

## Sustainability in the Core Business

WestLB will stick to its policy of basing its business activities on high environmental and social standards also after the current restructuring process. The Bank lives up to its leading role in this field by paying equal attention to economic, ecological and social aspects in the development of new business segments, thus structuring its risks more effectively.

### Firmly anchored sustainability management

In WestLB's opinion, the identification and management of environmental and social risks in the lending business make an important contribution to sustainable development. The Sustainability Management Department, which is part of the Group Development Business Unit, acts as a competence centre that is involved in all sustainability-related business decisions. In this capacity, it provides advice on fundamental questions and categorises project financings in accordance with the Equator Principles; these categorisations are a precondition for the approval of a loan. In addition, the Department pushes ahead the development and refinement of relevant business policies.

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### Sustainability principles in all business units

In close cooperation with the individual Business Units and with input from German and international environment and development organisations as well as other stakeholders, WestLB has developed the "WestLB Policy for Environmental and Social Issues", which is binding for all new business of the Bank. Based on internationally accepted standards, the business principles are complemented by specific internal regulations. In addition, we develop supplementary regulations for individual business fields, business units or credit decision-making processes. In the context of credit decision-making processes, responsibility for compliance with the policies and the Equator Principles rests with the front-office. When it comes to implementation and review, Credit Risk Management and Sustainability Management are additionally involved.

As a signatory of the Carbon Disclosure Project, the United Nations Global Compact and as an active member of the Financial Institutions Initiative of the United Nations Environmental Programme (UNEP FI), we have also committed ourselves to complying with international environmental and social standards.

In 2009, front-office and back-office units – account managers and credit risk analysts – submitted 124 transactions to the Sustainability Management Department for review. The fact that the number of transactions declined by one third as compared to 2008 is not only attributable to the general financial market environment but also to the WestLB Policy for Environmental and Social Issues: This central Policy is applied directly in the front-office units, which means that relevant environmental and social aspects are addressed locally at an early stage.

### Project finance based on sustainability aspects

With a view to successfully integrating sustainability aspects into the project finance business, we continue to refine the processes of the Equator Principles and use our presence on the Equator Principles Steering Committee to make sure that the underlying standards are improved, e.g. in a dialogue with the International Finance Corporation (IFC), a member of the World Bank Group, whose Performance Standards form the basis of the Equator Principles.



In 2009, 55 project financings were finally reviewed and categorised by Sustainability Management in accordance with the Equator Principles (also see [www.equator-principles.com](http://www.equator-principles.com) > WestLB AG), with another 24 project financings still being processed at the end of the year. The number of internal consultations of the Sustainability Management Department increased to 31 in 2009 (25 percent of all business transactions). The focus of these consultations was on reputational risks, specialised technical questions and stakeholder management.

In the field of project finance, WestLB focuses on the energy, infrastructure and commodity sectors. Compared to the year 2008, the number of "C projects" declined to eight. These are mostly smaller projects with potentially low environmental and social risks such as solar power plants in the EU. At the same time, the percentage of "A projects" increased to 36 percent (20 transactions).

On the one hand, the number of larger energy supply projects, e.g. LPG plants, or infrastructure projects is growing again; these projects usually entail higher environmental and social risks.

On the other hand, WestLB has learnt that it is good to make stricter assessments and categorisations with regard to these risks. WestLB's Sustainability Management Department imposed conditions for over 80 percent of all energy supply projects and for approx. 65 percent of all infrastructure and commodity projects; these must be taken into account when processing the transactions.

In 2009, one energy project loan was rejected by the Bank's Sustainability Management Department; for four other potential transactions early talks were held between the front-office and the Sustainability Management Department, which resulted in the transactions being abandoned in light of the risks involved.

## Survey

	2007	2008	2009
Transactions involving advisory/ credit assessment services from Sustainability Management	213	188	124
Transactions abandoned	83	78	7
Project financings in accordance with Equator Principles	125	76	55
Project financing (Category A)	24	16	20
Project financing (Category B)	79	36	27
Project financing (Category C)	22	24	8
Other advisory services, incl. reputational risks	18	34	31

## Project Finance by categories 2009

Sector	Category A	Category B	Category C	Total
Energy	6	14	8	28
Infrastructure	11	11	0	22
Commodities	3	2	0	5
in %	36	49	15	

## Project Finance by regions 2009

Region	Category A	Category B	Category C
	Number/Percent	Number/Percent	Number/Percent
Europe	6/30	11/41	8/100
Eastern Europe	2/10	1/4	0/0
North America	2/10	5/19	0/0
South America	3/15	2/7	0/0
Asia/Pacific (APAC)	5/25	6/22	0/0
Middle East	2/10	2/7	0/0

