



**NRW.BANK**  
Promoting Ideas

# Financial Report 2006

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# Financial Report 2006 of NRW.BANK

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# Corporate Responsibility

## A young bank with a long tradition

Established as the state development bank of North Rhine-Westphalia in 2002, NRW.BANK looks back on a long tradition in the development and promotion business. The origins of its predecessor banks date back 175 years. Today as in the past, the Bank's corporate activities focus on serving the public good. The statutes of "Westfälische Provinzial-Hülfskasse" from the year 1832 already stated that the "Hülfskasse shall provide loans ... to facilitate charitable facilities and institutions, soil improvements and other commercial enterprises, communal buildings, the redemption of mortgages, repayment of communal debt ... and promote monetary transactions in general". Building on this tradition, NRW.BANK and its owners are committed to the principle of sustainability, which has been laid down in the Bank's statutory mission.

NRW.BANK defines sustainability as responsible corporate action and as responsibility towards society. Last year, the Bank invested own income in an amount of € 25.8 million in its promotion programmes. This so-called "promotion dividend" improves the lending terms – especially of the NRW.BANK.Mittelstandskredit loan, which the Bank refinances with low-interest funds from KfW Mittelstandsbank – so that the Bank makes an important contribution to strengthening small and medium-sized companies and pushing ahead structural change in North Rhine-Westphalia.

## Promoting potential

NRW.BANK assumes special responsibility for its employees. Last year, for instance, a working group of the Bank developed principles for cooperation, communication and leadership. They put the standards that have been defined in the mission statement with regard to the quality of work and the dealings with each other in more concrete terms. The principles aim to strengthen the transparent, cross-hierarchical communication, to promote commitment and responsibility and to show the way towards a shared understanding of the tasks of NRW.BANK.

To fulfil these tasks in a constantly changing environment, NRW.BANK pursues a human resources policy that puts strong emphasis on the qualification and personal development of its employees. On the one hand, NRW.BANK therefore focuses on hiring young talent and offering them attractive development opportunities. On the other hand, the Bank relies on the wealth of experience of its workforce and promotes the exchange of knowledge and culture with the help of age-mixed teams and mentoring models.

The Bank is committed to fair dealings with each other – just as is required under the German General Equal Treatment Act. All executives therefore attend seminars that raise awareness for, and compliance with, this important issue.

Last year, another focus was on healthcare and prevention. The Bank's buildings were declared non-smoking areas in 2006, and the Bank offered its employees a stop-smoking seminar to support the change. Employee sports programmes and activities are offered to compensate for desk-based work. In addition, the Bank encouraged its employees to undergo a colon cancer check and a cardiovascular check-up in cooperation with the Münster University Hospital. Both offerings met with strong acceptance. NRW.BANK plans to offer such check-ups on a regular basis with a view to strengthening employees' health awareness and self-responsibility.

NRW.BANK's growing remit led to a moderate increase in the active workforce by 42 to 1,077; 706 employees are based in Düsseldorf and 371 in Münster. 49% of them are women and 51% are men.

NRW.BANK would like to thank its employees in Düsseldorf and Münster for their strong commitment and their successful work in 2006. The Bank's thanks also go to the employee representatives for the trusting cooperation in the past year.

#### **Dedicated to North Rhine-Westphalia**

As the state development bank for North Rhine-Westphalia based in Düsseldorf and Münster, NRW.BANK assumes responsibility for the federal state in general and for these two cities in particular. This strong commitment is also reflected in the Bank's real estate strategy. NRW.BANK moved into the new building in Düsseldorf in 2006 and will begin to complete the construction of its new building at a historical site in Münster in 2007.

The Bank has deliberately chosen downtown sites instead of locations on the city fringes. This means that employees and customers can easily reach the Bank by public transport. This and other offerings provided by the Bank, such as the publicly accessible park with the renaturated Düssel creek, contribute to environmental protection and revive the city centres. Intelligent technical concepts took centre-stage in the construction of the new Düsseldorf headquarters. The positive experience will be incorporated into the plans for the construction project in Münster to further reduce the consumption of resources. Going forward, the total consumption of resources will be shown at a single glance, providing NRW.BANK with a valuable basis for future decisions.

#### **Committed to the Future – Responsibility for Society and the Economy**

NRW.BANK accepts its responsibility as an integral part of public life and supports the culture and the transformation into a knowledge society in North Rhine-Westphalia in a variety of ways. Its activities comply with the donation and sponsorship principles issued by the Supervisory Board, which rule out, among other things, the support of political parties as well as of foundations and institutions affiliated or associated with these parties.

#### **Transparent Action**

For all elements of corporate responsibility, it is of major importance to make one's own action transparent within the legally applicable framework. An important initial step in this context is the Bank's first report on the Public Corporate Governance Code introduced in 2005.

The values on which all these activities are based will be documented in the Bank's social guidelines. Individual fields and processes that are not in accord with this set of values will have to be identified, analysed and – if possible – adjusted in a second step. At the beginning of 2007, the Managing Board of NRW.BANK has therefore launched a working group and instructed it to make appropriate proposals. The Bank will regularly report on the next steps that have been outlined.

# Report on Public Corporate Governance in 2006

NRW.BANK was one of the first public companies in Germany to commit itself to transparent and responsible management and introduced its own Public Corporate Governance Code on January 1, 2006. The Public Corporate Governance Code of NRW.BANK is based on the German Corporate Governance Code. Additionally, it takes into account many specific aspects resulting from the Bank's legal status of a bank under public law. The present Annual Report for 2006 is the first in which the Bank reports on the implementation and application of the Code.

Being the fifth largest German issuer, NRW.BANK relies on funding in the international capital market where the Bank enjoys a strong standing. Against this background and with a view to acting in a responsible and transparent manner towards its owners, customers, employees, politicians in the federal state, the general public and other stakeholders, NRW.BANK has committed itself to public corporate governance.

Responsibility for managing NRW.BANK is vested solely with the Managing Board which consists of three members. The Chairman of the Managing Board is primarily responsible for strategic tasks as well as the capital market activities and distribution. The two other Board members are responsible for the promotion business and the back office, respectively. This means that the responsibilities, interfaces and risks of the business activity are clearly defined in organisational and personnel terms. The separation between the operating areas also complies with the minimum requirements for risk management (MaRisk) to be fulfilled by banks.

The compensation structure of the Managing Board comprises fixed and variable components. The variable component is defined individually for each Board member by the Executive Committee each year on the basis of specific agreed objectives. The performance parameters may not be changed retroactively. The objectives defined by the Executive Committee take account of the special requirements of a development bank and of the fact that the generation of profit is not the main purpose of the business. They comprise factors that are geared to NRW.BANK's mission to assist the federal state and its municipal corporations in the fulfilment of its public tasks. The compensation of the Managing Board members is published in the Annual Report, with individualised figures being provided for the Chairman and combined figures being stated for the other two members.

NRW.BANK's Public Corporate Governance Code includes comprehensive requirements relating to the integrity of the Managing Board, i.e. the appropriate attitude and approach to side-line occupations, invitations and gifts that affect the way in which the office is exercised. The respective behavioural obligations, especially disclosure towards the Managing Board and the guarantors, were implemented for the first time in 2006. This made it easier for the Board members to decide what kind of behaviour is in line with the principles of responsible corporate governance both in specific cases and in general. In particular cases, the advice of the Public Corporate Governance Officer was sought.

The Supervisory Board supervises the management activities of the Managing Board and is involved in long-term planning. The Bank's strategic positioning is agreed jointly by the Managing Board and the Supervisory Board. Their cooperation is characterised by an open and trusting dialogue. In 2006, the Supervisory Board held four meetings that were attended by the Managing Board.

In addition, there is an ongoing exchange of information between both bodies, especially between the Chairman of the Managing Board and the Chairwoman of the Supervisory Board. The Managing Board also communicates regularly with the other members of the bodies.

In accordance with legal possibilities, committees were formed by the members of the Supervisory Board. As laid down in the statutes, these are the Executive Committee, the Audit Committee and the Risk Committee. In addition, there is a Housing Promotion Committee as defined in the Wohnungsbauförderungsgesetz (WBFG). The committees convene on the basis of their own codes of procedure and cooperate closely with the Managing Board, which attends their meetings. The Chairman of the Supervisory Board may not hold the Chairmanship of the Audit Committee. In addition, the Bank exercised the option to establish other committees and established a Building Committee in 2003, which supports the construction activities in Düsseldorf and Münster. The employees of the Bank are represented on the Supervisory Board and the committees, some of them with guest status.

The qualification of the members of the executive bodies plays an important role in the discussion about good and responsible corporate governance. The Bank is convinced that all members have the experience and the skills required to advise and supervise the Managing Board independently and professionally. Nevertheless, the constantly changing environment forces them to accept new challenges. To prepare them accordingly, the Bank, in cooperation with the auditors, organised an information event on International Financial Reporting Standards (IFRS) in 2006. In addition, the members of the Supervisory Board are regularly provided with specialist literature.

The Supervisory Board has defined no age limit for the members of the Managing Board. However, when Managing Board members are appointed or their contracts renewed, their mandates are not granted beyond the statutory pensionable age.

Prior to being proposed for the election of the auditor of the financial statements, the auditors submitted a declaration of independence as required by the Code and disclosed the services provided by their firm. In accepting the mandate, the auditors confirmed that they will observe all duties arising as part of their audit activities and report on them as necessary.

NRW.BANK closely monitors the ongoing development of the German Corporate Governance Code for listed joint-stock corporations. The latest amendments dated June 12, 2006 referred to requirements that are relevant only for joint-stock corporations. The Bank is of the opinion that they cannot be applied to a public company such as NRW.BANK. All future amendments will be reviewed with regard to whether they can be incorporated into the Bank's own Code.

NRW.BANK is committed to responsible and transparent corporate governance. This also includes supporting and promoting the practical and academic discourse in this field. This is why representatives of the Bank, especially the Chairman of the Managing Board, spoke about the initial experience gained from the introduction of the Public Corporate Governance Code at various meetings as well as in trade magazines. Going forward, NRW.BANK will continue to contribute to the ongoing development of the public corporate governance standards in its own interest and in the interest of other public companies.

# Report of the Supervisory Board

In compliance with its statutory tasks, the Supervisory Board held four ordinary meetings in the financial year 2006. The Committees composed of the members of the Supervisory Board held 13 meetings, i.e. five meetings of the Executive Committee, one meeting of the Audit Committee, four meetings of the Risk Committee and three meetings of the Building Committee. In addition, the Audit Committee held a meeting on International Financial Reporting Standards (IFRS).

The Supervisory Board was informed about the situation of the Bank and major business transactions in regular reports. The Supervisory Board discussed and approved all transactions requiring its approval in accordance with legal or statutory provisions and addressed important matters of business policy in detail. In particular, following discussion in the Risk Committee, the Supervisory Board discussed the business and risk policy for the years from 2007 to 2010 and, on the recommendation of the Risk Committee, submitted the principles of the business and risk policy for the years from 2007 to 2010 on which this strategy is based to the Guarantors' Meeting, which is the responsible body according to the Bank's statutes, for approval. The Guarantors' Meeting approved the proposed policies at its meeting on December 14, 2006.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft carried out the audit of the financial statements for 2006 and the statement of financial condition of NRW.BANK and issued an unqualified audit opinion. The Supervisory Board and the Audit Committee formed from among its members discussed in detail the report of the external auditors on the results of their audits. Following the final result of the audit, they raised no objections.

The Supervisory Board approved the financial statements and the statements of financial condition established by the Managing Board at its meeting on March 26, 2007 and proposes that the Guarantors' Meeting approve the financial statements for the year 2006. As in the previous year, no consolidated financial statements were prepared, as WestLB AG left the consolidated entity in 2004, which means that NRW.BANK is no longer obliged to prepare consolidated financial statements.

Düsseldorf/Münster, March 26, 2007



Christa Thoben  
Chairwoman of the Supervisory Board

# Management Report

of NRW.BANK at December 31, 2006

## State Development Bank of North Rhine-Westphalia

NRW.BANK is the state development bank of North Rhine-Westphalia (NRW). Headquartered in Düsseldorf and Münster, the Bank supports the regional economy, the municipalities and the people of NRW. For this purpose, NRW.BANK offers the full range of lending tools – from the funding aids provided under the development programmes of the federal state, the federal government and the EU to equity and debt financing.

## Changes to the Managing Board and the Organisational Structure

With effect from January 1, 2006, Dr. Ulrich Schröder took over the Chairmanship from Dr. Bernd Lüthje, who went into retirement as planned and contractually agreed. Klaus Neuhaus was appointed as a new member of the Managing Board, which is completed by Ernst Gerlach. In the context of these changes, the organisational structure and the responsibilities of the Board members were redefined. Dr. Ulrich Schröder is mainly responsible for Bank-wide strategic tasks as well as the capital market activities and distribution. Ernst Gerlach is in charge of the development business, while Klaus Neuhaus is responsible for the back-office, especially risk management. In September 2006, the Supervisory Board unanimously decided to renew Ernst Gerlach's contract until June 30, 2009, when he will attain the age of 65.

## Ideas Initiative and Product Campaign

An important milestone in the year 2006 was NRW.BANK's "Ideas Initiative". The aim of this initiative was to increase the visibility of the still young Bank and its wide range of promotion, funding and advisory products in North Rhine-Westphalia, to build and expand networks and to strengthen NRW's creative culture. Key elements in the "Ideas Initiative" included the municipal ideas contest and the "Ship of Ideas".

In the context of the Ideas Contest, North Rhine-Westphalian cities and municipalities were invited to present innovative projects. Over 70 municipalities fielded more than 100 entries. The purpose and objective of the Ideas Contest was to make all projects publicly known and to encourage an exchange of ideas. NRW.BANK thus made an important contribution to promoting the diversity of municipal innovations.

The "Ship of Ideas", a converted inland cargo ship, travelled on North Rhine-Westphalia's rivers and canals between May and September 2006 and moored in nine cities. Over 100 events were held on the ship's converted deck, providing a platform for discussion of the future perspectives of the federal state. Below deck, an interactive exhibition provided a hands-on impression of the creativity, ideas and innovations in North Rhine-Westphalia. More than 43,000 people visited the exhibition or one of the many events during the four-month tour.

