



POLICY

Environmental and Social Risk Management Policy



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PREAMBLE

As Canada's export credit agency, EDC's mandate is to help Canadian businesses navigate, manage and take on risk to support their growth beyond Canada's borders. This support is underpinned by a strong commitment to conduct business responsibly, fairly and ethically. We have a long history of doing business in a way that cares for people and the planet. Our approach has evolved over time, but our intent remains the same: to lead by example.

We firmly believe that a business approach centered around sustainability principles creates value and is key to the long-term growth and success of Canadian businesses. This belief has motivated EDC to address risk more intentionally by integrating ESG considerations into our business and operations - and it is reflected across our [2030 strategy](#).

We believe that a robust ESG framework is essential to long-term business success and has been shown to create value. The significance and interconnectedness of issues relating to, among others, human rights, rights of Indigenous Peoples, gender equality, supply chain risks, climate change, biodiversity loss and environmental and resource conservation have become widely acknowledged.

As a financial institution, we recognize that identifying, managing and mitigating E&S Risks is intrinsic to our business. The Environmental and Social Risk Management (ESRM) Policy Framework defines and structures our approach to these risks, through our Policies, Guidelines and Procedures. It sets out EDC's commitment to ensuring that E&S Risks are duly considered throughout the transaction process.

Our Framework is designed and informed by leading international environmental and social standards, frameworks, agreements and principles, including:

- *Equator Principles*
- *OECD Common Approaches*
- *IFC Performance Standards*
- *United Nations Guiding Principles on Business and Human Rights*
- *The OECD Guidelines for Multinational Enterprises*
- *Task Force on Climate-related Financial Disclosures*
- *2015 Paris Climate Change Agreement*
- *United Nations Global Compact*
- *United Nations Declaration on the Rights of Indigenous Peoples*
- *United Nations Sustainable Development Goals*

EDC's Environmental and Social Risk Management (ESRM) Policy Framework consists of:

- ***The Environmental and Social Risk Management (ESRM) Policy***
- ***The Environmental and Social Review Directive (ESRD)***
- ***The Human Rights Policy***
- ***The Climate Change Policy***
- ***The Transparency and Disclosure Policy***

As EDC's overarching Policy relating to environment and social risk management, the ***ESRM Policy*** informs EDC's environmental and social Policies, Guidelines and Procedures. The ***Human Rights Policy*** articulates EDC's policy commitments for how it approaches customer relationships and transactions from a human rights perspective. The ***Climate Change Policy*** elaborates on EDC's climate-related commitments including in the context of a project or non-project transaction, as well as at a Portfolio level and in terms of climate-specific disclosure practices. The ***ESRD***, which is developed in alignment with the *Equator Principles* and the *OECD Common Approaches*, is a legal requirement under the *Export Development Act*. If EDC is considering a project-related transaction, the ***ESRD*** sets out certain requirements as to when and how the project must be reviewed and, in the end, whether EDC may support the project. EDC's ***Transparency and Disclosure Policy*** governs how EDC proactively discloses information related to EDC's business activities and support for both project and non-project transactions.

As an export credit agency, EDC is uniquely placed to strengthen Canada's economy by facilitating export while helping Customers become better prepared to adapt to the demands of a rapidly changing ESG regulatory landscape, both in Canada and internationally. We acknowledge that the Environmental and Social Risk Management (ESRM) Policy Framework is drafted and implemented in a continuously evolving environment and recognize the importance of regularly updating our Policies to account for new requirements and emerging practices.

1. PURPOSE AND SCOPE

1.1. PURPOSE

As a financial institution, we recognize that identifying, managing and mitigating E&S Risks is intrinsic to our business. The Environmental and Social Risk Management (ESRM) Policy Framework defines and structures our approach to these risks, through our Policies, Guidelines and Procedures. It sets out EDC's commitment to ensuring that E&S Risks are duly considered throughout the transaction process.

As part of the Environmental and Social Risk Management (ESRM) Policy Framework, the **ESRM Policy** sets out EDC's commitments to identifying, assessing and managing E&S Risks and impacts when considering Customers and transactions, as well as at a Portfolio level. It also establishes the principles and commitments that guide EDC's approach to E&S Risks and opportunities.

