

## **SECOND PARTY OPINION (SPO)**

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Sustainability Quality of the Issuer and Sustainability Bond Asset Pool

State of North Rhine-Westphalia (NRW)  
13 February 2019

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## Overall Evaluation of the Sustainability Bond

The German State of North Rhine-Westphalia (NRW) commissioned ISS-oekom to determine the sustainability quality of its Sustainability Bond. ISS-oekom has done so by assessing three core elements:

1. NRW's Sustainability Bond framework – benchmarked against the ICMA Sustainability Bond Guidelines (SBGs).
2. The asset pool – whether the projects aligned with ISS-oekom's sector-specific key performance indicators (KPIs) (See Annex 1).
3. NRW's own sustainability performance, according to the ISS-oekom ESG corporate rating.

OVERALL EVALUATION OF THE SUSTAINABILITY BOND ISSUED BY <b>State of North Rhine-Westphalia</b>	ISS-oekom's EVALUATION <b>POSITIVE</b>
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## ISS-oekom ASSESSMENT SUMMARY

SPO SECTION	SUMMARY
<b>Part 1:</b>  <b>Performance against the Sustainability Bond Guidelines</b>	The issuer has defined a formal concept for its Sustainability Bond regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the International Capital Market Association's (ICMA) Sustainability Bond Guidelines.
<b>Part 2:</b>  <b>Sustainability quality of the asset pool</b>	<p>The overall sustainability quality of the asset pool in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS-oekom Sustainability Bond KPIs. Said KPIs contain a clear description of eligible asset categories and the social and environmental criteria attributed to each category for evaluating the sustainability-related performance of the assets (re-) financed through the proceeds of the bonds.</p> <p>All assets of the asset pool are located in Germany, a highly regulated and developed country. Legislative frameworks in those countries set minimum standards, which reduce environmental and social risks.</p>
<b>Part 3:</b>  <b>Issuer sustainability performance</b>	<p>Germany, the country in which NRW is located in, shows a good sustainability performance and has been classified as 'Prime' within the methodology of the ISS-oekom Country Rating.</p> <p>It is rated 12<sup>th</sup> out of 60 countries in the ISS-oekom Country Rating.</p>

## ISS-oekom SPO ASSESSMENT

### PART I: SUSTAINABILITY BOND GUIDELINES

#### 1. Use of Proceeds

NRW has defined a Sustainability Bond Framework in which the different uses of proceeds categories are defined.

The proceeds of this Sustainability Bond will be used to finance selected eligible projects belonging to the 2018 budget of NRW, which closes around the end of the first quarter of 2019. An amount equivalent to the net proceeds will be used to refinance projects and initiatives of the NRW with clear environmental and/or social benefits, in accordance with NRW's sustainability policy.

The following categories have been chosen for allocating the proceeds of this issuance (the percentages relate to a tentative maximum €2,257.6m issuance financing all eligible projects).

All selected assets are located in Germany, a developed country.

ASSET CATEGORY	INCLUDED IN SUSTAINABILITY BOND PORTFOLIO	SHARE OF ASSET POOL
A Education and sustainability research	✓ Yes	30%
B Inclusion and social coherence	✓ Yes	17%
C Public transportation and local mobility	✓ Yes	9%
D Climate protection and energy transition	✓ Yes	2%
E Protection of natural resources	✓ Yes	6%
F Sustainable urban development	✓ Yes	14%
G Modernisation of educational and public health facilities	✓ Yes	22%
<b>Total</b>		<b>100%</b>

The use of proceeds may include operating or capital expenditures of projects (excluding personnel costs of NRW).

In addition to belonging to one of the above categories, which are generally positive from a sustainability perspective, all projects meet specific environmental and social standards (see part II of this document). These criteria are clearly defined and verifiable using qualitative criteria and quantitative indicators. The criteria are designed to ensure a positive impact of the projects that is not impaired by adverse impacts and effects in other areas (e.g. supply chain, environmental impacts, impacts on local communities, etc.).

**Opinion:** ISS-oekom considers the Use of Proceeds description provided by NRW's Sustainability Bond Framework as complete, exhaustive and aligned with the Sustainability Bond Guidelines. Environmental and social benefits are described and quantified.

