this Policy in the transaction decision-making process. Those in a position to influence transaction decisions receive training on EDC's environmental policies and processes, and various corporate activities ensure a high level of environmental awareness.

EDC trains financial officers to recognize potential environmental risks in transactions related to medium- and long-term financing, political risk insurance and equity participation. Financial officers within EDC's business sector teams are responsible for the collection of information and for facilitating the initial screening of relevant transactions.

The Environmental Advisory Services team, consisting of environmental and social specialists, is primarily responsible for implementing EDC's environmental and social review processes and procedures. The Environmental Advisory Services team conducts reviews, identifies risks and mitigation measures, where appropriate, related to transactions which EDC may support, participates in risk management training and in engaging stakeholders, and supports business development and other CSR objectives.

The Senior Vice-President, Legal Services and Secretary is responsible for implementing this Environmental and Social Risk Management Policy, and EDC Senior Management makes regular reports to EDC's Board of Directors on its implementation.

The Environmental Review Advisory Committee, comprised of a cross-section of EDC executives and senior managers, is responsible for establishing effective performance measures and benchmarks, and providing strategic direction and advice, regarding EDC's review policies and practices.

EDC's external Advisory Council on Corporate Social Responsibility, comprised of prominent leaders from business, academia and civil society, provides advice to EDC on matters related to evolving best-in-class corporate social responsibility practices, including this Policy.

6. REPORTING AND ACCOUNTABILITY

EDC's disclosure practices are guided by criteria established within its own Disclosure Policy. Under EDC's Disclosure Policy, section D2, all financing (including guarantees), political risk insurance to lenders, and equity transactions are reported within 90 days after signing. The Disclosure Policy, section D3, sets out the conditions under which EDC will publish information about projects classified as Category A and B, including making some information available prior to signing the transaction and upon receipt of the appropriate consents. EDC's disclosure of this information aligns with its commitments under the OECD Common Approaches. EDC shares additional information with OECD Members in an effort to build a body of experience and to seek greater consistency in implementation of the OECD Common Approaches. On an annual basis, EDC also reports on its environmental performance through its corporate social responsibility reporting.

The Auditor General of Canada undertakes a periodic review of the design and implementation of the Environmental and Social Review Directive in accordance with the requirements of the Export Development Act and submits a report on the audit to the Corporation's Board of Directors, to the Minister for International Trade, and to each House of Parliament.

EDC includes an internal audit function to independently monitor and report on the effectiveness, adequacy and sustainability of its business processes, risk management and related internal controls used to achieve its business objectives. Additionally, EDC's Compliance Officer operates independently from EDC management to receive and deal with external complaints pertaining to EDC's compliance with its corporate social responsibility policies. The Compliance Officer reports to the Audit Committee of EDC's Board of Directors.

