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Company report review

WestLB

Sustainability Report 2005

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Note

This review is based on information contained in the electronic version of WestLB's Sustainability Report 2005 available at: <http://www.westlb.de> This review is intended as a summary only and does not provide full and complete discussion of all the issues contained in the report.

1 Company background

Headquartered in Düsseldorf and Münster (North Rhine-Westphalia) in Germany, WestLB AG is a commercial bank and the central institution of the savings banks. With total assets of €253.8 billion in 2004, WestLB is Germany's ninth financial service providers, according to the German Financial Times.

The new WestLB AG emerged from the former Westdeutsche Landesbank Girozentrale in 2002, when the latter's mission under public-law was transferred to the newly established Landesbank Nordrhein-Westfalen (today's NRW.BANK), which is now the development bank of the State of North Rhine-Westphalia.

Going forward, WestLB will position itself as a European commercial bank with a strong presence in the major international financial centres. WestLB currently has a presence in 26 countries throughout the world. The bank's core businesses include lending to medium-sized clients, specialised finance, asset management, private equity and mezzanine finance.

The present is WestLB's first Sustainability Report and, according to the bank, represents an important milestone in its strategy to become Germany's leading financial institution in terms of sustainability over the coming years.

2 Reporting practices

2.1 Materiality

There is evidence that WestLB has proactively sought input from stakeholders in compiling its sustainability report – a vital means of ensuring the report addresses all material issues. Indeed in spring 2005, the bank commissioned an external organisation to conduct a survey of stakeholders, the results of which are available in a document linked to the bank's intranet site (<http://www.westlb.de>). The survey was comprised of ten respondents, including one WestLB employee and one savings bank employee, one representative of regional government, two representatives of non-governmental organisations (NGOs) and three clients. The survey addressed the stakeholders' impressions and expectations of the bank with regards its ethical, social and environmental responsibilities, as well as their desired content for the sustainability report. The report would benefit from a more detailed response from WestLB regarding this stakeholder feedback, and specifically how it has been incorporated into the report. Broadly speaking, the main concerns identified by stakeholders are addressed in the report, with particular focus on managing the social and environmental impacts of project financing decisions. WestLB should be encouraged to continue the process it has begun towards develop a systematic dialogue with a larger number of stakeholders. The planned establishment of a Sustainability Advisory Council in autumn 2005 is to be seen as a positive step in this direction.

2.2 Transparency

WestLB has produced environmental reports since 2001 but the present report is the bank's first sustainability report, to be produced in future on a bi-annual basis.

WestLB demonstrates a commitment to transparency in its discussion of WestLB projects that have undergone heavy criticism, notably the construction of the OCP pipeline in Ecuador and the Chad-Cameroon pipeline. WestLB acknowledges that it was partly in response to this criticism that it decided to adopt the Equator Principles (EP) – a set of nine voluntary principles to address the environmental and social issues that arise in financing projects. The bank is fairly transparent in its reporting on the implementation of the Principles, although there is room for progress. While the report provides useful information on EP transactions by category, sector and number, greater transparency with regards the financial size and nature of these deals, as well as compliance issues related to the six projects that have been conditionally approved would also be of interest.

The report addresses a number of compliance issues, such as money laundering, insider trading and gift-giving. While providing an overview of policies and procedures in place, the report does not disclose quantifiable information such as the number of employees found to be in breach of the bank's code of conduct. Case-studies of how compliance mechanisms operate in practice and specific challenges would

also be of value. Although WestLB has established a policy on gift-giving, no whistle-blowing mechanism appears to have been put in place to guard against other potential areas for corruption.

Further disclosure relating to employee attitudes to working life at WestLB and sustainability issues would also be of great interest in future reports.

2.3 Comparability

WestLB is the first German financial services provider to report 'in accordance' with the guidelines of the Global Reporting Initiative (GRI), which offers a comprehensive framework for reporting a company's impact and activities. A GRI Index is included in the report providing ease of reference. Use of the GRI guidelines promotes the comparability of the report, and supports benchmarking and assessment of sustainability performance. It is indicative of the bank's commitment to becoming a leader in the sustainability field. WestLB should also consider making use of the GRI financial services sector supplement.