## 2. Process for Project Evaluation and Selection

The project selection for inclusion in the Sustainability Bond is carried out by NRW's Treasury Department in cooperation with other NRW ministries. The selection is based on eligibility criteria defined by NRW. Main criterion is a clear environmental and/or social benefit as set out in NRW's sustainability policy. The NRW Sustainability Strategy, which has been approved by the State government on 14 June 2016, serves as the political reference for the bond. The strategy is meant to implement the UN Sustainable Development Goals (SDGs) at a state level. The selected projects are part of the State's discretionary spending. Projects prescribed by federal law are excluded.

**Opinion:** ISS-oekom considers the Process for Project Evaluation and Selection description provided by NRW's Sustainability Bond Framework as complete, exhaustive and aligned with the Sustainability Bond Guidelines. Moreover, the projects selected show alignment with the sustainability strategy of the issuer.

## 3. Management of Proceeds

100% of the net proceeds of the bonds will be used to finance selected eligible projects belonging to the 2018 budget. Details are listed in the following table (figures in millions of euros):

	Project Category	Budget Plan 2018	Budget Results 2018 <sup>1</sup>	Eligible for Sustainability Bond
<b>A</b>	<b>Education and sustainability research</b>	<b>706,9</b>	<b>686,3</b>	<b>686,0</b>
	Enlargement of universities, additional training facilities	615,1	607,6	607,3
	Support for best in class universities	28,5	24,9	24,9
	Innovation and sustainable development	45,5	38,0	38,0
	Consumer protection	17,9	15,9	15,9
<b>B</b>	<b>Inclusion and social coherence</b>	<b>420,3</b>	<b>379,3</b>	<b>379,3</b>
	Inclusion, integration and qualification	124,8	89,2	89,2

<sup>1</sup> Budget results may exceed budget plan due to specific permission (as provided for the specific budget item).

	Promotion of language skills in early childhood education, support and advice for families, early education without charge	247,8	242,9	242,9
	School social work	47,7	47,2	47,2
<b>C</b>	<b>Public transportation and local mobility</b>	<b>205,7</b>	<b>192,0</b>	<b>192,0</b>
	Public transportation for low-income citizens	40,0	40,0	40,0
	Public transportation for pupils and students	130,0	129,8	129,8
	Transportation infrastructure for cyclists and pedestrians	35,7	22,2	22,2
<b>D</b>	<b>Climate protection and energy transition</b>	<b>65,7</b>	<b>55,9</b>	<b>55,9</b>
	Climate protection and renewable energies	59,6	50,4	50,4
	Enhancement of resource efficiency	6,1	5,6	5,6
<b>E</b>	<b>Protection of natural resources</b>	<b>149,4</b>	<b>133,2</b>	<b>133,2</b>
	Protection of nature, landscape and biodiversity	36,3	28,3	28,3
	Flood protection and river restoration	66,7	64,7	64,7
	Responsible agriculture and rural development	46,4	40,2	40,2

<b>F</b>	<b>Sustainable urban development</b>	<b>334,9</b>	<b>323,5</b>	<b>323,5</b>
	Urban reconstruction in the west	45,8	47,0	47,0
	Social city	51,1	48,8	48,8
	Geriatric care and demographic change	19,5	9,2	9,2
	Broadband expansion	218,5	218,5	218,5
<b>G</b>	<b>Modernisation of educational and public health facilities</b>	<b>493,3</b>	<b>487,7</b>	<b>487,7</b>
	University buildings	159,5	127,0	127,0
	University medical clinics	333,8	360,7	360,7
	<b>Total</b>	<b>2,376.1</b>	<b>2,257.9</b>	<b>2,257.6</b>

**Opinion:** ISS-oekom finds that Management of Proceeds proposed by NRW is well aligned with the Sustainability Bond Guidelines, as all the proceeds are to be directly allocated to the 2018 budget.