In 2006, NRW.BANK also continued the Product Campaign that had been launched in 2005; many innovative products were added with the aim of facilitating the intelligent combination and efficient use of different promotion and funding components. NRW.BANK's Climate Protection Programme, for instance, allows small and medium-sized companies to buy emission rights also in smaller quantities. For this purpose, NRW.BANK, as one of the first state development banks, participates in the "KfW-Kimaschutzfonds" fund. The "Ziel 2" Graduate Start-up Fund grants subordinated loans of up to € 100,000 to support innovative business start-ups by university graduates. And under the new film promotion programme NRW.BANK releases the relationship banks from liability and grants back-to-back guaranties to give film producers in North Rhine-Westphalia better access to loans and guaranties.

## Economic Climate

### Economic Development in Germany

The German economy developed very positively in 2006. The upswing, which was still quite moderate in 2005, clearly accelerated in 2006. According to the Federal Statistical Office, the price-adjusted gross domestic product (GDP) increased by 2.7% over the previous year (2.9% adjusted for the number of working days).



All sectors, with the exception of the agricultural sector, contributed to this economic growth. Spending on plant and equipment picked up once again and construction spending increased noticeably following an extended phase of negative growth. Apart from the increase in gross spending on plant and equipment, consumer spending also developed positively. At the bottom line, domestic investment and consumption made a bigger contribution to growth than net exports.

The labour market benefited from the positive economic development in 2006. According to the Federal Labour Office, employment increased on an annual average, while unemployment declined noticeably. The unemployment rate fell at an average annual rate of 0.9 percentage points to 10.8%. This positive development was mainly driven by the fact that the number of employed persons subject to social insurance contributions increased for the first time in five years. In addition, the number of self-employed persons continued to rise.

#### **Economic Development in North Rhine-Westphalia**

According to preliminary data from the State Office for Data Processing and Statistics, real gross domestic product in North Rhine-Westphalia was up 2.2%. Thus the economic performance of Germany's most populous state was slightly lower than that of the nation as a whole.

Growth was mainly fuelled by capital spending and exports. The production of materials and supplies as well as machines thus developed very dynamically. Apart from the expansion in the manufacturing and capital goods sectors, production of consumer goods also increased sharply. Construction output made a positive contribution to growth for the first time following a long recessive phase. Due to the structure of the upswing, the services sector benefited less strongly from this development than the industrial sector.

The economic development had a positive effect on the labour market, with the services sector benefiting most strongly, though. While employment in the corporate services sector as well as the trading and transport sectors rose sharply, the number of employees in the manufacturing sector stagnated. At the bottom line, the number of employed persons subject to social insurance contributions increased and the unemployment rate declined.

#### **Accounting and Reporting Standards**

NRW.BANK has prepared its financial statements and the management report in accordance with the German Commercial Code (HGB) and the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV). While the Bank is not obliged to prepare consolidated financial statements, the following German Accounting Standards (GAS) of the German Accounting Standards Committee were applied in the separate financial statements:

- GAS 3 Segment Reporting and GAS 3-10 Segment Reporting by Financial Institutions
  
- GAS 5 Risk Reporting and GAS 5-10 Risk Reporting by Financial Institutions and Financial Service Institutions
  
- GAS 13 Consistency Principle and Correction of Errors
  
- GAS 15 Management Reporting

#### **Business at NRW.BANK**

##### **Major Events and Key Figures**

2006 was a successful year for NRW.BANK. The Bank improved its operating income before risk provisions and revaluation adjustments by € 26.7 million to € 183.4 million. Total assets increased by € 7.5 billion to € 135.6 billion, while the business volume rose by 7.6% to € 143.2 billion.

The various segments made the following contributions to NRW.BANK's earnings:

	Programme-based Promotion		Other Promotion/ Liquidity Management		Staff/Services		NRW.BANK Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Net interest income	231.5	224.4	85.1	113.9	23.9	5.5	340.5	343.8
Net commission income	8.8	9.7	8.9	5.4	-1.5	-1.4	16.2	13.7
Net income from trading operations	0.0	0.0	1.2	-2.0	0.0	0.0	1.2	-2.0
Other operating result	2.3	1.1	0.1	0.0	-3.3	15.9	-0.9	17.0
Administrative expenses	-78.0	-66.7	-26.0	-24.0	-82.4	-71.2	-186.4	-161.9
- Personnel expenses	-47.3	-39.2	-5.5	-4.4	-51.8	-47.9	-104.6	-91.5
- Operating expenditure	-30.7	-27.5	-20.5	-19.6	-30.6	-23.3	-81.8	-70.4
<b>Operating income before risk provisions/revaluation adjustments</b>	<b>164.6</b>	<b>168.5</b>	<b>69.3</b>	<b>93.3</b>	<b>-63.3</b>	<b>-51.2</b>	<b>170.6</b>	<b>210.6</b>
Risk provisions/revaluation adjustments	-52.1	-64.5	74.1	22.2	-9.2	-11.6	12.8	-53.9
<b>Operating income after risk provisions/revaluation adjustments</b>	<b>112.5</b>	<b>104.0</b>	<b>143.4</b>	<b>115.5</b>	<b>-72.5</b>	<b>-62.8</b>	<b>183.4</b>	<b>156.7</b>
Extraordinary expenses	-19.7	-34.9	-0.7	-1.3	-27.2	-27.7	-47.6	-63.9
<b>Net income for the year before taxes and promotion dividend</b>	<b>92.8</b>	<b>69.1</b>	<b>142.7</b>	<b>114.2</b>	<b>-99.7</b>	<b>-90.5</b>	<b>135.8</b>	<b>92.8</b>
Taxes on income and revenues	-1.0	0.0	0.0	0.0	-7.1	-7.0	-8.1	-7.0
Promotion dividend	-25.8	-1.0	0.0	0.0	0.0	0.0	-25.8	-1.0
<b>Net income/loss for the year after taxes and promotion dividend</b>	<b>66.0</b>	<b>68.1</b>	<b>142.7</b>	<b>114.2</b>	<b>-106.8</b>	<b>-97.5</b>	<b>101.9</b>	<b>84.8</b>
<b>Average risk-weighted assets (in € billion)</b>	<b>7.4</b>	<b>6.9</b>	<b>9.2</b>	<b>5.6</b>	<b>0.2</b>	<b>0.1</b>	<b>16.8</b>	<b>12.6</b>
<b>Employees (number)</b>	<b>502</b>	<b>491</b>	<b>41</b>	<b>30</b>	<b>534</b>	<b>514</b>	<b>1,077</b>	<b>1,035</b>

The **Programme-based Promotion** segment comprises Economic Development and Equity Investments (Promotion of Start-ups and SMEs) as well as Social Housing Promotion and Individual Promotion. It also comprises Structured Finance and Structural Promotion Programmes from the Municipal and Infrastructure Finance unit.

The **Other Promotion/Liquidity Management** segment comprises Municipal Financing from the Municipal and Infrastructure Finance unit as well as Capital Markets.

The **Staff/Services** segment comprises the Service and Staff units as well as the strategic investments held as part of the public mission.

The former Investments segment has been reorganised, which is why NRW.BANK changed the structure of its segment reporting in 2006. Strategic Equity Investments were spun off from the Equity Investments segment and organisationally assigned to the Corporate Steering unit, which is fully reflected in the Staff/Services segment. The pooling of all promotion programmes in the Programme-based Promotion segment makes the promotion business transparent and underlines NRW.BANK's role as the state development bank of North Rhine-Westphalia. From the year 2006, the business activities of NRW.BANK's housing promotion arm (Wohnungsbauförderungsanstalt – Wfa) are also shown in the Programme-based Promotion segment. The municipal and government loan business is shown in the Other Promotion/Liquidity Management segment due to its close integration with the Capital Markets unit. The third segment is Staff/Services, which, unlike the previous year, now also includes Strategic Equity Investments.

In accordance with the modified structure of the segment reporting, NRW.BANK changed the segment titles and reclassified the previous year's figures accordingly.

Moreover, average risk-weighted assets have been added for each segment. This allows a period-based segment reporting in line with the regulatory requirements and reflects the risk allocation appropriately.

## Earnings Position

### Net Interest Income

Interest income remains the Bank's primary source of revenue; at € 340.5 million it was down slightly on the previous year's € 3.3 million. The Programme-based Promotion segment made a significant contribution to net interest income and increased its income by € 7.1 million to € 231.5 million; in particular, the Social Housing Promotion unit boosted its income by € 6.6 million to € 187.8 million. At € 85.1 million, net interest income of the Other Promotion/Liquidity Management segment was down € 28.8 million on the previous year. This decline is attributable to the good result from securities. Net interest income of the Staff/Services segment rose by € 18.4 million to € 23.9 million. This increase is mainly due to the investment of the December 2005 capital increase and the investment of higher non-interest-bearing liabilities. In addition, it is marked by funding costs and income from strategic investments. Net interest income includes income from equity investments in non-affiliated and affiliated companies in a total amount of € 11.3 million and income of € 4.1 million from profit transfer agreements.

### Net Commission Income

Net commission income grew by € 2.5 million to € 16.2 million in 2006. The increase is mainly attributable to the expansion of the business with credit derivatives.

### Net Income from Trading Operations

Net income from trading, which includes not only the trade in listed futures and futures options but, for the first time, also income from securities trading amounted to a positive € 1.2 million in 2006.

### Other Operating Income/Expenses

At € – 0.9 million, other operating income/expense was down clearly on the previous year's € 17.0 million. This change is mainly attributable to the previous year's non-recurrent reimbursement for future benefit payments to employees of WestLB AG. Adjusted for this effect, other operating income/expense was up € 2.2 million on the previous year.

### Administrative Expenses

Administrative expenses rose by € –24.5 million to € –186.4 million.

**Personnel expenses** climbed by € –13.1 million to € –104.6 million as a result of a moderate increase in the workforce, collectively bargained pay increases and higher allocations to provisions for pensions, early retirement payments and benefits.

Pension, early retirement and benefit obligations were measured by using the projected unit credit method, taking the future development of wages and pensions into account. A cost trend for healthcare services was included in the measurement of the provisions for benefit obligations. The discount rate for the calculation of the provisions for pension, early retirement and benefit obligations was lowered from 5.5% to 4.8%. As of December 31, 2006, it was thus within the range defined by International Financial Reporting Standards (IFRS). As in the previous year, the exceptional allocation to provisions resulting from the reduced discount rate was recognised as an extraordinary expense.

Due to the ongoing expansion of the promotion business, NRW.BANK increased its workforce by 42 to 1,077 active employees (including 32 trainees).

**Operating expenditure** increased noticeably by € –11.4 million to € –81.8 million. On the one hand, this was due to higher costs for office infrastructure, buildings and systems. On the other hand, NRW.BANK's investments in the IFRS project in the previous years led to increased depreciation of intangible assets. Moreover, the product drive and, in particular, the ideas initiative resulted in higher marketing expenses.

The cost-income ratio (CIR) for 2006 climbed to 42.5% (2005: 40.2%). This figure does not take account of the additional allocations to provisions for pensions, employee benefits and early retirement obligations.

### Risk Provisions/Revaluation Adjustments

NRW.BANK's risk provisions and revaluation adjustments improved by € 66.7 million from € –53.9 million to € 12.8 million. This is mainly attributable to an impressive € 51.2 million increase in the result from securities. NRW.BANK optimised its securities portfolio with a view to ensuring a steady development of its profitability. Based on a conservative valuation of the loans extended, the Bank established sufficient provisions for all risks.

### Operating Income and Net Income

Operating income for the year, after risk provisions and revaluation adjustments, came to € 183.4 million, an improvement of € 26.7 million for NRW.BANK against the previous year.

Due to NRW.BANK's exemption from income tax, the Bank's income tax in an amount of € –8.1 million is primarily owed on income from equity investments in trading partnerships that are held as part of the public mission; however, a part of the taxes paid is recovered from these partnerships.

Since December 2005, NRW.BANK has used its own income to subsidise its products and make their terms and conditions even more attractive. This so-called promotion dividend is funded from the profit for the year to reduce the interest rates on loans. In the financial year 2006, an amount of € 25.8 million was allocated to the promotion dividend.

The net income for 2006, after taxes and promotion dividend, came to € 101.9 million. Pursuant to Section 17 of the Wohnungsbauförderungsgesetz (WBFVG) in conjunction with Section 27 of NRW.BANK's statutes, € 42.2 million is being allocated to capital of Wohnungsbauförderungsanstalt NRW. In accordance with legal requirement, advance dividends in an amount of € 33.7 million were paid out by Wfa for the first time. Thus distributable net income of € 23.2 million remains, after an allocation of € 2.8 million to reserves stipulated in the statutes.

### Net worth position

Total assets of NRW.BANK rose by € 7.5 billion in 2006 to € 135.6 billion. At 5.8%, the increase in total assets was much higher than in the previous year.

NRW.BANK Credit Volume	Dec. 31, 2006	Dec. 31, 2005	Change	
	€ millions	€ millions	€ millions	%
Receivables from banks	31,023.5	31,758.6	- 735.1	- 2.3
Receivables from customers	49,939.7	49,284.3	655.4	1.3
Contingent liabilities	4,521.2	1,806.9	2,714.3	> 100
Irrevocable loan commitments	3,032.8	2,965.0	67.8	2.3
<b>Total</b>	<b>88,517.2</b>	<b>85,814.8</b>	<b>2,702.4</b>	<b>3.1</b>

Compared to the previous year, the credit volume increased by a moderate 3.1% to € 88.5 billion.

Asset growth is mainly attributable to the steady increase in bonds and other interest-bearing securities in the context of the liquidity management activities. In the past financial year, this balance sheet item rose by € 7.6 billion to € 48.7 billion (+ 18.5%). In conjunction with the business expansion and in accordance with the risk strategy, NRW.BANK stepped up its investments in floating-rate bank and corporate bonds to € 4.3 billion and in medium term notes (MTN) to € 2.6 billion.

