

February 2012

Policy for Business Activities Related to Coal-Fired Power Generation

In the context of the ongoing discussion around climate change there is increasing uncertainty regarding coal-fired energy/power generation including but not limited to greenhouse gas emissions, CO₂ costs, energy supply and social acceptance. Undifferentiated business activities in the field of coal-fired power generation create economic uncertainty and serious reputational risks. To minimize these and to foster the development of a sustainable energy production and infrastructure the following criteria must be fulfilled.

The Sector-Specific Regulations as outlined below must be fulfilled for all significant business activities¹ in country group A² related to coal-fired power generation. For business activities in all other countries the criteria set-out in no. 1 – 5 must be fulfilled to the fullest extent possible (to be documented). In any case, the Sector-Specific Regulation no. 6 and 7 and the Process-Specific Regulations must be fulfilled.

Sector-Specific Regulations

1. The customer/borrower has to document, whether or how any technology to capture and storage (CCS) or use (CCU) greenhouse gases (GHG) is addressed in the regulatory approvals.
2. The due diligence must include third party expert reports (legal, technical, etc.) to ensure that there is no feasible less GHG-intensive alternative/fuel/energy source and that future/foreseeable laws and regulations (environmental, health, etc.) can be adhered to by the activity to be financed on an economic basis³ (e.g. cash flow model based), including, but not limited to:
 - a. Required additional equipment/processes, etc., including relating to any carbon capture and storage (CCS) or usage (CCU);
 - b. Purchase of carbon credits;
 - c. Other required measures to maintain all permits and remain compliant with relevant laws and regulations.
3. For new plants as well as for the expansion/optimisation of existing plants and equipment the following criteria apply:
 - a. the efficiency of a new coal-fired power plant is 43% or more,
 - b. the relative improvement in the efficiency of the expanded/optimised part of the plant is at least 30%.

1 All business activities of the bank in which the use of funds made available is fully or partly known or obvious to WestLB including indirect effects (upstream/downstream) within the meaning of Annex A of the Policy for Environmental and Social Issues of WestLB AG, version April 8, 2011; including business activities with companies that own or operate coal-fired power plants that account for 30% or more of their total installed power generation capacity. There are specific financial services/products where the criteria possibly cannot be (all) reasonably fulfilled such as working capital, refinance or acquisition finance, in these cases the criteria have to be fulfilled to the fullest extent possible (to be documented) in order to ensure a business decision in line with the aim of this policy.

2 Cf. index in Annex to this Policy. Index takes into account averaged and benchmarked country indicators for (I) greenhouse gas (GHG) emissions, efficiency and economic output (II) development status/needs, and (III) status and trend of energy/power generation mix. Indicators are e.g. t CO₂/TJ total primary energy supply, kg CO₂/per 2,000 US dollar GDP purchasing power parity, population weighted position on Human Development Index, average trend of share of electricity from coal. Country group A: E.g. GHG emissions per capita, development status, etc. is above average and energy efficiency in relation to gross domestic product, etc. is below average. Country group B: All other countries listed in this index.

3 This economic analysis is not limited to the bank's transaction/ credit facility, but also encompasses the activity to be financed itself; also in case agreements exist such as "all carbon risks are passed on to XY" or the offtaker, counterparty or any other is e.g. rated high.

4. Operators/owners of the coal-fired power plant are required to prove CCS readiness⁴.
5. A client's business strategy incl. GHG reduction targets, corresponding investment plan, etc. must be in place and is to be monitored and audited, in accordance with the 2 degrees Celsius target of the EU and UNFCCC. Clients are required to report publicly on all GHG emissions.
6. Best available technology as defined by the EU must be used.⁵
7. Licensing/permitting risks will not be assumed by WestLB.

Process-Specific Regulations

All other regulations and processes of the Bank also apply, in particular:

- Reputational risk process
- Policy for Environmental and Social Issues
- Equator Principles in project finance (non- or limited-recourse finance)
- Credit risk-strategic and, if applicable, business unit-specific guidelines

4 According to the guidelines of the Global CCS Institute (cf. Annex and <http://www.globalccsinstitute.com>)

5 European Integrated Pollution Prevention and Control Directive (IPPC), 96/61/EC; directive's recast in 2008 (2008/1/EC) and its successor directive (Industrial Emissions Directive) published in 2010, Item 17