#### 4. Reporting

NRW will publish relevant information and links to public project information on its website<sup>2</sup>. The issuer will decide whether the recommended quantitative indicators set out in the ISS-oekom Sustainability Bond Analysis Framework will be used for reporting. In addition, the Statistical Office of NRW (IT.NRW) will publish bi-annual reports on the state of sustainable development in NRW based on a system of about 60 indicators as part of the sustainability strategy process. The first report has been published in 2016<sup>3</sup>.

**Opinion:** ISS-oekom finds that the reporting proposed by NRW is in line with industry best practices.

#### External review

NRW commissioned ISS-oekom to provide this SPO, based on the assessment of a defined asset pool. This is the fifth Sustainability Bond by NRW and ISS-oekom has provided Second Party Opinions on all four previous Sustainability Bonds issued by NRW.

<sup>2</sup> <http://www.sustainability-bond.nrw.de>

<sup>3</sup> <http://www.nachhaltigkeitsindikatoren.nrw.de>

## PART II: SUSTAINABILITY QUALITY OF THE SUSTAINABILITY BOND ASSET POOL

### Evaluation of the assets

#### A. Education and sustainability research

Project Type	Percentage of volume in this project category
Enlargement of universities, additional training facilities	89%
Support for best in class universities	3%
Innovation and sustainable development	6%
Consumer protection	2%
<b>Education and sustainability research</b>	
<b>A.1. Non-discriminatory access to education</b>	
✓	For 100% of projects, high social standards regarding non-discrimination are in place (in accordance with national legislation).
✓	100% of projects addressing the enlargement of universities or the creation of additional training facilities are directed at public universities and colleges that currently do not charge any study fees or at professional schools with programmes heavily subsidised for participants.
✓	A system of subsidised loans governed by the German Act on Support for Education (Bundesausbildungsförderungsgesetz/BAföG) assists socially disadvantaged students in covering their living expenses
<b>A.2. Working conditions of teaching and research staff</b>	
✓	100% of projects are located in countries where high labour standards are in place for both teaching and research staff (e.g. ILO core conventions).
<b>A.3. Exclusion of research into controversial technologies</b>	
✓	For 100% of projects, research into controversial technologies (armaments, crude oil, coal, nuclear power and tobacco) is excluded from funding. One project, which is not directly financed by the issuer, includes research on coal, considered as controversial for ISS-oekom.



## B. Inclusion and social coherence

Project Type	Percentage of volume in this project category
Inclusion, integration and qualification	24%
Promotion of language skills in early childhood education, support and advice for families	64%
School social work	12%
<b>Inclusion and social coherence</b>	
<b>B.1. Non-discriminatory access to programmes/offers/services</b>	
✓	For 100% of projects, high social standards regarding non-discrimination are in place (in accordance with national legislation).
<b>B.2. Free, fairly priced and/or subsidised participation in programmes/initiatives</b>	
✓	100% of projects, programmes and initiatives are either free of charge or heavily subsidised for participants.
<b>B.3. Working conditions of teaching and research staff</b>	
✓	100% of projects are located in countries where high labour standards are in place for both teaching and office staff (e.g. ILO core conventions).

## C. Public transportation and local mobility

Project Type	Percentage of volume in this project category
Public transportation for low-income citizens	21%
Public transportation for pupils and students	67%
Transportation infrastructure for cyclists and pedestrians	12%
<b>Public transportation</b>	
<b>C.1. Non-discriminatory access to subsidised public transportation</b>	
✓	For 100% of projects, high social standards regarding non-discrimination are in place (in accordance with national legislation).

**C.2. Fairly priced subsidised public transportation**

✓ For 100% of projects, subsidised public transportation is offered at reduced fares for eligible persons.

**Local mobility**

**C.3. Working conditions during construction**

✓ 100% of projects are located in countries where high labour standards are in place for both own employees and contractors (e.g. ILO core conventions).

**C.4. Consideration of environmental aspects during planning and construction**

✓ For 100% of projects, the Collective Bargaining and Public Procurement Act of North Rhine-Westphalia (Tariftreue- und Vergabegesetz NRW/TVgG-NRW) requires that sustainability criteria such as energy and resource efficiency have to be taken into consideration in all public procurement contracts

○ No information is available on the number of projects for which comprehensive and specific environmental standards (regarding e.g. noise mitigation, minimisation of environmental impact during construction work) are applied.