Embedding ESG considerations into decision-making is not only core to how EDC manages E&S Risk, but it's also how we help the businesses that we support build capabilities to successfully tackle the growing ESG imperative and take advantage of the opportunities that arise from it. EDC can support Canadian businesses and help them develop the competitive advantage they need to become internationally recognized as leaders in sustainable and responsible business practices.

This Policy reflects EDC's expectations for our Customers in terms of managing and mitigating E&S Risks and impacts associated with their business activities.

1.2. SCOPE AND APPLICATION

This Policy applies across EDC's Portfolio of business and to EDC's customer relationships, excluding certain [Canada Account](#) Transactions as set out in EDC's internal Policies, Standards and Guidelines¹. This Policy utilizes a risk management-based approach and applies to our global operations, including branches, subsidiaries², regional offices and foreign representations, unless otherwise specified. Finally, this Policy should be read in conjunction with other applicable Policies and relevant documents, and further details on policy implementation are elaborated in this Policy's Procedures and Guidelines.

¹ Canada Account Transactions are governed by EDC's Delegation of Authority for Credit Commitments Policy, Delegation of Authority Standards and Canada Account Transactions Guideline.

² This Policy applies to all of EDC's subsidiaries unless the subsidiary has adopted its own Environmental and Social Risk Management Policy.

POLICY REQUIREMENTS

1.3. GUIDING PRINCIPLES

As Canada's export credit agency with a mandate to help Canadian businesses navigate, manage and take on risk to support their growth beyond Canada's borders, EDC recognizes that our business decisions and activities have the potential to impact the environment and local communities where we do business.

Embedding sustainability values and principles into business practices is essential to risk management and key to the long-term growth and success of EDC and the Customers that we serve. We are committed to advancing and promoting responsible business conduct and to supporting Canadian businesses in building robust ESG practices.

EDC acknowledges that, as Canada's export credit agency, we have a role to play in advancing responsible business practices, including by championing human rights, particularly the rights of Indigenous Peoples, advancing gender equality, diversity and inclusivity, combating biodiversity and ecosystems services loss and supporting a Just Transition to Net Zero emissions. We are committed to exploring these issues with our stakeholders and our customers. We expect to evolve our approach in a manner consistent with our mandate and our values, as we gain more clarity from our consultations.

EDC also recognizes the inter-linkages between environmental and social issues and risks and that efforts to address them often require a multi-dimensional approach.

1.4. COMMITMENTS

With the above guiding principles in mind, EDC is committed to:

- (i) Reviewing, examining, understanding and considering the potential environmental and social impacts of the transactions and Customers we support;
- (ii) Advocating for best environmental and social practices with our Customers and our financial sector counterparts including other export credit agencies;
- (iii) Aligning with leading standards and industry best practices for E&S Risk management and due diligence, such as the *Equator Principles*, the *OECD Common Approaches*, the *IFC Performance Standards* and the *United Nations Guiding Principles on Business and Human Rights*;
- (iv) Helping Customers achieve and maintain high standards of E&S Risk management;
- (v) Adopting an intersectional lens when assessing, managing and mitigating E&S Risks and impacts, as appropriate;
- (vi) Acknowledging biodiversity and ecosystem service loss as an issue of increasing significance to our stakeholders and recognizing its role in achieving global climate and human rights objectives;
- (vii) Monitoring emerging ESG issues and trends relevant to EDC and our Customers and considering how to integrate them as part of EDC's E&S Risk management framework and due diligence; and

- (viii) Communicating in good faith with policy-level stakeholders (e.g. EDC's shareholder, non-governmental organizations, civil society organizations, industry associations).

To meet our commitments, EDC:

- Integrates internationally accepted risk management practices into its decision-making process using a risk management-based approach;
- Requires compliance with host country laws and regulations by our Customers;
- Tracks best in class international E&S Risk management and disclosure practices and updates its Policies and Procedures accordingly;
- Considers relevant multilateral agreements or frameworks signed by Canada, such as the *United Nations Sustainable Development Goals*;
- Advocates for the adoption of international best practices by other export credit agencies, other international financial institutions and by those with whom EDC does business; and
- Works with its Customers as part of a collaborative relationship to improve environmental and social performance.

