

Results of the Spring 2005 Stakeholder Survey for the Sustainability Report of WestLB AG

Thomas Loew
Institute 4 Sustainability
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Contents

1	BACKGROUND	3
2	SIGNIFICANCE OF THIS PUBLICATION	3
3	OVERALL IMPRESSION.....	4
4	EXTERNAL IMAGE OF WESTLB	4
5	CREDIBILITY OF THE SUSTAINABILITY ACTIVITIES.....	5
6	STAKEHOLDERS' EXPECTATIONS OF WESTLB.....	6
7	DESIRED CONTENTS FOR THE SUSTAINABILITY REPORT.....	9
8	BENEFITS OF THE SUSTAINABILITY COMMUNICATION FOR THE STAKEHOLDERS.....	11
9	FURTHER DEMANDS MADE ON WESTLB	12
	CONTACT	14

1 Background

On behalf of WestLB AG, the Institute 4 Sustainability (4sustainability) conducted a stakeholder survey in spring 2005. In eight telephone interviews, ten respondents were asked about their image and expectations of WestLB AG. The interviewees included one WestLB employee and one savings bank employee, one representative of the North Rhine-Westphalian (NRW) government, two representatives of non-governmental organisations (NGOs) and three clients. The latter included a managing director of a German mid-sized company and employees of two foreign companies building pipelines financed by WestLB. These interviewees represented a wide spectrum of relevant perspectives.

Tabelle 1: Interview Statistics

Period	March 2, 2005 to April 20, 2005
Type and number	7 guideline-based telephone interviews, one interviewee answered in writing
Average duration	30 minutes
Shortest interview	13 minutes
Longest interview	45 minutes
Interviewer	Thomas Loew (6 interviews) Frank Werner (1 interview)

The interviews served two purposes. On the one hand, they provided the agency in charge of preparing the Sustainability Report, akzente Kommunikationsberatung, Munich, as well as WestLB's Sustainability Management Department with important input for matching the information provided in the new Sustainability Report with stakeholders' interests and expectations.

On the other hand, the results of the interviews will be used to evolve the sustainability strategy and define objectives and measures. The NGO interviewees showed particular interest in an ongoing exchange. In response to this, WestLB has incorporated a regular and institutionalised stakeholder dialogue in its sustainability report for 2005/2006.

We would like to take this opportunity to thank all respondents once again for their willingness to give us their time and talk to us.

2 Significance of this Publication

This publication is designed to make stakeholders' different positions transparent and accessible. At the same time, WestLB wants to make a contribution to the discussion and opinion-forming process about both WestLB and the scope and limits of banks' responsibilities.

Verbatim quotations are provided to reflect the results of the analysis; the use of such quotations does not imply agreement with the criticism expressed.

Many points of criticism were taken into account in the preparation of WestLB's 2005 Sustainability Report entitled "New Thinking". Some suggestions could not be implemented in a timely and meaningful manner and will be examined again when planning future reports.

In some cases, criticism was factually incorrect. This shows that WestLB should improve its external communications, e.g. with the help of the new Sustainability Report and the information provided on the Bank's website.

3 Overall Impression

All interviewees were very frank and eager to contribute to the improvement of WestLB's sustainability strategy. Accordingly, several of them voiced their interest in continuing the dialogue. With the exception of one person, all interviewees agreed to the minutes of the interview to be made available to the Sustainability Management Department.

Some of the interviewees expressed very strong criticism which they combined with high demands on the Bank. To document the range of demands, the strongest statements are documented below.

Overall, the interviews showed that WestLB used to have a poor image among critical stakeholders. Against the background of the Bank's recent repositioning, most interview partners clearly demonstrated their openness. However, they will wait for the results of the implementation process before forming a new opinion.

4 External Image of WestLB

Summary

Many stakeholders remember WestLB's involvement in the granting of privileges to politicians and other leading figures in North Rhine-Westphalia (e.g. VIP funds, "fishing trips"). Also, the criticism of the funding of the OCP Pipeline ("Oleoducto de Crudos Pesados") is directly associated with WestLB. In their opinion, the Bank was previously unwilling to respond to criticism and to enter into a dialogue.