**D. Climate protection and energy transition**

Project Type	Percentage of volume in this project category
Climate protection and renewable energies	90%
Enhancement of resource efficiency	10%

**Climate protection and energy transition**

**D.1. Exclusion of controversial business areas**

✓ For 100% of projects, funding to controversial business areas (armaments, crude oil, coal, nuclear power, fracking and tobacco) is excluded.

**D.2. Free, fairly priced and/or subsidised participation in programmes/initiatives**

✓ For 100% of projects, general advisory services are offered free of charge and workshops as well as company-specific consulting services are heavily subsidised.

**D.3. Working conditions of employees at funded companies**

✓ 100% of projects are located in countries where high labour standards are in place (e.g. ILO core conventions).

**E. Protection of natural resources**

Project Type	Percentage of volume in this project category
Protection of nature, landscape and biodiversity	21%
Flood protection and river restoration	49%
Responsible agriculture and rural development	30%
<b>Protection of natural resources</b>	
<b>E.1. Consideration of environmental aspects during planning and construction</b>	
✓	For 100% of projects, the Collective Bargaining and Public Procurement Act of North Rhine-Westphalia (Tariftreue- und Vergabegesetz NRW/TVgG-NRW) requires that sustainability criteria such as energy and resource efficiency have to be taken into consideration in all public procurement contracts.
○	No information is available on the number of projects for which comprehensive and specific environmental standards (regarding e.g. noise mitigation, minimisation of environmental impact during construction work) are applied.
<b>E.2. Modelling on natural state of water bodies, scientific monitoring, structural quality mapping</b>	
✓	For 100% of relevant projects, scientifically based ecological flood protection measures modelled on the natural state of the water body are carried out and exclude conventional flood protection (technical regulation of rivers)
✓	For 100% of relevant projects, high standards regarding subsequent monitoring (in accordance with e.g. the European Water Framework Directive/WFD) are in place.
<b>E.3. Exclusion of research into controversial technologies</b>	
✓	100% of projects are located in countries where high labour and health and safety standards are in place for both own employees and contractors (e.g. ILO core conventions).
✓	For 100% of projects, no fatal accidents have occurred during construction at the project sites.

## F. Climate protection and energy transition

Project Type	Percentage of volume in this project category
Urban reconstruction in the west	16%
Social city	14%
Geriatric care and demographic change	3%
Broadband expansion	67%
<b>Sustainable urban development</b>	
<b>F.1. Achieved energy efficiency (modernisations only)</b>	
✓	100% of the relevant projects must observe the requirements of the Energy Saving Ordinance (Energieeinsparverordnung / EnEV) in the version applicable at the time of application for planning consent.
○	No information is available on whether improvement projects reach or exceed a 20% energy efficiency improvement
<b>F.2. Safe disposal of removed construction materials that are harmful to health (modernisations only)</b>	
✓	For 100% of projects, the implementing construction companies and subcontractors have to isolate and remove waste and pollutants (in accordance with national legislation).
<b>F.3. Working conditions during construction work</b>	
✓	100% of projects are located in countries where high labour and health and safety standards are in place for both own employees and contractors (e.g. ILO core conventions).
✓	For 100% of projects, no fatal accidents have occurred during construction at the project sites.
<b>F.4. Consideration of environmental aspects during planning and construction (new builds only)</b>	
✓	For 100% of relevant projects, the Collective Bargaining and Public Procurement Act of North Rhine-Westphalia (Tariftreue- und Vergabegesetz NRW/TVgG-NRW) bindingly requires consideration of energy efficiency and other environmental aspects
○	No information is available on the number of projects for which comprehensive and specific environmental standards (regarding e.g. noise mitigation, minimisation of environmental impact during construction work) are applied

**F.5 Social and environmental standards in the supply chain (new builds only)**

✓	For 100% of projects, the Collective Bargaining and Public Procurement Act of North Rhine-Westphalia (Tariftreue- und Vergabegesetz NRW/TVgG-NRW) applies. It requires compliance with the ILO core conventions in the supply chain.
✓	For 100% of projects, the Collective Bargaining and Public Procurement Act of North Rhine-Westphalia (Tariftreue- und Vergabegesetz NRW/TVgG-NRW) requires that sustainability criteria such as energy and resource efficiency have to be taken into consideration in all public procurement contracts
○	No information is available on the number of projects for which comprehensive and specific environmental supply chain standards are applied.

