

Policy for environmental and social issues

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1 Preamble

1.1 Commitment

This Policy defines the commitment of the WestLB AG (the Bank) regarding environmental protection and social aspects as a contribution to sustainable development. The Bank has formulated the following guidelines for sustainable development: The Bank organises its business activities by taking account of economic, ecological and social aspects. For WestLB, acting in a sustainable way means satisfying the needs of today's generations without restricting the ability of future generations to satisfy their needs. Sustainability is an integral element of the Bank's entrepreneurial behaviour and is developed on an ongoing basis.

For this reason, the Bank supports international initiatives focusing on the strengthening of framework conditions in developing regions, and it will endeavour to bring about a fair balance between economic, social and ecological interests, to the extent possible. Also gradual changes in terms of sustainability contribute to an improvement of the prosperity level.

1.2 International Obligations

Global Compact, UNEP-FI, Equator Principles and Roundtable on Sustainable Palmoil (RSPO): As a member of Global Compact and the Financial Initiative of the Environmental Programme of the UN (UNEP-FI) the Bank has committed itself to comply with human rights and key labour standards as well as to protect the environment. Furthermore, WestLB, in cooperation with other banks, has defined voluntary environmental and social standards for the project financing business (Equator Principles) on the basis of the guidelines established by the World Bank and its sister company International Finance Corporation (IFC). In addition, WestLB, as a member of the RSPO, recognizes the criteria for promoting growth and use of sustainable palm oil.

2 Targets

2.1 Task

In its business transactions, the Bank supports the improvement of social and ecological conditions.

2.2 Implementation and Commitment

The Policy at hand encourages compliance with the following general, subject and sector-specific principles.

On the one hand, these principles have an appellative character, e.g. the Bank should seize opportunities in the context of climate protection by integrating these aspects into its products (funds, certificates, project finance, etc.) or developing new products in the area of sustainability for its clients (e.g. specialized funds, CO₂ trading derivatives etc.).

On the other hand, these principles have a binding character in order to assure a minimum of social and ecologic requirements. Here, the Bank follows in particular internationally accepted environmental and social standards (see also Annex B).

The Bank commits itself to comply with these principles. Existing obligations from the participation in national and international committees remain valid. Instead, the present internal principles of the Bank are designed to complete or specify existing obligations.

In addition, these guidelines and notes are intended to provide support in responding to issues in the environmental and social areas.

3 Principles

3.1 Cross Cutting Issues

3.1.1 Corporate Governance

- a) The Bank has committed itself to adopt the principles of the German Code of Corporate Governance (DCGK) as the basis for its Corporate Governance and integrated them into the Internal Rules of Procedure of the individual governing bodies of the Bank. In doing so, we encourage the dynamic development of Corporate Governance and recognize its importance for a sustainable corporate development.
- b) The Bank will document any deviations from the recommendations of the DCGK in Corporate Governance in an annual report, thus guaranteeing maximum transparency towards all groups working with the Bank.

3.1.2 Transparency and Corruption

- a) The Bank has committed itself and its employees in line with legal provisions and additional internal regulations (e.g. Compliance Regulation, Code of Conduct) to act in an ethical way in its business transactions. We do not tolerate any form of corruption in our business relations. All employees are obligated to contact their superior and the responsible colleague of the Compliance Department if any suspicion arises. If required, the Compliance Department reports subsequently to the BU Group Audit.
The Bank reviews its existing clients regularly and pursues a step-by-step approval within the framework of its guideline for client acceptance, which may result even in the termination of the business relationship.
- b) The Bank endeavours to contribute to an increase in transparency and the establishment of corruption-free areas by supporting relevant initiatives within the framework of its business activities.
- c) The Bank explicitly appreciates, if its employees engage actively in creating transparency and preventing corruption.

3.1.3 Human Rights

The Bank is committed to comply with human rights pursuant to the Universal Declaration of Human Rights (see also UNHCHR). We wish to contribute to the promotion of universal compliance with human rights and key labour standards (see principles of Global Compact) within our business activities and by supporting relevant initiatives.¹

The Bank will not support business transactions, which will contravene the Universal Declaration of Human Rights. Details are described in the guidelines for application.

