

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Social Bond Framework

NRW.BANK

3 January 2022

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">• Social Bonds and Social Commercial Papers (CPs)
Relevant standards	<ul style="list-style-type: none">• Social Bond Principles (SBP) as administered by The International Capital Market Association (ICMA), June 2021 version
Scope of verification	<ul style="list-style-type: none">• NRW.BANK Social Bond Framework (as of 08.11.2021)
Lifecycle	<ul style="list-style-type: none">• Pre-issuance verification
Validity	<ul style="list-style-type: none">• As long as NRW.BANK Social Bond Framework eligible categories remain unchanged

CONTENTS

Scope of works	3
ISS ESG ASSESSMENT SUMMARY	4
ISS ESG SPO ASSESSMENT	5
PART I: SOCIAL BOND LINK TO NRW.BANK'S SUSTAINABILITY STRATEGY	5
A. ASSESSMENT OF NRW.BANK'S ESG PERFORMANCE	5
B. CONSISTENCY OF SOCIAL BOND FRAMEWORK WITH NRW.BANK'S SUSTAINABILITY STRATEGY	8
PART II: ALIGNMENT WITH ICMA'S SBP	10
Existing Loan Programmes	12
Social Loan Pool	13
Allocation Reporting	14
Impact Reporting	14
PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE	16
A. CONTRIBUTION OF THE SOCIAL BOND TO THE UN SDGs	16
B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE ELIGIBLE CATEGORIES	18
ANNEX 1: Methodology	24
ANNEX 2: ISS ESG Corporate Rating Methodology	25
ANNEX 3: Quality management processes	27
About ISS ESG SPO	28

Scope of works

NRW.BANK (“the issuer”, “the company”) commissioned ISS ESG to assist with its Social Bond Framework eligible category by assessing three core elements to determine the sustainability quality of the instrument:

1. NRW.BANK’s sustainability performance, according to the ISS ESG Corporate Rating.
2. NRW.BANK Social Bond Framework (as of 08.11.2021) – benchmarked against the ICMA SBP 2021.
3. The Social Bond eligible category – whether the projects contribute positively to the UN SDGs and perform against ISS ESG’s issue-specific key performance indicators (KPIs) (See Annex 3).

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION
<p>Part 1:</p> <p>Social Bond Framework link to issuer's sustainability strategy</p>	<p>According to the ISS ESG Corporate Rating published on 27.10.2021, the issuer shows a high sustainability performance against the industry peer group on key ESG issues faced by the Development Banks s. The industry issuer is rated 15th out of 44 companies within its industry.</p> <p>The Use of Proceeds categories described in this Social Bond Framework are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing Social Bonds and Social Commercial Papers is clearly described by the issuer.</p>	<p>Consistent with issuer's sustainability strategy</p>
<p>Part 2:</p> <p>Alignment with SBP</p>	<p>The issuer has defined a formal concept for its Social Bond Framework regarding Use of Proceeds, processes for project evaluation and selection, management of proceeds and reporting. The content of this Social Bond Framework is in line with the SBP.</p>	<p>Aligned</p>
<p>Part 3:</p> <p>Sustainability quality of the eligible category</p>	<p>The overall sustainability quality of the Eligible Social Projects in terms of sustainability benefits, risk avoidance, and minimisation is good based upon the ISS ESG assessment. The Social Bonds and Social Commercial Papers will (re-)finance eligible project categories, which include: Affordable Home Ownership, SME Financing and Employment Generation, Health, Education, Access to Public Goods and Services and Disaster Management.</p> <p>Those Use of Proceeds categories have significant contribution to SDGs 1 'No Poverty', SDGs 4 'Quality Education' and SDGs 8 'Decent Work' and also limited contribution to SDGs 3 'Good Health and Wellbeing', SDGs 5 'Gender Equality' and SDGs 10 'Reduced Inequalities' according to ISS ESG SDG proprietary methodology. The environmental and social risks associated with those Use of Proceeds categories have been well-managed.</p>	<p>Positive</p>

ISS ESG SPO ASSESSMENT

PART I: SOCIAL BOND LINK TO NRW.BANK'S SUSTAINABILITY STRATEGY

A. ASSESSMENT OF NRW.BANK'S ESG PERFORMANCE

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments.