**F.6 Community dialogue (new builds only)**

✓	100% of projects comply with the regulations of the German Building Code (Baugesetzbuch/BauGB). The regulations provide for the consideration of local residents' interests during the development of land-use plans and zoning maps (e.g. through public display of development plans, possibility to voice concerns, case-dependent compensation measures)
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**G. Modernisation of educational and public health facilities**

Project Type	Percentage of volume in this project category
University buildings	26%
University medical clinics	74%

**Modernisation of educational and public health facilities**

**G.1. Achieved energy efficiency (modernisations only)**

✓	100% of the relevant projects must observe the requirements of the Energy Saving Ordinance (Energieeinsparverordnung / EnEV) in the version applicable at the time of application for planning consent.
○	No information is available on whether improvement projects reach or exceed a 20% energy efficiency improvement

**G.2. Safe disposal of removed construction materials that are harmful to health (modernisations only)**

✓	For 100% of projects, the implementing construction companies and subcontractors have to isolate and remove waste and pollutants (in accordance with national legislation).
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**G.3. Working conditions during construction work**

✓ 100% of projects are located in countries where high labour and health and safety standards are in place for both own employees and contractors (e.g. ILO core conventions).

✓ For 100% of projects, no fatal accidents have occurred during construction at the project sites.

**G.4. Consideration of environmental aspects during planning and construction (new builds only)**

✓ For 100% of relevant projects, the Collective Bargaining and Public Procurement Act of North Rhine-Westphalia (Tariftreue- und Vergabegesetz NRW/TVgG-NRW) bindingly requires consideration of energy efficiency and other environmental aspects

○ No information is available on the number of projects for which comprehensive and specific environmental standards (regarding e.g. noise mitigation, minimisation of environmental impact during construction work) are applied

**G.5 Social and environmental standards in the supply chain (new builds only)**

✓ For 100% of projects, the Collective Bargaining and Public Procurement Act of North Rhine-Westphalia (Tariftreue- und Vergabegesetz NRW/TVgG-NRW) applies. It requires compliance with the ILO core conventions in the supply chain.

✓ For 100% of projects, the Collective Bargaining and Public Procurement Act of North Rhine-Westphalia (Tariftreue- und Vergabegesetz NRW/TVgG-NRW) requires that sustainability criteria such as energy and resource efficiency have to be taken into consideration in all public procurement contracts

○ No information is available on the number of projects for which comprehensive and specific environmental supply chain standards are applied.

**G.6 Community dialogue (new builds only)**

✓ 100% of projects comply with the regulations of the German Building Code (Baugesetzbuch/BauGB). The regulations provide for the consideration of local residents' interests during the development of land-use plans and zoning maps (e.g. through public display of development plans, possibility to voice concerns, case-dependent compensation measures)

## PART III: ASSESSMENT OF GERMANY'S SUSTAINABILITY PERFORMANCE

The ISS-oekom Country Rating comprises a rating scale from A+ (excellent) to D- (poor).

STATE	RATING	STATUS
<b>GERMANY</b>	<b>B -</b>	<b>PRIME</b>

This means that the country performs well in terms of sustainability. In our research's view, the securities issued by the country therefore all meet the basic requirements for sustainable investments.

As of 13.02.2019, this rating places Germany 12<sup>th</sup> out of 60 countries rated by ISS-oekom.

The ISS-oekom Country Rating evaluates the following eight areas in order to determine the sustainability performance of a country:

### Governance and Social Performance

- Social rating
- Political system and governance
- Human rights and fundamental freedoms
- Social conditions

### Environmental Performance

- Environmental rating
- Natural resources
- Climate change and energy
- Production and consumption

Germany rates above the average in all sectors besides "Natural resources"

The country has a low controversy level.