Key economic, social and environmental performance data is provided at the end of the report, with further data series in the relevant sections. In most cases, figures are provided over multiple years which is very useful for comparative purposes. Economic data includes a measure of value added but the bank's economic impact could be further explored. Key social data include employment and diversity figures, retention rates and useful information pertaining to training, working hours and social insurance. An adequate range of key environmental indicators are presented in the areas of energy consumption, carbon dioxide emissions, transport and resource use (including water, waste and paper).

Going forward, WestLB sets out a number of time-bound objectives with proposed actions. As the bank's first sustainability report, this provides a useful benchmark against which to measure progress next year. However, future reports would benefit from more comprehensive and specific performance targets – quantifiable where possible – which could also be highlighted and discussed in their relevant context within the main body of the report.

2.4 Assurance and verification

WestLB's report is not externally assured – a process which provides vital critical feedback necessary to systematic target-setting and continuous improvement. This is a shame given the leading-edge practices adopted in other respects, notably full use of the GRI framework.

3 Management structure

WestLB has a newly established sustainability management structure, set up within months of the bank's repositioning as part of a strategic decision to achieve a leadership position in the field. In 2003, the Board adopted group-wide Sustainability Principles and initiated the formation of a high-level, dedicated Sustainability Management Department (cf. 'Focus'). In addition to coordinating and controlling all of WestLB's sustainability activities, the six-member department is responsible for evolving the group-wide sustainability strategy and for communication with the workforce and society.

The primary focus of the Sustainability Management Department is on compliance with environmental and social standards in project finance and other forms of finance. It is noteworthy that the department has been given a right of veto in the context of risk management, following a recent board-level decision to incorporate reputational issues into risk assessment processes. An integrated risk management system is vital to avoid negative impact and safeguard the bank's reputation, as well as maximise potential opportunities arising from better analysis of future trends.

The report contains a useful diagram locating key sustainability activities in the various business units. However, there is little indication of how CSR issues are addressed in line management in major markets outside of Germany and particularly in high-risk areas. To this end, WestLB might consider establishing regional working groups.

In addition to its own Sustainability Principles, WestLB has committed itself to a number of key international standards and initiatives, including the UNEP Declaration for Financial Institutions, the Equator Principles and, most recently, the UN Global Compact.

4 Review of core issues

Following on from a profile of the bank and its management structure, the report is comprised of a further five sections. The first section addresses sustainability issues in the bank's core business, with a focus on project finance and implementation of the Equator Principles. Second, the report considers a number of issues relevant to employees, including diversity and equal opportunities, motivation, health protection. Unusually, issues such as the prevention of addiction amongst employees and the bank's approach to the responsible reduction of its workforce are also considered. Third, the bank considers its responsibilities to society, including the prevention of money laundering and insider trading, taxes and gifts. The bank's environmental management and impact are considered in the next section. A set of data and objectives are included at the end of the report.

4.1 Responsible project finance

4.1.1 Policy

WestLB's Specialised Finance unit, which accounts for almost one third of the bank's activities, arranges and structures projects all over the world. The bank has particular expertise in the energy, oil and gas, mining, infrastructure and telecommunications sectors which can present significant social and environmental risks. WestLB was amongst the small group of banks to have initiated the Equator Principles (EP) – a set of nine voluntary principles to address the environmental and social issues that arise in financing projects – together with the World Bank's International Finance Corporation (IFC), in 2002. In doing so, WestLB has agreed to conduct an environmental and social impact assessment of potentially damaging projects and the ability of the borrower to manage its sustainability impacts.

4.1.2 Programme

The report provides some evidence of WestLB's progress in implementing the Equator Principles. Internal procedures for project categorisation have been established. Further, employees working in project finance, relationship management or the independent reviewing office attend courses on the Equator Principles run by IFC experts. The report does not indicate, however, how many employees benefited from this training or the extent to which training will be ongoing in the coming year. Interestingly, the report states the bank's

intentions to integrate dialogue with NGOs more fully into the project cycle but further details are sadly lacking.

In line with leading edge practices adopted by other Equator signatories, WestLB might also consider developing sustainable risk guidelines on sectors that have potentially high environmental or social impacts which could then be integrated into relevant business operations.