COMPANY	INDUSTRY	DECILE RANK	TRANSPARENCY LEVEL
NRW.BANK	Development Banks	3	VERY HIGH

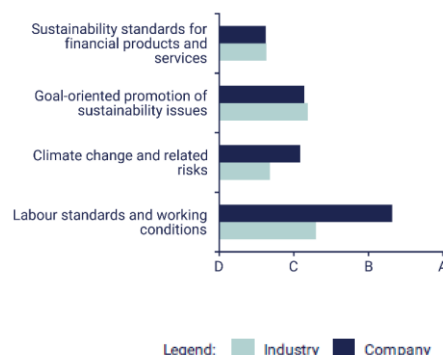
This means that the company currently shows a high sustainability performance against peers on key ESG issues faced by the Development Banks industry and obtains a Decile Rank relative to the industry group of 3, given that a decile rank of 1 indicates the highest relative ESG performance out of 10.

ESG performance

As of 18.11.2021, this Rating places NRW.BANK 15th out of 44 companies rated by ISS ESG in the Development Banks.

Key challenges faced by companies in terms of sustainability management in this industry are displayed in the chart on the right, as well as the issuer's performance against those key challenges in comparison to the average industry peers' performance.

Key Issue Performance



Sustainability Opportunities

NRW.BANK is the promotional bank of the German federal state of North Rhine-Westphalia. Its three developmental focus areas lie in the promotion of economy, housing, as well as municipalities and infrastructure. NRW.BANK has issued various green bonds in recent years and its first social bond in 2020, to refinance its promotional activities, e.g. in the field of climate and environmental protection, and social housing. As a promotional bank, NRW.BANK directly contributes to the UN's Sustainable Development Goals (SDGs).

Sustainability Risks

NRW.BANK manages the social and environmental risks associated with financed activities to some extent. Its various promotional programmes demand certain environmental and/or social prerequisites in order to be eligible for support. There is, however, no comprehensive ESG lending guideline that ensures the inclusion of a similar level of environmental and social standards across all financing activities, although the company excludes certain controversial business areas and practices from its portfolio. In addition, the bank does not further elaborate on the application processes of its

environmental and/or social prerequisites. NRW.BANK carries out monitoring and evaluation efforts regarding the sustainable development impacts of minor parts of its promotional activities. It does provide some transparency on its promotional business on an aggregated level, displaying volumes, sectors and regions it has supported throughout a specific year. However, no disclosure is given on the level of the project or the client. Finally, on behalf of the German state of North Rhine-Westphalia, NRW.BANK owns several companies that organize jointly the state-licensed lottery business in the region.




In contrast, as regards its own operations. NRW.BANK is advanced in the provision of good working conditions for its staff and the environmental management of its buildings and operations.










Governance opinion

While separate persons are holding the positions of CEO and chair of the board of directors, its governance structure does not ensure effective oversight of the executive management. The chair of the board of directors (Andreas Pinkwart, as at October 21, 2021) is not considered independent as he is a minister in the government of the German federal state of North Rhine-Westphalia, the single owner of NRW.BANK. In addition, the majority of board directors are not independent, and neither are the established board committees charged with audit, remuneration and nomination. The company discloses its remuneration policy for executives on an individual basis. All managing board members exclusively receive fixed remuneration. Regarding the bank’s governance of sustainability, there is no indication of an independent board committee on sustainability matters. However, NRW.BANK has several business ethics related guidelines in place, which cover the most important topics to some extent. These are accompanied by several relevant compliance procedures, although measures for whistleblower protection are still missing.

