



## CITI SUSTAINABLE FORESTRY POLICY SECTOR STANDARD

### SUMMARY:

Citi has made a public commitment that it will not engage in business with 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 and in “high risk” geographies. The commitment not to execute transactions that significantly convert or degrade a critical habitat (consistent with IFC Performance Standard 6 in effect at this time) constitutes Citi’s approach to “Areas of High Caution and Special Focus” within the forestry sector.

### SCOPE AND THRESHOLD:

ESRM Covered Forest Products Obligor (FPOs) are customers that are directly involved, as a material business line, in logging or primary processing of timber.<sup>1</sup> This includes all customers who are engaged in harvesting or processing of forest resources from either natural forests or plantations.<sup>1</sup>

There is no minimum dollar threshold amount for this Sector Standard.

### ESRM COVERED FPO RISK ASSESSMENT PROCESS LEVELS AND RISK MANAGEMENT ACTIONS:

New ESRM Covered FPO Transactions must meet the ESRM Policy requirements as defined by product type. If the Transaction is a project financing, the full suite of Equator Principles process requirements is required. In addition, all ESRM Covered FPOs must meet the required risk management actions as defined below. Further guidance on implementation of this FPO Sector Standard is available from Citi’s ESRM Unit.

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 resulting risk management actions (see below).

FPO ESRM Levels	Required Risk Management Actions
<p><b>LEVEL 1:</b> Applies to <u>all</u> ESRM Covered FPOs in Citi CMB’s portfolio (i.e., all customers who are involved, as a material business line, in logging or primary processing of timber).</p>	<p>Compliance with this Policy is undertaken on an annual basis via the FPO Risk Assessment process. This includes an annual interview with the customer undertaken by Citi’s relationship manager (utilizing a questionnaire developed by Citi’s ESRM Unit). This process confirms that the customer is in compliance with local and national forestry and</p>

<sup>1</sup> Note: For purposes of this Policy, primary processing includes milling of logs for pulp, paper, sawnwood, plywood or veneer. This does not include trade transactions (e.g., letters of credit for trade in timber). However, Transactors and Risk Management professionals engaged in these transactions (e.g., letters of credit for trade in timber) may want to seek, on annual basis, additional comfort in the form of a beneficiary certificate from their Customers (i.e., trading Customers) to confirm that they are not involved or engaged in illegal logging activities. The decision whether to seek this certificate (which may be in the form of a letter) will be made by the Independent Risk Manager, and will be posted in the Obligor’s Credit Files.

<sup>2</sup> While this FPO Sector Standard is intended for management of sustainable forestry, Citi recognizes that many of the same environmental and social risks may be associated with palm oil plantations. For clients involved in this sector, Citi recommends adherence to the Principles and Criteria of the Roundtable for Sustainable Palm Oil ([www.rspo.org](http://www.rspo.org)).

	<p>environmental laws to prevent illegal logging.</p>
<p><b>LEVEL 2:</b> Applies to FPOs who are undertaking commercial logging of timber (from lands under their control) or primary processing of timber in “high risk” countries (a list devised by Citi based on data derived from a variety of credible 3<sup>rd</sup> party sources such as the World Bank and WWF).</p> <p><b>NOTE:</b> FPOs involved in primary processing of timber will be required to achieve a “chain of custody” certification of their operations.</p>	<ol style="list-style-type: none"> <li>1) FPO subject to standard compliance with law representation.</li> <li>2) The 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. This time-bound “action plan” must be presented to Citi within a reasonable timeframe (e.g., within 6 months of the transaction’s close). Intermediary milestones must be met to continue the financing relationship between Citi and the customer (see Citi Forestry sector implementation guidance note for further instruction).</li> <li>3) The relationship manager should provide the ESRM Director, or designate, a status update on the client’s progress in achieving the action plan’s milestones during each annual review.</li> </ol>
<p><b>LEVEL 3:</b> For FPOs where a significant threshold of concern has been raised about the legality of their operations.</p>	<ol style="list-style-type: none"> <li>1) FPO subject to standard compliance with law representation; and</li> <li>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.</li> </ol> <p>The significant threshold of concern must be evidenced by credible and objective third-party information, as determined by Citi.</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 steps to consider exiting the relationship.</p> <p>The ESRM Director, or designate, will be notified and review these Transactions.</p>
<p><b>LEVEL 4:</b> Operation significantly converts or degrades a critical habitat.</p>	<p>This is a Precluded Activity under Citi’s ESRM Policy. Even if such activity is allowable under law, Citi will not execute such transactions.</p>



*FORESTRY & FINANCE TRAINING PROGRAM:*

In 2007, Citi launched a Forestry & Finance Training Program, in partnership with the Rainforest Alliance, that helps 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.