Receivables from banks declined by € 0.8 billion to € 31.0 billion. NRW.BANK reduced the portfolio of note loans by € 1.5 billion and the portfolio of savings bank certificates by € 1.2 billion. The increase in time deposits and in the promotion business handled according to the "relationship bank method" had a compensatory effect. Under this method, banks submit credit applications on behalf of their customers and NRW.BANK pays out the funds to these banks, which pass them on to the borrowers. As liability is largely borne by these relationship banks, margins are low. The NRW.BANK.Mittelstandskredit loan for SMEs launched in December 2005 became NRW.BANK's most successful programme in 2006 and is the highest-volume development programme of the state of North Rhine-Westphalia. Under this programme, low-interest loans for a wide variety of financing purposes

are extended to start-ups and SMEs in North Rhine-Westphalia. The NRW.BANK.Mittelstandskredit loan is funded from the low-interest KfW-Unternehmerkredit loan. In addition, NRW.BANK uses own funds to further reduce interest rates. In 2006, the SME loan was extended to 3,555 companies. The commitment volume amounted to € 1.2 billion.

Receivables from customers climbed € 0.7 billion to € 49.9 billion. This is mainly attributable to the reclassification of registered bonds in an amount of € 1.6 billion, which were formerly shown under bonds and other interest-bearing securities. In addition, the portfolio of registered instruments was increased by € 0.3 billion. The € 1.4 billion decline in note loans in the municipal finance business had a compensatory effect.

The book values of NRW.BANK's equity interests in non-affiliated and affiliated companies grew by a total of € 11.3 million to € 2,399.7 million. This was mainly due to new capital injections of € 4.1 million in the NRW.BANK.Venture Fonds and equity investments in an amount of € 4.4 million.

Because lending business in the "trustee" promotion segment is receding in importance, the pertinent assets and corresponding liabilities decreased € 128.7 million, to € 2,391.8 million.

## Financial position

As the state development bank, which continues to benefit from institutional liability, guarantor liability and an explicit funding guarantee from its guarantors, NRW.BANK has the same good credit rating as the state of North Rhine-Westphalia. At the end of December 2006, Moody's upgraded both the North Rhine-Westphalia and NRW.BANK to Aa1 (long-term).

As they do every year, the Fitch Ratings and Standard & Poor's rating agencies reviewed NRW.BANK's credit standing. They reaffirmed the Bank's ratings, with outlook stable. In March 2006, Fitch Ratings had upgraded NRW.BANK's individual rating from C to B/C because of the Bank's improved risk profile.

## A Summary of Current Ratings

	Fitch Ratings	Moody's	Standard & Poor's
Long-term rating	AAA	Aa1	AA-
Short-term rating	F1+	P-1	A-1+
Individual <sup>1)</sup> /Financial Strength <sup>2)</sup>	B/C <sup>1)</sup>	C- <sup>2)</sup>	-*

\* not offered by Standard & Poor's

The largely programme-driven lending business is mainly funded from transmitted credits of Kreditanstalt für Wiederaufbau (KfW) and Landwirtschaftliche Rentenbank, which are paid out to borrowers by way of their relationship banks.

85% of the medium and long-term funding is in Euros. The US dollar is NRW.BANK's second strategic currency.

NRW.BANK funds itself from various capital market instruments. Maturities of up to twelve months can be placed under the Global Commercial Paper Programme (GCP). At € 10.5 billion, the GCP had a much higher volume than in the previous year (€ 7.4 billion).

Accounting for 52% of the GCP, the US dollar was the dominating currency.

The Kangaroo Programme marked NRW.BANK's successful entry in the Australian capital market. Several roadshows were held to prepare the launch of the programme, which had an issuance volume of AUD 300 million and was oversubscribed. Australian investors accounted for 75% of the total subscription.

The current utilisation of the Debt Issuance Programme (DIP) is € 19 billion. Maturities of up to 25 years are placed under this programme. Against the background of a declining market and the trend towards more complex structures, only 37 drawings took place under the DIP in 2006, compared to 60 in 2005.

On the liabilities side, growth was mainly supported by a 14.2% increase in liabilities to banks and a 14.5% rise in liabilities to customers.

Liabilities to banks rose by € 5.4 billion to € 43.1 billion, mainly due to short-term funds raised in an amount of € 2.8 billion. The portfolio of note loans increased by € 0.4 billion as a result of new issues. The issue of registered instruments in an amount of € 0.4 billion and the € 1.5 billion rise in transmitted loans paid out under the relationship bank method also contributed to the increase.

Compared to the previous year, liabilities to customers climbed € 2.8 billion to € 21.8 billion. This is mainly attributable to an increase in issues of uncovered registered bonds in an amount of € 2.6 billion.

By contrast, certificated liabilities declined by a moderate € 0.8 billion to € 46.3 billion. Municipal bonds in an amount of € 8.7 billion were repaid. NRW.BANK issued money-market instruments in an amount of € 18.0 billion, while € 11.7 billion was repaid. The portfolio of other uncovered bonds increased by € 2.0 billion.

## Equity Capital

Equity Capital of NRW.BANK	Subscribed Capital	Capital Reserves		Reserves from Retained Earnings		Profit for the Year	Total
			Special Reserves Pertaining to the Wfa	Reserves Required by NRW.BANK's Statutes	Other Reserves from Retained Earnings		
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
<b>As of Dec. 31, 2005</b>	<b>675.0</b>	<b>255.8</b>	<b>18,366.9</b>	<b>6.4</b>	<b>0.0</b>	<b>37.6</b>	<b>19,341.7</b>
Allocation to other reserves from retained earnings					2.4	- 2.4	0.0
Distribution of profit for the year						- 35.2	- 35.2
Budget funds/Other			83.2				83.2
Net profit						101.9	101.9
Advanced payout from Wfa due to legal requirements						- 33.7	- 33.7
Allocation to reserves required by NRW.BANK's statutes in statement of income				2.8		- 2.8	0.0
Allocation to capital of Wohnungsbau- förderungsanstalt NRW			42.2			- 42.2	0.0
<b>As of Dec. 31, 2006</b>	<b>675.0</b>	<b>255.8</b>	<b>18,492.3</b>	<b>9.2</b>	<b>2.4</b>	<b>23.2</b>	<b>19,457.9</b>

NRW.BANK's equity capital increased by € 116.2 million to € 19,457.9 million. The subscribed capital remained unchanged at € 675.0 million. An amount of € 2.4 million from the profit of the year of 2005 was allocated to other reserves from retained earnings. Reserves pursuant to statutes were increased by € 2.8 million to € 9.2 million at the time of the preparation of the 2006 financial statements. As of December 31, 2006, profit for the year amounted to € 23.3 million (2005: € 37.6 million).

NRW.BANK's guarantors have the following shares in the subscribed capital of the Bank: the state of North Rhine-Westphalia holds 64.74%, while the Regional Associations of Westphalia-Lippe and the Rhineland hold 17.63% each.

As of year-end, the Bank's liable capital as defined by the German Banking Act (KWG) amounted to € 3,514.8 million.

## Capital Ratios

	Dec. 31, 2006	Dec. 31, 2005
	%	%
Principle I ratio	16.5	25.3
Core capital ratio	14.4	22.2

## Risk Report

Identifying, assessing, monitoring and managing risks is a major core competency of the Bank. As the state development bank, NRW.BANK is subject to all regulatory risk management standards.

In the context of the ongoing expansion of its product portfolio, the Bank makes high demands on internal risk management, which is geared to the relevant risks.

Because of its specialised business model as a development bank, NRW.BANK does not engage in all lines of the banking business, and takes on risks only within clearly delineated bounds.

The risks resulting from the Bank's business activities are mainly counterparty default risks. The borrower structure and the special collateralisation arrangements under the "relationship bank" method have helped the Bank to develop a portfolio most of whose credit risks have good to very good ratings. The Bank also assumes market price risks as necessary.

The new minimum requirements for risk management (MaRisk) were implemented by NRW.BANK in 2006.

## Organisation of Risk Management

The Managing Board bears the overall responsibility for risk management at NRW.BANK. The Bank's risk management involves the Asset Liability Committee and the Credit Committee:

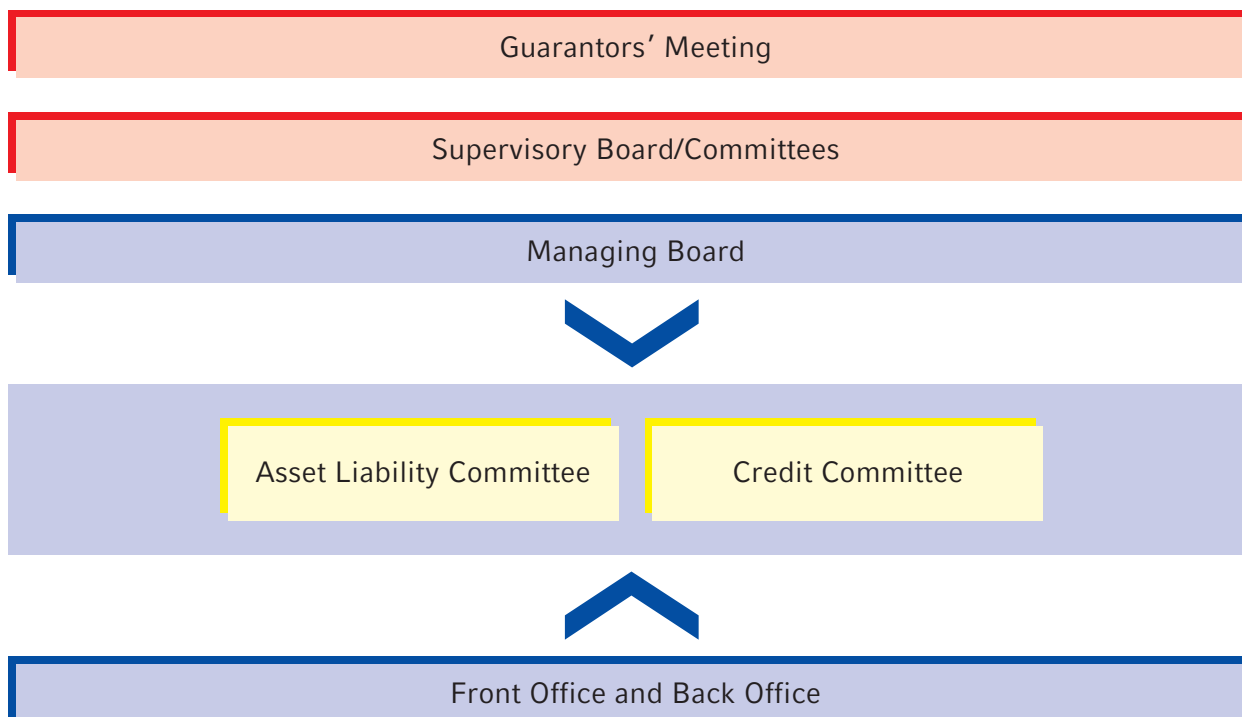
- The Asset Liability Committee handles issues relating to market price and liquidity risks. It also addresses general topics such as capital allocation, profit management and balance sheet structure management.
- The Credit Committee addresses issues relating to counterparty default risks.

The Supervisory Board monitors the Managing Board's conduct of the Bank's affairs. The Risk Committee, a committee of the Supervisory Board, deals with all risk issues of relevance for the Bank. It receives quarterly reports on the risk profile for the various risk categories.

After deliberations within the Supervisory Board, the Guarantors' Meeting decides on the principles of business policy and risk policy.



## Organisation of Risk Management



In keeping with the MaRisk requirements, risks are monitored and communicated independently from the front office units. The Bank-wide monitoring of risks (incl. Wfa) includes a regular review of compliance with the limits defined by the Managing Board. Risks are communicated in daily, monthly and quarterly reports attuned to risk content and regulatory requirements.

The effectiveness and appropriateness of risk management are reviewed by Internal Audit.

### Counterparty Default Risk

The counterparty default risk is the risk of a loss or lost profit resulting from the default of a business partner. It comprises credit, counterparty, country and participation risks.

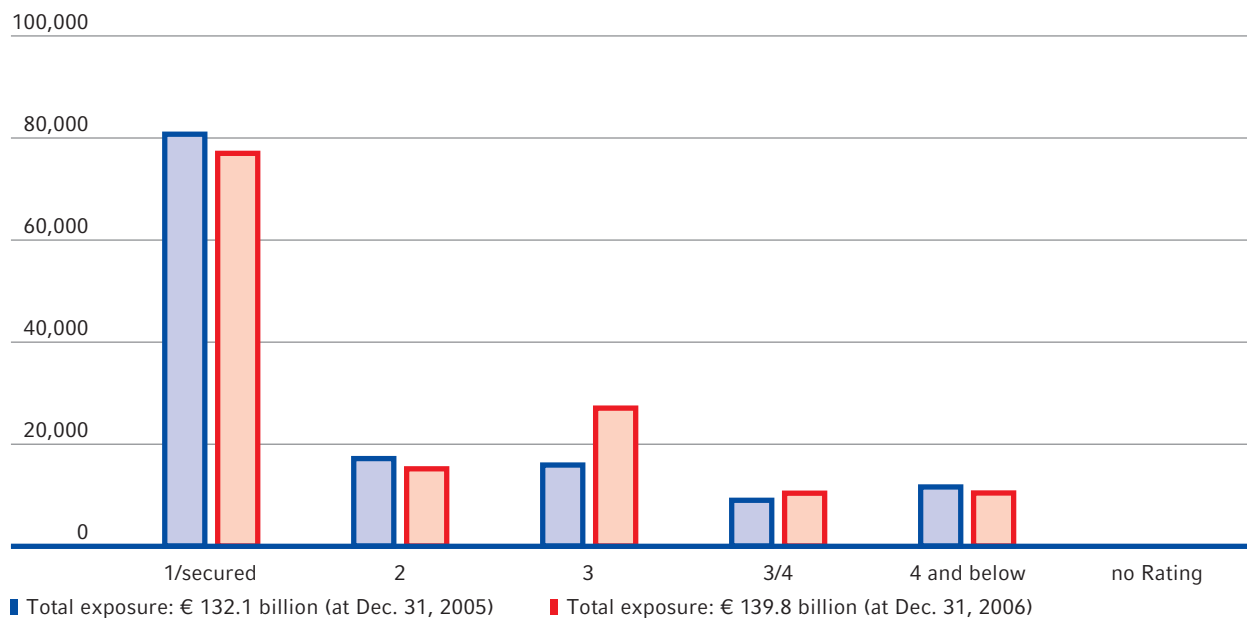
In accordance with its strategic function as a state development bank, NRW.BANK extends development loans. As a rule, development funds are collateralised or granted by way of the low-risk "relationship bank" method. Accordingly, the portfolio has a first-rate risk structure.