Sustainability impact of products and services portfolio

Using a proprietary methodology, ISS ESG assessed the contribution of NRW.BANK’s current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along NRW.BANK’s production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE	DIRECTION OF IMPACT	UN SDGS
Emergency aid	7%	CONTRIBUTION	
Financing of healthcare facilities, financing of water and/or wastewater services for residential customers	4%	CONTRIBUTION	 

Financing of educational facilities, financing of educational programs, financing of student housing	5%	CONTRIBUTION	
Financing of childcare and/or dependent care services	1%	CONTRIBUTION	
Financing of affordable housing (for low- to median-income households), financing of non-luxury residential housing, financing of social housing, financing of water and/or wastewater services for residential customers	16%	CONTRIBUTION	 
Financing of water and/or wastewater services for residential customers	2%	CONTRIBUTION	
Financing of energy efficiency improvements, financing of renewable energy	7%	CONTRIBUTION	 
Financing of energy efficiency improvements, financing of renewable energy	7%	CONTRIBUTION	
Financing of terrestrial ecosystem restoration	2%	CONTRIBUTION	
Others	N/A	NO NET IMPACT	N/A

Breaches of international norms and ESG controversies

The issuer is not facing any severe/very severe controversy.

B. CONSISTENCY OF SOCIAL BOND FRAMEWORK WITH NRW.BANK'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the issuer

The core missions of NRW.BANK are to offer interest subsidised loans in all tenors, support SMEs to stimulate growth, employment and innovation, and support affordable housing for low-income families.

Other than the social side, the fight against climate change is an inter-sectional challenge, and therefore NRW.BANK has put climate mitigation and adaptation considerations embedded across all of her activities. In 2018 NRW.BANK published its first sustainability guidelines, according to the latest version:

- Sustainability analyses are integrated in every SME credit assessment
- Municipalities and other public sector entities are committed to NRW.BANK's Sustainability Guidelines
- Excludes loans to any entities involved in the following controversial business practices: Human rights violations, Child labour, Systematic labour law violations, Controversial environmental behaviour or economic practices and Animal testing.
- Excludes loans to any entities involved in the following controversial business practices: Defense and weapons industry (NBC weapons, landmines, cluster ammunition, etc.), Casinos and unlicensed gambling, Businesses that degrade/harm the environment, nature and living beings, Coal/lignite value chain, Non-conventional fossil-fuel exploration, Nuclear power and Research on human embryos.
- NRW.BANK is no longer merely an issuer of green & social bonds but also considers bonds aligned to the ICMA GBP, SBP and SBG for its own investment in a dedicated Sustainable Investment Portfolio.

Besides that, NRW.BANK is committed to the Paris Accord and the UN SDGs, as well as becoming the UN PRI signatory since 2020.

Rationale for issuance

In order to decrease disparities and harmonise living conditions across the region NRW.BANK supports the local economy, stimulates affordable home ownership, builds and maintains social infrastructure and ensures liquidity of municipalities. These lending programmes underpin NRW.BANK Social Bonds or Social CPs.

NRW.BANK is convinced that social bonds/CPs are an effective tool to channel investments to assets that have social benefits and thereby contribute to the achievement of the challenges. NRW.BANK believes that social bonds/CPs offer transparency and traceability to investors who wish to allocate funds to social assets helping target populations.

Contribution of Use of Proceeds categories to sustainability objectives and priorities

ISS ESG mapped the Use of Proceeds categories financed under these Social Bonds with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the development bank industry. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings industry. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Affordable Home Ownership	✓	✓	Contribution to a material objective
SME Financing and Employment Generation	✓	✓	Contribution to a material objective
Assess to Essential Services: Health	✓	✓	Contribution to a material objective
Assess to Essential Services: Education	✓	✓	Contribution to a material objective
Assess to Public Goods and Services	✓	✓	Contribution to a material objective
Disaster Management	✓	✓	Contribution to a material objective

Opinion: *ISS ESG finds that the Use of Proceeds financed through these bonds are consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry. The rationale for issuing Social Bonds is clearly described by the issuer.*

PART II: ALIGNMENT WITH ICMA's SBP

1. Use of Proceeds

An amount equivalent to the net proceeds raised from any NRW.BANK Social Bond/CP issued under this Framework will be allocated, in part or in full, to finance new eligible social expenditures ("Eligible Social Projects") and/or to refinance existing Eligible Social Projects whose disbursements occurred no earlier than 36 months prior to the issuance year.

