

Sustainability in the Core Business

WestLB's commitment to corporate responsibility forms part of its mission statement. Ever since the Bank started reporting on the structure of what was still a young sustainability management back in 2005, the internal structures and processes have evolved continuously, reflecting the high demands made by the Bank. As a pioneer in our industry, we maintain high environmental and social standards, which form the basis for all business activities. This way, WestLB contributes to sustainable development, thus strengthening the future viability of the business activities of the Bank and its clients.



Group-wide sustainability management

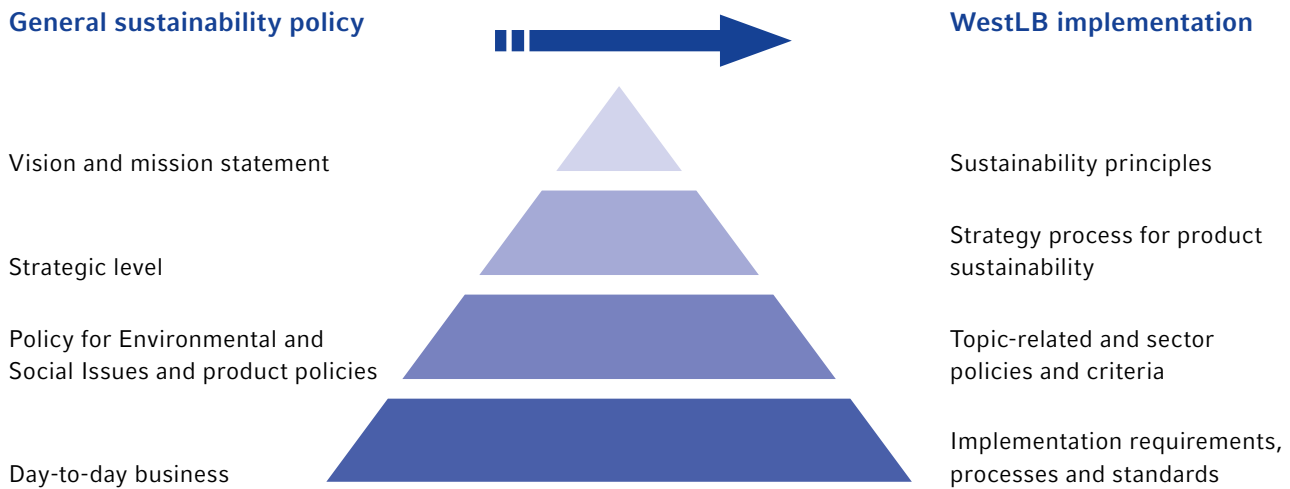
The Sustainability Management Department, which is part of the Group Development Business Unit, is the central organisation responsible for the ongoing development, implementation and control of WestLB's sustainability programme. In this function, it is involved in all sustainability-relevant business decisions such as the review and categorisation of project financings. The Department cooperates closely with the decentralised business units of the Bank. This integrated approach ensures that the sustainability activities are closely integrated with the market requirements and the responsibilities for the respective business activities.

The activities of the client and product units are additionally supported by sustainability managers at the international locations. The specialists who address reputational risks are also an integral element of the management of sustainability aspects in day-to-day business. The organisational structure is rounded off by the environmental management unit for operational sustainability.

Sustainability as a part of business planning

The Policy for Environmental and Social Issues forms the framework for our sustainability activities and has been mandatory for all business units and all new business since 2007. It is based on internationally accepted human and labour rights and environmental standards. In 2010, the Policy was revised in cooperation with the business units and with non-governmental organisations operating in the fields of environmental protection and development and finally approved and adopted by the Managing Board in April 2011. The revision focused on the updating of the underlying standards, the inclusion of a description of reputational management and of strategies for a critical and constructive dialogue with our clients to improve our sustainable business practice.

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Our commitment to international standards is also reflected in our memberships. WestLB is a signatory of the UN Global Compact and an active member of the Financial Institutions Initiative of the United Nations Environmental Programme (UNEP FI). As one of the founding financial institutions and member of the Steering Committee of the Equator Principles, WestLB has actively promoted the ongoing development of the Principles for many years. The Bank also plays a leading role in the "NGO Working Group" as well as in the "Climate Change Working Group" of the Equator Principles.

Starting 2011, the business units of WestLB have been obliged to consider sustainability-relevant issues in their business planning in a systematic and provable manner in order to identify opportunities that arise from the challenges of sustainable development at an early stage. As a result, WestLB now operates clear regulations for the integration of sustainability aspects at four levels. They range from the Bank's general sustainability principles to standards applicable to individual transactions in day-to-day business.

Identifying sustainability-relevant risks at an early stage

We have installed clearly defined processes for our lending activities to ensure compliance with our Policies. Responsibility rests with the front-office, whose implementation and controlling activities are supported

by Credit Risk Management and Sustainability Management. In the context of reputational risk management, all employees are obliged to report special reputational risks and potential reputational damage resulting from transactions; Sustainability Management is involved in the process, especially where environmental or social issues are concerned. Following an analysis, potential complementary measures or conditions are defined; it is even possible to discontinue a transaction altogether.

