

Non-financial Report 2021

Non-financial Report

of NRW.BANK for the Fiscal Year 2021

NRW.BANK complies with its reporting duty pursuant to Section 340a Para. 1a of the German Commercial Code (HGB) in the form of a non-financial report (Section 289b Para. 3 HGB) published separately from the management report.

As a an institution under public law, NRW.BANK does not fall within the scope of Regulation (EU) No. 2020/852 of the European Parliament and of the Council of June 18, 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (“EU Taxonomy Regulation”) for the fiscal year 2021.

Chapter 1 of the management report (“Fundamental Information about NRW.BANK as the Promotional Bank of North Rhine-Westphalia”) provides a detailed description of the business model, the objectives and the strategy as well as the control system of the Bank.

As the promotional bank for North Rhine-Westphalia commissioned to support the federal state and its municipal corporations in exercising their public tasks, particularly in the fields of structural, economic, social and housing policy, in a largely

budget-independent manner, NRW.BANK is geared to the principle of sustainability. This has been laid down both in Section 3 of the Act on NRW.BANK (NRW.BANK G) and in Section 5 of the Bank’s Statutes.

Being the promotional bank for North Rhine-Westphalia, NRW.BANK bears corporate responsibility. The Bank believes that the social, ethical, environmental and economic aspects resulting from this responsibility are inextricably linked with each other. NRW.BANK understands responsibility to mean conscientious and transparent action which, in the context of its promotional mission, is geared to its customers, its employees and society as a whole. Sustainable action therefore is an important business objective of NRW.BANK.

Most importantly, the sustainability objective shapes and guides NRW.BANK’s promotional offerings. The aim is to use promotional funds to make a relevant contribution to the expansion of a sustainable economy in North Rhine-Westphalia and, in particular, to support enterprises in their sustainability efforts and in the necessary transformation towards a sustainable form of economy.

NRW.BANK constantly develops the sustainability issue as a whole and introduced Sustainability Guidelines in early 2018, which govern the Bank's approach to sustainability and its ongoing further development. A further developed version of the Sustainability Guidelines came into force on January 1, 2022, which primarily takes into account the strategic consideration of NRW.BANK as well as current developments in the sustainability environment. Just like the federal state, NRW.BANK is committed to the goals of the Paris Agreement on Climate Change. To strengthen the future viability and competitiveness of the State of North Rhine-Westphalia in the long term, the Bank will support its funding recipients in their transformation efforts with regard to the politically desired climate neutrality by 2045 and will align its product and service portfolio accordingly.

NRW.BANK's promotional offerings and their further development are driven by the promotional policy principles adopted by the Board of Guarantors as well as by NRW.BANK's promotional strategy, which is based thereon. As part of the Bank-wide strategy, they ensure that the structural policy objectives of the North Rhine-Westphalian government are implemented in the context of the promotional business. The latter is geared towards different themes and divided into the promotional fields Economy, Housing and Infrastructure/Municipalities.

In order to fulfil its promotional mandate and to support the structural and economic policy objectives of its owner, NRW.BANK

provides monetary and non-monetary services in its promotional business, also referred to as "Förderleistung". The use of own income for reduced interest rates on promotional loans is a key component of this "Förderleistung". Moreover, NRW.BANK refrains from putting its equity capital in alternative investments yielding higher interest and, hence, income by using this capital to refinance promotional loans granted at reduced interest rates. Other components of the "Förderleistung" include the waiver of commitment fees for promotional loans, advisory services for businesses and municipalities as well as the assumption of risk.

For several years now, the prevailing low interest rates have limited NRW.BANK's possibilities to provide targeted promotional stimuli through interest rate subsidies. Last year, however, the Bank was able to expand its scope for interest rate subsidies again by introducing negative funding rates for house banks as well as negative interest rates in the programme-based direct business with municipalities. This has greatly enhanced the attractiveness of many programmes. Last year, the COVID-19 pandemic was once again one of the main topics. The Bank therefore continued the special promotional offerings introduced in 2020. In the second half of the year, the heavy rainfalls in several regions of North Rhine-Westphalia additionally called for rapid relief measures for the elimination of the damage caused as well as for reconstruction. In response, the Bank introduced highly subsidised loans in favour of the affected private individuals, enterprises and municipalities. Above and beyond its lending

business, NRW.BANK also supports the State of North Rhine-Westphalia as a key player in the context of reconstruction aid, e.g. by serving as the paying agent for grants awarded for equity reasons.