NRW.BANK will be investing an amount equal to the net proceeds of the notes in loans for projects belonging to eligible social categories ("Eligible Social Project Categories") and aligning – where possible – with the UN Sustainable Development Goals and the underlying targets. These loans are subject to and in accordance with the lending standards of the respective loan programmes.

The projects are listed in the table below:

ELIGIBLE SOCIAL PROJECT CATEGORIES	ELIGIBILITY CRITERIA
<p>Affordable Home Ownership</p>	<ul style="list-style-type: none"> - Affordable home ownership for lower-income groups - Projects including disability access, safe and decent housing <p>Target population: the economically disadvantaged or large families, under the following programmes:</p> <ul style="list-style-type: none"> - Taxable household income TEUR 75 p.a. (couple) + TEUR 15 per child (under 18yrs). These thresholds are in line with a Federal child allowance (Baukindergeld)¹ - Taxable household income TEUR 60 p.a. (couple), TEUR 30 (single) and TEUR 12 per child (under 18yrs)
<p>SME Financing and Employment Generation</p>	<p>General loans for small and medium-sized enterprises with the purpose of creating and safeguarding jobs.</p> <p>Specific loans supporting digitalisation efforts of small and medium enterprises.</p> <p>Target population:</p> <p>Small and medium-sized enterprises</p>

¹ <https://www.kfw.de/inlandsfoerderung/Privatpersonen/Neubau/Baukindergeld/>

<p>Access to Essential Services: Health</p>	<p>Good health and well-being for all at all ages.</p> <ul style="list-style-type: none"> - Lending to health and care infrastructure: - Hospitals and ambulances - Homes for the elderly or disabled - Refugee homes - Women shelters <p>Target population: Elderly or people with specific care needs, refugees and women, general population</p>
<p>Access to Essential Services: Education</p>	<p>Investments in educational projects aiming to reduce inequalities, increase education levels, such as:</p> <ul style="list-style-type: none"> - Construction, renovation or refurbishment of facilities for early education, schools and universities - Digitalisation initiatives - Accessibility initiatives <p>Target population: Participants in early to tertiary education</p>
<p>Access to Public Goods & Services</p>	<p>General municipal lending for infrastructure and services</p> <p>Target population: Citizens of municipalities and counties with a GDP/capita in the 1st quartile and an unemployment rate above the regional average².</p>
<p>Disaster Management</p>	<p>Lending to disaster control infrastructure:</p> <ul style="list-style-type: none"> - Fire Fighting - Federal Agency for Technical Relief (THW) <p>Target population: General population</p>

Opinion: ISS ESG considers the Use of Proceeds description provided by the issuer Social Bond Framework eligibility criteria as aligned with the SBP. Social benefits are clear based on the description of the categories provided by the issuer.

² Source: IT.NRW, DESTATIS

2. Process for Project Evaluation and Selection

Existing Loan Programmes

The Affordable Home Ownership, SME Financing and Employment, Access to Education, Essential or General Services projects underlying NRW.BANK's Social Bonds/CPs are all funded through existing development loan programmes. These programmes consider do no significant harm (DNSH) criteria and follow specific guidelines as well as requiring that borrowers follow NRW.BANK's sustainability guidelines³.

