Understanding our approach to environmental and social risk

Our Policy on Responsible Investing highlights the key role we play in enabling better and more sustainable outcomes for our investees[1] through high environmental and social (E&S) standards. The management of E&S risks inherent in the businesses of all our investees is central to achieving our mission. The categorisation of E&S risk forms an important part of our overall E&S management system. It guides the scope and type of E&S due diligence we undertake, and the requirements we may place on an investee to achieve good E&S standards.

We categorise our investments based on the nature of the business, the scale and severity of an investee's E&S risks and the investee's existing controls, capacity and overall commitment to managing those risks. This ensures we allocate appropriate resources and support to investments based on the E&S risks throughout the investment lifecycle. This includes when we conduct due diligence pre-investment, document appropriate risk mitigants, develop action plans, monitor risks at the portfolio stage, and provide support in the implementation of our requirements on an ongoing basis.

We use a four-point scale of 'High', 'Medium-High', 'Medium-Low' and 'Low' to categorise the E&S risk profile of our investees, which correlates with European Development Finance Institutions' (EDFI) categories of A, B+, B, and C and other DFI categorisation norms.

Categories for direct investments into an investee are below:

Risk	**High Risk (A)**	**Medium-High Risk (B+)**	**Medium-Low Risk (B)**	**Low Risk (C)**
Category definition	Financed business activities with potential significant adverse social or environmental impacts and/or risks that are diverse, irreversible or unprecedented.	Financed business activities with generally limited potential adverse social or environmental impacts and/or risks that are site-specific and readily addressed through mitigation measures but having some specific features which can have significantly larger adverse social or environmental impacts.	Financed business activities with limited potential adverse social or environmental impacts or risks that are site-specific and readily addressed through well-known mitigation measures.	Financed business activities with minimal or no adverse social or environmental impacts or risks.

The category headings (A, B+, B, C) are also used for investments that we make into a financial institution or a private equity fund. In these cases, the risk of the underlying portfolio companies and the sector breakdown of the loan book (actual or pipeline) are key factors in determining the category.

1 Investee is defined as a company or other entity (including a fund or a financial institution) to which BII or one of our investment holding subsidiaries has made available a financial instrument. A company or other entity to which an investee makes available a financial instrument is not an investee for the purposes of this Policy.

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