

Citi's Environmental and Social Risk Management (ESRM) Policy

Source: <http://www.citigroup.com/citigroup/environment/esrmpolicy.htm>

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In 2003, Citi's Markets and Banking (CMB) division developed an Environmental and Social Risk Management (ESRM) Policy to help address environmental and social issues from both a credit risk perspective and a reputation and franchise risk perspective. The CMB ESRM Policy's core elements are based on the Equator Principles, a set of environmental and social guidelines adopted by Citi's project finance business and based on the policies of the World Bank's International Finance Corporation (IFC).

The ESRM Policy applies a rigorous environmental and social review of certain financial transactions where the use of proceeds is known. Once identified, each ESRM Covered Transaction must be reviewed and receive the appropriate ESRM risk category, which is based on the IFC's environmental and social risk categorization criteria (see box). The policy is a culmination of Citi's increased attention over the past four years to integrating environmental and social considerations into its financing business.

Category A transactions, or those with sensitive environmental and social risks, require elevated review and approval from senior credit officers who have been appointed as ESRM Approvers.

The ESRM Unit, which is led by a director and includes a vice president and analyst, serves as a technical resource and counsel for ESRM Approvers. The group is also responsible for review, advice, and consultation on new transactions across CMB; internal ESRM training; communications and policy implementation tracking and reporting; and partnering with Corporate Environmental Affairs on external outreach with NGOs, SRIs, other EPFIs, and the media. ESRM Champions in the Europe/Middle East/Africa and Asia regions were also appointed in 2006 to assist the ESRM Unit and regional ESRM Approvers on internal outreach and tracking of projects.

Environmental and Social Risk Categories for the ESRM Policy

Category A

Use of proceeds expected to have significant adverse social and/or environmental impacts that are diverse, irreversible or unprecedented.

Category B

Use of proceeds that are expected to have limited adverse social and/or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.

Category C

Use of proceeds expected to have minimal or no adverse impacts.

When a project finance transaction is deemed Category A, a designated Citigroup senior credit officer or ESRM Specialist with support from the ESRM Director must review and give sign-off approval for the transaction to proceed.

In March 2006, CMB issued a refined and updated ESRM Policy. With this most recent update, ESRM Covered Transactions include:

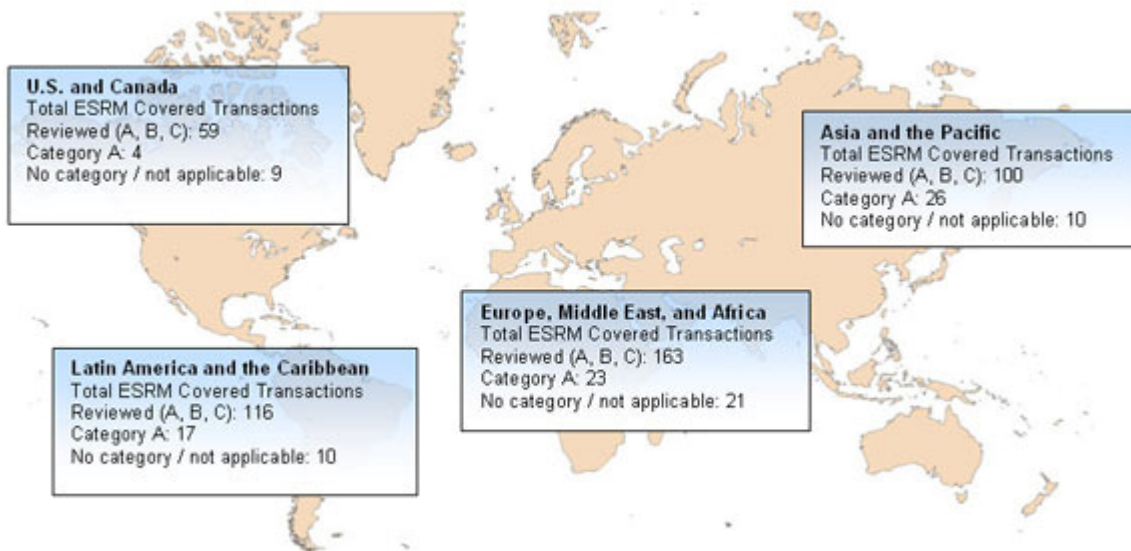
ESRM Covered Transactions	
Corporate or Govt Loans	<ul style="list-style-type: none"> Facility amount > \$50 MM and known use of proceeds
Project Finance	<ul style="list-style-type: none"> Capital costs > \$10 MM and known use of proceeds Equator Principles apply
Existing Projects & Refinancings	<ul style="list-style-type: none"> Expansion or upgrade is planned and capital costs > \$10 MM Equator Principles apply
Project Finance Advisory Mandates	<ul style="list-style-type: none"> Capital costs > \$10 MM and known use of proceeds
LCs, Bid Bonds, & Performance Bonds	<ul style="list-style-type: none"> Aggregate amount > \$50 MM and supports specific investment/project
Debt Securities Placements or Underwritings	<ul style="list-style-type: none"> Financing amount > \$50 MM and known use of proceeds
Equity Investments or Underwritings	<ul style="list-style-type: none"> Citigroup investment > \$5 MM Underwriting or arranging > \$50 MM in aggregate

The ESRM Policy also covers Citi's commitment to not make loans to companies that we know to be in violation of local or national laws regarding illegal logging. The March 2006 ESRM Policy update also included issuance of a more robust procedure for Citi's investment in the forestry sector, including requirements for independent certification of certain forestry transactions (see our [Forestry](#) page).