Details on the rating of the issuer can be found in Annex 3



Robert Hassler, Head of ISS-oekom  
London/Munich/Rockville/Zurich

## DISCLAIMER

1. Validity of the SPO: For one issuance, the 2019 NRW Sustainability Bond.
2. ISS-oekom 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-oekom research 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: About ISS-oekom SPO

ISS-oekom 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 Bond Services, we provide support for companies and institutions issuing sustainable 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 guidelines (e.g. the ICMA Sustainability Bond Guidelines), 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/sustainability-bond-services/>

For Information about SPO services, and this Sustainability Bond, contact:

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## ANNEX 2: ISS-oekom SUSTAINABILITY BOND KPIS

The ISS-oekom Sustainability Bond Analysis Framework serves as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of State of North Rhine-Westphalia Sustainability 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.

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

## ANNEX 3: Asset evaluation methodology

ISS-oekom evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Sustainability 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-oekom or that the information provided did not fulfil the requirements of the ISS-oekom Sustainability Bond KPIs.

The evaluation was carried out using information and documents provided to ISS-oekom on a confidential basis by NRW (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.

## ANNEX 4: ISS-oekom issuer ESG rating

See next page.

ISS-oekom Country Rating  
Germany

Status **Prime**  
Rating **B-**  
Prime Threshold **B-**

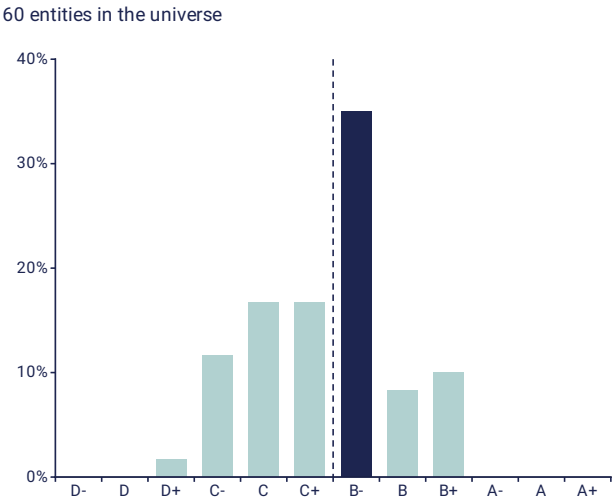


Country Leaders

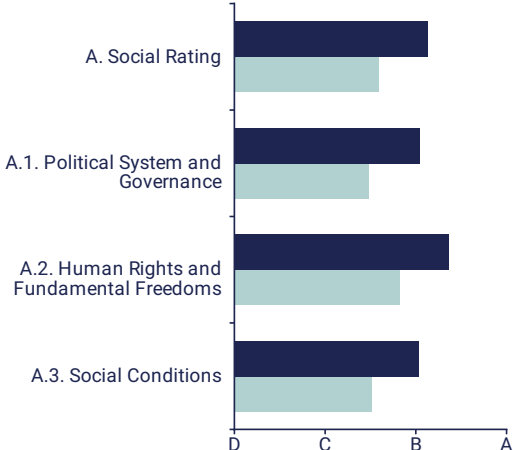
Country (in alphabetical order)	Grade
Finland	B+
Sweden	B+
Switzerland	B+

Legend:  Universe  Country --- Prime

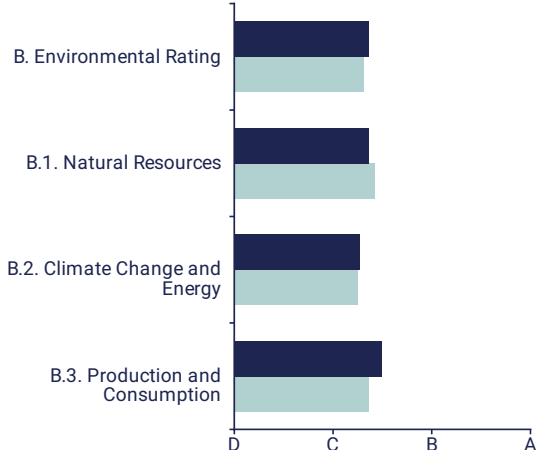
Distribution of Ratings



Governance and Social Performance



Environment Performance



# Germany

## Additional Country Information

### Country Profile

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#### Politics and Geography

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National territory (2017):	357380 [km2]
Capital (2018):	Berlin
Climate (2018):	mostly temperate oceanic / continental
Government type (2018):	federal parliamentary republic
Next general elections:	October 24, 2021

