



NRW.BANK
Promoting Ideas

January 2024

ESG Promotion Requirements

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Introduction and Systematics

NRW.BANK' Sustainability Strategy sets out conditions and knock-out criteria for promotional funding. These are summarised in the ESG (Environmental, Social & Governance) Promotion Requirements and replace the definitions from NRW.BANK's previous Sustainability Guidelines.

This document is aimed in particular at the beneficiaries of NRW.BANK's promotional programmes, the house banks cooperating with NRW.BANK and all other interested stakeholders of the Bank.

The knock-out criteria set out in this document as ESG Promotion Requirements and the Sector Guidelines planned for 2024 ensure that the sustainability aspects relevant to NRW.BANK as well as compatibility with the Paris climate goals are taken into account adequately and transparently in the Bank's promotional offerings. The ESG Promotion Requirements are regularly reviewed and successively refined and updated.

As an accompanying document of NRW.BANK's Sustainability Strategy, the ESG Promotion Requirements were adopted by the Bank's Managing Board on October 31, 2023, and implemented in the Bank's rules and regulations and overall strategy with effect from January 1, 2024.

1. Application at NRW.BANK

1.1 Motivation

NRW.BANK expressly recognises its responsibility as the promotional bank for North Rhine-Westphalia acting in accordance with the principle of sustainability. NRW.BANK strives to improve environmental, social and economic living conditions as well as to support the transformation towards sustainable and future-proof economic structures, in particular through its promotional business. By extending its promotional loans for a specific purpose, NRW.BANK pursues positive sustainability goals (e.g. energy transition, efficient use of resources, promotion of rental housing, preservation of historical monuments, sports promotion and promotion of social infrastructure).

The ESG Promotion Requirements specified in this document are also anchored in the programme conditions.

In addition to promoting environmental and social measures, the Bank is committed to a preventive approach in order to reduce business activities that pollute the environment and disrespect the dignity of human beings and/or animals. This also includes the protection of biodiversity and ecosystems, of all living beings and of society as a whole.

The knock-out criteria set out in this document ensure that the sustainability aspects relevant to NRW.BANK are transparently included in its promotional programmes.

In addition, NRW.BANK will define sector guidelines for its promotional business in order to ensure appropriate consideration of its compatibility with the Paris Climate Agreement. The sector guidelines – which are based on the KfW approach – are intended to support the goal of aligning new business in NRW.BANK's promotional programmes with the Paris Climate Agreement.

In summary, the ESG Promotion Requirements ensure that sustainability and transition risks are appropriately taken into account in NRW.BANK's products and services. Due to the fundamental dynamics of the sustainability issue, the ESG Promotion Requirements are regularly reviewed and successively refined and updated.

1.2 Implementation

Promotion under the house bank principle: The house bank and NRW.BANK check whether all programme conditions and the ESG Promotion Requirements are met during the eligibility check. Moreover, NRW.BANK maintains an ongoing dialogue with the house banks on the consideration of sustainability aspects and the handling of controversial business practices, business activities and business fields.

Direct promotional business: The ESG Promotion Requirements are considered during NRW.BANK's standard eligibility check of the lending process and included in the overall assessment of the transaction.

Just like other risks, potential sustainability risks are assessed as part of the regulated lending approval process. The available information is used as the basis to check whether the financing and the business partner comply with the values and the Sustainability Strategy of NRW.BANK under social, environmental and ethical aspects.

This check leads to votes for the individual transaction, which are submitted to the authority holders for decision. If the opinions of the players involved in the Bank's internal decision-making process differ, established escalation mechanisms take effect. This ultimately means that, in the case of disagreement, the next higher decision-making level is called upon. The following rule of thumb should be observed: the larger the volume and/or the poorer the rating, the higher the first decision-making level.

1.3 Grandfathering

Compliance with the ESG Promotion Requirements is explicitly limited to new business applied for after the respective requirements came into force because existing business was concluded at the terms and conditions prevailing at the time of conclusion. There are no plans to automatically adjust the existing business as NRW.BANK has already taken the sustainability aspects applicable at the time into account in the past.

2. Knock-out Criteria

NRW.BANK defines **controversial business practices, business activities and business fields** as **knock-out criteria**. These controversies are not in line with the ethical and social values of NRW.BANK and contradict the sustainable fulfilment of its public mission in the field of structural, economic, social and housing policy as well as the sustainability strategy of the federal government and the State of North Rhine-Westphalia.