4.1.3 Performance

WestLB shows a commitment to transparency by providing a chart of EP transactions by category, sector and number, although the financial size of these deals would also be of interest. The chart shows that a total of 20 projects were examined in 2004. Of these, only one fell into the highest risk category which was rejected due to incomplete and potentially unreliable environmental information. 13 other projects were approved outright, and the remaining 6 were approved subject to conditions which are not specified in the report. More detailed discussion of the compliance issues related to these projects would provide stakeholders with a better understanding of the nature of challenges being faced.

There is little indication in the report of the extent to which WestLB considers its implementation of the Equator Principles is improving environmental and social standards in projects under consideration. A more rigorous attempt to illustrate and quantify the impact of the EPs in terms of project performance, possibly through a series of detailed, anonymous case-studies, would be a mark of distinction in reporting by EP signatories. The report could also address the challenges associated with EP implementation.

4.2 Employees and diversity

With some 5,000 employees, one third of whom are based in Germany and the remainder abroad, WestLB makes a significant impact. The employee section of the report includes information on diversity, promoting client orientation and boosting motivation. This review focuses on the key issues related to diversity.

4.2.1 Policy

WestLB has developed a diversity concept which rests on four pillars, some of which are underpinned by a formal agreement between WestLB's Managing Board and Staff Council. First, the bank has committed itself to fairness in the workplace with an agreement signed in July 2004 that provides for preventative action against mobbing, sexual harassment and discrimination. Second, the bank's commitment to providing work life balance for its employees is formalised in an agreement entitled 'Work and Family' which sets out a variety of different work time models, including part-time arrangements, parental leave and working from home. An agreement has also been reached on 'addiction prevention in the workplace', providing for a phased approach to dealing with addiction problems amongst employees. The remaining pillars are gender equality and intercultural management.

4.2.2 Programme

WestLB has taken a number of steps to support the second pillar of its diversity concept – gender equality. The bank has devised an Equal Opportunities Plan for 2004-06 with the primary objective of increasing the proportion of women in executive positions. An Equal Opportunities and Diversity Manager was appointed in 2002 to coordinate measures under the plan. A special in-house mentoring programme for young female executives and specialists has also been introduced and 2003 saw the launch of a Cross-Mentoring Programme in which mentors are paired with mentees in other companies. A women's network within the bank has been endorsed by the Managing Board.

There is also evidence of progress in providing work life balance. Following positive results of the bank's flexible working time arrangements, WestLB introduced in early 2004 a refined model known as 'TIME' (Trust in My Employees) designed to dispense with electronic attendance recording altogether. WestLB has established a sports' scheme with 500 regular participants, and offers a counselling service. A Health Promotion and Addiction Prevention working group has been established to raise awareness of health related issues within the organisation.

4.2.3 Performance

WestLB provides statistics on the age and gender of employees in 2004, although there is no mention of employees' ethnic backgrounds or achieving ethnic diversity in the report. While 48% of staff are female, a mere 12% of executive positions are occupied by women. WestLB is now implementing various measures described above which should redress this imbalance.

4.3 Environment

It is possible to identify four key areas where WestLB is addressing its impact on the environment: use of resources, particularly through its offices, procurement, transport and canteens. To date, environmental figures have referred only to German locations, but the inclusion of foreign branches in data collection will be carried out in 2005/06.

4.3.1 Policy

There is no indication in WestLB's report of an overarching environmental policy which could provide clarity and structure to the bank's approach and objectives. In line with WestLB's commitment to openness and communication as a signatory of the UNEP Financial Institutions' declaration, the bank has been reporting on its environmental impacts since 2001.

4.3.2 Programme

The report does not set out a clear, systematic programme of action pursued over the last year which would be useful for management and assessment purposes. (Having established a number of commitments going forward, however, WestLB should aim to measure progress against this benchmark in future reports.) Nevertheless, the report makes reference to a number of noteworthy activities in different areas. For example, WestLB incorporates environmental protection into the training of young apprentices which is likely to be an effective way to develop a culture of environmental responsibility. The bank also reports that eight apprentices recently developed an information campaign with tips on how to save energy at work. Other measures include the exclusive use of recycled paper for internal correspondence – a practice initiated in 2003.