1.5. TRANSACTION REVIEW

In implementing the above commitments at the transactional level, EDC takes a risk management-based approach to identifying, preventing, managing and mitigating E&S Risks. This means that, in considering the risk associated with a particular transaction, EDC assesses Customers' activities across the Value Chain to identify both the likelihood of environmental and social impacts and the severity of any potential impacts, and seeks to address identified issues. Our approach is informed by the *IFC Performance Standards* and, as articulated in the **ESRD**, these, along with the *Equator Principles* and *OECD Common Approaches*, are the standards applied for project-related transactions.

We look to work with Customers, financial institutions and other partners, where possible, to influence Customers' environmental and social performance, depending on the nature of environmental and social impacts. Where we do not have the leverage to sufficiently influence environmental and social performance, EDC seeks ways to increase our ability to do so.

EDC's commitment to environmental and social performance does not end once a transaction reaches financial close. Monitoring is an integral part of EDC's E&S Risk management process. EDC may employ transaction documentation or other mechanisms to ensure EDC's environmental and social performance expectations are met. Depending on the nature of the transaction, Customers can expect to engage with EDC for ongoing environmental and social monitoring and follow-up throughout their relationship with EDC.

EDC has developed a variety of processes to manage and mitigate E&S Risks for different product and transaction types. Additional details on these processes are articulated in EDC's ***Guideline on Environmental and Social Risk Management Review, Human Rights Due Diligence Framework*** and ***Climate Change Due Diligence Framework***. Further, issue,

sector and industry specific Guidelines can be and have been developed to help guide specific environmental and social due diligence requirements and concerns.

2. ROLES AND RESPONSIBILITIES

2.1. GOVERNANCE ROLES

The ***ESRM Policy*** is approved by the Board of Directors.

The Chief Corporate Sustainability Officer and Senior Vice-President, Sustainable Business & Enablement is the Policy Owner of this ***ESRM Policy*** and is responsible for its development, implementation and maintenance. The Chief Corporate Sustainability Officer and Senior Vice-President, Sustainable Business & Enablement is also accountable for its execution and effectiveness.

The Vice-President, ESG Policy is the Policy Monitor. The Policy Monitor may delegate their responsibilities as Policy Monitor to an alternative and credible person.

Internal Audit is responsible for providing Independent Assurance to the Board of Directors and Executive in accordance with EDC's ***Internal Audit Charter***.

2.2. OPERATIONAL ROLES

Ownership, management and monitoring of risks, including E&S Risks, fall under the purview of the business development and underwriting teams. They are responsible for flagging potential or actual E&S Risks to the ESG Customer Success team.

The ESG Customer Success team is responsible for identifying, analyzing, assessing and monitoring E&S Risks. When escalation is needed, the ESG Customer Success team will engage with the Relationship and Transaction Committee for a decision.

The Relationship and Transaction Committee is responsible for overseeing, directing and challenging risk assessments and recommendations objectively and effectively.

Risk ratings are overseen and approved by the Risk Management Office.

3. REPORTING REQUIREMENTS

The table below sets out the minimum reporting requirements for the **ESRM Policy**.

Table 1: Reporting Requirements

Report	Frequency	Description	Distribution
Various	Biennially	Provide a summary of any relevant updates regarding the implementation of EDC’s Environmental and Social Risk Management (ESRM) Policy Framework, which includes the ESRM Policy	<p>Distributed by: Chief Corporate Sustainability Officer and Senior Vice-President, Sustainable Business & Enablement</p> <p>Distributed to: Board of Directors Senior Management</p>

EDC’s transparency and disclosure commitments can be found within EDC’s **Transparency and Disclosure Policy**. EDC’s disclosure commitments align with 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*.

The Auditor General of Canada undertakes a periodic review of the design and implementation of the **ESRD** in accordance with the requirements of the *Export Development Act* and submits a report on the audit to EDC’s Board of Directors, to the Minister for International Trade Diversification and to each House of Parliament.

4. REVIEWS AND REVISIONS

The **ESRM Policy** is reviewed and approved every three years, or more frequently should circumstances require. Reviews are conducted in consultation with internal and external stakeholders.

Any revisions to, or rescinding of, this **ESRM Policy** are accompanied by supporting detail on the material changes and associated rationale.

Roles and responsibilities with regard to approval, revision and/or rescinding of the **ESRM Policy** are as described in the table below.

Any minor off-cycle adjustments to this **ESRM Policy** may be made in adherence with and as set out in EDC’s **Policy of Policies**.