3.1.4 Social and Cultural Aspects

Regarding social and cultural aspects, the Bank pays attention for its business activities to the revised versions of the Policies of the World Bank and the International Labour Organisation (ILO). Relevant Policies are defined in the individual sector guidelines:

- a) Cultural Property (Management of Cultural Property in Bank-Financed Projects, WB Operational Manual 11.03)
- b) Child Labour (see Annex A, in particular International Labour Convention (ILO) No. 182 "Convention on Prohibition and Elimination of the Worst Forms of Child Labour 1999" & UN Convention on the Rights of the Child, Art. 32.1)
- c) Maternity Protection (pursuant to ILO No. 183)
- d) Forced Labour (pursuant to ILO No. 29, No. 105)²

¹ <http://www.ohchr.org/EN/ProfessionalInterest/Pages/InternationalLaw.aspx>, <http://www.unhcr.ch/udhr.lang/eng.htm>, <http://www.unglobalcompact.org/>

² <http://www.ilo.org/ilolex/german/docs/convdisp1.htm>, <http://www.ilo.org/ilolex/english/convdisp1.htm>

- e) Discrimination in Employment (pursuant to ILO No. 111). In countries where national law provides for non-discrimination in employment, national law will be complied with. When national laws are silent on non-discrimination in employment, ILO No. 111 will be applied.
- f) Freedom of Association and Right to Organise and Collective Bargaining Convention (pursuant to ILO No. 87, 98). In countries where national law provides freedom of association, national law will be complied with. When national laws are silent on freedom of association, ILO No. 87 and No. 98 will be applied.
- g) Involuntary Resettlements, WB Operational Policy 4.12)
- h) Indigenous Peoples, WB Operational Policy 4.10)

3.1.5 Pollutants / Limiting Values

In order to protect the environment, limits for emissions and immissions, including air and noise, waste water and waste material should be met as laid down in the World Bank Pollution Prevention and Abatement Handbook, PPAH 1998. For contents of the Handbook see Annex B, List of Pollutants.³

The Bank will not support transactions for constructing and extending or renovating plants and procedures if the limits fixed are exceeded. Existing plants and procedures (ie. which will not be extended or renovated) are not affected.

The Bank will support, while at the same time considering the regional, social and cultural context, the use of best-available-technology in the construction and extension or renovation of plants and procedures. If legally determined limits exceed these values, the former are to be met.

3.1.6 Special Protected Areas

The Bank will not support business transactions which take place in the following listed areas or will lead to irreversible or permanent damage of those areas:

- a) Listed UNESCO world natural habitats and world heritage properties,⁴
- b) Areas specifically protected by national law and nature reserves and national parks,
- c) Listed wetlands of international importance pursuant to the Ramsar Convention (International Ramsar Convention on Wetlands, The List of Wetlands of International Importance, 28 June 2005),⁵
- d) UN list for protected areas⁶ of Categories⁷ I to III (see Annex D),
- e) Areas, in which the realization of the transaction would result in a permanent transformation or destruction of endangered natural habitats (Critical Natural Habitat, see definitions pursuant to World Bank OP 4.04),
- f) Areas where trees are felled for timber production in a primary forest (see definition).

Excluded there from are transactions

- 1) which serve the environment, natural protection or maintenance and improvement of the protected areas, and/or
- 2) which serve the development of an adequate and sustainable form of tourism or a recreation area.

³ Document in the Internet: http://www-wds.worldbank.org/servlet/WDS_IBank?pcont=details&eid=000094946_99040905052283 or <http://www.ifc.org/ifcext/enviro.nsf/Content/PPAH> and available from Sustainability Management

⁴ <http://whc.unesco.org>

⁵ <http://www.wetlands.org/rsdb>

⁶ United Nations List of Protected Areas. In this connection, please refer to the World Database on Protected Areas (W DPA) (see <http://www.unep-wcmc.org/wdpa> button "Search for Sites")

⁷ According to the definitions of IUCN/WCPA (see <http://www.iucn.org/themes/wcpa/theme/categories/categories.htm>, <http://www.unep-wcmc.org/wdpa> button "Definitions & Categories").