In 2010, the front-office and the back-office submitted a total of 139 financing transactions to the Sustainability Management Department for special review. Compared to the previous year, this represented an increase of 10 percent, which is attributable to the improved financial market environment and the international business activity of WestLB. This included 38 consultations, especially regarding reputational risks and technical questions relating to environmental and social standards, audit requirements or limits. Eight transactions received a negative vote from Sustainability Management due to the high reputational risks involved.

Systematic review of project financings

As a leading German project financier, WestLB attaches special importance to the systematic review of projects to be financed. Our business activities focus on the energy, infrastructure and commodity sectors. In accordance with the Equator Principles, project financings are classified in categories "high" (A), "medium" (B) and "low" (C) with regard to the potential risks and impacts of the projects.

In 2010, a total of 90 project financings were fully reviewed and categorised by Sustainability Management, which represented a strong increase of 64 percent on the year 2009. This is primarily attributable to growing activity of WestLB in the above sectors. At the same time, the Bank was able to increase the number of deals closed due to improved internal processes. Project financings accounted for 65 percent of all transactions addressed by Sustainability Management in 2010. One project financing in the infrastructure sector was rejected after having been reviewed by Sustainability Management.

Special attention has to be paid to Category A projects. As in the previous year, all of these projects related to the energy, infrastructure and commodity sectors in 2010. WestLB finances "A" projects only if they meet special requirements. Many projects in the renewable energy segment show, however, that an exposure in the energy sector does not necessarily entail a higher risk exposure; all these projects fell in the "B" and "C" categories in 2010.

In 2010, WestLB continued to assess environmental and social aspects of projects relatively conservatively and cautiously, which proved to be a successful approach. This explains the high percentage of Category A projects. For 46 percent of all project financings, Sustainability Management imposed conditions that went beyond

the actual requirements of the Equator Principles. Such conditions may be of an internal nature and relate to the provision of additional documents by the client, for example. They may also be of an external nature and relate to modifications or additions to the project.

Overview of reviewed financings/transactions

in EUR million	2008	2009	2010
Transactions involving advisory/ credit assessment services from Sustainability Management	188	124	139
Project financings in accordance with Equator Principles	76	55	90
Project financing (Category A)	16	20	31
Project financing (Category B)	36	27	41
Project financing (Category C)	24	8	18
Other, incl. reputational risks	112	69	49

Project financings by categories in 2010

Sector	Category A	Category B	Category C	Total
Energy	9	29	10	48
Infrastructure	18	11	8	37
Commodities	4	1	0	5
in %	34%	46%	20%	

Project financings by regions in 2010

Region	Category A	Category B	Category C
	Number/Percent	Number/Percent	Number/Percent
Europe	14/45	17/41	11/61
Eastern Europe	7/23	0/0	0/0
North America	2/6	7/17	6/33
South America	4/13	7/17	0/0
Asia/Pacific (APAC)	3/10	8/20	1/6
Middle East	1/3	1/2	0/0
Africa	0/0	1/2	0/0

Sustainability in corporate finance

In 2010, WestLB was part of a select group of Equator Principles signatories who initiated a project to test the application of the principles to other credit products, especially corporate financings. The process was examined for its feasibility for the corporate client business in a three-month test. Corporate financings were screened in accordance with the Equator Principles where their total amount exceeded EUR 10 million and at least 50 percent of the purposes for which the funds were raised were known.

During the test phase, WestLB analysed a total of 150 corporate financings. In 21 cases, the review was conducted on the basis of the Equator Principles. Three transactions were subjected to a more detailed review of environmental and social factors.

The results show that the contents of the Equator Principles are also relevant for corporate finance. In view of the relatively high number of financings that were not subjected to a more detailed examination based on the Equator Principles, it should be analysed, however, if and how the audit procedures for financings can be modified appropriately, e.g. in high-income countries or with regard to the respective purpose. It should also be noted that, in contrast to project financings, the time available for examining corporate financings is often very limited.

The insight gained will be used to refine the Bank's internal credit processes and will also be incorporated into the revision of the Equator Principles, which is scheduled to be completed in March 2012.

Pioneer in financing the change in the energy sector

As a leading bank financing projects in the energy sector, WestLB feels especially committed to pushing ahead the change towards a sustainability-oriented energy supply. This change requires high investments in the energy infrastructure, which must be made within a short period of time and must be aimed at achieving a balance between among others energy and food security and climate protection. Against this background, WestLB, in 2009, was the first large international bank to develop a "Policy



for Business Activities re Coal-Fired Power Generation" and to define a set of minimum standards. Several major banks followed this approach and defined similar minimum criteria. WestLB is currently in the process of revising its Policy. It is possible, for instance, that in countries where a project is to be financed, the per-capita greenhouse gas emissions are set in relation to the gross domestic product and the state of development. With a view to climate change and the state of development of a country, this would enable a more effective assessment as to which criteria should be applied in which countries and in what cases knock-out criteria should be applied.