#### Population

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National population (2017):	80594000 [people]
Population change (2016):	1.19 [in %]
Population density (2017):	225.51 [persons per km2]
Urban population (2016):	75.5 [as % of total]

#### Economy and Society

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GDP per capita (2016):	48240 [in USD (PPP)]
Income group (2017):	high income
Real GDP growth (2016):	1.9 [in %]
Consumer prices (2016):	1.7 [in %]
Current account balance (2016):	8.3 [as % of GDP]
General government gross debt (2016):	68.1 [as % of GDP]
Budget deficit (2016):	0.8 [in %]
Unemployment rate (2016):	4.2 [as % of labour force]
Human Development Index (2015):	4 [index rank]

# Germany

## Methodology - Overview

**ISS-oekom Country Rating** – The ISS-oekom country Universe comprises 58 countries, as well as Hong Kong and the European Union, representing 96 per cent of global outstanding sovereign debt (as of June 2018).

The assessment of a country's sustainability performance is based on approximately 100 environmental, social and governance criteria with equal weight assigned to the social and environmental dimension. All criteria are individually weighted and evaluated and the results are aggregated to yield an overall score (rating). The selection of criteria is derived from ISS-oekom's understanding of sustainability and reflects various global challenges that are embodied in the Sustainable Development Goals. Criteria are selected according to their relevance (materiality) and the quality of data regarding availability, up-to-dateness and consistency for all the countries rated.

**Country controversies** – In addition to the rating, ISS-oekom conducts a comprehensive analysis of relevant controversies. Thereby, our clients have the possibility to consider, either separately or in addition to the rating, circumstances in areas they view as especially critical. The country controversy assessment is either directly derived from information provided by credible and acknowledged external sources, such as indices or blacklists, or it is based on the country's performance in the respective rating section. In the latter cases, underperformance in a specific set of indicators constitutes a controversy. Some controversy issues are delineated on different levels of severity.

**Country leaders** - List (in alphabetical order) of the top three countries from the ISS-oekom Universe at the time of generation of this report.

**Criteria design** – The rating comprises both qualitative and quantitative criteria. For instance, the safeguarding of fundamental freedoms by a country's government is mostly assessed in qualitative terms, while a country's consumption of resources is quantified. Qualitative criteria are evaluated against absolute targets and/or best practices, the assessment of quantitative indicators is based on thresholds. Those either reflect normative considerations and/or relative performance in a given area. In order to ensure their validity, some quantitative indicators are normalised against eligible denominators. To assess the quality of government policy in a specific area, we use indicators measuring input, such as spending on education as a proportion of GDP, as well as criteria measuring output, such as female participation in education.

**Distribution of Ratings** - Overview of the distribution of the ratings of all countries that are included in the ISS-oekom Universe (country portrayed in this report: dark blue).

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

A+: the country shows excellent performance

D-: the country shows poor performance

Overview of the range of scores achieved in the ISS-oekom country Universe (light blue) and indication of the grade of the country evaluated in this report (dark blue).

**Sources of Information** - The sources we draw on include international institutions such as the World Bank, the International Energy Agency (IEA) and the World Health Organisation (WHO), as well as respected non-governmental organisations such as Amnesty International, Transparency International and the Stockholm International Peace Research Institute (SIPRI). A selection of sources used for this report is illustrated in the annex.

**Status & Prime Threshold** – Countries are categorised as Prime if they achieve/exceed the minimum sustainability performance requirements (Prime threshold) defined by ISS-oekom for the Country Rating.

**Update cycle** - The vast majority of rating criteria is updated annually, only single indicators receive event-driven updates. The exact timing is determined by the publication dates of major sources of information.