The stakeholders have realised, however, that WestLB has repositioned itself, appointed new Managing Board members and set up a Sustainability Management Department, which directly reports to the Managing Board. Depending on the interviewee, they hope or assume that the Bank's repositioning will lead to clear improvements. The Bank must now act accordingly to live up to these hopes and expectations.

Interview Question

What is your general image of WestLB with regard to social and ecological matters? What was your experience with WestLB regarding these matters in the past?

Answer I

None. The problem is that there is an old WestLB and a new WestLB. Of the old WestLB, I have the vague idea of a bank that was closely involved in politics and tried to turn a regional bank into an international financial institution.

Of the new WestLB, I know too little to make a statement.

Answer II

We have a mixed image.

For a long time, WestLB was a symbol of North Rhine-Westphalian nepotism and of the endorsement of an industrial culture that was problematic not only in ecological terms. The Bank's project finance policy was also problematic in the past. Just think of the OCP Pipeline in Ecuador.

We see, however, that there has been a positive development at various levels in recent years. For instance, WestLB was among the initiators of the Equator Principles. The question of the actual implementation and material significance of the Equator Principles still needs to be answered, though. While WestLB's research has made clear progress, this does not seem to have had any impact on the Bank's asset management. This "Swedish wall" between research and asset management needs to be overcome in the foreseeable future.

We welcome the fact that a WestLB subsidiary, WestAM (WestLB Asset Management), supports the Carbon Disclosure Project.

So this is a mixed picture. In the past, there were clear problems but now a positive development is taking place. Greater attention is being paid to the above topics, even by the Managing Board. The language and the research activities have clearly improved. It is too early to say how relevant this will be for the actual company policy. The important thing now is that changes are really implemented in the three key areas of asset management, project finance and lending.

Answer III

[...] I think and clearly acknowledge that WestLB has learned from the dispute about the pipeline construction. This is expressed, for instance, in the adoption of the Equator Principles, by which the Bank – just like other financial institutions that signed the Principles – has set itself a project financing standard that takes environmental and social aspects into account.

I appreciate the fact that the development of a sustainability management system has been made the responsibility of the Managing Board and that the Bank has issued a set of Sustainability Principles. I think that WestLB has embarked on a good course.

5 Credibility of the Sustainability Activities

Summary

When asked about the credibility of the sustainability activities, there is a wide spectrum of opinions, which range from “the Bank is on the right way” to “uncertainty” to strong scepticism. It is obvious that the stakeholders will wait and see what changes will actually result from WestLB’s repositioning before forming a clear opinion about the Bank. They expect substantial improvements in the core business (see paragraph 6 “Stakeholders’ Expectations of WestLB”).

It is worth noting that, when asked about credibility, some stakeholders make a distinction between the Bank and individual employees. One interviewee thinks that the employees and activities of the Sustainability Management Department are very credible but that the Bank still needs to prove its credibility with regard to its proclaimed sustainability position.

Interview Question

Do you think that WestLB is seriously striving to make a contribution to sustainable development?

Answer I

WestLB has set up a Sustainability Management Department and is striving to put its own Sustainability Principles into practice. This is a start. These are steps in the right direction.

Answer II

To put it quite coolly: the proof will be seen in the Bank’s action. In the beginning, the whole thing was probably more about reputation, but now there are more and more people who act. And I hope it will increasingly become a matter that is “dear to WestLB’s heart”, so to speak.

I think it is a critical approach and not just a fad. They are now responding to criticism.

Answer III

This question is difficult to answer.

In principle, we accept that it is the task of an (investment) bank to do business. We believe, however, that a company like WestLB loses much of its legitimacy if it does business at the expense of ecological and social systems. We expect a strategy where economic, social and ecological objectives mutually strengthen each other. The short-term horizon of profit expectations is the greatest obstacle here. In every large corporation, there are people who support the cause of environmental protection, labour rights and social matters and there are tendencies which oppose this. In our opinion, this is the same thing at WestLB.

WestLB still has to prove whether its new sustainability policy will really have a substantial effect on its business operations (especially with regard to asset management and lending).