3.1.7 Biodiversity

The Bank will not support business transactions which take place in areas that are livelihoods for species in danger of extinction. These species are named on the Red List of the International Union for Conservation of Nature and Natural Resources (IUCN) as “Critically Endangered” and “Endangered”.⁸

3.1.8 Climate Protection

The Bank supports the objectives⁹ formulated in Article 2 of the United Nations Framework Convention on Climate Change (UNFCCC) and the objectives by the EU. For this purpose it assumes its responsibility, defines its commitment in the field of climate change by setting target objectives and provides periodic and adequate information to its stakeholders (e.g. in its Sustainability Report). Details are described in a separate Climate Policy¹⁰ which will be in agreement with the objectives indicated herein.

The Bank has committed itself to promoting efficient technologies and renewables, e.g. photovoltaics, solar thermal power plants, wind power, bio energies and geothermal power.

3.2 Sectors

3.2.1 Dams

The Bank recognizes the positive results of the World Commission on Dams (WCD). The Bank will not support business transactions involving dams for which the recommendations of WCD will not be applied as extensively as possible. For this the Bank will require a report from the client (or its consultant) explaining to what extent the recommendations of WCD have been fulfilled.¹¹

3.2.2 Arms and Military Equipment

The Bank will not finance business transactions relating to arms and military equipment if their production and/or trade violate national or international law, including the EU Code of Conduct on Arms Export. Production and trading in land mines and stray ammunition will not be financed under any circumstances.

3.2.3 Extractive Industries

The Bank recognizes that in the extractive industries due to political, ecological and social sensitivities special due diligence and precautionary measures should be undertaken. Hence, the bank supports international initiatives in order to strengthen frameworks for the sector. In particular in the oil and gas and metals and mining sectors, the Bank refers to international conventions and best practice¹². Further definitions and explanations will be included in relevant Sector Policies.

3.2.4 Forests and Forestry

In the forest and forestry sector (timber production, deforestation, forestry) the Bank adopts the revised version of World Bank Standards (WB OP 4.36, 2004) in all business transactions. In particular, the Bank will not support transactions which

⁸ Verification provided at <http://www.iucnredlist.org> Categories CR and EN. Valid areas are the same as paragraph 3.1.6. Additional guidance about areas can be found at <http://www.zeroextinction.org/search.cfm> or <http://www.biodiversityhotspots.org>.

⁹ UNFCCC pursues the objective of preventing a dangerous change in climate. The EU determines the limit for fixing the global increase in temperature to a level of 2 degrees centigrade compared to pre-industrial times.

¹⁰ This will include e.g. direct and indirect emissions in industrialized and developing countries and, in addition, shows the business activities related to the reduction of emissions (emissions trading system), Clean Development Mechanism, Joint Implementation, etc. (see http://unfccc.int/kyoto_mechanisms/items/1673.php).

¹¹ Guidance is given by the checklists of the Sustainability Assessment Protocol of International Hydropower Association - http://www.hydropower.org/downloads/IHA_SAP.pdf

¹² Best Practice examples are indicated by the World Bank and Industry Associations in the regional context and are listed in the Chapter “References”.

- a) relate to commercial timber production in special protected areas (see Item 3.1.6); moreover, the status of a protected area (according to Item 3.1.6) must not be changed for timber production;
- b) concern companies procuring, trading in or processing timber from sources listed under a) or are involved in slash-and-burn and uncontrolled felling actions;
- c) violate local or national law, i.e. are illegal (see Definition in the Annex A).

The Bank will endeavour to engage in business transactions in this sector with clients which are certified by the Forest Stewardship Council (FSC)¹³ or comply with accepted similar standards or trade in or process corresponding products. In addition, the Bank promotes international initiatives encouraging the implementation of relevant standards, e.g. the Global Forest & Trade Network (GFTN).¹⁴ Details to Item 3.2.4 will be defined in a Policy for Forestry.

3.2.5 Biomass

With its economic activities the Bank supports the production of biomass.¹⁵ It is aware of potential problems in connection with the safeguarding of nutrition, destruction of protected areas (see 3.1.6), ecological damages and social risks and will regulate details within the framework of a sector policy.