ELIGIBLE SOCIAL PROJECT CATEGORIES	RELEVANT LOAN PROGRAMME
Affordable Home Ownership	<ul style="list-style-type: none"> – Wohneigentum and global loan Wohneigentum: Applicants for loans to construct or acquire owner-occupied residential properties can submit one funding application per property and household, which includes the costs of all additional measures (modernization costs, land costs, additional costs, outdoor facilities etc.). The applicant will need to provide the house bank with their income data and the house bank will conduct the risk assessment on the applicant.
SME Financing and Employment Generation	<ul style="list-style-type: none"> – Universalkredit, Digitalkredit and global loan SME: Applications are made to the house bank and then forwarded to NRW.BANK. The house bank carries out the risk assessment as part of the application process for loan funds, and NRW.BANK evaluates the application.
Access to Essential Services: Education	<ul style="list-style-type: none"> – Gute Schule: Programme to promote investment in the energy efficiency, accessibility and digitalisation of municipal or denominational schools and related sports facilities in North Rhine-Westphalia. The loans are sent directly to the final beneficiary (municipal/denominational schools). – Kommunal Invest Plus: Investment promotion programme that includes support for the investment in energy efficiency, accessibility and digitalisation of municipal or denominational schools and related sports facilities in North Rhine-Westphalia. The loans are sent directly to the final beneficiary (municipal/denominational schools). – Infrastructure: Investment promotion programme that includes support for the investment in municipal or denominational kindergartens, preschools and other early childhood education facilities. The loans are sent via the house bank to the final beneficiary. – Universities: Programme to promote investment (new constructions or renovating existing buildings) of State owned universities. The loans are sent directly to the final beneficiary (university).
Access to Essential	<ul style="list-style-type: none"> – Kommunal Invest Plus: Investment promotion programme that includes support for the investment in hospitals, homes for the elderly or disabled,

³ as per NRW.BANK's sustainability guidelines see section 1.4

<p>Services: Health</p>	<p>refugee homes or women shelters. The loans are sent directly to the final beneficiary (municipality).</p> <ul style="list-style-type: none"> – Infrastructure: Investment promotion programme that includes support for the investment in hospitals, homes for the elderly or disabled, refugee homes or women shelters. The loans are sent via the house bank to the final beneficiary.
<p>Disaster Management</p>	<ul style="list-style-type: none"> – Kommunal Invest Plus: Investment promotion programme that includes support for the investment in equipment and fire departments. The loans are sent directly to the end beneficiary (municipality). – Infrastructure: Investment promotion programme that includes support for the investment in equipment and facilities used by the Federal Agency for Technical Relief (THW). The loans are sent via the house bank channel the final beneficiary.
<p>Access to Public Goods & Services</p>	<ul style="list-style-type: none"> – Direct lending: Loans eligible under the category of Socio-Economic Empowerment are borrowed directly from NRW.BANK. Municipalities apply directly to NRW.BANK, and the application is evaluated according to several criteria, including Sustainability Guidelines referenced in Section 1.4.

Social Loan Pool

NRW.BANK's ESG team will be responsible for tracking and aggregating loan disbursements through both the existing loan programmes and the direct lending programmes to construct the social loan pool ("Social Loan Pool"). The ESG team will also monitor the alignment of the underlying loans to the Eligibility Criteria listed in 2.1, Use of Proceeds. The team will leverage the pre-existing oversight and processes to ensure disbursements align to NRW.BANK's sustainability policies and to collect data on the impact metrics listed in Reporting.

Opinion: ISS ESG considers the Process for Project Evaluation and Selection description provided by the issuer's Social Bond Framework eligibility criteria as aligned with the SBP. NRW.BANK has defined transparent criteria for projects eligible for Social Bond proceeds. Moreover, the issuer is committed to follow E&S risks related to projects and to partially or totally excluded from eligible loans, assets for which any material and critical controversies emerge. The projects selected show alignment with the sustainability strategy of the issuer.

3. Management of Proceeds

The Social Loan Pool of NRW.BANK Social Bonds/CPs is (partly) dynamic. Even if the lending activities in general are unchanged, the intra portfolio weights will change year by year.

NRW.BANK is following a pool-to-bond approach for the management of Social Bond proceeds. Proceeds of any NRW.BANK Social Bond will be allocated to corresponding Eligible Social Projects within the Social Loan Pool. Given the dynamic composition of the Social Loan Pool, NRW.BANK is able to refinance the Social Loan Pool with Social Bonds/CPs in different tenors and currencies – independent from the loans maturities or currency – as long as the Social Loan Pool exceeds the amount – in EUR equivalents – of the outstanding Social Bonds/CPs.

