

# Non-financial Report 2020

# Non-financial Report

## of NRW.BANK for the Fiscal Year 2020

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.

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. A revised version of the Sustainability Guidelines came into force on 1 January 2021, which primarily takes into account current developments in the sustainability environment and the new sustainability strategy of the State of North Rhine-Westphalia. 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 the necessary transformation of the economy towards the required climate neutrality by 2050 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 are part of NRW.BANK’s overall strategy. Together they ensure that the structural policy objectives of the North Rhine-Westphalian government are taken into account in the implementation of the promotional business.

In order to fulfil its promotional mandate and to support the structural 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 risk assumptions as well as services, e.g. advisory services for companies and municipalities.

NRW.BANK’s promotional business is theme-oriented. This is reflected in the subdivision into the promotional fields Economy, Housing and Infrastructure/Municipalities, which in turn contain different promotional themes. Each promotional product is assigned to a specific promotional theme. The promotional strategy

complements NRW.BANK's focus on specific promotional themes and provides additional central guidelines for the Bank's promotional business. These promotional guidelines contain selected aspects covering all promotional fields to secure the effectiveness and efficiency of promotion. In 2020, the promotional strategy comprised three guidelines: "European Promotion", "Digital Promotion" and "Networked Promotion".

Since the beginning of the coronavirus pandemic, NRW.BANK has further developed its promotional offerings in a complementary manner to the offerings made by the European Union, the federal government and the federal state in order to counteract the economic effects of the crisis. The focus is on an expansion of risk assumption – e.g. in the form of risk sharing with house banks as well as offers to strengthen equity capital – with the aim of satisfying the capital needs of the economy and the public sector in particular. In addition, we are on-lending the coronavirus-induced aid programmes of KfW Bankengruppe in our capacity as the central institution for the North Rhine-Westphalian savings banks. The total volume of new commitments related to the coronavirus pandemic totalled € 3,896 million.

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". Besides the pure economic viability, compliance with statutory provisions on environmental and climate protection is always a prerequisite for the promotion of individual projects. Funds totalling around € 4.3 million were committed within the respective promotional themes of Energy Transition/Environmental Protection in the year under review.

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 2020, NRW.BANK issued a Green Bond in the amount of € 500 million. 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 serve to reduce and avoid negative environmental impacts on the climate and help limiting global warming. The focus lies on North Rhine-Westphalian water and energy projects, with the main emphasis placed on the construction of energy-efficient university clinics 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 assets side of its

balance sheet. Nine Green Bonds with terms of up to ten years were acquired in the fiscal year, bringing the portfolio to a total of 35 bonds as of December 31, 2020. A total portfolio volume of € 425 million means that the € 400 million target has already been reached. NRW.BANK thereupon defined a new target of € 500 million to be reached by the end of 2021. 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.

As of January 1, 2021, the Green Bond Investment Portfolio became the Sustainable Bond Investment Portfolio. NRW.BANK has thus opened the portfolio to social or sustainable bonds of other issuers, provided they comply with the international voluntary guidelines (Social Bond Principles or Sustainable Bond Guidelines).

### Social Matters

2020 saw NRW.BANK issue its first Social Bond. With the € 1 billion bond, NRW.BANK plays a pioneering role also in this segment. Conceptually, the bond is based on the Social Bond Principles. NRW.BANK has obtained an independent assessment with regard to the social benefit (second party opinion). Thematically, the Social Bond primarily aims 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 2020, the Bank made 1,027 housing promotion com-

mitments with a total volume of approx. € 1,037 million for 8,603 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, € 710 million is earmarked for the promotion of rental housing, € 120 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 promotional 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 rental housing will remain a strong 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 owner-

ship 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 10, 2021



Eckhard Forst  
Chairman of the Managing Board



Gabriela Pantring  
Member of the Managing Board



Michael Stöltig  
Member of the Managing Board



Dietrich Suhlrie  
Member of the Managing Board

### Reproduction of the Auditor's Report

The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German version of the non-financial report 2020 of NRW.BANK. The following text is a translation of the original German Independent Limited Assurance Report.

### Independent Auditor's Limited Assurance Report 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 according to Section 340a in conjunction with Section 289b HGB ("Handelsgesetzbuch": German Commercial Code), consisting of the disclosures in the non-financial report and the chapter "Fundamental Information about NRW.BANK as the Promotional Bank of North Rhine-Westphalia" in the management report being incorporated by reference for the reporting period from 1 January 2020 to 31 December 2020 (hereafter non-financial report).

#### A. Management's responsibility

The legal representatives of the Company are responsible for the preparation of the non-financial report in accordance with Section 340a in conjunction with Sections 289c to 289e HGB.

This responsibility includes the selection and application of appropriate methods to prepare the non-financial report as well as making assumptions and estimates related to individual disclosures, which are reasonable in the circumstances. Furthermore, the legal representatives are responsible for such internal controls that they have considered necessary to enable the preparation of a non-financial report that is free from material misstatement, whether due to fraud or error.

#### B. Auditor's declaration relating to independence and quality control

We are independent from the Company in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the national statutory regulations and professional pronouncements for quality control, in particular the by-laws regulating the rights and duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their profession [Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer] as well as the IDW Standard on Quality Control 1: Requirements for Quality Control in audit firms [IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)].

#### C. Auditor's responsibility

Our responsibility is to express a limited assurance conclusion on the non-financial report based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB). This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the non-financial report of the Company has been prepared, in all material respects, in accordance with Section 340a in conjunction with Sections 289c to 289e HGB. In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the auditor's professional judgment.

Within the scope of our assurance engagement, which has been conducted between December 2020 and February 2021, we performed amongst others the following assurance and other procedures:

- Inquiries of employees regarding the selection of topics for the non-financial report, the risk assess-

ment and the concepts of NRW.BANK for the topics that have been identified as material,

- Inquiries of employees responsible for data capture and consolidation as well as the preparation of the non-financial report, to evaluate the reporting processes, the data capture and compilation methods as well as internal controls to the extent relevant for the assurance of 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 and testing such documentation on a sample basis,
- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected data,
- Evaluation of the presentation of disclosures in the non-financial report.

#### **D. Assurance conclusion**

Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the non-financial report of NRW.BANK for the period from 1 January 2020 to 31 December 2020 has not been prepared, in all material respects, in accordance with Section 340a in conjunction with Sections 289c to 289e HGB.

#### **E. Intended use of the assurance report**

We issue this report on the basis of the engagement agreed with NRW.BANK. The assurance engagement has been performed for the purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not intended to provide third parties with support in making (financial) decisions.

#### **F. Engagement terms and liability**

The "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms]" dated January 1, 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](http://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 assume 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 do not update the assurance 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 result of our assurance engagement summarized in this assurance report to decide whether and in what way this result is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

Munich, 10 February 2021

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

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