Controversial business practices are defined by NRW.BANK as practices, procedures or conduct that are controversial due to their ethical, legal, social or environmental effects.

The assessment of controversial business fields and activities focuses on the question whether a company generates all or part of its revenues from products and/or services that NRW.BANK considers to be controversial.

NRW.BANK uses the possibilities it has to exclude such controversies from promotion. As far as possible, NRW.BANK excludes beneficiaries or projects that are controversial from its promotional programmes.

To enable the sustainable transformation of the economy, NRW.BANK has defined specific conditions in individual controversies. If these are met, promotion is currently possible. In the case of financing for the purpose of transformation, a discretionary decision in favour or against promotion can be made after careful consideration of all circumstances.

2.1 Scope of Application

The entire promotional business of NRW.BANK, whose organisation is at its own discretion, falls within the scope of the following defined knock-out criteria.

The latter do not include on-lending to other promotional banks, state programmes, housing promotion to private customers as well as housing promotion and "Zuweisungsgeschäfte" of the federal state.

Not only the project to be funded, but also the beneficiary of the funding are assessed with regard to the knock-out criteria.

To enable the sustainable transformation of the economy, NRW.BANK has defined specific conditions in individual controversies. If these are met, promotion is currently possible.

Digression: Housing Promotion

The creation of an affordable and diversified supply of transgenerational housing meeting actual demand and of an attractive housing environment in socially stable neighbourhoods is a key objective of the Bank's public housing promotion activities. In this context, demographic developments that call for new forms of housing – also in connection with support and care services for the elderly – are also taken into account. Apart from building new homes to current standards, another goal is to modernise those parts of the existing housing stock that do not meet current living requirements as well as technical and energy efficiency standards. To implement these goals, NRW.BANK extends loans to promote housing investments in North Rhine-Westphalia on behalf of the State of NRW. These loans serve to finance the creation and the modernisation of social rental housing as well as the acquisition of owner-occupied housing in order to make it easier for households below a certain income threshold ("marginal households") to acquire own homes that meet their needs.

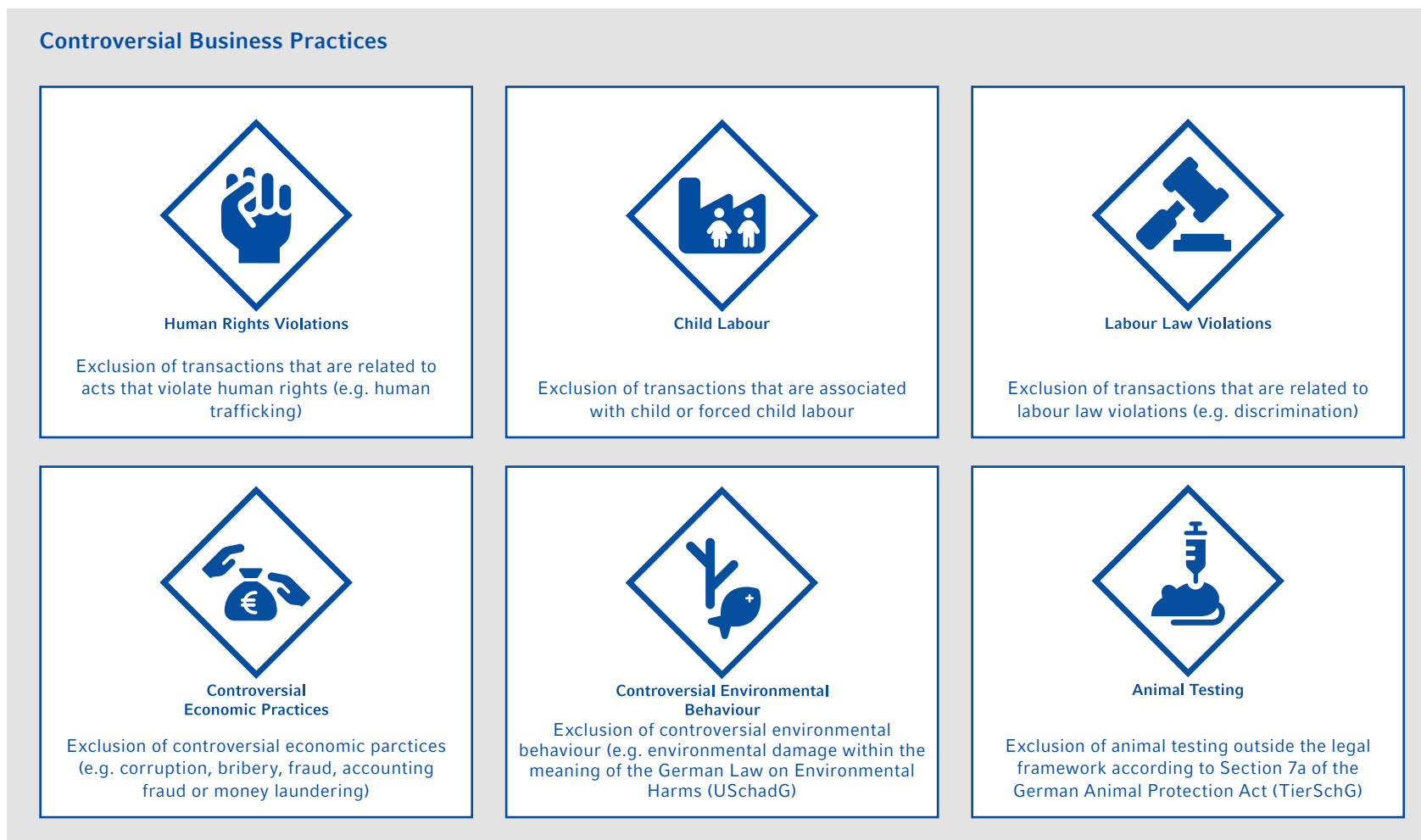
Housing promotion also includes special offerings for people with disabilities as well as students. It is always conditional on compliance with certain social criteria (especially income thresholds) for tenants or owners and thus leads to positive effects in the social dimension of sustainability with regard to the target group. Housing promotion also pays special attention to energy-efficient building standards as well as to the removal of barriers. The promotional conditions are based on legal regulations to ensure that the promotion of other matters is ruled out by definition. Compliance with these conditions is checked by the approval authorities of the State of North Rhine-Westphalia in the context of the statutory promotional process.