Ring-fencing of the proceeds is not necessary: the underlying loans have already been disbursed and proceeds can be earmarked against the loan pool identified in the agency’s systems.

Opinion: *ISS ESG finds that the Management of Proceeds proposed by the issuer’s Social Bond Framework eligibility criteria as aligned with the SBP. The pool of financed assets will be monitored on a quarterly basis.*

4. Reporting

The Social Bond Principles require issuers to keep investors updated about the expected social impact of the issuances. An external research institute will calculate the impact. NRW.BANK reports about the Social Loan Pool at the end of each calendar year. All outstanding Social Bonds/CPs are included in this report given the pool-to-bond-approach. The results will be published annually up to mid-year in the agency’s Sustainability Report in order to achieve full transparency.

Allocation Reporting

An equivalent amount of the proceeds of each NRW.BANK Social Bond/CP will be allocated to Eligible Social Projects within the NRW.BANK’s Social Loan Pool at issuance. On an annual basis, NRW.BANK will report on the following indicators for the Social Loan Pool until maturity of the bond:

- _ Amount allocated per Social Project Category
- _ Amount allocated by the year of disbursement

Impact Reporting

NRW.BANK will publish an impact reporting on the expected social impacts of the Eligible Social Projects. This report will be provided by an external scientific institution. The table below shows examples of KPIs that can be used in the reporting of the respective Social Bond/CPs.

This list can be updated from time to time by the ESG-team.

ELIGIBLE SOCIAL PROJECT CATEGORIES	EXAMPLES OF SOCIAL KPIS
Affordable Home Ownership	<ul style="list-style-type: none"> _ Number of loans granted _ Financial relief (EUR) _ m² refinanced _ Number of flats or rooms _ Number of beneficiaries
SME Financing and Employment	<ul style="list-style-type: none"> _ Number of micro enterprises and/or SMEs funded _ Amount of financing provided to micro enterprises and/or SMEs _ Number of SMEs funded that are located in a region with an unemployment rate that is higher than the regional average (annual unemployment rate) _ Number of jobs created or safe guarded _ Sub-regional distribution
Access to Education Services: Education	<ul style="list-style-type: none"> _ Number of education centres supported _ Number of beneficiaries

	<ul style="list-style-type: none"> — Number of school dropouts by county
Access to Public Goods and Services: Providing public goods and services in economically disadvantaged Counties and Municipalities	<ul style="list-style-type: none"> — Number of beneficiaries — Number of municipalities and counties — Financial relief per capita in EUR — Additional investment per capita
Access to Essential Services: Health	<ul style="list-style-type: none"> — Number of beneficiaries — Number of projects — Category of projects
Disaster Management	<ul style="list-style-type: none"> — Number of projects — Category of projects

All reporting will be made public on NRW.BANK's website:

<https://www.nrwbank.de/de/die-nrw-bank/investor-relations/social-bonds/>

Opinion: ISS ESG finds that the reporting proposed by the issuer's Social Bond eligibility criteria as aligned with the SBP. The reporting is provided on both allocation and impact, and the frequency is in line with best market practices.

External review

Second Party Opinion

NRW.BANK commissioned ISS ESG to provide an external review in form of an SPO before Social Bond/CP issuance.

External Verification

NRW.BANK is committed to engage an assurance provider, or an External Reviewer to assess the compliance of any bonds issued or loans drawn against the NRW.BANK Social Bond Framework on an annual basis. The resulting report will be publicly available at NRW.BANK's website.

PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE

A. CONTRIBUTION OF THE SOCIAL BOND TO THE UN SDGs

Based on the assessment of the sustainability quality of the Social Bonds and using a proprietary methodology, ISS ESG assessed the contribution of the NRW.BANK's Social Bonds Framework to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 2 for methodology):

Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution
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Each of the Social Bonds' Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Affordable Home Ownership	Significant Contribution	
SME Financing and Employment Generation	Significant Contribution⁴	
Access to Essential Services: Health — Hospitals and ambulances	Limited contribution	
Access to Essential Services: Health — Women shelters	Limited contribution⁵	
Access to Essential Services: Health — Homes for the elderly or disabled, refugee homes	Limited contribution⁶	 
Access to Essential Services: Education — Construction, renovation or refurbishment of facilities for early	Limited contribution	

⁴ This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an issuer's product and service portfolio on the SDGs.