NRW.BANK takes out derivatives on the stock exchange or with selected, top-rated market partners.

The amount of the counterparty default risks shown is reduced through the use of netting procedures and collateral.

The internal rating assessment of the exposures is of central importance for managing counterparty default risks and is performed regularly on the basis of comprehensive documents and analyses.

## Total Exposure by Rating Class in € millions



NRW.BANK's total exposure in 2006 was € 139.8 billion (2005: € 132.1 billion).

99% of the portfolio is of investment grade quality (internal rating classes 1 to 4). Sub-investment grade exposures are permissible only if this is required as part of the Bank's public mission.

In addition to the rating classes, account is taken of other structural features, such as sector concentrations. The Managing Board is informed of these as part of the monthly risk reporting process.

To further limit concentration risks, maximum limits are defined at the customer's group level (single name concentration limits). Moreover, it is planned to diversify the portfolio from 2007 by expanding the business activities with credit derivatives and structured credit products.

NRW.BANK's portfolio mainly focuses on Germany (80.2% of the total exposure, prev. year 82.3%), with the main emphasis on North Rhine-Westphalia. The

present foreign exposure in an amount of € 27.7 billion (19.8% of the total exposure, prev. year 17.7%) results primarily from Treasury operations, and concentrates entirely on countries with investment-grade ratings. Countries inside the Euro-zone account for € 19.9 billion, while non-EMU countries account for € 7.8 billion. For that reason, country risks are of secondary importance at NRW.BANK.

NRW.BANK applies adequate control mechanisms to safeguard the good rating quality of its portfolio. These centre on the Bank's risk strategy, in association with an economic capital concept. Here limits are set at the portfolio level on the basis of a Credit Value-at-Risk (VaR) for a holding period of one year and a 99.98% confidence level. The computations are put through extensive scenario and stress analyses. The economic capital for counterparty default risks was € 3.7 billion as of the reporting date.

### Risk Provisions

Risk provisioning/revaluation adjustments in the lending business for 2006 were € 69.3 million (2005: € 81.9 million).

Risk provisioning in the lending business includes individual allowances, global allowances, and provisions and allowance reserves under Section 340f of the German Commercial Code (HGB). The amounts of individual allowances are calculated promptly over the course of the year, taking existing collateral into account, for all borrower account risks identified on the basis of defined criteria as being appropriate for risk provisioning. In evaluating collateral, an earning capacity value-based method is applied for housing development loans and real-estate financing. The result is reduced by a discount calculated on the basis of historical data. A global allowance is formed for counterparty default risks that might already have arisen at the reporting date but had not been identified yet. The amount of this allowance is based on historical averages for default probabilities and loss ratios.

Loan exposures that attract attention but do not offer cause for risk provisioning so far are watched closely. If further steps are needed, the exposures are transferred for processing as troubled loan exposures. Total troubled loan exposures, at € 560.1 million (2005: € 578.5 million) were counterbalanced as of the reporting date by individual allowances and comparable provisions totalling € 299.4 million (2005: € 327.6 million).

Risks from risk exposures not covered by collateral (non-performing exposures and exposures with increased latent risks) are covered by itemised and general allowances for bad debts. In addition, prudential reserves according to Section 340f of the German Commercial Code (HGB) have been established.

#### **Participation Risks**

The participation risk, which is a sub-category of the counterparty default risk, is the risk that a loss will be incurred as a result of equity capital being made available to third parties.

The equity investments business primarily entails counterparty default risks from the employment of capital as well as market price risks resulting from funding, which are managed centrally at NRW.BANK.

As of December 31, 2006, the total carrying value of equity investments in affiliated companies was € 2,399.7 million (2005: € 2,388.4 million), of which 92% represent investments in WestLB AG.

The counterparty default risks arising from the equity investments business mainly include strategic and operating risks assumed by the companies involved. Current and future risks from equity investments are assessed particularly on the basis of an analysis of the corporate data furnished in the course of ongoing equity investment controlling operations. Controlling for these companies includes continuous monitoring of profits or losses and of conformity to projections. Major equity investments are reviewed in a quarterly reporting process for any matters that might furnish cause for a revaluation. Thus risk management is a systematic, continuous process that enables rapid adaptation to changing conditions. At some companies in which the Bank holds an equity investment, Bank representatives may hold office to protect the Bank's interests as a shareholder.

For the Bank as a whole, equity investment exposures are included in economic capital management and reflected in the counterparty default risk.

The risk-limiting measures taken at the time of new commitments include setting limits for the amount of individual commitments and, if applicable, syndicating portions of the commitment. Additionally, in contracts for equity investments NRW.BANK may reserve the right to approve certain transactions by the equity investor.

In some equity investments, the counterparty default risk is limited by a strong direct or indirect involvement of public funding. For example, for NRW.BANK.Mittelstandsfonds, NRW.BANK.Venture Fonds and NRW.BANK.Seed Fonds, the counterparty default risk is reduced by a guarantee from the State of North Rhine-Westphalia for 49%.

With regard to the strategic equity investment in WestLB AG, it is possible that, under the existing option agreement, the Regional Associations of the Rhineland and Westphalia-Lippe exercise their options to hold interests in WestLB AG directly, whereby they would cease to be owners of NRW.BANK. If that option is exercised, both NRW.BANK's equity and its potential dividend entitlements would be reduced significantly.

### Market Price Risk

The market price risk refers to a potential loss resulting from unfavourable changes in market prices or price-influencing parameters. This definition covers interest rate, exchange rate, share price, commodity and option risks. Share price and commodity risks are not assumed by the Bank.

The main element of market price risk for NRW.BANK is interest rate risks. Depending on its analysis of interest rates or the market situation, the Bank lends without matching funds or issues mortgage paper without matching lending transactions, and generally closes out such positions as soon as a positive margin has been earned or the market situation changes. The closed positions are refinanced at matching maturities until their maturity date. Interest rate positions without matching funds are also taken for trading purposes.

The Bank assumes only limited foreign-exchange risks. If products denominated in foreign currencies are employed as part of Treasury activities, the foreign-exchange risk is largely hedged with derivatives, so that any such risk largely remains confined to the margin earned.

The bank controls and monitors its market price risks by way of a value-at-risk approach, using the Monte Carlo method. Value-at-Risk (VaR) is calculated for day-to-day management at a 95.0% confidence level for a one-day holding period.

The Value-at-Risk approach takes account of all relevant risk factors, such as interest rates, foreign exchange rates and implicit volatilities. In addition to linear influences, the model also includes non-linear influences of risk factors on portfolio value. These non-linear effects are particularly significant for derivatives. The historical observation period for determining statistical parameters is set at 50 days. Heavier weighting of events from the

recent past shortens the response time of VaR figures when the market changes, thus supporting prompt management action. The quality of VaR figures as projections is checked by daily back testing. These tests have confirmed the validity of the risk model.

The day-to-day calculation of Value-at-Risk is supplemented with regular stress and scenario computations. Standardised scenarios are chosen, and are then supplemented if needed with individual, situational considerations tailored to the risk structure of the Bank's portfolio.

As part of day-to-day risk reporting the Managing Board is informed of risk trends, how closely operations approach the established limits, and any unusual events. Additionally, the monthly reports particularly analyse the results of the stress and scenario computations. The Bank remained clearly below all limits throughout the financial year 2006.

For strategic management of economic capital, the Bank assumes a uniform 99.98% confidence level.

The economic capital for market price risks was € 29.4 million as of the reporting date.

### Liquidity Risk

The liquidity risk comprises the following:

- the risk of being unable to meet payment obligations at maturity (liquidity risk in the narrower sense),
- the risk of being unable to provide sufficient liquidity at the anticipated conditions (funding risk) when needed or
- the risk of being unable to unwind or liquidate transactions or to do so only at a loss because of insufficient market depth or market disruptions (market liquidity risk).

The liquidity situation at NRW.BANK is characterised by largely fixed cash flows, which can therefore be planned rather easily. To safeguard its ability to pay at any time, the Bank maintains not only extensive money-market facilities, but also a substantial portfolio of high-liquidity securities or securities that can be deposited with the

ECB. Thus even in stress situations such as unforeseen fluctuations in cash flow, the Bank is able to generate extensive liquidity largely irrespective of the general market situation. Given its good rating and the associated refinancing terms, NRW.BANK views its liquidity risk in the strict sense, the refinancing risk, and also the impact of market liquidity risk, as minor.

Liquidity risk is managed centrally at NRW.BANK to ensure that the bank as a whole is solvent at all times and additionally to minimise refinancing risks (meaning higher costs for procuring medium-term and long-term funds). This capability is ensured by diversification of investor groups, regions and products.

The Bank's liquidity management is founded on a continuous analysis of incoming and outgoing cash flows in all units for various planning horizons.

Strict accessory conditions for management include compliance both with Principle II and with the regulatory minimum reserve requirements. Both accessory conditions were obeyed at all times in financial year 2006. The liquidity ratio as of the reporting date was 3.2 (2005: 4.0), well above the regulatory required minimum of 1.0. The exceptionally high liquidity ratio at the end of 2006 was based primarily on a large volume of highly liquid listed securities.

### Operational Risks

The operational risk comprises risks in operational systems or processes, especially in the form of

- operational risks resulting from human or technical failure or external factors or
- legal risks resulting from contractual agreements or legal conditions.

The framework for operational risk management at NRW.BANK comprises both qualitative and quantitative aspects. Quantitative management is based on the Basle basic indicator approach; qualitative management is founded on the recommendations of the "Sound Practices for the Management and Supervision of Operational Risk," published by the Basle Committee on Banking Supervision.

With a combination of decentralised and centralised risk management and risk monitoring, the Bank ensures that management steps are taken promptly as needed, and the Managing Board can simultaneously take the necessary decisions with an eye to the Bank's overall risk profile.

Using internal risk assessments ("self-assessments"), all potential operational risks are assessed qualitatively with the help of risk scores on an annual, Bank-wide basis.

A risk event database serves for the ongoing capture of losses and events that imply a potential risk. It forms the basis for a structured analysis of risk trends.

In the context of the expansion of the early warning system, risk indicators that are suited to complement the operational risk management system were identified in the past financial year.

In a standardised process for introducing new products, before any new product is introduced it is analysed in depth for potential operational risks.

Contingency plans that are reviewed regularly are in place for emergencies. The Bank has appropriate insurance coverage.

NRW.BANK minimises its legal risks from transactions by using standardised contracts. Deviations from standardised contracts and individual transactions are approved by the Legal department. There are currently no significant proceedings pending which involve the Bank.

The economic capital for operational risks was € 112.5 million as of December 31, 2006.

### Strategic Risks

Strategic risks comprise all risks that could have an adverse impact on NRW.BANK's business model (and are not included in the risks described above). These include, for instance, reputational and structural risks.

Developments that could lead to strategic risks are monitored and analysed constantly. In particular, this includes the review of the internal and external premises on which the strategy of NRW.BANK is based.

Because of its mission from the state as a development bank with no influence on competition under the provisions of Verständigung II with the EU Commission, and because it will preserve guarantor liability and institutional liability, NRW.BANK operates within an environment that may be considered stable.

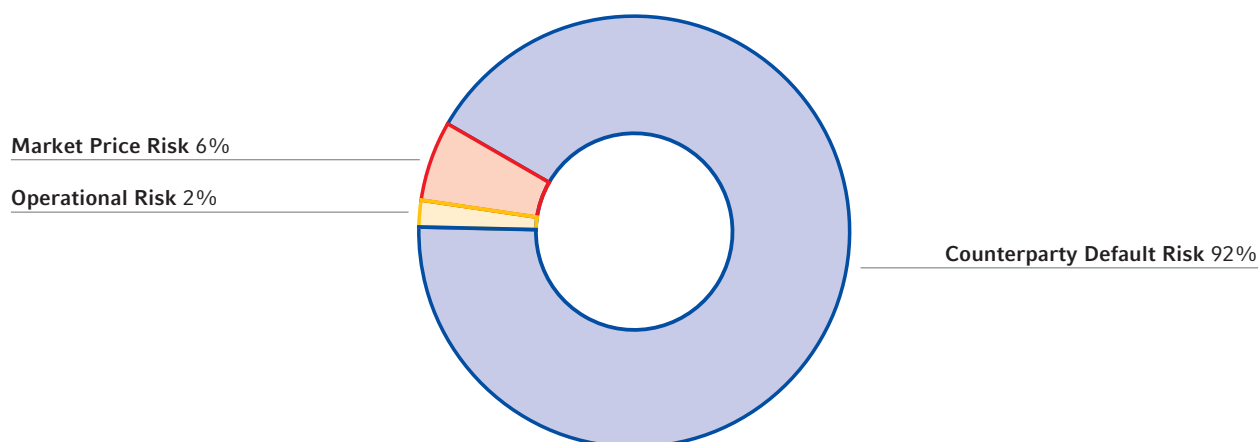
### Overall Risk Assessment

Economic capital is the most crucial risk control parameter at NRW.BANK across various risk types and segments. It measures the various risks (counterparty default risks, market price risks, operational risks) and combines them in a methodologically consistent manner to form a key figure for the entire Bank – taking a risk horizon of one year into account.

As part of the annual strategy process for the Bank, the Managing Board defines risk strategy as a function of business strategy, reviews the limit for economic capital, and allocates economic capital among risk categories and segments.

The Managing Board maintains a ratio appropriate to the risk strategy between the limit for economic capital and capital cover, which is determined by methods that are standard practice in the market with due allowance for the equity components required by banking regulations and reported in the balance sheet. This approach ensures that risk assumption is always consistent with the Bank's strategy, and that the Bank's business is always viable in light of risk exposure.

### Limits for Economic Capital by Type of Risk



The economic capital for counterparty default risks and market price risks is determined by the value-at-risk method described above; operations are monitored regularly as to how closely they approach the established limits. For all operations, the economic capital limit for operational risks is managed on the basis of the Basle recommendations. All limits were complied with consistently in financial year 2006.

Economic capital for the Bank as a whole is calculated conservatively on an aggregate basis, and thus makes no allowance for the effects of diversification among different types of risk. The Bank's total economic capital is € 3.8 billion.

