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WestLB Sustainability Report 2007 Third party review – Full version

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WestLB commissioned Maplecroft to review its second sustainability report against best practice for materiality, transparency and comparability. We examined the robustness of management systems and used social audit methodology to corroborate the information presented in the report. This includes inspection (of documents, records etc.) and enquiry (interviews with internal and external stakeholders). This review does not constitute data assurance.

Management system findings

WestLB's 2007 sustainability report, the company's second, shows progress compared with the 2005 report. The management systems and organisational structures in different functional areas – namely core business, environment, human resources and supply chain – are described effectively. WestLB's engagement with the Equator Principles (EP), the UN Global Compact (UNGC), the UNEP Financial Initiative (UNEP FI) and its adherence to the German Corporate Governance Code demonstrates a clear commitment to best practice.

WestLB's internal sustainability management systems are advancing. The development of a sustainability 'macro policy' is a step towards an integrated non-financial risk management system. Maplecroft has seen a draft of this policy which is based on key national and international best practice standards and initiatives. We recommend further implementation, in particular that all sustainability management, data collection and reporting systems should be rolled out to WestLB operations worldwide. This would allow WestLB to gain an all-inclusive baseline view of its sustainability performance and enable the entire company to set and achieve new targets together.

Sustainability targets are detailed and comprehensive. The introduction of new targets – especially on climate change – shows responsiveness to stakeholder concerns. Additional targets could relate to the systematic evaluation and reporting on community investment and its effectiveness. We also advocate the setting of new targets for stakeholder engagement (where all current targets have been achieved) and transparency as detailed below.

Certification to ISO 14001 is on target for completion in November 2007, according to the Environmental Protection Officer, Mr Joerg Stendel. To further embed social and environmental management systems, WestLB could consider certification to the OHSAS 18001 health and safety standard.

Materiality

The 2005 engagement exercise was an important step in identifying issues relevant and material to WestLB stakeholders. Most issues raised have been addressed in the report, although this is not explicitly stated and there is no detailed response regarding this particular stakeholder feedback. We recommend that WestLB expands its stakeholder engagement programmes and maintains an ongoing dialogue with a variety of stakeholders such as employees, shareholders, customers, NGOs and members of the community. Stakeholders in countries of relatively high risk, such as Ecuador and Indonesia should be included.

The initiation of the NGO forum is commendable. While we understand that the work of the forum is currently confidential at request of the participating NGOs, stakeholder transparency and credibility would be increased if the report contained a list of the participating NGOs and some outputs from the dialogue. This would also allow the reader to gauge the thematic range and calibre of the NGOs involved. The existence and ongoing work of the forum was confirmed by its independent co-ordinator, Ms Susanne Bergius.

The inclusion of a statement by four well-known environmental NGOs is commendable and represents a step in the right direction. Best practice increasingly requires mission-guided assurance whereby expert groups evaluate relevant evidence (for example on the application of the EP) and make recommendations. Future reports would benefit from further inclusion of such commentary together with WestLB's response.

Corruption and compliance

While compliance policies and procedures are outlined, the report does not disclose quantitative information such as the number of employees trained in the reporting period with respect to compliance and anti-corruption procedures. It is stated that all employees are made aware of the bank's anti-money laundering policy, which is commendable. It would, however, be good to know specifically how many employees have gone through the detailed anti-money laundering training in the reporting period. Case studies of how compliance mechanisms operate in practice would also be of value.

Within the compliance area, best practice appears to exist in some areas that could be extended to others. While WestLB has established a policy on gift giving, for example, no confidential whistle-blowing mechanism seems to be in place to guard against other potential areas of corruption. Employees appear to be well-trained in anti-money laundering but not in other compliance areas.

The report contains no mention of fines and sanctions arising from non-compliance with laws and regulations. If no such non-compliance took place in the reporting period, this is commendable and should be mentioned. If any fines or sanctions were imposed, their monetary value and nature should be disclosed.