Table 2: Reviews and Revisions

Document	Review & Recommend for Approval, Revision (or Rescinding)	Approval	Approval Cycle
ESRM Policy	Chief Corporate Sustainability Officer and Senior Vice-President, Sustainable Business & Enablement and endorsed by an Executive-level Committee	Board of Directors	At least every three years, unless deemed otherwise by the Board of Directors

5. ESCALATION AND EXCEPTIONS

All exceptions or instances of non-compliance to this **ESRM Policy** are assessed by the Policy Monitor and escalated to the Policy Owner for resolution or approval.

Requests for Policy exceptions or instances of non-compliance must:

- Identify the applicable section(s) of the Policy to which the exception applies;
- Assess the risk(s) that arises from the proposed exception(s);
- If applicable, outline the appropriate controls to mitigate these risks; and
- Specify the review or effective period of the Policy exception.

The Policy Owner is accountable for the process of identifying, recording and reporting on exceptions or instances of non-compliance with this Policy. Policy exceptions will be disclosed.

6. RELATED DOCUMENTS

6.1. DOCUMENT HIERARCHY

The following documents stem from the *ESRM Policy*:

Environmental and Social Risk Management Review Guideline

6.2. OTHER RELATED DOCUMENTS

The following documents relate to the *ESRM Policy*:

Climate Change Due Diligence Framework

Climate Change Policy

ESRD

Human Rights Due Diligence Framework

Human Rights Policy

Internal Audit Charter

Policy of Policies

Transparency and Disclosure Policy

Equator Principles

IFC Performance Standards

OECD Common Approaches

7. EFFECTIVE DATE

This revised version of the *ESRM Policy* is effective on October 13, 2022.

8. DEFINITIONS

In this Policy, the names of EDC teams and groups are capitalized and refer to the teams/groups as set out in EDC's corporate directory.

Capitalized terms other than name of EDC teams or groups are defined terms, as set out below.

Table 3: Definitions

Terminology	Definition
Board of Directors (Board)	EDC's board of directors.
Canada Account Transactions	Transactions supported by the Government of Canada under Section 23 of the <i>Export Development Act</i> , which, on the basis of EDC's risk management practices, would not be supported under EDC's corporate account but are in the national interest.
Customer	In the context of this Policy, an EDC Customer—prospective or existing—is an entity subject to EDC's environmental and social due diligence process, as part of onboarding or a transaction.
E&S Risks	Any actual or potential adverse impacts on the environment (including climate, biodiversity, ecosystems and natural resources); human rights; labour and working conditions; community rights and wellbeing, health, safety and security; land acquisition and involuntary resettlement; and Indigenous Peoples that may be associated with EDC's business.
<i>Equator Principles</i>	A risk management framework, adopted by financial institutions, for determining, assessing and managing E&S Risk in projects and is primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making.
ESG	Refers to environmental, social and governance factors that help organizations manage risks and opportunities by integrating them into decision-making.
Executive	The cadre of managers that provides the most senior level of review, guidance and decision-making.
Framework	A broad overview of interlinked items that support a particular approach by EDC to a specific objective.
Guideline	A document which sets out the parameters within which EDC employees should act and the Standards which should be defined to achieve expected outcomes and Policy requirements. This includes mandatory controls, or alternatively guidance, recommendations or best practices.

<i>IFC Performance Standards</i>	The <i>International Finance Corporation’s Performance Standards on Social and Environmental Sustainability</i> , as amended from time to time.
Independent Assurance	The process for assuring the Board and senior management that a Policy and its related Guidelines (or Standards), Procedures and Frameworks are effectively designed and functioning as intended.
Indigenous Peoples	<p>There is no universally accepted definition of “Indigenous Peoples”. Indigenous Peoples may be referred to in different countries by such terms as “Indigenous ethnic minorities”, “aboriginals”, “hill tribes”, “minority nationalities”, “scheduled tribes”, “first nations”, or “tribal groups”. As in <i>IFC Performance Standard 7</i>, the term “Indigenous Peoples” is used in this Policy in a generic sense to refer to a distinct social and cultural group possessing the following characteristics in varying degrees:</p> <ul style="list-style-type: none"> - Self-identification as members of a distinct indigenous cultural group and recognition of this identity by others; - Collective attachment to geographically distinct habitats or ancestral territories in the project area and to the natural resources in these habitats and territories; - Customary cultural, economic, social, or political institutions that are separate from those of the mainstream society or culture; or - A distinct language or dialect, often different from the official language or languages of the country or region in which they reside.
Just Transition	A transition to a Net Zero economy which maximizes benefits for workers, communities and Indigenous Peoples.
Net Zero	Achieving net zero emissions means the economy either emits no greenhouse gas emissions or offsets its emissions, for example, through actions such as tree planting or employing technologies that can capture carbon before it is released into the air.
<i>OECD Common Approaches</i>	The <i>Organization for Economic Co-operation and Development Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (OECD Common Approaches)</i> , an international multilateral consensus on environmental review practices that aims to level the international playing field and ensure that projects supported by export credit agencies meet established international environmental and social standards.
<i>OECD Guidelines for Multinational Enterprises</i>	The <i>Organization for Economic Co-operation and Development Guidelines for Multinational Enterprises</i> are recommendations addressed by governments to multinational enterprises operating in