The management concept is supplemented with stress and scenario analyses that check that the bank has adequate risk-bearing capacity.

Continuous improvement and expansion of risk management in all key risk areas ensure that NRW.BANK will retain its ability to recognise any adverse changes in risk structure early enough to take appropriate countermeasures.

## Report of Anticipated Developments

### Evolution of NRW.BANK's Business Strategy

In its capacity as the state development bank of North Rhine-Westphalia, NRW.BANK supports the sustainable development of the federal state in close coordination with its owners. The strategy provides for the Bank to be built into North Rhine-Westphalia's central development platform. This includes the ongoing development of the municipal and infrastructure financing activities to support the federal state and its local and municipal governments in performing their tasks.

NRW.BANK intends to increase total assets moderately in 2007. Based on its profitability, the Bank expects to be able to make a growing amount of own funds available for development and promotion purposes in the coming

years. Parallel to expanding its business activities, the Bank will improve processes to increase productivity and optimise the cost structure. The workforce will be increased only moderately in line with the tasks at hand.

In the Programme-based Promotion segment, NRW.BANK primarily aims to round off the portfolio of promotion products. The Start-up and SME Promotion segment will not only extend promotion funds but increasingly also assume final borrower risks, the main objectives being the support of innovations as well as the promotion of the film industry and the export sector of the economy. In addition, NRW.BANK will provide equity and mezzanine solutions for young, innovative technology companies, established growth companies and the mid-market. The equity investment market in North Rhine-Westphalia will be strengthened further as offerings for SMEs, technology companies and technology-oriented start-ups are expanded. Complementing these activities, the Business Angels Platform (win) will be used to offer additional advisory services and establish networks.

In the context of North Rhine-Westphalia's social housing promotion activities, NRW.BANK will provide € 900 million in 2007 for the construction and purchase of owner-occupied housing, the construction of rented housing and residential facilities as well as for projects supporting investments in existing housing. As part of the federalism reform, full responsibility has been transferred to the federal states. At the same time, the financial aid provided by the federal government will be raised to € 97 million p.a. until the year 2013 in order to help the federal states fulfil these tasks. Housing promotion will be more closely integrated with urban development funding and the city renewal objectives, while the promotion of owner-occupied housing on disused inner-city sites will be improved. In view of the demographic change, the promotion programme will offer even better possibilities for the reconstruction and modernisation of existing housing stock from 2007. In this context, a focus will be on barrier-free homes. An amendment of Section 18 para. 3 Wohnungsbau-förderungsgesetz (WBFG) is currently in the process of legislation. Under the amended act, the North Rhine-Westphalian government intends to transfer part of Wfa's net profit for the years 2007 and 2008 to the federal state's budget for measures of the "Grundstücksfonds NRW" fund.

Activities in the Individual Promotion unit will focus on housing promotion and education finance, especially the tuition fee loan. Students who took up their studies at a North Rhine-Westphalian university in the 2006/2007 winter term were able to apply for the loan at NRW.BANK. From the year 2007, enrolled students are also liable to pay the tuition fee and may therefore apply for the tuition fee loan. The funds will flow directly to the universities and will help to improve the basis for education and research in North Rhine-Westphalia.

In Structural Promotion, NRW.BANK intends to integrate different funding and promotion aspects more closely. The Bank plans to offer a growing range of own products and use its own funds for promotion purposes. The new "NRW.BANK.Ergänzungsprogramm.Abwasser" programme, for instance, will promote investments by municipal and near-municipal institutions in North Rhine-Westphalia's public waste water disposal system. Structured Finance will focus on social infrastructure projects such as hospitals as well as transport, environmental protection and renewable energies. In addition, NRW.BANK will support the federal state in the implementation of the NRW Public Private Partnership (PPP) Initiative by providing project-related advice as well as financing facilities for the realisation of PPP projects in North Rhine-Westphalia.

In the Other Promotion/Liquidity Management segment, NRW.BANK wants to strengthen and expand its position in the business with municipal clients by assisting local authorities in their financing activities and, in particular, budget management.

NRW.BANK intends to further optimise its funding. In the context of the long-term funding strategy, the funding volume in the capital market will amount to approx. € 17 billion in 2007. Benchmark issues will account for about one quarter of the issuance. NRW.BANK plans to expand the range of products and currencies and to offer a larger number of complex products customised to investors' specific requirements. The Bank aims to sharpen its profile towards large international investors and to push ahead the internationalisation of its debt

structure. NRW.BANK benefits from the same good rating as the state of North Rhine-Westphalia and will use the advantages resulting from the liability mechanisms and the explicit funding guarantee exclusively in a competition-neutral manner.

A portfolio of interest rate swaps taken over in the context of the spin-off of Westdeutsche Landesbank Girozentrale will expire successively by the year 2012. Interest income from this portfolio will decline accordingly in the coming years.

During 2007 NRW.BANK will continue to expand its position as the state development bank and the central development platform in North Rhine-Westphalia, in the interest of the regional economy, the municipalities and the people of North Rhine-Westphalia.

The Managing Board of NRW.BANK  
February 2007



# Balance Sheet

of NRW.BANK as at December 31, 2006

## Assets

see Notes No.		31. 12. 2005	
	€	€	€ thousands
<b>1. Cash</b>			
a) cash on hand	19,426.83		(23)
b) balances with central banks	96,907,486.75		(75,349)
including:			
with Deutsche Bundesbank	96,907,486.75 €		
		<b>96,926,913.58</b>	75,372
<b>2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks</b>			
a) treasury bills and discounted treasury notes as well as similar debt instruments issued by public institutions	18,072,745.00		(0)
including:			
eligible for refinancing with Deutsche Bundesbank	18,072,745.00 €		
		<b>18,072,745.00</b>	0
<b>3. Receivables from banks</b> 1, 11, 22, 26			
a) payable on demand	1,639,515,951.69		(1,893,831)
b) other	29,383,978,512.04		(29,864,775)
		<b>31,023,494,463.73</b>	31,758,606
<b>4. Receivables from customers</b> 2, 3, 11, 22, 26		<b>49,939,690,053.16</b>	49,284,263
thereof:			
secured by mortgages	20,481,773,715.72 €		
loans to public authorities and entities under public law	26,532,565,909.01 €		
<b>5. Bonds and other interest-bearing securities</b> 4, 9, 11, 12, 22, 24, 26			
a) bonds and notes			
aa) of public institutions	26,592,744,884.65		(29,896,552)
thereof:			
eligible as collateral for Deutsche Bundesbank advances	25,449,279,307.66 €		
ab) of other issuers	22,018,004,638.56		(11,019,938)
thereof:			
eligible as collateral for Deutsche Bundesbank advances	17,689,971,976.67 €	48,610,749,523.21	(40,916,490)
b) bonds issued by the Bank	76,967,996.32		(193,912)
principal amount	72,722,843.33 €		
		<b>48,687,717,519.53</b>	41,110,402
		<b>129,765,901,695.00</b>	122,228,643
	To be carried forward:		

## Liabilities

		see Notes No.		31. 12. 2005	
		€	€	€	€ thousands
<b>1. Liabilities to banks</b>	<b>13, 22, 25</b>				
a) payable on demand		46,707,489.97			(175,214)
b) with agreed maturity or period of notice		43,082,015,877.28			(37,592,678)
				<b>43,128,723,367.25</b>	<b>37,767,892</b>
<b>2. Liabilities to customers</b>	<b>14, 22</b>				
a) other liabilities					
aa) payable on demand		98,901,244.87			(183,463)
ab) with agreed maturity or period of notice		21,726,489,596.18			(18,872,583)
			21,825,390,841.05		(19,056,046)
				<b>21,825,390,841.05</b>	<b>19,056,046</b>
<b>3. Certificated liabilities</b>	<b>15, 22, 26</b>				
a) bonds and notes issued by the Bank		46,319,427,635.60			(47,120,472)
				<b>46,319,427,635.60</b>	<b>47,120,472</b>
<b>4. Trust liabilities</b>	<b>16</b>				
thereof:					
trust loans		2,391,824,772.80 €			
				<b>2,391,824,772.80</b>	<b>2,520,519</b>
<b>5. Other liabilities</b>	<b>17, 22</b>				
				<b>374,880,480.60</b>	<b>154,076</b>
<b>6. Deferred items</b>	<b>18, 22</b>				
				<b>471,076,569.70</b>	<b>559,666</b>
<b>7. Provisions</b>	<b>19</b>				
a) for pensions and similar obligations		792,964,179.00			(727,072)
b) tax reserve		4,557,369.18			(7)
c) promotion dividend		25,545,634.77			(1,018)
d) other		258,445,794.56			(240,701)
				<b>1,081,512,977.51</b>	<b>968,798</b>
<b>8. Subordinated liabilities</b>	<b>20</b>				
thereof:					
due in less than two years		0.00 €			
				<b>405,000,000.00</b>	<b>405,000</b>
			To be carried forward:	<b>115,997,836,644.51</b>	<b>108,552,469</b>

# Balance Sheet

of NRW.BANK as at December 31, 2006

## Assets

see Notes No.			31. 12. 2005
		€	€ thousands
		€	€ thousands
		To be carried forward:	122,228,643
		129,765,901,695.00	
<b>6. Shares and other</b>			
non-interest-bearing securities	5, 9	26,934,000.00	0
<b>7. Equity investments in</b>			
non-affiliated companies	6, 9	2,323,534,557.32	2,316,555
thereof:			
equity investments in banks	2,260,296,018.78 €		
<b>8. Equity investments in</b>			
affiliated companies	6, 9	76,122,869.17	71,816
<b>9. Trust assets</b>	7	2,391,824,772.80	2,520,519
thereof:			
trust loans	2,391,824,772.80 €		
<b>10. Intangible assets</b>		24,625,025.09	27,057
<b>11. Tangible fixed assets</b>	9	26,605,033.63	21,967
<b>12. Other assets</b>	8	576,060,401.36	531,858
<b>13. Deferred items</b>	10, 22	340,155,181.97	396,561
<b>Total assets</b>	22	135,551,763,536.34	128,114,976

## Liabilities

		see Notes No.		31. 12. 2005	
		€	€	€	€ thousands
		To be carried forward:		115,997,836,644.51	108,552,469
<b>9. Capital with participation rights</b>	<b>20</b>			11,000,000.00	135,755
thereof:					
due in less than two years	0.00 €				
<b>10. Fund for general banking risks</b>				85,000,000.00	85,000
<b>11. Equity capital</b>	<b>21</b>				
a) subscribed capital		675,000,000.00			(675,000)
b) capital reserves		18,748,113,558.93			(18,622,761)
thereof:					
special reserves pertaining to the Wohnungsbauförderungsanstalt		18,492,279,614.47 €			
c) reserves from retained earnings					
ca) reserves required by NRW.BANK's statutes		9,200,000.00			(6,400)
cb) other reserves		2,447,332.90			(0)
d) profit for the year		23,166,000.00			(37,591)
				19,457,926,891.83	19,341,752
<b>Total liabilities</b>	<b>22</b>			135,551,763,536.34	128,114,976
<b>1. Contingent liabilities</b>	<b>23</b>				
liabilities from guarantees and indemnity agreements				4,521,150,249.01	1,806,933
<b>2. Other commitments</b>	<b>23</b>				
irrevocable loan commitments				3,032,821,654.92	2,964,957
<b>3. Administered funds</b>				120,861,880.66	182,020

# Profit and Loss Account

of NRW.BANK for the Period January 1 – December 31, 2006

see Notes No.

1.1.–31.12.2005

	€	€	€	€ thousands
<b>1. Interest income from</b>				
a) lending and money market transactions	2,851,602,822.49			(2,972,578)
b) interest-bearing securities and book-entry securities	1,701,702,494.76			(1,578,589)
		4,553,305,317.25		(4,551,167)
<b>2. Interest expenses</b>		4,228,827,685.87		(4,226,377)
			<b>324,477,631.38</b>	324,790
<b>3. Income from</b>				
a) shares and other non-interest-bearing securities		583,149.03		(0)
b) equity investments in non-affiliated companies		243,018.65		(2,499)
c) equity investments in affiliated companies		11,087,926.70		(10,522)
			<b>11,914,094.38</b>	13,021
<b>4. Income from profit pooling, profit transfer and partial profit transfer agreements</b>			<b>4,117,885.39</b>	6,017
<b>5. Commission income</b>	<b>27</b>	62,707,422.39		(22,153)
<b>6. Commission expenses</b>		46,499,376.18		(8,452)
			<b>16,208,046.21</b>	13,701
<b>7. Net profit from trading operations</b>			<b>1,225,333.17</b>	- 1,973
<b>8. Other operating income</b>	<b>28</b>		<b>8,616,960.55</b>	27,287
<b>9. General administrative expenses</b>				
a) personnel expenses				
aa) wages and salaries		75,757,273.78		(67,101)
ab) social security contributions and expenses for pensions and other employee benefits		28,800,207.33		(24,394)
thereof:				
for pensions	17,337,949.27 €			(91,495)
				(15,880)
b) other administrative expenses		74,167,152.04		(67,501)
			<b>178,724,633.15</b>	158,996
<b>10. Depreciation and value adjustments on intangible and tangible fixed assets</b>			<b>7,664,866.25</b>	2,945
<b>11. Other operating expenses</b>	<b>28</b>		<b>9,469,836.27</b>	10,281
			<b>170,700,615.41</b>	210,621
		To be carried forward:		

see Notes No.

1.1.–31.12.2005

	€	€	€ thousands
	To be carried forward:	170,700,615.41	210,621
12. Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions		61,818,542.73	132,966
13. Income from revaluation of equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets		74,574,429.79	79,114
14. Expenses from the assumption of losses		4,194.80	6
15. Result from normal operations		183,452,307.67	156,763
16. Extraordinary expenses	30 47,611,418.00		(63,893)
17. Extraordinary result		- 47,611,418.00	- 63,893
18. Taxes on income and revenues	8,033,184.79		(7,019)
19. Other taxes not shown under other operating expenses	85,201.62		(31)
		8,118,386.41	7,050
20. Allocation to provisions for promotion dividend	25,839,896.27	1,018	
21. Net profit		101,882,606.99	84,802
22. Allocation to capital of Wohnungsbauförderungsanstalt NRW		42,180,457.61	45,011
23. Advanced payout from Wfa due to legal requirements		33,736,149.38	0
24. Withdrawals from capital reserves		0.00	1,800
25. Allocation of net income to reserves from retained earnings			
a) reserves required by NRW.BANK's statutes		2,800,000.00	4,000
		2,800,000.00	4,000
26. Profit for the year		23,166,000.00	37,591

# Notes

## of NRW.BANK at December 31, 2006

### Preparation of NRW.BANK's Annual Accounts

The annual accounts of NRW.BANK were prepared in accordance with the provisions of the German Commercial Code (HGB) and the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV). Information that may appear either on the balance sheet or in the Notes is included in the Notes. Amounts in the Notes are generally given in € millions.

