

# Financial Report 2007

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# Financial Report 2007 of NRW.BANK

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# Corporate Responsibility

## A Young Bank With a Long Tradition

NRW.BANK was established only in 2002 but its tradition in promotion and development dates back to its earliest predecessor, Westfälische Provinzial-Hülfskasse, which was founded in Münster in 1832. 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 towards its stakeholders – its customers, its employees as well as society at large and the Bank's owners. Its contribution to sustainability in North Rhine-Westphalia is based on its effort to improve the standard of living of today's generation without jeopardising that of future generations. It is the prime objective of the Bank to strengthen small and medium-sized companies, in particular, and to support structural change with a special focus on innovative technologies as well as science and education in North Rhine-Westphalia.

## Filling Corporate Responsibility with Life

To underline this understanding, which is already being put into practice, NRW.BANK set out to document its view of this issue in its "Principles of Corporate Responsibility" in 2007. Developed by an internal working group, these principles are currently being discussed with the Bank's controlling bodies and will presumably be officially endorsed by the owners in the first half of 2008. The principles are focused at its main stakeholders its customers, its employees as well as society at large and the Bank's owners paying special attention to the tasks and processes of NRW.BANK as the development bank for the state of North Rhine-

Westphalia. In this context, NRW.BANK considers joining selected national and international initiatives representing voluntary commitments with regard to both its business activity and its responsibility as an employer. Once the principles have been adopted, it will be a major task of the year 2008 to structure and launch the process of integrating them into the corporate activities with a view to enabling sustainable action throughout the company. Individual activities and processes that are incompatible with the principles are to be restructured to the extent that this is possible within the framework of NRW.BANK's mission as a development bank.

## Implementation of Corporate Responsibility in Promotion Programmes

It is the statutory mission of NRW.BANK to assist the state of North Rhine-Westphalia and its local and regional governments in performing their public tasks, especially with regard to infrastructure, economic, social and housing policies. The Bank fulfils this mission by offering small and medium-sized companies, municipalities and private individuals in North Rhine-Westphalia attractive financing solutions that are geared to specific programme and product targets. In 2007, the Bank made an amount of € 8.1 billion available for development and promotion purposes, € 2 billion more than in the previous year. Its promotion remit includes an obligation to channel back a portion of its earnings in the form of banking products supporting its development and promotion programmes. The volume of this so-called "promotion dividend" was increased to € 29.6 million in 2007. The payout of this promotion dividend shows that the Bank lives up to its statutory mission and assumes responsibility towards society. The NRW.BANK.Mittelstandskredit, which is the programme with the highest volume, benefits from the promotion dividend in particular measure. This translates into especially attractively priced financing to support the growth of the SME sector, which is the backbone of North Rhine-Westphalia's economy. In 2007, this loan was extended to 5,129 companies in a total amount of approx. € 1.9 billion.

Together with its owners, NRW.BANK is a strong partner to the economy as well as to the people in North Rhine-Westphalia and can provide fast assistance in emergency situations. A good example of this assistance is the "Forest Damage" special credit programme, which was launched in cooperation with the state of North Rhine-Westphalia in response to the damage which Hurricane Kyrill inflicted on North Rhine-Westphalia's forests. The programme allowed the damage to be removed quickly, while at the same time providing those affected with effective aid. Building on this special credit programme, the Bank launched a "Reforestation" programme in August 2007. It will enable the reforestation of the damaged areas at attractive terms.

In the field of environmental promotion, NRW.BANK and the state of North Rhine-Westphalia provide financing to assist North Rhine-Westphalian municipalities and companies in their waste water treatment efforts. Low-interest finance is provided, for instance, to support investments in innovative sewage treatment processes, ground filtration installations and measures for production-integrated water protection and renaturation. Under these programmes, a total amount of more than € 123.5 million was made available, which represented an important contribution to the improvement of the water quality in North Rhine-Westphalia. As the development bank of the state of North Rhine-Westphalia, NRW.BANK also contributes its specific expertise to the "Emscher-Renaturierung" project.

