

Non-financial Report 2018

Non-financial Report

of NRW.BANK for the Fiscal Year 2018

NRW.BANK complies with its reporting duties 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.

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.

NRW.BANK constantly develops the sustainability issue and introduced Sustainability Guidelines in early 2018, which govern the Bank’s approach to sustainability and its ongoing further development. The former “Principles of Corporate Responsibility at NRW.BANK” have been absorbed into the Sustainability Guidelines. A new version of the Sustainability Guidelines was enforced with effect from January 1, 2019, which considers, inter alia, the results of the stakeholder dialogue on sustainability of the year 2018.

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 and is derived from the strategy of NRW.BANK for the years 2018 to 2021. Together they ensure the consistent implementation of the promotional business taking into account the political guidelines of the North Rhine-Westphalian government. Developing requirement-oriented and flexible promotional solutions for the economy, the municipalities and the people in North Rhine-Westphalia is the shared fundamental objective of the state government and NRW.BANK.

The chargeless facilitating of monetary and non-monetary resources for the promotional business – referred to as “Förderleistung” – is an integral element of the Bank’s promotional strategy. Interest waivers are a central component of NRW.BANK’s “Förderleistung”. On the one hand, it reduces a borrower’s interest expenses by subsidising the interest rate for the final borrower, resulting in a below-market interest rate. On the other hand, NRW.BANK refrains from putting its equity capital in alternative investments yielding higher interest and, hence, income by using this capital to finance promotional loans granted at interest rates that are lower than the market rate. Other components of the “Förderleistung” include risk assumptions as well as services, e.g. advisory services for companies and municipalities. The “Förderleistung” specifically enables NRW.BANK to make available attractive promotional products to the respective target groups.

NRW.BANK’s promotional offerings are divided into three different promotional fields, namely “Economy”, “Housing” and “Infrastructure/Municipalities”. They form the basis for NRW.BANK’s promotional strategy and denote the target areas in which NRW.BANK’s promotional activities are to take effect. Each promotional field comprises specific promotional themes which outline the focal points of the Bank’s promotional activities and are elaborated in NRW.BANK’s promotional strategy. The various promotional products of NRW.BANK put each individual promotional theme into concrete terms. Each promotional product is therefore assigned to a single promotional theme.

Pursuant to Section 289c HGB, environmental, employee-related and social matters, the respect for human rights and 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.

The “most important” existing performance indicators for “environmental matters” and “social matters” are exclusively of a financial nature and are outlined in the management report.

Key elements of NRW.BANK’s strategy with regard to “environmental matters” include the cross-sectional theme “Energy Transition/Environmental Protection” 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.

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 frameworks have been used for the non-financial report.

Environmental Matters

In accordance with its sustainability strategy, NRW.BANK specifically promotes and funds projects and programmes designed to improve living conditions, social development as well as environmental and climate protection in North Rhine-Westphalia. In this context, the Bank uses part of its own income for its promotional activities. Besides the proven economic viability of the projects supported by NRW.BANK and the interests of its customers, compliance with environmental protection requirements within the framework of the applicable statutory provisions is a key precondition for the Bank’s promotional activities.

The implementation of Germany’s energy transition and the consideration of environmental protection call for an integrated approach and are reflected with different facets and promotional measures in all promotional fields of the promotional theme “Energy Transition/Environmental Protection”. NRW.BANK aims to make available the corresponding promotional programmes in line with

actual demand and requirements. In the fiscal year, promotional funds of € 1.6 billion were committed in the context of the promotional theme “Energy Transition/Environmental Protection” across all promotional fields.

In 2013, NRW.BANK was the first regional promotional bank in Europe to issue a Green Bond. Ever since, the Bank has emitted additional Green Bonds worth € 500 million each year, thereby demonstrating a close link between its ecologically oriented promotion programmes and their refinancing in the international capital markets. 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. Preconditions for the selection of the projects include, on the one hand, the commitment of the loan in the twelve months preceding the preparation of the Second Party Opinion (SPO) and, on the other hand, the promotional purpose of the loans with a focus on the support of NRW’s climate protection policy, the UN Sustainable Development Goals and the adaptation to unavoidable consequences of climate change. The sponsored projects serve to reduce and avoid adverse environmental influences on the climate and the management of the consequences of climate change. The focus lies on North Rhine-Westphalian water and energy projects, with the main emphasis placed on on-shore/off-shore wind power 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 sustainability rating 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.

2017 also saw NRW.BANK launch a sustainability-driven investment initiative, the NRW.BANK.Green Bond Investment Portfolio, on the asset side of its balance sheet. Seven “green” bonds with terms of up to twelve years were acquired in the fiscal year. As of December 31, 2018, the portfolio thus had a total volume of € 209 million, which means that the € 200 million target was reached. NRW.BANK thereupon defined a new target of € 300 million to be reached by 2020. Bonds which meet the international voluntary Green Bond Principles for the issue of green bonds qualify for the portfolio.

This also ensures transparent reporting on the exact use of the funds and the environmental 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 green bond market.

Social Matters

NRW.BANK's public mission is to support the State of North Rhine-Westphalia and its local and regional governments 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 social housing promotion. In the fiscal year 2018, the Bank made 1,221 housing promotion commitments with a total volume of approx. € 923 million for 8,662 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. In the second half of 2018, it was decided to increase the volume of the Housing Promotion Programme 2018 – 2022 from € 800 million to € 1.1 billion p.a. with the aim of creating more subsidised and, hence, affordable housing. Of this total amount, € 730 million is earmarked for the promotion of rental housing, € 100 million for the promotion

of home ownership, € 100 million for measures promoting the modernisation of homes, € 120 million for special neighbourhood development and regional cooperation projects and € 50 million for student housing. While maintaining the promotion programme of at least € 1.1 billion, it is planned to successively increase the funds for the promotion of home ownership to € 150 million by 2022.

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 rental housing will remain a strong promotional segment, as there is currently a shortage of affordable housing in many cities in North Rhine-Westphalia. 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.

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This is an unofficial translation of the Nichtfinanzieller Bericht 2018 (German Non-financial Report 2018) and is provided for convenience purposes only. In the event of any ambiguity, the German text will prevail.