The public housing promotion business is entirely geared to a sustainable approach through the product conditions and the promotional process and is considered to be free of controversies.



2.2 Controversial Business Practices, Controversial Business Fields and Activities

NRW.BANK considers the following business practices, business activities and business fields to be controversial (general overview):



Controversial Business Fields and Activities



Energy Generation/
Fossil Fuels

Exclusion of measures that are related to fossil fuels that are not considered useful for the energy transition (e.g. in the field of nuclear power, oil and gas)



Gambling

Exclusion of business relationships in the field of gambling



Mobility/Transport

Exclusion of the purchase, financing, rental, leasing and operation of Class M1 passenger vehicles under certain conditions



Substances

Exclusion of measures that are related to certain substances (including harmful, ozone-depleting substances) as well as biocides, radioactive material and others



Defence and
Weapons Industry

Exclusion of business relationships with companies in the arms industry (including manufacture, trade and transport of controversial weapons)



Controversies in the Field
of the Environment, Nature
and Living Beings

Exclusion of controversies in the field of the environment, nature and living beings

Controversial Business Practices

As a matter of principle, NRW.BANK categorises non-compliance with legal rules and regulations as a controversy.

For all projects (co-)financed by NRW.BANK, the beneficiaries of its promotional programmes are obliged to comply at least with the environmental and social law requirements and standards applicable in the country of investment.

NRW.BANK especially considers the following business practices to be unacceptable and explicitly excludes them:



Human Rights Violations

Above and beyond its direct obligation to respect human rights in accordance with the Basic Law of the Federal Republic of Germany and the Constitution of the State of North Rhine-Westphalia, NRW.BANK's actions are based on the [Universal Declaration on Human Rights](#) by the UN General Assembly (first published on December 10, 1948). Consequently, NRW.BANK excludes transactions that are related to acts that violate human rights and/or that are connected to illegal activities (e.g. human or organ trafficking/smuggling, slavery).



Child Labour

NRW.BANK bases its definition of child labour on the internationally accepted definition of the [United Nations Convention on the Rights of Children \(CRC\)](#) of the years 1989/1990. Transactions that are associated with child or forced child labour are therefore excluded.



Systematic/Discriminatory Labour Law Violations

In addition to the German and European protection laws, NRW.BANK accepts the [Core Conventions of the International Labour Organisation \(ILO\)](#), which define social and labour standards as well as humane working conditions, as a code of conduct against systematic labour law violations.

Violations of these protection laws and standards such as forced labour, discrimination or unequal pay will result in a ban on business activities.