To promote housing and small residential development projects, NRW.BANK operates Wohnungsbauförderungsanstalt Nordrhein-Westfalen (Wfa) – Anstalt der NRW.BANK – pursuant to Section 1 (4) of its statutes. Wfa is an unincorporated, public-law institution with headquarters in Düsseldorf that operates financially and organisationally on a stand-alone basis. The assets of Wfa must be managed separately from the assets of NRW.BANK. Besides their function as liable equity capital as defined in the German Banking Act (KWG), these assets may be used exclusively to finance the tasks of Wfa. By law, Wfa must also prepare separate annual accounts and a management report. The assets of Wfa (subscribed capital and state housing assets as well as revenue reserves) are recognised in the financial statements of NRW.BANK under capital reserves as special reserves pertaining to Wohnungsbauförderungsanstalt. These special reserves amounted to € 18,492.3 million as of December 31, 2006.

As in the previous year, assets and liabilities in the present annual accounts have been recognised at amortised cost pursuant to Section 252 et seq. of the German Commercial Code (HGB).

The income and expenses of Wfa were taken from Wfa's annual accounts and included directly in NRW.BANK's statement of income under the relevant items, chiefly interest income and expenses, general administrative expenses and expenditure on risk provisions. According to section 18 of Wohnungsbauförderungsgesetz (WBFG), which was amended in 2006 by the Budget Supplement

Act (Haushaltsbegleitgesetz) and due to the amended law on surcharges payable by non-eligible social housing tenants (Fehlbelegungsrechtsänderungsgesetz), advance payments in an amount of € 33,736,149.38 had to be made to the federal state in the financial year 2006.

Wfa's remaining net profit for the year was allocated to the state housing assets as mandated by law and by the statutes.

The subsidiaries in the NRW.BANK Group are not of material importance either individually or collectively. Consolidated financial statements are not prepared.

### Accounting and Valuation Principles

Assets, liabilities and open contracts are valued in accordance with Section 340 et seq. of the German Commercial Code (HGB) in conjunction with Section 252 et seq. of the German Commercial Code (HGB).

Receivables are reported at their amortised cost less any discounts. Liabilities are carried at their repayment amounts, with any related discounts reported under deferred items. Premiums on receivables and liabilities are reported under deferred items as an asset or liability, respectively. The proportionate amount of interest on a receivable or liability at year-end is generally included with the receivable or liability to which it applies. Deferred items resulting from the issuing and lending business are valued according to the proportionate interest method. Non-interest-bearing loans to employees are reported at their amortised cost in accordance with tax regulations. Zero-coupon bonds are carried as liabilities at their issue price plus interest accrued as of the reporting date.

The Wfa's promotion loans to customers and banks, most of which are at no interest or below-market interest, are carried at their nominal value in view of the fact that they are principally funded at matching maturities using state housing construction funds, and taking into account that the state of North Rhine-Westphalia will compensate for any negative interest.

Discernible risks in the lending business were adequately covered by individual value adjustments and provisions. A global provision was formed in accordance with tax valuation methods for latent risks from receivables and contingent liabilities. Value adjustments were deducted from assets. Non-performing loans were written off.

Securities held in the liquidity reserve and the hedging transactions associated with them are valued strictly at the lower of cost or market.

The securities held in the investment portfolio (financial assets) are valued at cost; any difference between the cost and the repayment amount is recognised on a pro rata basis in income. To the extent that securities held in the investment portfolio are carried at values higher than their current market value, these securities are shown in the Notes as "valued as fixed assets". This information is subject to change over time because of portfolio changes, as well as movements in interest rates and/or market prices.

For securities held in the investment portfolio with a carrying value of € 22,594,768,425.68, an aggregate market value of € 22,242,233,298.87 was determined. These changes in market value are matched by market value reserves in the same amount. Because these securities have been funded at matching maturities and interest rates, and because none of the issuers' credit ratings indicated sustained weakening, it was not necessary to write the securities down to market.

The market values of the bonds and derivatives held in the context of NRW.BANK's own trading activities are determined as of the balance sheet date for each individual transaction. The individual valuation results are combined in a macro portfolio. The portfolio mainly comprises interest rate risks and is subdivided by currencies within this risk category. In the context of this subdivision, positive and negative valuation results are netted. Any remaining unrealised profits are not collected; provisions are established for unrealised losses.

The revaluation adjustments relating to derivative transactions, which are carried in the investment portfolio as microhedges for specific transactions or as macrohedges for the Bank's overall exposure to interest rate risk (chiefly in the form of euro-interest swaps), are not recognised.

Equity investments in affiliated and non-affiliated companies are carried at cost taking into account existing collateral; where a loss of value is expected to be permanent, they are written down to the lower fair value.

Tangible assets with a limited useful life are depreciated in accordance with the applicable tax regulations. Low-value assets are written off in full in their year of purchase.

The principal discount resulting from the restructuring of an interest-free loan by WestLB AG to the Wfa is reported as a deferred item under liabilities, released over the period of the new loan and recognised as a reduction of expenses. The new loan itself is structured in eight tranches for the repayment of the principal and interest; the interest accruing up to the reporting date is added to the loan liability and recognised as an expense.

As in the previous year, NRW.BANK made growing use of the promotion dividend for certain loans in order to fulfil its governmental development and promotion responsibilities. The total interest subsidy made available as part of the promotion dividend is set aside at the present value at the time when the loan is extended.

Adequate provisions have been made for contingent liabilities and anticipated losses from open contracts. Provisions for anniversary expenses have been established in the full amount of the actuarial net present value calculated using the German entry age normal method ("Teilwert") at an interest rate of 5.5%.



In the previous year, the valuation method for provisions for pensions, additional benefits and early retirement obligations was changed for the first time. Up to 2004, provisions for pensions were calculated using the German entry age normal method ("Teilwertverfahren") in accordance with Section 6 a of the German Income Tax Act (EstG) at an interest rate of 6%. During financial year 2006, the interest rate was lowered from 5.5% (2005) to 4.8%; as in the previous year, a calculation method was applied that is based on the provisions for defined benefit obligations in IAS 19, in which future salary and pension developments were taken into account.

The new defined benefit obligation calculation method was not applied to provisions for pensions of WestLB AG employees with dual contracts who hold a full entitlement to reimbursement in respect of WestLB AG.

As in the previous year, an annual cost increase of 3% was applied to calculate the provisions for healthcare benefits. The interest rate was lowered to 4.8%.

The changes implemented address the current developments in long-term capital market interest rates and are oriented in the medium term to internationally accepted accounting standards. The total additions of € 81.9 million are broken down into € 34.3 million that would have resulted from the continued application of the valuation rules used to date and € 47.6 million attributable to the new measurement methods. This amount was not recognised in personnel expenses, but rather in extraordinary expenses.

Foreign currency amounts have been translated in accordance with Section 340h of the German Commercial Code (HGB) and statement BFA 3/95 of the Banking Committee of the IDW. Assets and liabilities denominated in foreign currencies were translated using the reference rates of the European System of Central Banks (ESCB) effective on December 29, 2006.

## Balance Sheet

### Receivables from Banks (1)

#### Breakdown by Maturity

	Dec. 31, 2006	Dec. 31, 2005
	€ millions	€ millions
Payable on demand	1,639.5	1,893.8
With residual maturities of		
– up to 3 months	4,138.2	3,796.5
– between 3 months and 1 year	3,493.4	2,805.3
– between 1 and 5 years	9,004.9	11,229.3
– more than 5 years	12,747.5	12,033.7
<b>Total receivables from banks</b>	<b>31,023.5</b>	<b>31,758.6</b>

As in the previous year, receivables from banks include no receivables from affiliated companies. The receivables from other companies in which equity investments are held totalled € 1,878.3 million (2005: € 2,022.4 million).

## Receivables from Customers (2)

### Breakdown by Maturity

	Dec. 31, 2006	Dec. 31, 2005
	€ millions	€ millions
With residual maturities of		
– up to 3 months	2,360.3	2,176.9
– between 3 months and 1 year	2,595.8	2,485.2
– between 1 and 5 years	7,886.2	9,286.0
– more than 5 years	37,097.4	35,336.2
<b>Total receivables from customers</b>	<b>49,939.7</b>	<b>49,284.3</b>
including:		
– receivables with indefinite maturities	24.8	25.0

As in the previous year, receivables from customers include no receivables from affiliated companies. The receivables from other companies in which equity investments are held totalled € 128.1 million (2005: € 114.7 million).

## Receivables Secured by Mortgages (3)

### Breakdown by Maturity

	Dec. 31, 2006	Dec. 31, 2005
	€ millions	€ millions
Receivables from customers with residual maturities of		
– up to 3 months	140.3	163.0
– between 3 months and 1 year	364.1	371.3
– between 1 and 5 years	1,894.7	1,870.0
– more than 5 years	18,082.7	18,301.2
<b>Total receivables secured by mortgages</b>	<b>20,481.8</b>	<b>20,705.5</b>

## Bonds and Other Interest-Bearing Securities (4)

### Marketability

	Dec. 31, 2006	Dec. 31, 2005
	€ millions	€ millions
Bonds and other interest-bearing securities		
– listed on a stock exchange	45,159.0	39,411.4
– not listed on a stock exchange	3,528.7	1,699.0
<b>Total bonds and other interest-bearing securities</b>	<b>48,687.7</b>	<b>41,110.4</b>
including:		
amounts that will become due by December 31 of the following financial year	3,989.6	3,392.9

As in the previous year, bonds and other interest-bearing securities include no securities from affiliated companies and none from other companies in which equity investments are held.

Of the total bonds and other interest-bearing securities, € 208.1 million (2005: € 0.0 million) is held in the trading portfolio, € 2,358.8 million (2005: € 1,613.9 million) is held as part of the liquidity reserve and € 46,120.8 million (2005: € 39,496.5 million) is held in the investment portfolio.

#### Shares and Other Non-Interest-Bearing Securities (5)

Marketability	Dec. 31, 2006	Dec. 31, 2005
	€ millions	€ millions
Shares and other non-interest-bearing securities		
– listed on a stock exchange	0.0	0.0
– not listed on a stock exchange	26.9	0.0
<b>Total shares and other non-interest-bearing securities</b>	<b>26.9</b>	<b>0.0</b>

Of the total shares and other non-interest-bearing securities, € 25.0 million (2005: € 0.0 million) is held as part of the liquidity reserve and € 1.9 million (2005: € 0.0 million) is held in the investment portfolio.

#### Equity Investments in Non-Affiliated and Affiliated Companies (6)

NRW.BANK holds € 2,323.5 million (2005: € 2,316.6 million) in equity investments in non-affiliated companies and € 76.1 million (2005: € 71.8 million) in equity investments in affiliated companies. Of this amount, € 2,211.7 million (2005: € 2,203.6 million) is evidenced by marketable securities. However, none are listed on a stock exchange.

The itemised list of NRW.BANK's holdings pursuant to Section 285 No. 11 and 11a of the German Commercial Code (HGB) is shown separately.

NRW.BANK holds more than 5% of the voting rights in the following major corporations (disclosure pursuant to Section 340 a [4] No. 2 of the German Commercial Code [HGB]):

- WestLB AG
- InvestitionsBank des Landes Brandenburg (ILB)
- LEG Landesentwicklungsgesellschaft NRW GmbH

#### Trust Assets (7)

Breakdown by Asset Type	Dec. 31, 2006	Dec. 31, 2005
	€ millions	€ millions
Receivables from banks	163.1	183.3
Receivables from customers	2,228.7	2,337.2
<b>Total trust assets</b>	<b>2,391.8</b>	<b>2,520.5</b>

### Other Assets (8)

The total figure of € 576.1 million (2005: € 531.9 million) contains, among other things, € 522.0 million (2005: € 500.6 million) in receivables from WestLB AG for reimbursement of pension obligations, as well as € 13.9 million (2005: € 13.3 million) in receivables from profit and loss pooling agreements with companies in which equity investments are held.

### Fixed Assets (9)

Schedule of Fixed Assets	Acquisition Cost/Cost of Production	Additions	Retirements	Total Depreciation and Amortisation	Net Book Value	Depreciation/Amortisation in the Financial Year
	Jan. 1, 2006				Dec. 31, 2006	
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Bonds and other interest-bearing securities forming part of fixed assets	38,698.0				45,262.9	0.0
Shares and other non-interest-bearing securities forming part of fixed assets	0.0				1.9	0.0
Equity investments in non-affiliated companies	3,873.5				2,323.5	0.0
Equity investments in affiliated companies	71.9				76.1	0.0
Intangible assets	29.5	2.9	0.7	7.1	24.6	5.4
Land and buildings	19.9	0.3	1.8	0.5	17.9	0.2
Office equipment	5.4	7.9	2.4	2.2	8.7	2.1
		Net change pursuant to Section 34 (3) Sentence 2 RechKredV: € 5,021.0 million				

€ 17.7 million of the amount shown under land and buildings represent land and buildings used for business purposes (2005: € 18.4 million).

### Deferred Items (10)

Breakdown of Deferred Items	Dec. 31, 2006	Dec. 31, 2005
	€ millions	€ millions
Discounts from underwriting business	113.3	151.2
Discounts from liabilities	133.2	145.6
Pre-paid swap fees	65.4	83.1
Other	28.3	16.7
<b>Total deferred items</b>	<b>340.2</b>	<b>396.6</b>

### Subordinated Assets (11)

Subordinated assets are included in:

#### Breakdown by Asset Type

	Dec. 31, 2006	Dec. 31, 2005
	€ millions	€ millions
Receivables from banks	0.8	0.8
Receivables from customers	5.1	5.0
Bonds and other interest-bearing securities	20.3	20.3
<b>Total subordinated assets</b>	<b>26.2</b>	<b>26.1</b>

### Pledged Assets (12)

Of the assets reported, NRW.BANK pledged € 5,548.2 million (2005: € 4,310.2 million) under repurchase agreements.