In the Research and Sustainability Management Departments, there are people who are very committed. And it seems as if they are getting at least some support from the Managing Board. We believe that these people are credible. But the real credibility test for the company is the implementation of the sustainability policy in the core business. Such implementation still needs to be proven.

Answer IV

There is still considerable scepticism, not least because WestLB has never really "digested" the pipeline project. WestLB should sit down together with its critics and analyse the whole thing retrospectively and take internal measures to prevent such mistakes from being made again. As long as WestLB is unwilling to admit a single mistake in the pipeline project, it is difficult to have confidence in the "new" WestLB. In any case, we cannot see that the changes that have been implemented mean that such projects will no longer be financed.

In the meantime, WestLB has appeared at various Equator Principles events where the Bank has spoken about sustainability in general. They talk the talk. As soon as specific problematic projects are addressed, however, the Bank appears to step on the brake and make excuses. It is exactly such problematic projects, however, which we assess to see whether a bank is also willing to walk the talk.

Against this background, we are currently sceptical but have not yet formed a final opinion. I would be happy if the Bank really changed but this has to be demonstrated in practice.

Comment by WestLB

WestLB already met with stakeholders in the past to discuss financing projects that were criticised. The "WestLB Dialogforum Nachhaltigkeit" (WestLB Sustainability Dialogue Forum), which was held in June 2005 for the first time, will institutionalise the dialogue with stakeholders, which WestLB wants to intensify further. Moreover, WestLB AG intends to evolve its sustainability position in coordination with civil players.

6 Stakeholders' Expectations of WestLB

Summary

Stakeholders' expectations of WestLB are diverse and depend on the nature of their relationship with the Bank. Clients expressed, among other things, special demands on the products. Stakeholders also expect the core business to help find solutions to social problems. Ecological and social aspects should be taken

into account in all business segments.

A great need for action is being seen in project finance. The biggest challenges include corruption, investments in so-called "failed states", adequate consideration of the interests of local populations as well as ecological impacts. The interviewed WestLB clients that build pipelines with the help of project finance welcome the introduction of the Equator Principles, as they have committed themselves to good corporate citizenship in their business and the Equator Principles help establish standard requirements in the sector. It is nevertheless a fact that the ideas of NGOs and pipeline builders about what is appropriate and necessary still differ substantially. In retrospect, the criticised OCP Pipeline project is still being viewed very differently by the different groups.

Stakeholders also addressed the Bank's role in mid-market finance. Even though no explicit reference was made to Basle II, the fears discussed in this context were quite obvious. WestLB is expected to improve the financing situation for small and medium-sized businesses in its region.

Reference was also made to WestLB's importance for economic policy. One interviewee warned of the risks of short-term profit strategies and said it is important that the Bank develops long-term earnings potential.

Interview Questions

Are there any social problems where you feel it is the particular responsibility of a financial institution like WestLB to contribute to finding solutions?

Are there any specific matters where you as a client / partner / stakeholder, etc. expect WestLB to provide a solution?

Answer I

Basically, we do not only criticise WestLB but the entire industry. Social and ecological aspects must be taken into account in a bank's core business, i.e. financing and lending. This applies to all forms of finance and not only to project finance. In particular, this refers to loans and financings in developing countries and Eastern Europe.

In many of these countries, legal provisions are insufficient and even where acceptable minimum requirements may have been defined by law, enforcement policies are insufficient. This situation differs fundamentally from the situation in Germany. Banks and companies which operate in these countries therefore have a different responsibility. They must set themselves their own standards and principles and must put them into practice.

Answer II

We see three areas where WestLB should integrate sustainability aspects - these are asset management, project finance and lending.

As I said before, we are particularly interested in climate protection matters.

Needless to say, there are many other issues. Examples include projects in the area of mining and raw materials exploration (exploration industries), where problems are huge. They include corruption, "publish what you pay", violation of human rights and the financing of privatised and/or illegitimate state violence.