## Sustainability aspects in WestLB's core business

	Structured Finance	Debt and Equity Markets	Corporate & Structured Finance Products	Corporates & Verbund
Products (examples)	Financing of complex infrastructure projects in Germany and abroad	Capital investment products for institutional and private investors	Capital market products and services for enterprises and investors	Corporate lending
Implementation of sustainability (examples)	Social and environmental standards in the assessment and financing of projects (Equator Principles)	Sustainable investments, certificates, integrated ESG financial analysis and corresponding equities business	Capital issues, mergers and acquisitions as well as IPOs in the fields of renewable energies and energy efficiency	Social and environmental standards for large loans, expansion of business with medium-sized companies in the field of environmental technology

### A future-oriented financing partner in the field of energy/coal

WestLB is a leading bank for the financing of energy projects. The global energy sector is particularly capital-intensive and is undergoing a major change. The processes and methods used to generate electricity and heat as well as the energy infrastructure will change fundamentally in the coming years. In view of this situation and of the political, economic, media and social debate about energy supply security and climate protection, WestLB has adopted a "Policy for Business Activities related to Coal-Fired Power Generation" and defined minimum standards for financings in this field. These requirements include:

- a minimum efficiency of 43 percent;
- the physical space necessary to carry out carbon capture
- an economic analysis that takes CCS (Carbon Capture and Storage) scenarios into account.

Also, there must be no material reputational risks. These requirements must initially be met by financings in high-income countries, and as far as possible in other countries. The Policy will be reviewed at the beginning of 2011 and adjusted if necessary. This approach makes WestLB a global leader in the commercial banking sector. This way, we support our clients in the energy sector as a forward-looking financing partner and make a productive contribution to developing a sustainable and reliable energy supply.

### Return-oriented and responsible capital market products

We also want our products and services to contribute to sustainability in the capital market. Regarding our structured investment product which invests in greenhouse gas certificates from climate protection projects, we defined high sustainability standards for the business purpose of the investment company and the investment criteria with a view to achieving the highest possible climate protection effects. Our ESG Sustainability Share Certificate is another example (ESG: Environmental, Social and Governance). The WestLB Open-End New Energy Active Certificate, which focuses on companies from the renewable energy sector gained 34 percent in 2009.



In the field of fixed income products, we also offer structured ESG bonds whose selection of the underlying companies is based on ESG criteria. Going forward, we intend to add equities and equity products meeting ESG criteria to our portfolio of sustainable investment products.

### Early identification of reputational risks

The process for managing reputational risks is another example of the integration of sustainability aspects into the Bank's day-to-day work. All employees are obliged to report special reputational risks and potential reputational damage. The subsequent analysis involves all relevant departments in a clearly defined decision-making process; sustainability aspects play an important role here. In the context of this process, complementary measures or conditions are defined; this may even include the decision to abandon a transaction.

### Environmental management to certified standards

We attach great importance to the sustainability of our internal processes. The Düsseldorf Head Office, the Frankfurt Branch and Akademie Schloss Krickenbeck have been certified to the international environmental management standard ISO 14001 since December 2007. The certificate confirms that WestLB is able to analyse the environmental impacts of the Bank and to initiate and implement appropriate improvement projects. Positive mention was made of the management of product ecology; external auditors confirmed that the Bank achieved significant progress in 2009 in spite of the difficult environment. Recertification is planned for 2010.

### Identifying opportunities through transparency and dialogue

Transparency and information are important elements of sustainable corporate governance. Our report "Sustainability 2009. Integration and efficiency" was voted one of the best reports in the German financial services industry by the "future e.V." initiative and the German Institute for Ecological Economy Research (IÖW). Central aspects of our sustainability reporting such as GRI figures or statistics relating to the Equator Principles are published on our website at least once a year. In addition, we engage in an intensive dialogue for the ongoing refinement of sustainability management and our business activity. The "WestLB Dialogforum Nachhaltigkeit" (semi-annual Sustainability Dialogue Forum) gives representatives of the business units and the Sustainability Management Department as well as representatives of leading environmental, development and scientific organisations the opportunity to exchange views and opinions about corporate responsibility, business risks and opportunities in a process managed by an external moderator.

### Recognition of sustainable operations

We were able to further strengthen our market position in the renewable energy segment. The readers of renowned trade magazines "Environmental Finance" and "Carbon Finance" voted us the "Best Finance House Renewable Energy North America 2009". Trade magazine World Finance rewarded our special sustainability expertise as an ESG broker in the capital market by awarding us the title "Best ESG Research House Germany 2009".

WestLB is particularly pleased that, in spite of their different rating approaches, several rating agencies have given the Bank positive ratings and recommended it as an investment for sustainability-oriented investors.

Munich-based rating agency oekom awarded WestLB "Prime" status in 2010, thus placing the Bank at the top of the league table of Germany's financial institutions. In the Financials/Public & Regional Banks sector, WestLB ranks 5th among a total of 29 banks. With a score of 61 and place 14, Frankfurt rating agency Sustainalytics ranked WestLB far above the average of the 78 banks surveyed. imug from Hannover also placed WestLB above the average and awarded the Bank a "Positive" rating.