Controversial Economic Practices

Economic practices such as corruption, bribery, fraud, accounting fraud, anti-trust violations, money laundering, insider trading or tax compliance violations are considered controversial and/or unethical business practices by NRW.BANK. The Bank has introduced corresponding internal guidelines based on applicable European and German laws.

With regard to tax and compliance aspects, the Bank is of the opinion that it makes sense to exclude certain countries and/or companies and vehicles domiciled in certain countries from its business activities in the event of a dubious tax structure. When analysing and reviewing potential investments, NRW. BANK uses the applicable “[EU list of non-cooperative jurisdictions for tax purposes](#)” (black list, grey list and potentially additional lists) for guidance. In addition, those countries which are mentioned in the context of the EU Delegated Directive on the “[prevention of the use of the financial system for the purposes of money laundering or terrorist financing](#)” must be taken into account.

NRW.BANK reserves the right to make concrete promotional decisions at its own discretion taking all circumstances into account (checking, for instance, whether there is any suspicion of money laundering or obvious signs of dubious tax structures) and to document this in connection with the decision-making process. Generally, there may be diverse reasons (e.g. documentation relief, lower costs, simpler and unbureaucratic processes) for establishing a company that is not regarded as controversial in one of the countries concerned.



Controversial Environmental Behaviour

As a matter of principle, NRW.BANK considers controversial environmental behaviour outside the legally permitted framework to be unacceptable. In particular, violations of the Federal Law on Conservation and Environmental Care (BNatSchG) and/or the German Law on Environmental Harms (USchadG) as well as similar legal regulations and/or damage to the environment within the meaning of the USchadG are considered controversial environmental behaviour by NRW.BANK.



Animal Testing

In the field of animal protection, NRW.BANK also takes the existing legal framework into account. Only legally permitted and/or required animal testing in accordance with [Section 7a of the Animal Protection Act \(TierSchG\)](#) is not considered controversial business practice.

Controversial Business Fields and Activities

Taking sustainability issues into account is a key precondition for NRW.BANK's promotional activities. In order to meet this requirement, NRW.BANK has defined business fields and activities which, in their current state, do not contribute to the vision of sustainable and future-proof economic structures.



Energy Generation/Fossil Fuels

In line with the climate protection and energy policy objectives of the Federal Republic of Germany as well as the State of North Rhine-Westphalia, including the aspect of supply security, NRW.BANK supports promotional measures with regard to the energy transition. Sustainable energy thus also makes a positive contribution to protecting the environment. Against this background, NRW.BANK considers itself obliged not to promote measures that are related to fossil fuels that make no sense in the context of the energy transition. In this context, particular consideration must be given in the decision-making process to whether a measure makes sense with regard to achieving the Paris climate goals.

As the energy transition is a long-term process, NRW.BANK also supports its borrowers in the transformation of controversial business fields.

Consequently, NRW.BANK will not finance the following business fields and activities:

- **nuclear power plants** (except for measures that reduce environmental hazards of existing plants),
- **non-conventional prospecting, exploration and extraction of oil from oil shale, tar or oil sands** and mines with uranium as an essential resource,
- **prospecting, exploration and mining of coal, land-based transport and infrastructure essentially used for coal, power stations, heating plants and combined heat and power plants essentially fired by coal, as well as associated branch lines** (except for measures that reduce environmental hazards of existing plants or result in environmental improvements),
- projects for the **non-conventional prospecting, exploration and extraction of gas,**



Energy Generation/Fossil Fuels

Condition to be complied with for non-conventional prospecting, exploration and extraction of gas

Promotion would be possible if it can be proven in accordance with international standards

- i. that no material drawdown or contamination of groundwater is to be expected,
- ii. that measures are taken to protect resources (especially water) and to recycle,
- iii. that appropriate technology is used for safe drilling, which includes integrated piping of the well and pressure testing.

— construction of dams and power plants in areas particularly worthy of protection.

Condition to be complied with for dams/hydropower

Large dam and hydropower projects are based on the recommendations of the World Commission on Dams (WCD). This applies to dams with a height of at least 15 metres measured from the foundation or dams with a height between 5 and 15 metres with a reservoir volume of more than 3 million cubic metres.



Gambling

NRW.BANK excludes corporate financing in the field of gambling.