4.3.3 Performance

There is evidence that WestLB is making some progress in reducing its environmental impact. An adequate range of key environmental indicators in the areas of energy consumption, carbon dioxide emissions, transport and resource use (including water, waste and paper) are presented, with data provided for the last three years which is very useful for comparative purposes. In 2004, WestLB for the first time achieved a reduction in its carbon dioxide emissions, albeit by only 2%. Waste volumes and paper consumption also declined in 2004 but water consumption increased by as much as 30%, despite the reduction in staff numbers.

WestLB sets out a number of time-bound environmental commitments going forward. Most notably, these include a reduction in energy consumption at the bank's seven largest buildings and a revision of the waste management concept, first introduced in 1990. Targets, however, are not quantified and WestLB should strive to develop a more comprehensive, challenging and specific set of performance targets.

5 Certification

WestLB provides little indication of certifications and awards it has received in the area of sustainability and might consider compiling a list for ease of reference.

- WestLB is the first German financial services provider to prepare a report in accordance with the Global Reporting Initiative.
- WestLB was among the four banks to initiate the Equator Principles in 2002, together with the World Bank's International Finance Corporation

6 Ethical Insight's comment

2½ Star Rating: ★★☆☆☆

Reporting practices

WestLB's report covers all material issues, including responsible lending, employee diversity and environmental impact. To its credit, WestLB took proactive steps to engage with stakeholders in compiling the report, the findings of which are disclosed on the bank's website. However, this marks only the beginning of what will hopefully become a more systematic and expanded process of stakeholder engagement. The planned establishment of a Sustainability Advisory Council in autumn 2005 is a positive step in this direction. WestLB should seek to show clearly in future reports how stakeholder feedback is being incorporated into sustainability management. The comparability of the report is excellent due to its use of the GRI guidelines and provision of key performance data over multiple years. WestLB might also consider adoption of the GRI financial services sector supplement. Other leading edge practices WestLB should consider to achieve its ambition of becoming the leading bank in the sustainability field include external verification and assurance.

Management structure

The report shows that a sustainability management structure has been put in place, although further evidence could be provided of senior management buy-in. It is noteworthy that the sustainability department has been given a right of veto in the context of risk management, following a recent board-level decision to incorporate reputational issues into risk assessment processes. The report would benefit from further discussion of how good practices and experience are shared across the group, with more detailed and quantifiable data on training.

Management systems

This review considers WestLB's policy, programme and performance in three key areas:

- **Responsible project finance:** WestLB's reporting on its application of the Equator Principles (EP) is better than most. There is also evidence to suggest the bank's approach is being integrated into operations, for example through training, although few details are provided. In future reports, WestLB should attempt to illustrate the impact of the EPs in terms of project performance, possibly through a series of detailed, anonymous case-studies.
- **Employee diversity:** Although WestLB employs an equal number of men and women, the proportion of women in executive positions is small (12%). There is evidence that WestLB is taking steps to address this situation. The report makes no reference to ethnic diversity or disability issues. Employee feedback on the working environment at West LB and sustainability issues would also be extremely relevant in future.
- **Environment:** Although WestLB has reported on its environmental impact for several years, the report does not provide a clear, well-structured overview of the bank's environmental management. To its credit, WestLB has initiated a number of environmental measures and performance is improving in key areas. The bank has established several time-bound environmental commitments going forward which provide a useful benchmark but could be more comprehensive, challenging and specific.

Certification

WestLB provides little indication of any certification received. The bank's pioneering role in initiating the Equator Principles and in reporting in accordance with the GRI guidelines are worthy of emphasis.

7 Appendices

7.1 Maplecroft's Ethical Insight report review criteria

Maplecroft's Ethical Insight report reviews are based on a four-pillar framework, taking into account reporting practices, corporate responsibility management structure, management systems (policy, programme and performance), and certification. The review of management systems considers the company's core issues as identified by the company in its report and by Maplecroft on the basis of the company's industry sector. Maplecroft is currently developing a map of core issues by sector which will be available shortly. The report review criteria are not comprehensive, but are designed to highlight the most significant practices and performance within each company, as well as important omissions and areas for improvement in future reporting.