	or from adhering countries. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards. The Guidelines are the only multilaterally agreed and comprehensive code of responsible business conduct that governments have committed to promoting.
Policy	A document which sets out the principles or protocols to guide decisions and achieve expected outcomes. Policies are derived from EDC’s mandate, missions, strategic objectives and Risk Appetite.
Policy Approver	The authority responsible for approving the Policy (i.e. Board of Directors, President & CEO, Chief Business Officer or Senior Vice-President).
Policy Monitor	The authority responsible for monitoring, ensuring and attesting to compliance with the Policy, and also responsible for reporting instances of non-compliance to the Policy Owner (if Policy Monitor is different from the Policy Owner).
Policy of Policies	A Policy to control the interrelationship, make-up, development, revision and rescinding of other Policies, Guidelines (or Standards) and Procedures and associated Frameworks.
Policy Owner	The senior Executive responsible for the matters addressed by the Policy. This includes responsibility for ensuring the Policy’s development, implementation and maintenance.
Portfolio	A set of programs, projects or products managed as a group to achieve business and corporate strategic objectives.
Procedures	Step-by-step instructions (including process maps where available and job aids) to complete a task to implement Policies and Guidelines (or Standards). These documents should describe a series of actions on how to perform an activity to achieve expected outcomes.
Relationship and Transaction Committee (RTC)	A Vice-President level management and working group that is responsible for providing guidance and direction to virtual teams on proposed business solutions, strategic account direction as well as approval of onboarding and escalated non-credit issues.
Risk Appetite	The degree and types of risk EDC is prepared to accept in pursuit of its objectives.
Risk Management Committee	An Executive-level committee that is responsible for reviewing and recommending transactions for Board approval, reviewing and overseeing the management of enterprise governance, risk and control activities, and understanding significant existing and emerging risks and their impact on EDC’s risk profile.

Risk Management Office	The team that is responsible for optimizing EDC’s capacity and appetite for assuming risk in support of customers consistent with EDC’s business plans and objectives.
Standards	Requirements that are mandatory, prescriptive and intended to be binding on EDC’s employees.
Value Chain	Includes every step a business takes to produce a product or service and deliver it to the customer from its conception to its end use and beyond. This includes activities such as research and design, production, marketing, distribution and support to the final consumer.

AUTHORITY SIGNATURES

Approved by: Martine Irman, Chair - Board of Directors	13/10/2022
Recommended by: Rahul Chandran, Vice-President, ESG Policy	26/09/2022

CONTROL SHEET

Policy Name:	Environmental and Social Risk Management Policy
Policy Owner:	Chief Corporate Sustainability Officer and Senior Vice-President, Sustainable Business & Enablement
Policy Monitor:	Vice-President, ESG Policy
Version:	4.0
Recommended by:	Rahul Chandran, Vice-President, ESG Policy
Endorsed by (if applicable):	N/A
Approved by:	Board of Directors
Approval date:	October 13, 2022
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Inaugural effective date:	June 27, 2005
Next Review Date:	October 13, 2025

REVISION HISTORY

Version	Approved / Reviewed / Revised / Rescinded	Date	Comments
1.0	Approved by the Board	June 27, 2005	Inaugural
2.0	Approved by the Board	November 1, 2010	Reviewed and revised as part of regular revision process
3.0	Approved by the Board	February 28, 2019	Reviewed and revised as part of regular revision process
4.0	Approved by the Board	October 13, 2022	Revised as part of Environmental and Social Risk Management (ESRM) Policy Framework Review