



Citi ESRM Approach to Commercial Logging and Primary Processing of Timber

Summary:

Citi continues to have a public commitment that it will not make loans to companies whom we know to be in violation of local or national laws regarding illegal logging. In March 2006, Citi significantly refined its Policy approach on this issue to include more robust Risk Assessment criteria and steps for various Forest Products Obligor (FPOs), including independent certification requirements for certain operations. The “high caution” zone concept remains in the Policy as evidenced by the inclusion of a commitment not to execute transactions that significantly convert or degrade a critical natural habitat consistent with IFC Performance Standards in effect at this time.

Scope:

ESRM Covered Forest Products Obligor (FPOs) are customers that are directly involved, as a material business line, in logging or primary processing of timber. (Note: primary processing includes milling of logs for pulp, paper, sawn wood, plywood, or veneer). This includes all customers who are engaged in harvesting or processing of forest resources in high-risk geographies in order to prevent Citi from not doing business with customers directly involved in illegal logging activities.

Scope of Transactions include project finance, asset finance or corporate finance (with use of proceeds known), to be consistent with obligations under the Equator Principles and Citi’s ESRM Policy.

There is not a minimum dollar threshold amount for Citi’s policy against illegal logging.

ESRM Covered FPO Risk Assessment Process Steps and Actions:

For new transactions, ESRM Covered FPOs are subject to a Forest Products Risk Assessment to determine the appropriate risk management actions.

ESRM Covered FPOs already in the portfolio are subject to an annual Forest Products Risk Assessment during the annual review process to determine the risk status of the Obligor under this Policy, and any consequent action (see below).

Steps	Risk Management Action
Step 1. Applies to all ESRM Covered FPOs (all customers who are involved, as a material business line, in logging or primary processing of timber).	Annual review of compliance with the Policy undertaken. This includes an annual interview with the Customer undertaken by the Relationship Manager (who utilizes a Questionnaire developed by ESRM). This process confirms that the Customer is in compliance with local and national laws regarding illegal logging.
Step 2. Applies to FPOs who are undertaking commercial	1) FPO subject to standard compliance with law representation, and

<p>logging in “high risk” countries (a list devised by Citi based data derived from a variety of credible sources such as the World Bank and WWF).</p> <p>Note: this includes processing or milling operations that source all or part of their logs from forest lands under their control.</p>	<p>2) FPO presents Citi with a plan to achieve independent certification within a timeframe (e.g. 3-5 years) to be agreed between Citi and the customer. Intermediary milestones would be required in order to continue the financing relationship between Citi and the customer. Development of a time-bound “action plan”, and the monitoring of progress of the action plan, would be conducted by a credible external party consistent with IFC Performance Standard 6 requirements.</p> <p>The ESRM Director will be notified and review these Transactions.</p>
<p>Step 3. For FPOs where a significant threshold of concern has been raised about the legality of their operations.</p>	<p>1) FPO subject to standard compliance with law representation, and</p> <p>2) FPO presents Citi with a plan to achieve Forest Stewardship Council (FSC) certification within a timeframe (e.g. 3-5 years) to be agreed between Citi and the customer.</p> <p>The significant threshold of concern must be evidenced by credible and objective third party information.</p> <p>Intermediary milestones would be required in order to continue the financing relationship between Citi and the customer. Development of a time-bound “action plan”, and the monitoring of progress of the action plan, would be conducted by a credible external party consistent with IFC Performance Standard 6 requirements.</p> <p>In these cases, if a customer refuses to embark on developing an “action plan” towards FSC certification, Citi would embark on actions to consider exiting the relationship.</p> <p>The ESRM Director will be notified and review these Transactions.</p>
<p>Step 4. Operation significantly converts or degrades a critical natural habitat.</p>	<p>Precluded under Citi ESRM Policy. Citi will not execute such transactions.</p>



Forestry & Finance Training Program:

In 2007, Citi has launched a Forestry & Finance Training Program that will help bankers to better understand illegal logging issues and build their capacity to implement Citi's Sustainable Forestry Policy. The Forestry & Finance Training Program includes development of guidance documents and training workshops to be held in various regions around the world.