Pursuant to Section 289c HGB, environmental, employee-related and social matters, the respect for human rights as well as anti-corruption and bribery matters are reportable aspects. The Bank is obliged to make such disclosures which are required to understand its development, performance, position and the impact of its activity on the non-financial aspects. Within the meaning of the statutory reporting requirements, the aspects of “environmental matters” and “social matters” are of special importance for NRW.BANK.

Key elements of NRW.BANK’s strategy with regard to “environmental matters” include the promotional theme of Energy Transition / Environmental Protection, which is implemented through special promotional offerings in all three promotional fields, as well as the Green Bond issues and the Green Bond investment portfolio. For the purposes of this report, social housing promotion is the single most important component of the “social matters” activities. Since early 2020, the Bank has additionally issued social bonds to refinance social projects.

The business activity of NRW.BANK does not entail any material risks with regard to the reportable aspects. The probability of occurrence and the scope of the potential impact were considered

in the assessment. Information on the management of the risks resulting from the Bank’s business activity is provided in chapter 5 “Risk and Opportunity Report” of the management report.

Due to the limited scope of the report, no external framework has been used for the non-financial report.

Environmental Matters

In accordance with its sustainability strategy, NRW.BANK promotes and funds measures designed to improve living conditions and social development in North Rhine-Westphalia as well as specifically environmental and climate protection projects. In addition to its general promotional services, it has therefore developed special promotional offerings for selected energy transition and environmental protection issues, for which it uses the various components of its “Förderleistung”. In mid-2021, for instance, NRW.BANK introduced promotional programmes which specifically support the construction of energy-efficient buildings by means of long fixed-interest periods and reduced interest rates. Besides the pure economic viability, compliance with statutory provisions on environmental and climate protection is always a prerequisite for the promotion of individual projects. In the reporting year, funds totalling approx. € 3.3 billion were committed for the energy transition and environmental protection.

In 2013, NRW.BANK was the first regional promotional bank in Europe to issue a Green Bond. The Bank has since issued further

Green Bonds, thereby demonstrating a close link between its ecologically oriented promotional programmes and their refinancing in the international capital markets. In 2021, NRW.BANK issued two Green Bonds worth € 500 million each. NRW.BANK thus gives investors the possibility to place their money in sustainable and environmentally sound investments. The funds raised in the context of the Green Bond programme are exclusively used to refinance previously identified promotional projects based in North Rhine-Westphalia which provide a special climate and environmental benefit. To qualify for funding, the projects must make a contribution to supporting the climate policy of the State of North Rhine-Westphalia and the Federal Republic of Germany, the European Green Deal and the United Nations Sustainable Development Goals. The projects funded either help to limit the temperature increase to close to 1.5 degrees or they contribute to increased resilience in the region in order to better protect North Rhine-Westphalia from the consequences of the already visible climate change.

The focus lies on North Rhine-Westphalian water and energy projects, with the main emphasis placed on renewable energy and the renaturation of the River Emscher with a view to flood protection and biodiversity. The ecological benefit and the quality of the projects chosen for the NRW.BANK.Green Bonds are analysed and assessed by an independent agency in the context of the Second Party Opinion. Since 2015, a research institute has prepared an annual impact analysis for the latest Green Bond issued.

Since 2017, NRW.BANK has pursued the sustainability idea also on the assets side with the NRW.BANK.Sustainable Investment portfolio, which has grown to 39 bonds with a volume of € 531 million as at December 31, 2021. This means that the target volume of € 500 million has already been reached. NRW.BANK thereupon defined a new target of € 600 million to be reached by the end of 2022. Bonds which meet the international voluntary principles (Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines) for the issue of sustainable bonds qualify for the portfolio. This also ensures transparent reporting on the exact use of the funds and the effects of the projects. Moreover, an independent assessment regarding the ecological benefit and the quality (Second Party Opinion) or a certificate based on the standards of the Climate Bond Initiative is obtained from the issuers. The portfolio is being built up in compliance with the existing risk strategy and limits. As an investor, NRW.BANK thus makes a further contribution to climate protection and the further development of the sustainable bond market.

Social Matters

In 2020, NRW.BANK was the first German promotional bank to issue a social bond with a volume of EUR 1 billion maturing in 2035. The Bank continued to expand its presence in the market for social bonds and placed four social bonds with terms between 5 and 20 years with investors in 2021.