Mobility/Transport

NRW.BANK offers various promotional programmes to support the transformation towards climate-neutral mobility in NRW, which is made necessary by the challenges of climate protection and sustainable development. The Bank intends to increasingly promote transformative propulsion technologies, as they contribute to the desired greenhouse gas neutrality. Conversely, the Bank feels obliged to restrict or no longer promote investments with increased carbon emissions. Special emergency vehicles (fire brigade, police and rescue services) must be considered separately within the meaning of basic supply. As a matter of principle, NRW.BANK will not promote the following:

Purchase, financing, rental, leasing and operation of Class M1 passenger vehicles that do not comply with the condition below.

Condition to be complied with for the purchase, financing, rental, leasing and operation of passenger vehicles

Class M1 passenger vehicles that fall within the scope of Regulation (EC) No. 715/2007 of the European Parliament and of the Council may be promoted by NRW.BANK if the specific emissions of CO₂ at the time of investment as defined in Article 3(1)(h) of Regulation (EU) 2019/631 are below 95 g CO₂/km at the time of the application (until December 31, 2024).



Defence and weapons industry

As a matter of principle, NRW.BANK intends not to maintain any business relations with companies from the defence and arms industry. However, aspects such as defence of state sovereignty, internal security or e.g. peace missions should be taken into account when assessing eligibility.

In accordance with its corporate responsibility, NRW.BANK in particular believes it is obliged not to provide promotional funds to companies involved in the **manufacture, trade, transport, repair or storage of controversial weapons or important components** thereof. These include in particular cluster bombs, nuclear, biological or chemical weapons (NBC weapons), antipersonnel weapons, radioactive ammunition and enriched uranium and weapons of mass destruction as well as other weapons outlawed under international law. A company is assigned to the “defence and weapons industry” if it or one of its affiliated companies is involved in arms and weapons and this business segment accounts for > 10 percent of total revenues.



Substances

Sustainability also includes health protection and human well-being as part of the social dimension. In keeping with a preventive approach, products that are harmful to health and often also damage the environment should therefore be avoided. Against this background, NRW.BANK excludes the following:

— **Production or trade of products and activities** that are subject to **national or international phase-out or prohibition** or are subject to an international ban, e.g.

- i. certain harmful pharmaceuticals, pesticides, herbicides and other toxic substances (according to the Rotterdam Convention, Stockholm Convention and WHO "Pharmaceuticals: Restrictions in Use and Availability"),
- ii. ozone-depleting substances (according to the Montreal Protocol),
- iii. prohibited cross-border trade in waste (under the Basel Convention) as well as production and trade of

— **organochlorine mass products,**

- i. **hormone-altering chemicals** ([endocrine disrupters as defined by EU Regulation \(EU\) No. 2100/2017](#)),
- ii. **biocides,**
- iii. **radioactive material** (this does not include the procurement of medical devices, quality control equipment or other uses for which the radioactive source is insignificant and/or adequately shielded) as well as
- iv. **unbound asbestos** (this does not apply to the purchase or use of cement formwork with bound asbestos and an asbestos content of less than 20 percent).



Controversies in the Field of the Environment, Nature and Living Beings

In view of the breadth of the field of the environment, nature and living beings, NRW.BANK has categorised the controversies it believes to exist.

Category “Environment and Nature”

NRW.BANK is committed to reducing business activities that have a particularly negative impact on the environment and to protecting the environment and nature in accordance with a preventive approach. NRW.BANK therefore does not make available any funds for investments which are likely to irreparably damage the environment.

Against this background, the following business activities are excluded from promotion:

- Investments that threaten to entail the destruction or significant impairment – without adequate compensation according to international standards – of areas of special conservation interest.
This refers to
 - i. the destruction or severe degradation of the integrity of an area caused by a major and long-lasting change in the use of land or water, or
 - ii. the alteration of a habitat in such a way that the ability of the area to perform its function is lost.
- Production and trade of palm oil and timber of non-sustainable companies

Condition to be complied with for timber and palm oil

The promotion of farms producing or trading palm oil or timber for agricultural or forestry purposes is possible if they comply with recognised international certification systems (RSPO or FSC) or equivalent regulations to ensure sustainable cultivation conditions or are in a process ultimately leading to such compliance.



Controversies in the Field of the Environment, Nature and Living Beings

Category “Living Beings”

The Bank is committed to preventive protection of all living beings. Consequently, animal welfare also plays a key role in the Bank’s activities.