In addition, the Bank is in the process of developing and/or implementing special programmes to promote climate protection projects. In response to the climate change challenge, NRW.BANK's Housing Promotion unit offers new and extended promotion solutions to help improve the energy efficiency in new and existing buildings. In this context, Wohnungsbauförderungsanstalt finances a promotion programme that aims to improve the energy efficiency of 200,000 North Rhine-Westphalian council flats built in the 1960s and 1980s, which are still awaiting partial or full refurbishment. These and other initiatives will support the goals set by the state of North Rhine-Westphalia, thus underlining the environmental responsibility assumed by the Bank.

In the social field, NRW.BANK demonstrates its commitment in the form of the Tuition Fee Loan, for instance, which it has developed at the initiative of the North Rhine-Westphalian legislature. Students can use this loan to finance the tuition fees charged by North Rhine-Westphalia's universities. Under the programme terms, it is available to all students enrolled at these universities. The loan allows even young people from poor social backgrounds to begin or continue studying without a credit status check. As part of the Bank's social housing promotion activities, Wfa finances the construction or acquisition of owner-occupied homes to provide young and low-income households with permanent housing. In addition, the Bank promotes selected construction and refurbishment projects that live up to current and future housing requirements, especially against the background of the demographic development.

Once every year, the NRW.BANK Förder.Journal reports on the promotion activities enabled by NRW.BANK's own promotion products and the promotion programmes of the state of North Rhine-Westphalia managed by the Bank. Besides the volume of development funds committed by the Bank, the Journal also reports on other factors indicating the effectiveness of the Bank's promotion activities such as capital spending volumes and jobs created. The report is divided by political fields and broken down by "Bezirksregierungen", "Kreise" and "kreisfreie Städte" (regional governments, districts and cities).<sup>1</sup>

### Transparent Action

Corporate responsibility can be successfully put into practice only if there is maximum transparency about a company's action. Besides presenting economic, ecological and social data, it is therefore indispensable to report on the progress made in the implementation of corporate responsibility. In addition, the reporting system is constantly refined to support the required transparency of the Bank's business.

<sup>1</sup> [http://www.nrwbank.de/pdf/Allgemein/NRWBANK\\_FoerderJournal](http://www.nrwbank.de/pdf/Allgemein/NRWBANK_FoerderJournal)

## Human Resources Report

### Human Resources Development

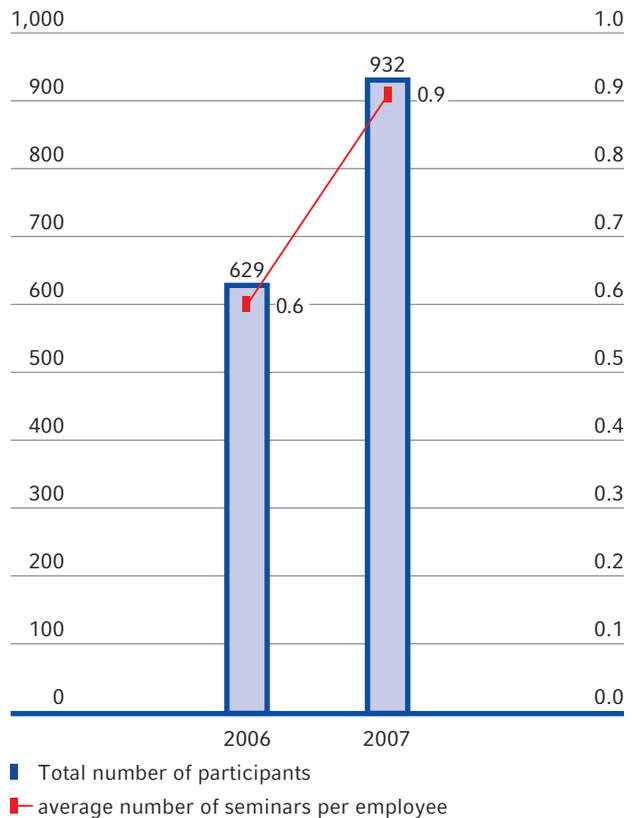
Against the background of the demographic change and the constantly growing demands made on employees, early planning of human resources as well as HR development play an important role. NRW.BANK's HR development activities increasingly focus on maintaining and expanding the qualifications and expertise of its employees, especially with a view to a potential skills shortage in the future.

In the context of this long-term focus of its HR policy, the Bank has refined the HR development strategy introduced in 2006 and filled it with life. In all segments of the Bank, development profiles have been identified to point employees to attractive development opportunities and fill vacant positions with internal applicants wherever possible.