With regard to the funding of privatised violence: Especially in the so-called "failed states", cash flows from the exploration industry (e.g. coal mining, diamond mines), etc. are among the main sources which finance civil wars. It is not least because of the growing intermingling of national and international terrorism that these cash flows are

being viewed increasingly critically.

When investing in so-called "failed states", companies have a special responsibility. The rule of thumb is that the less capable the state is of ensuring compliance with human rights, the greater the responsibility of the companies that operate in such a country.

But in Germany and other industrialised countries, sustainability aspects must also be taken into account in lending and asset management, especially (but not exclusively) with regard to climate protection. We will increasingly judge WestLB by whether the Bank systematically takes direct and indirect climate protection and other relevant sustainability aspects into account in its asset management and lending activities. We feel that WestLB is obliged to do so in the spirit of good corporate governance. We also see that there are still missing links in the systematic assessment of environmental implications. To fill these, we offer constructive cooperation in conjunction with players from the academic/scientific community.

Answer III

Ensure that loans to small and medium-sized companies (SMEs) in the region remain available through the savings banks. This is where WestLB and the savings banks should assume a special role and alleviate the credit squeeze that results from the short-term policies pursued by the private-law banks. Some private-law banks tend to enter a deal quickly and to withdraw equally quickly. This is where I see a special social task for WestLB and the savings banks.

Answer IV

In the past, there were some alarming developments in the banking business (not only at WestLB), insofar as the traditional mix of short-term, medium-term and long-term business shifted primarily to short-term business. I regret this trend towards "short-lived" profits and the resulting concentration on certain business activities such as IPOs, as this short-term approach entails high risks. While such short-term deals may yield big profits, they can also result in multi-million losses if they fail.

The banking business should again be geared to continuity in the client relationships so as to secure profits in the medium and long term.

WestLB's long-term success in business is also related to social policy goals. WestLB's workforce of roughly 3,500 people make the Bank an important employer and economic factor that must be preserved in the long term.

The Bank makes substantial payments to the federal state and the savings banks: employees' wage/income tax, corporate taxes and dividends to the federal state and the savings banks.

Due to the poor results of the past years, the shareholders did not receive any dividends but even had to contribute capital.

Answer V

[...] Unlike private banks, the business purpose of the public-law banks should always be in the interest of the general public. It is therefore their mission to contribute to sustainable development by making the right lending and project decisions.

I expect WestLB to make a clear contribution here. [...]

Banks are financial service providers and seldom act as project sponsors. But their vote in favour of or against a loan ultimately determines whether an investor can realise a planned project or not. Insofar, banks play a key role in reconciling capital spending projects with the objective of sustainability. It is not only the investing companies but also the banks that have a responsibility to fulfil.

More and more investors judge the success of their investments no longer exclusively by their account status or the current share price. They also want to know "where their

money works". They ask themselves whether ethical, social and ecological criteria are being taken into account in their investment. A large modern bank must respond to these questions, especially in investment consulting and business with high net worth individuals, which WestLB wants to start again. Here, responsibility for greater sustainability rests not only with the clients but also with the banks. Because it is them that inform their clients about the availability of ethical and sustainable investments or not.

Banks are also responsible for contributing to sustainability whenever they have a direct influence on corporate decisions either as a shareholder or when exercising their proxy voting power.

This responsibility applies not only to large banks such as WestLB but also to small banks. These also include the local and regional savings banks.

Here I see good starting points for WestLB to fight the cause of sustainability - also against the background of the new owner structure. [...]

7 Desired Contents for the Sustainability Report

Summary

Most interviewees want to be informed about those business units which have a high ecological and social relevance. They are interested in past activities, self-imposed principles, practical examples and progress made. Especially in the area of project finance, they implicitly call for a high degree of openness. But this certainly applies to all areas. It is worth noting, that clients, too, are clearly interested in information and openness. Reference was also made to the German ranking of sustainability reports for 2005. The ecological and social requirements defined here are seen as a starting point not only for the report but also for the sustainability strategy.

Interview Question

WestLB plans to prepare a Sustainability Report. In your opinion, what should absolutely be covered by this report?

Answer I

General benchmark: The business units that have a high social and/or ecological relevance.