Besides a syndicated € 500 million 20-year bond and a € 1 billion seven-year bond, the Bank placed two foreign currency social bonds of AUD 600 million and AUD 125 million, respectively.

With regard to the social benefit, NRW.BANK obtains an independent assessment (second party opinion). The NRW.BANK Social Bonds focus projects aimed at promoting private home ownership, especially for families, for the protection and creation of jobs as well as for the support of municipalities, e.g. in the field of school education. The bonds thus comply with the Social Bond Principles of the International Capital Market Association (ICMA).

Thematically, the Social Bonds primarily aim to support young families in acquiring (affordable) homes. Lending to small and medium-sized enterprises helps to secure or create jobs. Supporting the school authorities in modernising schools is aimed at improving the educational opportunities of North Rhine-Westphalia's students and thus at better employment prospects. Finally, the loans granted by NRW.BANK to disadvantaged municipalities are also refinanced via the Social Bond. The funds made available via NRW.BANK help to secure the supply of public goods and services for the population.

NRW.BANK's public mission is to support the State of North Rhine-Westphalia and its municipal corporations in meeting their tasks, particularly in the fields of structural, economic, social and housing policy. To fulfil its mission, NRW.BANK is also active in the field of public housing promotion under the Law on the Promotion and Use of Housing for the State of North Rhine-Westphalia (WFNG NRW). In the fiscal year 2021, the Bank made 783 housing promotion commitments with a total volume of approx. € 957 million for 7,319 housing units.

Housing promotion in North Rhine-Westphalia plays a key role in creating affordable housing and will remain very important also in the future. The multi-year housing promotion programme 2018 to 2022 in the amount of € 1.1 billion p.a. aims to create more subsidised and thus affordable housing. Of this total amount, € 700 million is earmarked for the promotion of rental housing, € 150 million for the promotion of home ownership, € 100 million for measures promoting the modernisation of homes, € 100 million for special neighbourhood development and regional cooperation projects and € 50 million for student housing. In 2022, it is planned to increase the volume once from € 1.1 billion to € 1.3 billion. On the basis of the federal government's emergency climate protection programme, additional financial aid in the amount of € 210 million will be available for this purpose from 2022 within the framework of the planned "Administrative Agreement on Social Housing 2022" ("Verwaltungsvereinbarung Sozialer Wohnungsbau 2022").

The promotion of rental housing will remain the strongest promotional segment and the focus of the promotional activities, as there is currently a shortage of affordable housing in many cities in North Rhine-Westphalia. The promotion of home ownership makes an important contribution to fulfilling the housing wishes of many families and to fighting old-age poverty and will therefore gradually be expanded in line with actual requirements. To increase the utilisation of the home ownership promotion funds, the Bank provides – as in the other segments of the housing promotion programme – incentives such as debt relief schemes from compensation payments by the federal and state governments. The

promotion of neighbourhood measures and special programmes (housing for people with impairments, for students, experimental housing construction) is in line with the state government's intention to make innovative offerings that are customised to the individual target groups and their needs. At the same time, it offers municipalities and investors a medium-term financing perspective for larger projects.

Düsseldorf/Münster, February 15, 2022



Eckhard Forst
Chairman of the Managing Board



Gabriela Pantring
Member of the Managing Board



Michael Stölting
Member of the Managing Board



Dietrich Suhlrie
Member of the Managing Board

Independent auditor's report on a limited assurance engagement

To NRW.BANK, institution under public law, Düsseldorf and Münster

We have performed a limited assurance engagement on the non-financial report of NRW.BANK, institution under public law, Düsseldorf and Münster, (hereinafter the "Bank"), as well as the "1 Fundamental Information about NRW.BANK as the Promotional Bank of North Rhine-Westphalia" section of the group management report incorporated by reference, for the period from 1 January 2021 to 31 December 2021 (hereinafter the "non-financial report").

Responsibilities of the executive directors

The executive directors of the Bank are responsible for the preparation of the non-financial report in accordance with Sec. 340a in conjunction with Secs. 289c to 289e HGB ["Handelsgesetzbuch": German Commercial Code] and Art. 1 in conjunction with Art. 8 of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (hereinafter the "EU Taxonomy Regulation").

These responsibilities of the Banks's executive directors include the selection and application of appropriate non-financial reporting methods and making assumptions and estimates about individual

non-financial disclosures that are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as the executive directors consider necessary to enable the preparation of a non-financial report that is free from material misstatement, whether due to fraud (manipulation of the non-financial report) or error.