### Liabilities to Banks (13)

#### Breakdown by Maturity

	Dec. 31, 2006	Dec. 31, 2005
	€ millions	€ millions
Payable on demand	46.7	175.2
With residual maturities of		
– up to 3 months	13,708.9	11,117.6
– between 3 months and 1 year	1,687.0	1,305.5
– between 1 and 5 years	9,299.2	8,783.2
– more than 5 years	18,386.9	16,386.4
<b>Total liabilities to banks</b>	<b>43,128.7</b>	<b>37,767.9</b>

As in the previous year, liabilities to banks include no liabilities to affiliated companies. The liabilities to other companies in which equity investments are held totalled € 3,109.4 million (2005: € 4,533.8 million).

### Liabilities to Customers (14)

#### Breakdown by Maturity

	Dec. 31, 2006	Dec. 31, 2005
	€ millions	€ millions
Payable on demand	98.9	183.5
With residual maturities of		
– up to 3 months	673.0	559.4
– between 3 months and 1 year	280.2	382.1
– between 1 and 5 years	4,276.5	3,490.4
– more than 5 years	16,496.8	14,440.6
<b>Total liabilities to customers</b>	<b>21,825.4</b>	<b>19,056.0</b>

### Certificated Liabilities (15)

#### Breakdown of Certificated Liabilities

	Dec. 31, 2006	Dec. 31, 2005
	€ millions	€ millions
Notes issued		
– mortgage bonds	32.3	59.4
– municipal bonds	16,789.5	25,529.7
– other bonds	29,497.6	21,531.4
<b>Total certificated liabilities</b>	<b>46,319.4</b>	<b>47,120.5</b>

Due to a change in the accounting procedure for money-market instruments and other certificated liabilities, the securities stated in the previous year were reclassified to notes issued and the previous year's figures were reclassified as well.

Of the € 46,319.4 million in notes issued (2005: € 47,120.5 million), € 17,772.2 million (2005: € 11,832.6 million) is due in the following year.

### Trust Liabilities (16)

#### Breakdown of Trust Liabilities

	Dec. 31, 2006	Dec. 31, 2005
	€ millions	€ millions
Liabilities to banks	78,0	94,8
Liabilities to customers	1.594,2	1.666,5
Other liabilities	719,6	759,2
<b>Total trust liabilities</b>	<b>2.391,8</b>	<b>2.520,5</b>

### Other Liabilities (17)

Other liabilities totalling € 374.9 million (2005: € 154.1 million) include the balancing item from foreign exchange valuation in an amount of € 190.7 million (2005: € 3.8 million assets item) as well as € 124.8 million (2005: € 115.0 million) in matured participation certificates and € 14.2 million (2005: € 22.1 million) in interest to be paid on existing profit participation rights and subordinated liabilities once the annual accounts are approved.

### Deferred Items (18)

#### Breakdown of Deferred Items

	Dec. 31, 2006	Dec. 31, 2005
	€ millions	€ millions
Premiums from underwriting business	63.0	81.3
From refinancing of a Wfa loan recognised in equity	12.1	25.2
Swap fees received in advance	382.8	448.7
Other	13.2	4.5
<b>Total deferred items</b>	<b>471.1</b>	<b>559.7</b>

### Provisions (19)

The provision for pensions includes € 522.0 million (2005: € 500.6 million) in pension obligations to employees of WestLB AG who have claims for or are entitled to a pension under the laws relating to civil servants. Under Art.1 Section 4 (1) Sentence 4 of the Bank Redefining Act (Neuregelungsgesetz) of July 2, 2002, these obligations passed from Westdeutsche Landesbank Girozentrale to NRW.BANK. NRW.BANK is entitled to reimbursement from WestLB AG in the same amount.

NRW.BANK's provision for additional benefits stands at € 186.2 million (2005: € 164.6 million). This amount includes € 164.1 million in obligations to persons covered under the former pension agreement of Westdeutsche Landesbank Girozentrale, for which the public-law NRW.BANK assumed the additional benefit payments as part of the parent-subsidiary model. An additional € 22.2 million has been set aside for claims to additional benefits that employees of NRW.BANK have for their retirement.

### Subordinated Liabilities and Capital with Participation Rights (20)

The following subordinated liabilities exceed 10% of the total subordinated liabilities of € 405.0 million (2005: € 405.0 million):

Currency	Nominal Amount	Interest Rate	Term
	€ millions	%	
EUR	50.0	3.7	2004–2014
EUR	50.0	3.7	2004–2034
EUR	50.0	4.8	2004–2019
EUR	50.0	3.5	2004–2024
EUR	50.0	3.5	2004–2024

The remaining subordinated liabilities of € 155.0 million carry an average interest rate of 5.0% (2005: 4.9%) and have original maturities between 10 and 25 years. As in the previous year, none of the subordinated liabilities have a remaining time to maturity of less than two years.

The amount of subordinated liabilities was unchanged during financial year 2006.

There is no early redemption obligation. There are no existing agreements or plans to convert these funds into capital or into another form of debt.

Interest expenses of € 15.8 million (2005: € 14.1 million) were incurred for subordinated liabilities.

The subordinated liabilities carried by NRW.BANK comply with the requirements of Section 10 (5a) of the German Banking Act (KWG); a right to terminate without notice has not been agreed.

In 2006, € 124.8 million in capital with participation rights fell due, and no new capital with participation rights were issued. This brings total capital with participation rights to € 11.0 million (2005: € 135.8 million).

### Equity Capital (21)

At December 31, 2006, NRW.BANK had subscribed capital of € 675.0 million (2005: € 675.0 million). The reserves totalled € 18,759.7 million (2005: € 18,629.1 million).

NRW.BANK's capital and reserves as reported on the balance sheet are made up of the following:

Equity capital pursuant to the German Commercial Code (HGB)	Dec. 31, 2006	Dec. 31, 2005
	€ millions	€ millions
Subscribed capital	675.0	675.0
Capital reserves	18,748.1	18,622.8
thereof:		
special reserves pertaining to the Wohnungsbauförderungsanstalt	(18,492.3)	(18,366.9)
reserves from retained earnings		
– reserves required by NRW.BANK's statutes	9.2	6.4
– other reserves	2.4	0.0
Profit for the year	23.2	37.6
<b>Total</b>	<b>19,457.9</b>	<b>19,341.8</b>

Once the annual accounts are approved, the capital of NRW.BANK required for regulatory purposes under Section 10 of the German Banking Act (KWG) will total € 3,534.5 million (2005: € 3,509.2 million). It should be noted that the special reserves pertaining to the Wohnungsbauförderungsanstalt are included unchanged at the same amount approved by the BaFin (formerly BAKred) in 1992.

### Foreign Currency Assets/Foreign Currency Liabilities (22)

At year-end, NRW.BANK had foreign currency assets valued at € 4,022.9 million (2005: € 2,640.9 million) and foreign currency liabilities valued at € 7,124.0 million (2005: € 3,803.0 million).

### Contingent Liabilities and Other Commitments (23)

The contingent liabilities of € 4,521.2 million (2005: € 1,806.9 million) stem from the lending business and from guarantees.

Of the € 3,032.8 million in irrevocable credit commitments (2005: € 2,965.0 million), € 1,357.8 million (2005: € 1,501.3 million) was for commitments made in connection with the Wohnungsbauförderungsanstalt. Due to a process change, the previous year's figures of the irrevocable credit commitments have been adjusted accordingly.

### Assets Used as Collateral (24)

Bonds and notes totalling € 8,157.6 million (2005: € 8,403.5 million) were pledged to the European Central Bank as collateral for loans. Securities with a nominal value of € 50.0 million (2005: € 50.0 million) were deposited with the EUREX (eurexchange, electronic futures and options exchange) as collateral for forward transactions, while securities with a nominal value of € 329.5 million (2005: € 329.5 million) were pledged as collateral for overnight loans. In addition, an amount of € 64.2 million was transferred as collateral for repo transactions and securities in an amount of € 2.0 million were assigned as rent deposit.



### Collateral for Own Liabilities (25)

Collateral put up for loans raised included registered mortgage bonds in the amount of € 7.5 million and registered municipal bonds and notes totalling € 191.3 million.

### Cover (26)

All issues of NRW.BANK requiring cover were covered in accordance with the statutory provisions and in accordance with the Bank's statutes.

At December 31, 2006, the details of the cover were as follows:

Cover	Dec. 31, 2006		Dec. 31, 2005	
	Cover I € millions	Cover II € millions	Cover I € millions	Cover II € millions
Mortgage bonds and municipal bonds issued	170.6	30,440.3	268.1	40,226.7
Loans raised secured with registered mortgage bonds or registered municipal bonds and notes	7.1	186.7	7.5	191.3
<b>Liabilities requiring cover</b>	<b>177.7</b>	<b>30,627.0</b>	<b>275.6</b>	<b>40,418.0</b>
Mortgage and/or municipal loans	904.0	33,632.8	1,165.9	41,210.5
Other ordinary cover (securities)	–	6,419.2	–	12,584.1
<b>Cover funds</b>	<b>904.0</b>	<b>40,052.0</b>	<b>1,165.9</b>	<b>53,794.6</b>
<b>Excess cover</b>	<b>726.3</b>	<b>9,425.0</b>	<b>890.3</b>	<b>13,376.6</b>

## Statement of Income

### Services Rendered for Third Parties (27)

The net commission income includes € 7.8 million (2005: € 7.6 million) resulting from the administration of loans and subsidies held in trust.

### Other Operating Income and Expenses (28)

The principal contribution towards other operating income is made up of € 0.8 million (2005: € 0.7 million) in cash payments and payments from settlements involving the improper use of public housing, € 0.4 million (2005: € 3.6 million) in income from the write-back of other provisions and € 4.2 million (2005: € 0.0 million) in tax contributions received from affiliates.

Other operating expenses include € 8.5 million (2005: € 9.0 million) in additions to the provisions for additional benefits established for employees of WestLB AG.

#### **Fee Paid to Auditor of the Annual Accounts (29)**

In financial year 2006, expenses of € 2.3 million (2005: € 2.1 million) were recognised in the statement of income, € 1.1 million of which accounted for fees for the auditing of the annual accounts, € 0.3 million for other certification or valuation services, € 0.1 million for tax consulting services and € 0.8 million for other services.

#### **Extraordinary Expenses (30)**

The allocations to provisions for pensions and other employee benefits necessitated by the reduction in the interest rate from 5.5% to 4.8% were added to extraordinary expenses in the amount of € 47.6 million.

#### **Miscellaneous**

##### **Other Financial Obligations**

NRW.BANK had annual long-term rental and leasing obligations of € 6.5 million with a remaining term of 15 years and € 2.3 million with a remaining term of 10 years.

##### **Other Obligations**

NRW.BANK has other obligations pursuant to Art. 1 Section 3 Sentence 1 of the Bank Redefining Act of July 2, 2002, which states that WestLB AG and NRW.BANK are jointly and severally liable for any liabilities incurred prior to the effective date of the Act.

In addition to its capital contribution of € 55.0 million, NRW.BANK is liable for InvestitionsBank des Landes Brandenburg (ILB) in the amount of an additional € 110.0 million.

##### **Deposit Insurance**

Landesbank NRW became the development bank for North Rhine-Westphalia pursuant to the "Act on the Reorganisation of Landesbank Nordrhein-Westfalen into the Development Bank of the State of North Rhine-Westphalia and on the Amendment of Other Laws". Owing to these developments, as of January 1, 2005 NRW.BANK was made a member of the compensation scheme of the Association of German Public Sector Banks in Berlin (VÖB Entschädigungseinrichtung) by order of the Federal Financial Supervisory Authority (BaFin).

##### **Derivatives**

The total nominal value of derivative transactions was € 158,112 million (2005: € 135,538 million) and was spread out over the following interest rate and currency-linked products:

## Derivatives – Volumes

	Nominal Values		Positive	Negative
	Dec. 31, 2005	Dec. 31, 2006	Market Values	Market Values
	€ millions	€ millions	Dec. 31, 2006	Dec. 31, 2006
	€ millions	€ millions	€ millions	€ millions
<b>Interest rate risks</b>				
Interest rate swaps	116,260	127,424	2,597	3,123
FRA's	–	–	–	–
Interest rate options				
– bought (long)	7,357	7,733	167	–
– written (short)	6,149	7,388	–	1,097
Caps, floors	80	178	2	–
Stock market contracts	385	4,572	7	1
Other interest rate forwards	1,083	1,696	7	83
<b>Total interest rate risks</b>	<b>131,314</b>	<b>148,991</b>	<b>2,780</b>	<b>4,304</b>
<b>Currency risks</b>				
Foreign exchange forwards, swaps	115	794	–	17
Currency swaps/Interest currency swaps	1,843	3,484	49	242
Foreign exchange options				
– bought (long)	–	–	–	–
– written (short)	–	–	–	–
Stock market contracts	17	–	–	–
Other currency forwards	–	–	–	–
<b>Total currency risks</b>	<b>1,975</b>	<b>4,278</b>	<b>49</b>	<b>259</b>
<b>Share price and other price risks</b>				
Stock forwards	–	–	–	–
Stock options	–	–	–	–
– bought (long)	–	–	–	–
– written (short)	–	–	–	–
Stock market contracts	–	–	–	–
Other forwards	–	–	–	–
<b>Total share price and other price risks</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Credit derivatives</b>				
– bought (long)	734	791	–	1
– written (short)	1,515	4,088	21	1
<b>Total credit derivatives</b>	<b>2,249</b>	<b>4,879</b>	<b>21</b>	<b>2</b>
<b>Total</b>	<b>135,538</b>	<b>158,148</b>	<b>2,850</b>	<b>4,565</b>

The increase in the nominal volume of derivatives is mostly attributable to interest rate derivatives, which were used increasingly to hedge structured issues in the year under review. In addition, these hedging instruments continue to be used to manage general risks.

The average nominal value of the derivatives and other forward transactions entered into by NRW.BANK for the period from January 1, 2006 to December 31, 2006 was € 151,137 million (2005: € 117,949 million).