- **Reporting practices** are reviewed on the basis of four key reporting principles:
 - **Materiality:** Does the report cover all the key issues relevant to the sector? Does the report provide the context and relevance of each issue to the company? Has the company engaged with key stakeholders in identifying and exploring material issues?
 - **Transparency:** Does the report disclose regulatory non-compliance? Does the report make other sensitive or groundbreaking disclosures? Is there public reporting at the local level?
 - **Comparability:** Does the company report in accordance with the GRI guidelines or other external metrics? Have internal metrics and data collection/management systems been developed? Does the report clearly present key indicators and targets?
 - **Assurance and verification:** What type of assurance and verification are provided? What is the scope of assurance and verification? What are the feedback / results of the assurance and verification process?
- **Management structure** is assessed on the basis of three main criteria: Is there a board level CSR Committee (or equivalent) in place? Is there a dedicated CSR network in place? Has the company signed up to any best practice principles or external bodies?
- **Management systems** incorporate principles (governance level), policies (strategic level), procedure and guidance (executive level) and practise (operational level). For each of the company's core issues, Maplecroft reviews policy, programme and performance.
- **Certification** refers to the company's listing on sustainability indices, such as the FTSE4Good and Dow Jones; external certification such as SA8000 and ISO14001; and any external awards received during the reporting year.

7.2 Previous Ethical Insight report reviews

Ethical Insight includes a review of a company sustainability report in each fortnight's edition. These reviews, together with the original report, can be accessed from the Maplecroft website at <http://www.maplecroft.net>.

Previous Maplecroft reviews are as follows:

- HSBC Corporate Social Responsibility Report - 2004
- Nike - Corporate Responsibility Report 2004
- Rio Tinto - 2004 Sustainable Development Review
- Marks & Spencer - Corporate Social Responsibility Report 2005
- Alcatel - Sustainable Development Report 2004
- Shell Foundation 'Enterprise solutions to poverty' Report 2005
- Standard Chartered 2004 Corporate Responsibility Report
- Anglo American Report to Society 2004
- Citigroup Citizenship Report Review 2004
- BP Sustainability Review 2004
- Cadbury Schweppes Corporate and Social Responsibility Report 2004
- TPG Corporate Sustainability Report 2004
- BBC Corporate Sustainability Report 2004
- Westpac Stakeholder Impact Report 2004
- Alcan corporate sustainability report 2004
- TPG annual report 2003
- Co-operative Group corporate responsibility report 2003
- Vodafone corporate social responsibility report 2003/04
- Hydro corporate social responsibility annual report 2003
- BAA annual report 2003/2004
- RWE corporate responsibility report 2003
- BAE Systems corporate responsibility report 2003
- Royal Mail corporate responsibility report 2004
- ABN Amro sustainability report 2003

7.3 Ethical Insight's sustainability reporting services

The Ethical Insight team at Maplecroft works with global organisations across all sectors, providing a range of specialist corporate responsibility advisory services. Further details about the wider range of Maplecroft services and the Maplecroft team are available at <http://www.maplecroft.net>.

In the area of sustainability reporting, we have considerable expertise in the full range of management systems that underlie effective social and environmental reporting, including auditing, indicators, monitoring, impact assessment and performance management. Maplecroft is also experienced in report writing, verification and assurance, having contributed substantively to several award winning reports.

The Ethical Insight team is also able to provide independent assurance and verification services of the highest standard, including in accordance with GRI and AA10000 criteria.

Maplecroft has developed a number of proprietary tools to assist companies in the reporting process. Specifically, we have developed the *Principles-plus multi-audit etool*, a practical and comprehensive auditing method that brings together a host of social and environmental standards, international best practice principles and instruments of corporate citizenship in a set of worksheets. The tool is designed to help companies assess their conformance with best practice requirements and identify the specific areas in which performance can be improved. A corrective action request form assists in the performance management process.

Maplecroft has also developed a *Human rights monitoring mechanism*, a straightforward electronic human rights survey, which can be used and adapted by companies to provide a detailed picture of human rights risk in its operations around the world. The survey assesses the human rights situation and management systems in place at the country level which, together with external country and issue specific human rights research, allow for a detailed analysis of the company's risk of complicity in human rights violations, and specific recommended action points.

The Ethical Insight team comprise fully trained and experienced SA8000 and ISO14001 auditors.

Please call us or email to discuss how our award winning Ethical Insight team might help:

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