⁵ See footnote above.

⁶ See footnote above.

<p>education, schools and universities</p>		
<p>Access to Essential Services: Education — Digitalisation initiatives — Accessibility initiatives</p>	<p>Significant Contribution</p>	
<p>Assess to Public Goods and Services</p>	<p>Limited contribution⁷</p>	
<p>Disaster Management</p>	<p>Limited contribution</p>	

⁷ See footnote above.

B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE ELIGIBLE CATEGORIES

Eligible categories include Affordable Home Ownership, SME Financing and Employment Generation, Health, Education, Access to Public Goods and Services and Disaster Management. All expenditures are situated in Germany. The table below presents the findings of an ISS ESG assessment of the selection criteria against ISS ESG KPIs.

Social housing (Affordable home ownership)

ASSESSMENT AGAINST ISS ESG KPI

Construction standards

- ✓ All financed (and future) assets are located in state of North Rhine-Westphalia, Germany, where high labour and health and safety standards are in place for construction and maintenance work (e.g. ILO core conventions).

Responsible treatment of customers with debt repayment problems

- ✓ All financed (and future) assets with basic pre-emptive actions to prevent client debt repayment problems (e.g. screenings of mortgages) are in place.
- ✓ Sustainable solutions for customers with debt repayment problems are in place (e.g. debt counselling, foreclosure as a last resort).
- ✓ The issuer excludes the selling of contractually serviced loans.

Energy Efficiency prerequisites

- There is limited information about the existing housing stock energy efficiency, and the borrowers may invest in existing housing stock or new building house. Therefore, the control for the issuer on energy efficiency prerequisites is limited.

Standard for affordable housing

- ✓ All loans are and will be provided to lower-income groups.

Access to Essential Services (Educational projects) and Disaster Management

The table below presents the findings of an ISS ESG assessment of the assets (re-) financed against KPIs.

ASSESSMENT AGAINST ISS ESG KPIs

Facility standards

- ✓ All financed (and future) assets are located in state of North Rhine-Westphalia, Germany, a country that has strong education standards and supervising bodies.

- ✓ All financed (and future) assets have quality management systems in place (e.g. inspection on sites).

Labour standards

- ✓ All financed (and future) assets are located in State of North Rhine-Westphalia, where high labour and health and safety standards are in place (e.g. ILO core conventions).

Access to education

- ✓ All financed (and future) assets have high social standards regarding non-discrimination, as provided by NRW.BANK sustainability guidelines.

Access to transportation

- ✓ All financed (and future) assets have measures in place to ensure access to transportation (e.g. school busses).

Safety of buildings users

- ✓ All financed (and future) assets provide for measures to ensure operational safety (e.g. emergency exits, fire sprinklers, fire alarm systems) as provided by national legislation.

Energy efficiency of buildings

- ✓ All financed (and future) assets have good energy efficiency standards in place (ENEV 2016 or EPC label A).

SME Financing and employment generation

ASSESSMENT AGAINST ISS ESG KPIs

Exclusion of controversial activities

- ✓ Controversial business activities (e.g. coal and fossil fuel) are excluded from financing under this framework.

Non-discrimination

- ✓ For all loans, policies and measures are in place to prohibit discrimination in the workplace according to the national legislation.

Labour standards

- ✓ All loans are granted to companies located in State of North Rhine-Westphalia, where high labour and health and safety standards are in place (e.g. ILO core conventions).

Environmental management

- No information is available on assets for which comprehensive environmental management systems are in place. However, 100% of assets must implement measures in accordance with the environmental legislations of the state they are part of.

Access to public goods & services

ASSESSMENT AGAINST ISS ESG KPIs

Standards for public administration

- ✓ All financed (and future) assets are located in state of North Rhine-Westphalia, Germany, a country with a low-level of corruption and a stable and democratic systems.