In cooperation with other banks and with non-governmental organisations, WestLB has made important preparations for a Bioenergy Policy in 2010/2011. Besides a general Biofuels Policy, the aim is to define minimum criteria for specific feedstocks such as palm oil, soy, forestry and sugar cane. In this context, the new sustainability standards imposed by the EU (7 "systems") for bioenergy could be taken into account, e.g. with the bank's clients applying the most widely accepted standards. Until the Policy is adopted, the Bank will scrutinise each individual case.

WestLB classed nuclear power as a high-risk technology even long before the nuclear accident in Fukushima/Japan. For many years, the Bank has declined to finance projects involving nuclear energy and its military use. Other forms of finance for the civil use of nuclear energy are possible only in those countries that have joined the International Atomic Energy Agency (IAEA) and signed the Treaty on the Non-Proliferation of Nuclear Weapons and only if the transaction does not entail material reputational risks for the Bank. The latter requirement is met only very rarely, as there is usually insufficient social acceptance. The Policy is up for review with a view to improving the lending criteria, e.g. for corporate bonds in the capital market business or for loans serving general corporate purposes. Besides the respective purpose for which the funds would be used, the relative share of company revenues generated from activities in the nuclear energy sector could be taken into account as a possible criterion.

By constantly refining and improving our Policies in the energy sector, we want to remain at the forefront of the banking industry in this respect and support our clients as a forward-looking partner.

Sustainability criteria for deep-sea oil exploration

In 2010/2011, WestLB developed minimum and knock-out criteria for the deep-sea oil exploration business, which is critical from a sustainability point of view. Apart from the already existing demands for the best available technology and proven maximum safety and environmental management standards, “no-go areas” could be defined in future. The Bank’s discussion partners in this field include Greenpeace and the Federal Institute for Geosciences and Natural Resources.

Responsible capital investments

We are convinced that investments in sustainably operating companies pay off for investors. We therefore offer our private clients various capital market products and services allowing them to incorporate sustainability aspects into their investment decisions. Basket certificates such as “Open-End New Energy-Active”, “Solarthermie-



Plus-Active” or “Klimawandel-Active”, for instance, give them the opportunity to invest in the renewable energy sector. Another example is the “Open-End ESG-Sustainability” certificate (ESG: Environmental, Social, Governance), which is based on high sustainability standards as defined in our Extra Financial Rating system and therefore covers only those companies that are the ESG leaders in their respective sectors. Corporate clients are supported by WestLB in analysing potential ESG investors and approaching them, e.g. in the context of ESG roadshows or conferences.

Transparent climate strategies

The Germany Report of the international Carbon Disclosure Project (CDP) was prepared for the first time by WestLB’s Extra-Financial Research in 2010. For the fifth time since 2006, the 200 largest German enterprises were asked to participate in the world’s most comprehensive survey of climate-relevant corporate data by the CPD, which is supported by 534 institutional investors with total assets of USD 64 trillion. The results are used primarily to optimise investment decisions. They give investors an idea about how companies are affected by climate change and the related political regulations, what strategies they pursue to manage the resulting risks and opportunities and how systematically they pursue these strategies.

Ongoing dialogue with stakeholders

In the context of the “WestLB Sustainability Dialogue Forum”, we conduct a semi-annual exchange with leading environmental and development organisations and scientific institutes on the sustainability strategy of WestLB as well as on general and specific business risks and opportunities. The WestLB participants in this exchange include representatives of the front-office and the back-office as well as the Sustainability Management Department. The results of the Dialogue Forum are incorporated in the refinement of the sustainability strategy and the sustainability management process, e.g. in the development and implementation of business policies.

Successful recertification of environmental management system

Since 2007, our German locations have been certified to the international ISO 14001 environmental management standard. Our environmental management system was successfully recertified in 2010. The environmental auditors have thus confirmed that WestLB systematically analyses its environmental impact and is constantly working to reduce it.

This can be achieved only if all employees are involved in our efforts. We use instruments such as the annual Environmental Report, Intranet information and special activity days to reach our employees and raise their awareness for environmentally compatible behaviour at work. In addition, our eLearning platform introduces all new employees to material aspects of environmental protection. Our trainees are involved in annual projects that expose them to environmental and sustainability issues.

Excellent performance

Sustainability rating agencies recommend WestLB and its securities issues to sustainability-oriented investors. The latest rating from Sustainalytics ranks WestLB 9th among 63 financial institutions surveyed. Compared to the previous year, WestLB improved its score by 5 points to 66 and is ranked far above the industry average in all relevant sustainability categories. Rating agency oekom awarded WestLB “Prime” status in 2010, thus placing the Bank at the top of the sustainability league table of Germany’s financial institutions. Rating agency imug also placed WestLB above the average and awarded the Bank a “Positive” rating with a focus on bond issues.

In 2010, WestLB again received many awards for its project financings. Financial magazines “Finance Asia” and “Asiamoney” voted our financing of the Collgar Wind Farm in Australia “Best Project Finance Deal for Australia & New Zealand 2010” and “Best Project Financing Australia 2010”, respectively. The “Shepherds Flat” wind farm project from 2010 won two awards, namely “Renewable Energy Deal of the Year” from “Environmental Finance” and “Best Renewables Deal” from the Internet platform “Power Finance & Risk”.

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