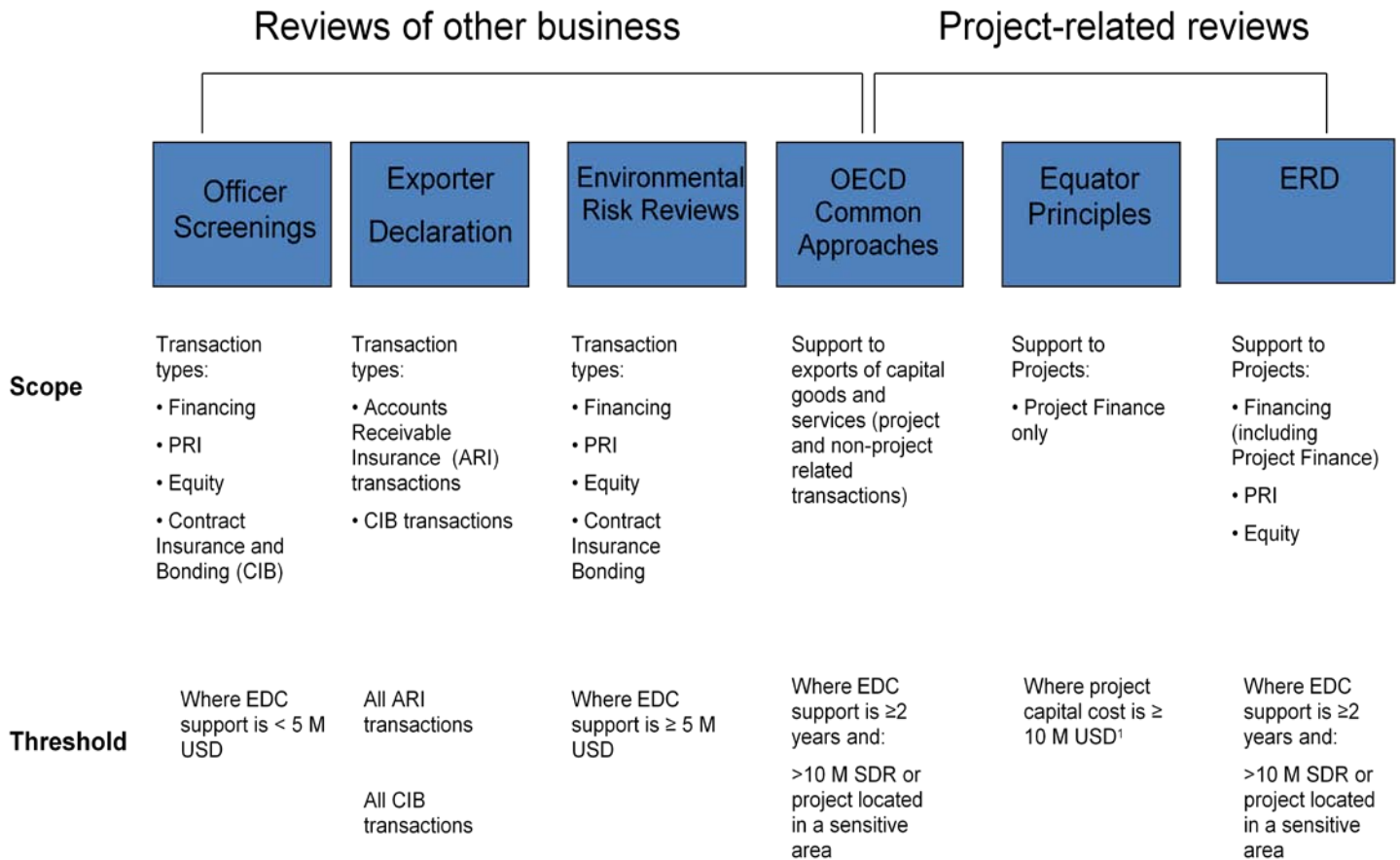
EDC will engage with a broad range of stakeholders as an important component of this Policy.

Review Date

This amended Policy shall come into effect on November 1, 2010. This Policy shall be subject to review commencing no later than November 1, 2013 to determine if this Policy requires revision.

ANNEX 1: OVERVIEW OF EDC’S ENVIRONMENTAL AND SOCIAL REVIEW PROCESSES

Environmental and Social Risk Management Policy



¹ For Equator Principles Project Finance transactions where the project has a capital cost of greater than USD10 million but to which the ERD does not apply, EDC nevertheless will review the project in accordance with the provisions of the ERD.

ANNEX 2: ILLUSTRATIVE CORPORATE SOCIAL RESPONSIBILITY INITIATIVES, GUIDELINES AND STANDARDS

- Carbon Disclosure Project;
- Environmental management system certification standards (e.g. ISO 14000 series);
- Extractive Industries Transparency Initiative;
- Forest Stewardship Council certification standards;
- Global Reporting Initiative;
- International Cyanide Management Code;
- International Finance Corporation's Performance Standards on Social and Environmental Sustainability;
- Occupational safety and health management system certification standards (e.g. OHSAS 18001);
- OECD Guidelines for Multinational Enterprises;
- Program for the Endorsement of Forest Certification system;
- Responsible Care;
- United Nations Global Compact;
- Voluntary Principles on Security and Human Rights.