These efforts are supported by the consistent expansion of further training opportunities and the introduction of experience task switching programmes in order to stimulate employees' flexibility, thirst for knowledge and personal development. In addition, the Bank aims to intensify an effective knowledge transfer, especially through mixed-age teams and mentoring schemes in the context of successor planning.

In addition to the above, the Bank directly targets university graduates through cooperations with renowned – especially banking-related – university chairs in North Rhine-Westphalia. Besides the knowledge transfer between theory and practice, these cooperations focus on identifying and signing up young talent at an early stage.

### Further training<sup>2</sup>

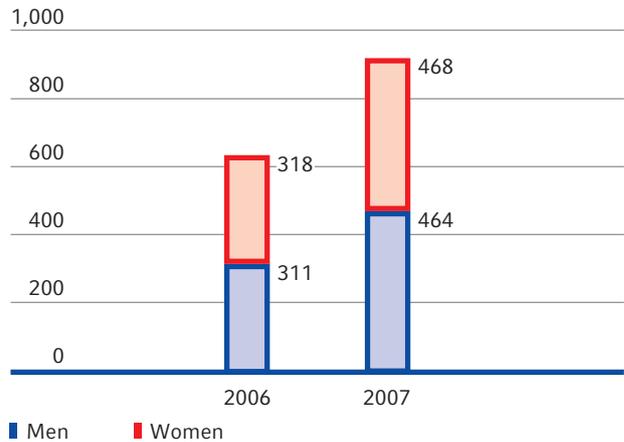


Based on the "Grundsätze für die Zusammenarbeit, Kommunikation und Führung in der NRW.BANK" (principles for cooperation, communication and leadership at NRW.BANK) adopted in 2006, all executives are supported with a consistent development concept, from the preparation for their first management task to reflection modules for experienced executives.

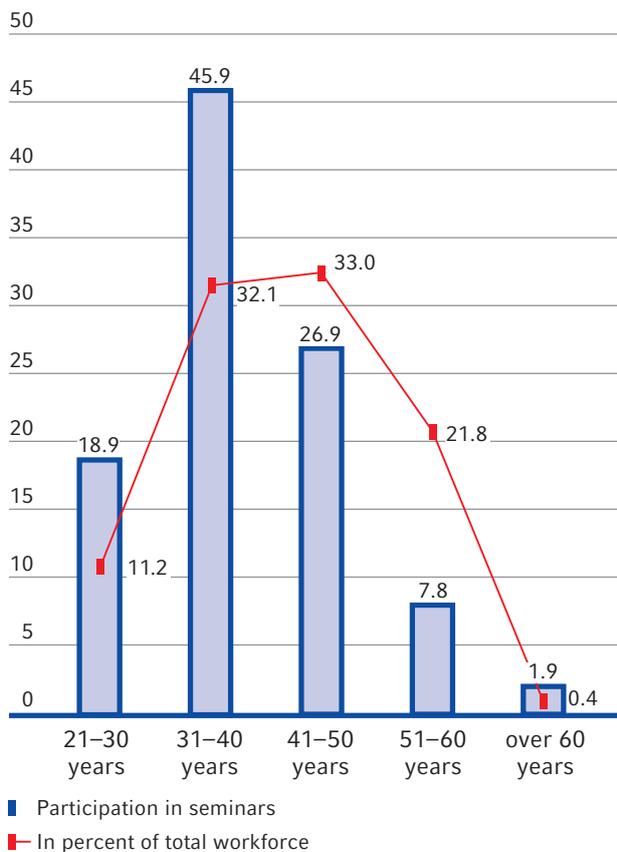
<sup>2</sup> All seminar information excl. management seminars and trainees

In 2007, important cornerstones of the HR development strategy were successfully put into practice. In this context, the range of seminars was expanded; the topics and the number of seminars as well as the number of participants increased noticeably as compared to the previous year. The percentage of internal training rose at a disproportionate rate. NRW.BANK's offerings are underpinned by its own concepts which reflect the special features of its business model. In addition, NRW.BANK works with the training providers to tune seminar contents to participants's specific requirements. In the past fiscal year, employees in all age groups made extensive use of the further training opportunities; above-average uptake was recorded from employees under the age of 40, executives and highly qualified specialists.