This also means: Due to its low relevance (in relation to that of the banking business), operational ecology is not really interesting to us and should therefore not be the main aspect. Reports on operational ecology were certainly a good start, but the really important aspects are WestLB's business activities (asset management, project finance, lending) and their consequences for (socially, ecologically) sustainable development - this is where the main challenges lie.

So what we want is information on asset management, lending and project finance. What has been done in these areas? In particular, we would like to see what substantial progress has been made here with regard to the effective consideration of sustainability aspects. What exactly has changed here? In the area of project finance, for instance, how are stakeholders being involved or changes made in order to avoid or reduce ecological and social problems? Is the use of funds transparent? Can this be shown by giving specific examples? The same applies to asset management and lending. The credibility of WestLB's commitment to sustainability hinges on such specific measures and the information that is published.

We do not expect WestLB to adopt an entirely different approach from one day to the next. But we do expect regular and visible substantial progress.

We would also like to know how the Sustainability Management Department is integrated

into management control. How is it linked to the Managing Board? What possibilities does it have to influence things? What social and ecological benchmarks are there? Is there any control regarding compliance with these benchmarks? And are there any incentive systems for management and employees with regard to sustainability? What are these and if there are none, why?

It would make sense to have at least part of the report certified by an external body in order to increase its credibility. The question which part of the report should be certified would depend on its relevance.

Answer II

WestLB should report on the following:

- Implementation of the new standards.
- How is implementation being ensured?
- What are the material effects? What projects have been rejected, where has the Bank exerted material influence? We need not only individual stories but a full overview.
- Analysis of the pipeline project.
- Consequences of the analysis, i.e. which appraisers will be used in future.
- Economic significance of project finance in WestLB's overall business portfolio.
- How many projects are financed by WestLB?
 - What projects?
 - Into which World Bank categories (A, B, C) do the projects fall?
 - What projects are categorised B? There is some concern that ecologically very sensitive projects (A) have wrongfully been classified as category B projects. As far as I know, about 60 percent of WestLB's oil and gas projects have been classified as B projects. How can that be? Most oil and gas projects are typical category A projects.
 - Which and how many category B projects have been subjected to a full EA (environmental and social assessment) (which is mandatory for category A projects)?
- Where have projects been rejected?
 - In what country?
 - What type (dams, pipelines, etc.)?
 - What project volume?
- The reports by ABN AMRO and Citibank are very interesting in this context. They also mention individual projects as examples to explain the application of the Equator Principles.
- Where else does the Bank apply the Equator Principles? What is the total financial volume of the business to which the Equator Principles are applied?

Answer III

Maybe WestLB should inform about some of their visits to the projects and some reports they have written about these visits. Of course some information is confidential, but some information can and should be disclosed. As they follow projects and have things to report they should do so. In our case that would be good news in any aspects. As an example of success they could quote some projects.

Answer IV

We have read several environmental and sustainability reports of financial institutions and some are really helpful. We like to see:

- the sustainability policy,
- real examples, that explain how the policy is implemented,
- description of the process WestLB went through when the policy and the management system was developed and implemented and
- the key social and environmental issues the bank considers in its financial activities. They should be set up in a consistent manner so that there are equal requirements in different projects.

When these issues are clear it helps us to decide when we get into the relationship with a bank.

Answer V

Basically, the report should cover the topics mentioned above, i.e.

- What has the Bank done in the social area?
- What is the Bank's approach to ecological requirements?
- What about the new business policy, i.e. the reorientation towards medium-term and long-term revenues, the renunciation of a short-term high-risk policy?

Answer VI

German magazine "Capital", the "Institut für ökologische Wirtschaftsforschung (IÖW)" and "future e.V." have ranked the sustainability reports of 150 German companies and published the results. The 13 main criteria that were applied in this ranking process with regard to integrated, ecological and social requirements form a good basis for the definition of a sustainability strategy and the preparation of a sustainability report by WestLB.

8 Benefits of the Sustainability Communication for the Stakeholders

Summary

There are only few useful answers regarding the benefit of WestLB's sustainability communication, given that two interviewees are insiders who know WestLB's sustainability strategy anyway. One answer cannot be printed here as it would allow a conclusion to be drawn as to who gave it.