Independence and quality assurance of the auditor's firm

We have complied with the German professional requirements on independence as well as other professional conduct requirements.

Our audit firm applies the national legal requirements and professional pronouncements – in particular the BS WP/vBP ["Berufssatzung für Wirtschaftsprüfer/vereidigte Buchprüfer": Professional Charter for German Public Accountants/German Sworn Auditors] in the exercise of their Profession and the IDW Standard on Quality Management issued by the Institute of Public Auditors in Germany (IDW): Requirements for Quality Management in the Audit Firm (IDW QS 1) and accordingly maintains a comprehensive quality management system that includes documented policies and procedures with regard to compliance with professional ethical requirements, professional standards as well as relevant statutory and other legal requirements.

Responsibilities of the auditor

Our responsibility is to express a conclusion with limited assurance on the non-financial report based on our assurance engagement.

We conducted our assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised): “Assurance Engagements other than Audits or Reviews of Historical Financial Information” issued by the IAASB. This standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether any matters have come to our attention that cause us to believe that the Bank’s non-financial report is not prepared, in all material respects, in accordance with Sec. 340a in conjunction with Secs. 289c to 289e HGB and Art. 1 in conjunction with Art. 8 of the EU Taxonomy Regulation.

In a limited assurance engagement, the procedures performed are less extensive than in a reasonable assurance engagement, and accordingly, a substantially lower level of assurance is obtained. The selection of the assurance procedures is subject to the professional judgment of the auditor.

In the course of our assurance engagement we have, among other things, performed the following assurance procedures and other activities:

- Gain an understanding of the structure of the sustainability organization and stakeholder engagement
- Inquiries of the employees regarding the selection of topics for the non-financial report, the risk assessment and the policies of the Bank for the topics identified as material
- Inquiries of employees of the Bank responsible for data capture and consolidation as well as the preparation of the non-financial report, to evaluate the reporting system, the data capture and compilation methods as well as internal con-

trols to the extent relevant for the assurance of the disclosures in the non-financial report

- Identification of likely risks of material misstatement in the non-financial report
- Inspection of relevant documentation of the systems and processes for compiling, aggregating and validating data in the relevant areas in the reporting period
- Analytical procedures on selected disclosures in the non-financial report
- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected data
- Evaluation of the presentation of the non-financial report
- Assessment of the scope of application according to Art. 1 of the EU Taxonomy Regulation with respect to the Bank by the executive directors

Assurance conclusion

Based on the assurance procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the non-financial report of the Bank for the period from 1 January 2021 to 31 December 2021 is not prepared, in all material respects, in accordance with Sec. 340a in conjunction with Secs. 289c to 289e HGB and Art. 1 in conjunction with Art. 8 of the EU Taxonomy Regulation.

Note on details of a specific issue

We draw attention to the statements of the executive directors in the non-financial report on the non-applicability of the EU Taxonomy Regulation. Our assurance conclusion on the non-financial report is not modified in this respect.

Restriction of use

We draw attention to the fact that the assurance engagement was conducted for the Company's purposes and that the report is intended solely to inform the Company about the result of the assurance engagement. As a result, it may not be suitable for another purpose than the aforementioned. Accordingly, the report is not intended to be used by third parties for making (financial) decisions based on it. Our responsibility is to the Company alone. We do not accept any responsibility to third parties. Our assurance conclusion is not modified in this respect.

General Engagement Terms and Liability

The "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms]" dated 1 January 2017 are applicable to this engagement and also govern our relations with third parties in the context of this engagement (www.de.ey.com/general-engagement-terms). In addition, please refer to the liability provisions contained there in no. 9 and to the exclusion of liability towards third parties. We accept no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we will not update the report to reflect events or circumstances arising after it was issued, unless required to do so by law. It is the sole responsibility of anyone taking note of the summarized result of our work con-

tained in this report to decide whether and in what way this information is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

Munich, February 15, 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Nicole Richter
Wirtschaftsprüferin
(German Public Auditor)

Yvonne Meyer
Wirtschaftsprüferin
(German Public Auditor)

This is an unofficial translation of the Nichtfinanzieller Bericht 2021 (German Non-financial Report 2020) and is provided for convenience purposes only. In the event of any ambiguity, the German text will prevail.