Furthermore, as a member of the Roundtable on Sustainable Palmoil (RSPO)¹⁶ it accepts its criteria for sustainable economic activities in this sector.

3.2.6 Maritime

The Bank will not support business transactions which will not comply with the International Marine Organization (IMO)¹⁷ pertaining to:

- a) shipment of oil or other hazardous substances in tankers, or
- b) large-scale drift net fishing in the deep-sea (pelagial).

The Bank endeavours to deal with customers who were certified by the Marine Stewardship Council (MSC)¹⁸ or apply recognized similar standards to their activities or committed themselves to trading or processing accepted products.

3.2.7 Genetically Modified Organism (GMO)

The Bank will be informed by its customers if they use genetically modified organisms (GMO) and will take account of this information in the risk assessment, especially in the plant cultivation and food and forage plants sectors.

4 Scopes of Application

4.1 General Validity

4.1.1 Contents

In this Policy the Bank defines the social and ecological principles underlying its business activities with the client. (Chapter 3)

4.1.2 Scopes of Application

This Policy applies to all business units of the WestLB AG and all transactions (see 4.1.4) with national and international clients of the Bank. Unless covered by more extensive, detailed regulations, this Policy

¹³ <http://www.fsc.org>

¹⁴ <http://www.panda.org/gftn>

¹⁵ e.g. from palms (palm oil), soy, maize, sugar cane or grain, but also forest, straw or organic waste.

¹⁶ <http://www.rsपो.org>

¹⁷ IMO is the UN specialized agency responsible for improving maritime safety and preventing pollution from ships.

¹⁸ <http://www.msc.org>

defines the environmental and social standards to be met. Details are described in the guidelines for application.

4.1.3 Purpose of Use

Within the usual framework of due diligence relating to each specific business transaction, the Bank will in each individual case check the use of funds made available and, if identifiable using reasonable efforts, apply the present Policy.

4.1.4 Transactions

Transactions within the meaning of this Policy include all business activities of the Bank, irrespective of the Bank playing a leading role or simply participating in a transaction, e.g. financings, products of the capital market (see Definition in the Annex A), equity participations, assumption of advisory functions, etc., after entry into effect of this Policy. It is to be taken into account that the possibility of exercising influence is more restricted if the Bank simply participates in a syndicated transaction than if it plays a leading role (e.g. as Mandated Lead Arranger).

4.1.5 Upstream- and Downstream activities

The principles have also to be met if upstream and downstream environmental and/or social influences are to be expected (see definition).

4.2 Limitation

4.2.1 Disclaimer

The present Policy is an internal framework for the development and implementation of internal guidelines and processes. This Policy does not create any rights or obligations towards third parties. The Bank introduces this Policy on a voluntary and independent basis without assuming any liability or obligation towards third parties.

4.2.2 Opinion of the Bank

The opinion of the Bank in the context of this Policy will always be formed by internal processes, and if required using the support of independent advisers selected by the Bank.

4.3 Dealing with Existing Provisions

4.3.1 Laws and Provisions

The Bank undertakes for all its transactions with clients to comply with the environmental and social laws and provisions of each country to which the transaction or the purpose of use is related substantially.

Unless covered by customary wordings ("Environmental Covenants") or country law, a formal obligation should be included in the Loan Agreement (or Term Sheets as the basis for the contracts) or in corresponding contracts with clients and third parties.

4.3.2 Existing Internal Guidelines

Existing internal and external guidelines for the protection of environmental and social standards are not affected by this Policy. These include among others the Equator Principles.¹⁹

¹⁹ By accepting these guidelines, the Bank commits itself to verify thoroughly all project financing inquiries of clients and not to accept project financings in which the borrower is unwilling or unable to comply with the above environmental and social standards and procedures, see (www.equator-principles.com)

5 Publications

5.1 Transmission of Information to the Public

The provision of business information is foremost a task of investors or sponsors responsible for a project. The Bank will transmit business information which is not publicly available to third parties only after having obtained the written approval of the parties concerned.

5.2 Public Reports

The Bank will actively promote transparency and public information. The Bank will inform the public of the implementation of this Policy in an anonymized summary to be published with a two-year interval as appropriate (e.g. with its sustainability report); in addition an annual update will be provided on its Internet pages.