For the German company that is a WestLB client, information on the sustainability strategy is not relevant for their business relations with the Bank. Those interviewees who use WestLB's project finance to build pipelines, etc. see the sustainability reports as a useful instrument to learn more about the Bank's sustainability activities.

The NGOs use the sustainability reports to monitor the Bank's activities and prepare themselves for talks with the Bank.

Overall, it is obvious that the sustainability report is an important basis but that additional information is sought whenever required.

Interview Question

Does it help you or your relationship with WestLB to learn more about the Bank's

sustainability strategy?

Answer I

At a later stage of the development process, such information [about the progress made] would be interesting.

Answer II

This is very helpful. We will read such information in the report very carefully. The report may then also help us prepare further talks with WestLB on certain issues on which we may work jointly. While the report alone is certainly not sufficient for a potential cooperation in these areas, it is an important basis on which to start.

Answer III

It is an added value. And it is quite important that all the financial institutions become part of the Equator Principles. Because this has a cost involved and some of them should not have a certain advantage by not complying with the Equator Principles. So all of them should in the future be part of the Equator Principles.

Answer

When these issues* are clear it helps us to decide when we get into the relationship with a bank.

*) Means: sustainability policy, examples, that explain how the policy is implemented, key social and environmental issues the bank considers in its financial activities.

9 Further demands made on WestLB

Summary

The interviewees generally wish that WestLB makes the turnaround towards greater sustainability. Individual requests include a continuation of the stakeholder dialogue, a critical review of the OCP Pipeline project and the certification of the environmental management system. One interviewee called for a critical look at the shareholder value philosophy.

Interview Question

Do you have any other suggestions for WestLB, or certain wishes or demands ?

Answer I

I would like to visit the OCP Pipeline together with a WestLB representative so that we can get an on-site impression. This would be a good opportunity to highlight the problems that have been ignored. We could also show why we feel that WestLB should urgently change its appraiser. In the end, the pipeline project may serve as a valuable example from which WestLB can learn.

Answer II

We would be happy to continue the dialogue. We plan to intensify our work on asset management and climate risks and will soon contact WestLB in this matter.

Answer III

I would be pleased to get a copy of the Sustainability Report.

Sponsoring suitable projects might be a good way of improving WestLB's image.

Answer IV

WestLB should continue its sustainability efforts swiftly and unwaveringly. In particular, this applies to financings, investment products and research.

It would be desirable for the current "Eco Report" and the Bank's internal environmental management system to become an externally certified environmental management system to EMAS or ISO 14001.

Answer V

I would appreciate WestLB to take a critical look at its current shareholder value philosophy. When I read in the press that the big companies generate profits of EUR 3.6 or EUR 2.7 billion while at the same time cutting jobs, this makes me very angry - to put it politely. Our Basic Law rules that property also entails social obligations. How can this be reconciled with WestLB's shareholder value orientation and the resulting job cuts?

Personally, I believe in a different kind of business policy. If you want efficient and motivated employees, you must offer them perspectives. Of course, this is a soft factor that is difficult to measure. But I don't think that the employees of a company that only works according to the "pressure and money" philosophy will be really good performers in the long run. Social satisfaction is important. I am not talking about being cuddled - don't get me wrong here - but I think that a company that wants high performance must offer a suitable framework. This is what a good personnel policy should look like.

Contact

Survey conducted on behalf of

WestLB AG
Responsible: Martina Neuber
Board Office & Group Development
Sustainability Management
Herzogstraße 15
40217 Düsseldorf
Phone: ++49(0)211-826-2157
Fax: ++49(0)211-826-6879
E-mail: martina_neuber@westlb.de
www.westlb.de

Survey conducted by

Institute 4 Sustainability
Thomas Loew
Charlottenburger Ufer 10
10587 Berlin
Phone: ++49/(0)30/4435 2094
Fax: ++49/(0)30/4435 2097
Mobile: ++49/(0)178/6343 364
E-mail: Loew@4sustainability.org
www.4sustainability.org

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