As a matter of principle, the following business activities are excluded from promotion:

- **fur farming,**
- **trade in protected animals and animal products as well as plants and plant products** (according to [CITES/the Washington Convention on International Trade in Endangered Species of Wild Fauna and Flora](#)),
- **destructive fishing methods or the use of driftnets in deep-sea fishing** when using nets longer than 2.5 km as well as
- **inappropriate (intensive) livestock farming.**

Condition to be complied with for (intensive) livestock farming

As a matter of principle, promotion by NRW.BANK is possible only if the relevant breeding, production and rearing farms, livestock transporters and wholesalers of live animals as well as (large) slaughterhouses can prove that the animals come from species-appropriate husbandry. NRW.BANK currently considers level 4 of the German “Haltungsform” (husbandry) label (and comparable forms of husbandry) or organic certification to be fundamentally species-appropriate.

In order to enable the transformation in this field, promotion is possible, however, if the beneficiary of the funding is in a comprehensible process towards species-appropriate husbandry.

- Research with human embryonic stem cells (ES cells) is highly controversial against the background of the protection of (unborn) human life. Given that the Bank is committed to a preventive approach to the protection of living beings, NRW.BANK excludes **research in the field of human embryology from its promotion if the condition below is not complied with.**

Condition to be complied with for research into human embryos

Promotion by NRW.BANK is possible only if it has been authorised by the responsible ethics committee.

2.3 Handling of Conflicting Objectives

Promotional policy requirements to be met by the Bank may conflict with NRW.BANK's Sustainability Strategy.

In commercial promotional business, a conflict between the economic sustainability and environmental, social and ethical sustainability aspects may also arise.

Moreover, it is a key goal of the Bank to support the beneficiaries of its promotional programmes as best as possible in reducing controversial business fields and activities and to enable an ecological transformation – also in the interest of sustainable and viable continuation of business. This may also lead to fundamentally conflicting objectives.

However, these conflicting objectives cannot be fully resolved or addressed in advance. Against this background, individual assessments and case-by-case decisions will continue to be necessary, as they encourage discussion of such issues and the positive developments that can result from them, and avoid getting bogged down in fixed assessment schemes.

This means that, if a company requires special promotion (e.g. special importance for the place in which it is located or comprehensible transformation of the business model), critical aspects with respect to sustainability criteria do not necessarily result in its exclusion from promotion.

If only a small percentage of revenues is generated in controversial business fields and activities (accumulated <10%), this does not necessarily result in the exclusion of a borrower, either.

NRW.BANK reserves the right to make decisions in favour of or against a promotional case at its discretion and to document the decision-making process to make this evident.

3. Sector Guidelines

NRW.BANK plans to introduce sector guidelines for selected greenhouse gas-intensive sectors for its promotional business. In doing so, the Bank aims to reinforce its commitment to the Paris Agreement and increase its efforts to achieve the 1.5°C target.

The sector guidelines – which are based on the KfW approach – are intended to ensure that the new business under NRW.BANK’s control is in line with the temperature target of the Paris Climate Agreement and to systematically strengthen NRW.BANK’s contribution to the transformation. Within this framework, sector-specific minimum requirements for the climate compatibility of financed technologies in greenhouse gas-intensive economic sectors are specified and scientifically derived from the accepted “Paris-compatible” climate scenarios of the International Energy Agency (IEA) to show which mix of transitional and future technologies can be used to successfully achieve the transformation towards climate neutrality.

NRW.BANK will thus provide an effective instrument for implementing the German and North Rhine-Westphalian climate policy. The sector guidelines are intended to ensure that already existing obligations remain unaffected and that overarching promotional policy decisions will continue to be possible.

4. Outlook

Sustainability remains a very dynamic issue; the pressing challenges (including climate change and biodiversity loss) and evolving regulatory requirements (including the Corporate Sustainability Reporting Directive (CSRD)), as well as changing standards, industry and technology developments, will lead to the further development of the ESG Promotion Requirements.

NRW.BANK's objective is to become carbon-neutral in all its business units in the future so as to optimally support the State of North Rhine-Westphalia in achieving the climate neutrality goal by 2045.

In view of the pressing transformation challenges in North Rhine-Westphalia, NRW.BANK will place a clear focus on achieving the Paris climate goals. This is likely to lead to further adjustments of the ESG Promotion Requirements.

The following developments of the **knock-out criteria** are already foreseeable or intended:

Category "Mobility/Transport"

NRW.BANK aims to further reduce the threshold values for Class M1 passenger vehicles to 50 g CO₂/km from January 1, 2025 to December 31, 2029 and to zero g CO₂/km from January 1, 2030. The Bank is also considering introducing thresholds for Class N1 light commercial vehicles (<3.5 t) in the medium term.

The introduction of **sector guidelines** is already foreseeable and planned for 2024.

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