Environmental aspects of infrastructures financed

- ✓ All financed (and future) assets, good energy efficiency standards are in place (EPC label A).
- ✓ All financed (and future) assets are located within Germany which required to conduct the Environmental impact assessment as a part of building permit requirement.
- No information is available on assets located within a maximum of 1 km from one or more modalities of public transport.

Social aspects of infrastructures financed

- ✓ All financed (and future) assets ensure operational safety (e.g. emergency exits, fire sprinklers, fire alarm systems) as provided by national legislation.
- ✓ All financed (and future) assets are located in Germany, a country that provides for high labour health and safety standards (e.g. ILO core conventions).

Social aspects of programs and services financed

- ✓ All loans are granted to municipalities targeted as under-privileged in terms of GDP/Capital, unemployment, access to basic services and infrastructures, etc.

Access to essential Services (Health)

ASSESSMENT AGAINST ISS ESG KPIs

Access to medical facilities

- ✓ All financed (and future) assets with fairly priced and/or subsidised participation for socially disadvantaged patients as provided by national legislation.

Standards for medical facilities

- ✓ All financed (and future) assets have strong medical standards and supervising bodies in place as provided by national legislation.
- ✓ All financed (and future) assets have a quality management system in place as provided by national legislation.

Site selection

- All German health centre operators are keen to have good accessibility for their centres. However, there is limited information as to whether all the facilities are located close to public transportation (less than 250 metres from the subway, bus stop, etc.).

DISCLAIMER

1. Validity of the SPO: As long as NRW.BANK's Social Bond Framework eligible categories remain unchanged.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
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ANNEX 1: Methodology

ISS ESG Social KPIs

The ISS ESG Social Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of NRW.BANK's Social Bond.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

To review the KPIs used in this SPO, please contact Federico Pezzolato (details below) who will send them directly to you.

Environmental and social risks assessment methodology

ISS ESG evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Social Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Social Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by NRW.BANK (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which NRW.BANK's Social Bonds contributes to related SDGs.

ANNEX 2: ISS ESG Corporate Rating Methodology

The following pages contain methodology description of the ISS ESG Corporate Rating.

NRW.BANK

Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

ESG Corporate Rating - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Analyst Opinion - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

Norm-Based Research - Severity Indicator - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

Decile Rank - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

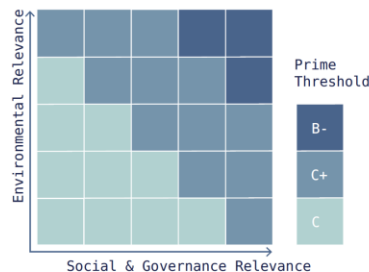
Distribution of Ratings - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

NRW.BANK

Methodology - Overview

Industry Classification - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



Industry Leaders - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

Key Issue Performance - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

Performance Score - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

Rating History - Development of the company's rating over time and comparison to the average rating in the industry.

Rating Scale - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

Sources of Information - A selection of sources used for this report is illustrated in the annex.

Status & Prime Threshold - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

Transparency Level - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

ANNEX 3: Quality management processes

SCOPE

NRW.BANK commissioned ISS ESG to compile a Social Bond Framework SPO. The Second Party Opinion process includes verifying whether the Social Bond Framework aligns with the SBP as administered by ICMA and to assess the sustainability credentials of its Social Bonds and Commercial Papers, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA SBP
- ISS ESG KPI set:
 - Financing Social housing (Affordable home ownership)
 - Access to Essential Services (Educational projects) and Disaster Management,
 - Financing SME Financing and employment generation,
 - Access to public goods & services,
 - Access to essential Services (Health).

ISSUER'S RESPONSIBILITY

NRW.BANK's responsibility was to provide information and documentation on:

- Social Bond Framework
- Eligibility criteria
- Documentation of ESG risks management at the asset level

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Social Bonds and Commercial Papers to be issued by NRW.BANK based on ISS ESG methodology and in line with the ICMA SBP.

The engagement with NRW.BANK took place from October to December 2021.

ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing Social Bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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