Recognition of these innovations did not go unnoticed. In June 2006, our ESRM Team was awarded a *Special Commendation* "for exemplary leadership in integrating best-in-class environmental and social policies across the global operations of the group" by the judges in the inaugural Financial Times Sustainable Banking Awards.

These new policy initiatives reflect Citi's awareness of, and concern for, environmental, social and sustainability issues globally. In developing them, we have consulted widely with clients, NGOs and experts; evaluated the environmental policies of other companies; and engaged many employees within Citi. We will continue to learn from implementation and update our approach accordingly. For more details on our ESRM Policy implementation (including our implementation of the Equator Principles), please see the tables below and pages 36-37 of our [2005 Citizenship Report](#).

	Total	Category A
Project Finance (subject to the Equator Principles)	86	20
Project Finance Advisories	39	17
Corporate Loans	208	26
Other*	105	7
Total	438	70



**EQUATOR PRINCIPLES:
CITIGROUP'S TYPICAL PROJECT FINANCE REVIEW, APPROVAL AND MONITORING CYCLE¹**

Client Actions	Project Review Stage	Business/Transactor Actions	Independent Risk Review & Approval
<ul style="list-style-type: none"> Client seeks competitive financing terms from bank market Preparing or finalizing EIA documentation 	Business Opportunity Identified	<ul style="list-style-type: none"> Business opportunity identified for internal review and discussion 	
<ul style="list-style-type: none"> Receives and reviews marketing letter from Citigroup 	Greenlight Memo & Marketing Stage	<ul style="list-style-type: none"> Approvals required from appropriate senior business heads, control units ESRM Category proposed along with potential ESRM Policy or Equator requirements Following greenlight approval, submits Citigroup proposal/marketing letter to client 	<ul style="list-style-type: none"> Approvals required from appropriate Independent Risk heads Independent Risk representative assigned to deal team ESRM Director notified and consulted For Category A transaction, ESRM Specialist approval required in consultation with ESRM Director
<ul style="list-style-type: none"> Reviews and seeks clarification on Citigroup proposals, including discussion on Equator Principles requirements Accepts, modifies or rejects Citigroup proposal If proposal accepted, Citigroup mandated 	Discussion of Citigroup Proposal with Client	<ul style="list-style-type: none"> Includes discussion of Equator Principles, if relevant Prior to mandate, preliminary credit approval or re-approval of greenlight which includes, again, discussion of ESRM Category and requirements 	
<ul style="list-style-type: none"> Client provides to Citigroup Equator Principles documentation, prepared by or on behalf of client (e.g., EIA, EMP, consultation information) 	Detailed Due Diligence Process, Including Term Sheet Negotiations	<ul style="list-style-type: none"> Transactor and Independent Risk review EA documentation For Category A transactions, appointment of Independent Environmental Consultant to review EA documentation to confirm compliance with Equator Principles ESRM Director provides review and advice 	
<ul style="list-style-type: none"> Client accepts commitment 	Credit Approval & Commitment	<ul style="list-style-type: none"> Confirms project satisfies applicable internal credit analysis standards, including ESRM Policy and Equator Principles requirements or, in rare instances, appropriate waivers obtained if deviation is justified For Category A transaction, ESRM Specialist approval required in consultation with ESRM Director 	
<ul style="list-style-type: none"> Final facility terms agreed Signs loan documentation Receives first disbursement 	Closing and Disbursement	<ul style="list-style-type: none"> Conditions precedent met, including ESRM and Equator Principles conditions, if any Citigroup signs loan documentation Business "hand-off" of project to Independent Risk/Portfolio Management 	<ul style="list-style-type: none"> Credit Approval revised, if appropriate Portfolio Management assumes control and oversight of project
<ul style="list-style-type: none"> Based on previously agreed terms, client plans for and submits Equator Principles and other monitoring and reporting to Citigroup and/or Syndicate regarding compliance with environmental and social conditions (e.g., EMP) 	Ongoing Monitoring and Supervision	<ul style="list-style-type: none"> Conditions precedent met, including ESRM and Equator Principles conditions, if any Citigroup signs loan documentation Business "hand-off" of project to Independent Risk/Portfolio Management 	<ul style="list-style-type: none"> Receives and reviews ongoing monitoring and compliance reports from client and/or Independent Expert² Works with the client and/or Independent Expert to identify and correct areas of noncompliance, if any If significant area of noncompliance evident, ESRM Specialist notified and action plan devised to bring client back into compliance

¹ The foregoing provides an illustrative summary of usual steps taken in a typical CIB project finance transaction. All transactions are not identical, and the review, approval and monitoring steps described above may be tailored, reduced or supplemented based on the facts and circumstances of a particular transaction.

² Monitoring and compliance reports are usually submitted quarterly during construction periods and annually thereafter.

● Designates ESRM review and control point.