Project finance

Project finance, its social and environmental risks and WestLB's management systems to monitor good practice are well reported. This is prudent, as project finance – compared to other core business areas – potentially has the greatest localised impact on the environment and local communities. It is a significant source of reputational risk. WestLB is exemplary in that it takes the principles of the UNGC, the UNEP FI and the EP into account when evaluating projects. For future reports, it is recommended that the internal management systems that underpin these standards are described in more detail.

This includes a description of the requirements for project initiators as well as any advisory and audit processes that may be conducted over project life cycles. It would be worth mentioning that the Sustainability Management team is involved in all projects and helps to decide on acceptance, rejection or additional requirements. This was confirmed by Mr Stephan Kloock, Head of Policies & Risk Steering Corporates & Capital Markets Business Management. In his view, Sustainability Management is taken very seriously and its recommendations are generally acted upon. This is an excellent example of how WestLB is embedding sustainability in core business processes.

Additional case studies on the local and national socio-economic impacts of projects are recommended. Especially in developing countries, investment in natural resources and infrastructure often contributes substantially to government revenue, employment and local economic development through procurement. In addition, it often catalyses further investment. Future reports could address the challenges associated with EP implementation in more detail, for example through additional case studies and different stakeholder viewpoints. This is especially of interest with regard to projects that have been conditionally approved.

Transparency

WestLB demonstrates a commitment to transparency by discussing the trading irregularities which were discovered in 2007. This is covered in the context of business strategy rather than compliance, and it is kept regrettably short. We were somewhat surprised not to see a more recent update on the process, including the July 2007 dismissal of the Chairman of the Managing Board and the Chief Risk Officer. Reporting on the issue on the company's website and in its quarterly reports, however, has been timely and detailed, and the report refers to the relevant web address.

The report notes voluntary compliance with the German Corporate Governance Code, which suggests good internal business ethics and transparency with regard to payments made by WestLB in Germany. It is limited on information about policies, procedures and the results of monitoring with respect to lending in developing countries where corruption is endemic and where there are weaknesses in governance. We recommend an assessment of risks in this regard.

WestLB could also consider signing up to the Extractive Industries Transparency Initiative (EITI) which aims to ensure that the revenues from extractive industries contribute to sustainable development and poverty reduction. Over 70 global investment institutions – among them HSBC, JP Morgan, Swiss Re and UBS – have signed up to the so-called Investors' Statement on Transparency in the Extractives Sector. So far, no German bank has signed up to EITI, which means that WestLB could be leading best practice in Germany by endorsing the initiative.

Comparability

WestLB was the first and only German bank to report 'in accordance' with the GRI guidelines for sustainability reporting. This year's move to report against the GRI G3 indicators and the GRI Financial Services Sector Supplement facilitates stakeholders' ability to benchmark the report. It demonstrates a commitment to continuous improvement and compares well with other leading banks. To further increase credibility with stakeholders, WestLB could consider submitting its report to GRI to have its G3 application level checked. We recommend reporting not only on the G3 'core' indicators but also on the 'additional' indicators. The inclusion of the UNGC Communication on Progress is commendable. In addition, WestLB could consider reporting on its contributions to the UN Millennium Development Goals, as other leading banks such as ABN AMRO are doing.

The report itself is well balanced, with a specific focus on sustainability in core business areas. The first part of the report summarises WestLB's management systems of nonfinancial risks in different functional areas. This sets the scene for the rest of the report and provides the reader with a good overview of systems and structures in place. Page references to relevant other parts of the report allow for ease of use. Data tables, targets, the GRI conformance table and the Communication on Progress are presented in the back as a good central reference point.

Overall, the report is informative and user friendly.

Competencies

Maplecroft was founded in 2001. It offers risk, responsibility and reputation management advice and has reviewed numerous sustainability reports for multinational companies. Work was undertaken by Carolin Seeger MSc and Professor Alyson Warhurst.

Bath, England 13 September 2007 Carolin Seeger MSc Professor Alyson Warhurst