To the extent available, market prices are used for valuing the derivative financial instruments. If market values are not available or cannot be reliably determined, the fair value is determined on the basis of standard pricing models or discounted cash flows.

Option premiums paid or received are recognised under “other assets” and “other liabilities”, respectively.

The breakdown of derivative transactions by counterparty is as follows:

#### Derivatives – Breakdown by Counterparty

	Nominal Values		Positive	Negative
	Dec. 31, 2005	Dec. 31, 2006	Market Values	Market Values
	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2006	Dec. 31, 2006
	€ millions	€ millions	€ millions	€ millions
OECD banks	122,591	137,084	2,558	4,121
Non-OECD banks	–	–	–	–
OECD public-sector entities	376	263	6	3
Other counterparties	12,571	20,765	286	441
<b>Total</b>	<b>135,538</b>	<b>158,112</b>	<b>2,850</b>	<b>4,565</b>

Interest rate derivatives that are not assigned to the trading portfolio are used as microhedges for specific transactions or as macrohedges for overall exposure, exclusively in the Bank’s proprietary business. Their result is recognised in net interest income.

The negative market values are matched by sufficient market value reserves in the interest bearing securities held.

The interest rate contracts are spread across the entire spectrum of maturities, with approx. 41% (2005: 43%) having a remaining time to maturity of more than five years.

## Derivatives – Breakdown by Maturity

Nominal Values	Interest Rate Risks		Currency Risks		Credit Derivatives	
	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Residual maturity						
– up to 3 months	14,835	21,826	56	794	–	70
– 3 months to						
1 year	13,834	21,212	403	669	25	203
– 1 to 5 years	45,962	44,485	926	1,750	318	595
– more than 5 years	56,683	61,468	590	1,065	1,906	3,975
<b>Total</b>	<b>131,314</b>	<b>148,991</b>	<b>1,975</b>	<b>4,278</b>	<b>2,249</b>	<b>4,843</b>

The volume of credit derivatives where NRW.BANK is the beneficiary (protection buyer) amounted to € 790.6 million at December 31, 2006 (2005: € 734.2 million). Credit derivatives where NRW.BANK is the guarantor (protection seller) amounted to € 4,088 million at December 31, 2006 (2005: € 1,515 million) and were included under contingent liabilities.

### Number of Employees

The average number of female staff employed by NRW.BANK in 2006 was 563 (2005: 523), and the average number of male staff, including the Managing Board, employed over the year was 566 (2005: 537). The total number of employees at the end of the year was 1,077 (2005: 1,035).

### Remuneration

The total remuneration paid to the Chairman of the Managing Board was € 779,404.60 in 2006; that paid to other Managing Board members was € 1,119,239.97.

The remuneration of the Supervisory Board totalled € 0.1 million (2005: € 0.2 million).

### Loans

The members of the Managing Board and Supervisory Board of NRW.BANK received advances and loans totalling € 0.9 million (2005: € 0.9 million).

Disclosure pursuant to Section 340a (4) No. 1 of the German Commercial Code (HGB) of Seats Held

#### Seats Held by Members of the Managing Board

**Dr. Ulrich Schröder**

InvestitionsBank des Landes Brandenburg  
ProHealth AG  
Börse Düsseldorf AG  
Ströer Out-of-Home Media AG (from February 15, 2007)

**Ernst Gerlach**

Georgsmarienhütte GmbH  
InvestitionsBank des Landes Brandenburg  
LEG Landesentwicklungsgesellschaft NRW GmbH  
Mannesmannröhren-Werke AG

#### Seats Held by Employees

**Rainer Hofmann**

Ruhr-Lippe Wohnungsgesellschaft mbH

**Horst Jann**

Ströer Out-of-Home Media AG (until December 31, 2006)

#### Guarantors' Meeting/Supervisory Board/ Managing Board

In the year under review, the following persons were members of the Bank's executive boards:

#### Guarantors' Meeting

#### Chairwoman and Deputy Chairmen

**Christa Thoben**

Chairwoman  
Minister of Economics, Small Business and Energy  
of North Rhine-Westphalia  
Düsseldorf

**Dr. Helmut Linsen, MdL**

Deputy Chairman  
Finance Minister of North Rhine-Westphalia  
Düsseldorf

**Udo Molsberger**

Deputy Chairman  
Regional Director  
Regional Association of the Rhineland  
Cologne

**Wolfgang Schäfer**

(until June 30, 2006)  
Deputy Chairman  
Regional Director  
Regional Association of Westphalia-Lippe  
Münster

**Dr. Wolfgang Kirsch**

(from July 1, 2006)  
Deputy Chairman  
Director of LWL  
Regional Assembly of Westphalia-Lippe  
Münster

#### Members Appointed by the Guarantors' Meeting

**Dr. Jens Baganz**

Under Secretary  
Ministry of Economics, Small Business and Energy  
of North Rhine-Westphalia  
Düsseldorf

**Hans-Heinrich Grosse-Brockhoff**

(until August 27, 2006)  
Under Secretary  
Head of the State Chancellery  
of North Rhine-Westphalia  
Düsseldorf

**Karsten Beneke**

(from August 28, 2006)  
Under Secretary  
Head of the State Chancellery  
of North Rhine-Westphalia  
Düsseldorf

**Günter Kozlowski**

Under Secretary  
Ministry of Construction and Transport  
of North Rhine-Westphalia  
Düsseldorf

**Angelika Marienfeld**

Under Secretary  
Ministry of Finance  
of North Rhine-Westphalia  
Düsseldorf

**Dr. Alexander Schink**

Under Secretary  
Ministry of Environment and Nature Conservation,  
Agriculture and Consumer Protection  
of North Rhine-Westphalia  
Düsseldorf

**Dr. Michael Stückradt**

Under Secretary  
Ministry of Innovation, Science,  
Research and Technology  
of North Rhine-Westphalia  
Düsseldorf

**Andrea Ursula Asch, MdL**

Chairwoman of the Alliance 90/Green party  
Regional Assembly of the Rhineland  
Cologne

**Dieter Gebhard**

Chairman of the SPD Group  
Regional Assembly of Westphalia-Lippe  
Gelsenkirchen

#### Supervisory Board

##### Chairwoman and Deputy Chairmen

**Christa Thoben**

Chairwoman  
Minister of Economics, Small Business and Energy  
of North Rhine-Westphalia  
Düsseldorf

**Dr. Helmut Linssen, MdL**

Deputy Chairman  
Finance Minister of North Rhine-Westphalia  
Düsseldorf

**Udo Molsberger**

Deputy Chairman  
Regional Director  
Regional Association of the Rhineland  
Cologne

**Wolfgang Schäfer**

(until June 30, 2006)  
Deputy Chairman  
Regional Director  
Regional Association of Westphalia-Lippe  
Münster

**Dr. Wolfgang Kirsch**

(from July 1, 2006)  
Deputy Chairman  
Director of LWL  
Regional Association of Westphalia-Lippe  
Münster

**Members Appointed by the Guarantors' Meeting**

**Volkmar Klein, MdL**

State Assembly of North Rhine-Westphalia  
Member of the CDU Parliamentary Group  
Düsseldorf

**Hannelore Kraft, MdL**

Chairwoman of the SPD Parliamentary Group  
of North Rhine-Westphalia and chairwoman  
of the North Rhine-Westphalian SPD  
Düsseldorf

**Prof. Dr. Andreas Pinkwart**

Minister of Innovation, Science,  
Research and Technology  
of North Rhine-Westphalia  
Düsseldorf

**Oliver Wittke**

Minister of Construction and Transport  
of North Rhine-Westphalia  
Düsseldorf

**Dr. Jürgen Rolle**

Chairman of the SPD Group  
Regional Assembly of the Rhineland  
Cologne

**Dr. Wolfgang Kirsch**

(until June 30, 2006)  
District Administrator  
Chairman of the CDU Group  
Regional Assembly of Westphalia-Lippe  
Warendorf

**Roland Trottenburg**

(from July 1, 2006)  
Chairman of the CDU Group  
Regional Assembly of Westphalia-Lippe  
Bottrop

**Representatives of the Bank's Staff**

**Fred Eicke**

Director  
NRW.BANK  
Düsseldorf

**Hannelore Heger-Golletz**

Associate Director  
NRW.BANK  
Münster

**Franz-Georg Schröermeyer**

Secretary, Financial Services  
ver.di Vereinte Dienstleistungsgewerkschaft  
Regional Office Weser-Ems  
Osnabrück



**Christiane Stascheit**

Deputy Director for the Düsseldorf Region  
ver.di Vereinte Dienstleistungsgewerkschaft  
Regional Office Düsseldorf  
Düsseldorf

**Michael Tellmann**

Representative  
NRW.BANK  
Düsseldorf

**Permanent Representatives of the Chairwoman and  
Deputy Chairmen of the Supervisory Board**

**Dietmar Düring**

Senior Principal  
Ministry of Economics, Small Business and Energy  
of North Rhine-Westphalia  
Düsseldorf

**Gerhard Heiligenberg**

Assistant Secretary  
Ministry of Finance of North Rhine-Westphalia  
Düsseldorf

**Harry Voigtsberger**

Regional Councillor  
Regional Association of the Rhineland  
Cologne

**Dr. Hans-Ulrich Predeick**

Regional Councillor  
Regional Association of Westphalia-Lippe  
Münster

**Managing Board**

**Dr. Ulrich Schröder (Chairman)**

**Ernst Gerlach**  
**Klaus Neuhaus**

Düsseldorf, February 27, 2007

NRW.BANK

The Managing Board  
Dr. Schröder, Gerlach, Neuhaus

## Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the NRW.BANK Düsseldorf and Münster for the business year from January 1 to December 31, 2006. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the NRW.BANK in accordance with principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Düsseldorf, March 2, 2007

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Pukropski  
Wirtschaftsprüfer

Kügler  
Wirtschaftsprüfer

# Organisation Chart



<sup>1</sup> Spokesperson of the unit

<sup>2</sup> acting

Managing Board Member

**Klaus Neuhaus**

Municipal and Infrastructure Finance  
**Andreas Kötter**

Individual Promotion  
**Margret Hirthammer**

Legal, Compliance, Money Laundering Prevention  
**Oliver Blaß**

Finance  
**Wolfgang Beimel**

Human Resources  
**Achim Meierkamp**

Risk Management  
**Michael Stölting**

Business Support  
**Dr. Ortwin Schumacher**

IT/Organisation/Internal Services  
**Tobias Schmitt**

Structured Financing  
**Andreas Koch**

Housing Sector Promotion  
**Uwe Beckmann**

Accounting  
**Joachim Kiesau**

Personnel Development/Management Training  
**Ralf Groß-Heitfeld**

Credit Risk  
**Dr. Michael Kuhlbrodt**

Back Office Capital Markets  
**Gabriele Nowak**

IT-Services  
**Matthias Lersch**

Municipal Financing  
**Bernd Kummerow**

Business Unit Development  
**Werner Kindsmüller**

Financial Accounting  
**Ute Kuschel**

Personal Development/Basic Issues  
**Petra Kalthoff**

Real Estate Loan Processing  
**Rolf-Werner Huckenbeck**

Back Office Promotion Business  
**N.N.**

IT Non-Trading  
**Klaus Elschenbroich**

Structural Promotion Programmes  
**Anton Render**

Banking Supervision  
**Dr. Rüdiger Krautheuser**

Human Resources Administration and Controlling  
**Peter Schröder**

Municipal and Syndicated Financing  
**Hubert Venneker**

IT Trading  
**Dr. Jens Heinrich**

Tax  
**Sybille Heberer-Wilhelm**

Market and General Risk  
**Florian Merkel**

Organisation  
**Dr. Jürgen Schulte**

Controlling  
**Walter Wohlhage**

Internal Services  
**Ralf Welter**

# NRW.BANK at a Glance

## NRW.BANK Facts

**NRW.BANK** Competition-neutral development bank of the State of North Rhine-Westphalia operating according to the relationship bank principle; holds a full bank licence

### Guarantors

- State of North Rhine-Westphalia (64.74%)
- Regional Association of the Rhineland (17.63%)
- Regional Association of Westphalia-Lippe (17.63%)

### Liabilities/Guarantees

- Institutional liability
- Guarantor liability
- Explicit funding guarantee granted by the guarantors

**Legal Status** Public law bank

**Head Offices** Düsseldorf and Münster

## Contact at NRW.BANK

### Advisory Centre Rhineland

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Ein Glück für unseren Wald.

## Financial Calendar 2007

<b>May 8, 2007</b>	Publication of the promotion result for the first quarter of 2007
<b>August 7, 2007</b>	Publication of the promotion result for the first half of 2007
<b>November 6, 2007</b>	Publication of the promotion result for the third quarter of 2007
<b>December 13, 2007</b>	Capital market press conference in Frankfurt

## Key Figures

	2006	2005
	€ millions	€ millions
Total assets	135,552	128,115
Certificated liabilities	46,319	47,120
Equity capital pursuant to the German Commercial Code (HGB)	19,458	19,342
Liable capital in accordance with the German Banking Act (KWG*)	3,515	3,491
Net interest income	341	344
Net commission income	16	14
Personnel expenses	105	92
Operating expenses	82	70
Operating income before risk provisions/revaluation adjustments	171	211
Operating income after risk provisions/revaluation adjustments	183	157
Promotion dividend	26	1
Allocation to capital of Wohnungsbauförderungsanstalt NRW	42	45
Profit for the year	23	38
Principle I ratio in %*	16.5	25.3
Staff	1,077	1,035

\* before approval of the annual accounts

## Ratings

	Fitch Ratings	Moody's	Standard & Poor's
Long-term rating	AAA	Aa1	AA-
Short-term rating	F1+	P-1	A-1+
Individual <sup>1)</sup> /Financial Strength <sup>2)</sup>	B/C <sup>1)</sup>	C- <sup>2)</sup>	-*
Outlook	stabil	stabil	stabil

\* not prepared by Standard & Poor's

Status: February 15, 2007

## Promotion Volumes

	2006	2005
	€ millions	€ millions
Promotion of Start-ups and SMEs	1,825	943
Infrastructure and Municipal Finance	1,810	2,643
Social Housing Promotion	851	893
Individual Promotion	1,655	1,221