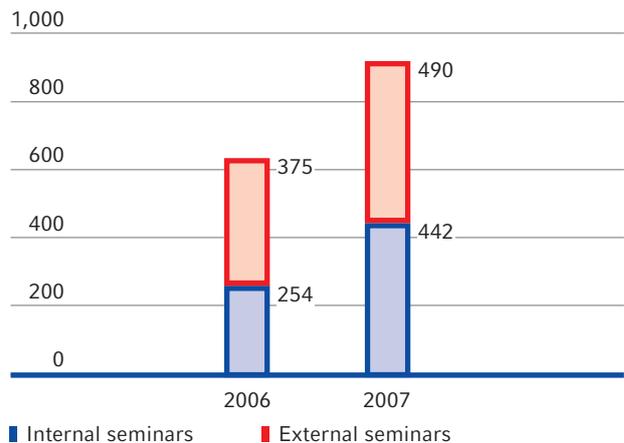
### Breakdown of seminar participants



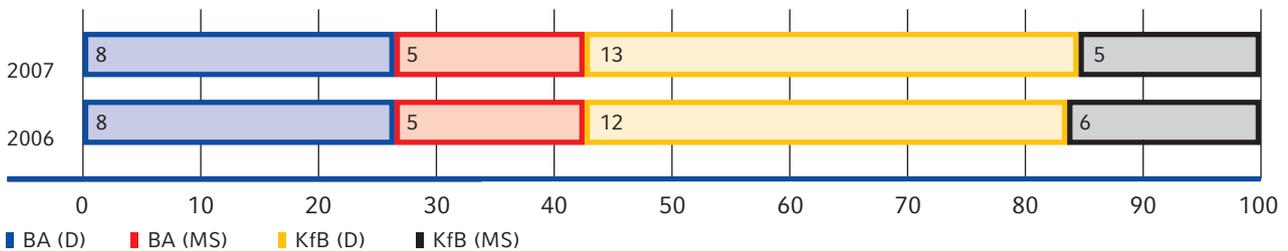
### Further training by age groups in %



### Breakdown of seminars



### Development of apprentice numbers in %



### Vocational Training

In keeping with its HR development strategy, NRW.BANK regards the provision of up-to-date vocational training as an integral part of its institutional mission. The Bank trains young people in those professions which it can cover both organisationally and with regard to the contents in the context of its business activities. NRW.BANK's own training activities are complemented by cooperations in individual fields in which the Bank cannot always provide the required depth of training. These cooperation partners include Sparkasse Krefeld and Sparkasse Münsterland-Ost as well as LBS Westdeutsche Landesbausparkasse in Münster.

In 2007, NRW.BANK hired ten apprentices as office communications clerks with additional bank management qualification, four Bachelor of Arts (BA) students – Bank – as well as one trainee. All 14 trainees of the 2004/2005 training year were offered a permanent job in the Bank.

### Health Management

Health management is an integral element at NRW.BANK. The company doctor, the occupational safety officer and a separate working group on healthcare issues help to maintain and promote the health of all employees. Apart from health-compatible work places and working

conditions, the Bank has offered various check-ups in the past. Last year, the ongoing flu vaccinations and eye tests were complemented by information on the early detection of breast cancer and a posture check-up.

In addition, regular health check-ups are offered to executives at divisional and departmental level. Sports programmes and running groups are open to all employees wishing to do sports.

NRW.BANK's activities aimed at providing comprehensive occupational safety and health protection in 2007 included a project called RADAR which is short for "Rahmenbedingungen der Arbeit" or "framework conditions of work". Going forward, the conditions under which employees work will be identified and analysed systematically in order to reduce or, wherever possible, eliminate inappropriate or unnecessary strain. In addition, NRW.BANK offers its employees the opportunities to contact a social counsellor. In the context of this confidential counselling service, health problems occurring as a result of professional or personal conflicts can be prevented at an early stage. The social counselling service is also involved in "drug prevention at the workplace" and provides support to both executives and employees. In view of the good experience and positive feedback from employees, the preventive medical measures will be continued and expanded in future. In view of the fact that people are expected to work longer in future, NRW.BANK will also address the work-life balance issue and take it into account in its HR policy.

### Equal Treatment

Building on the values of its mission statement and the “Grundsätze für Zusammenarbeit, Kommunikation und Führung der NRW.BANK” (principles for cooperation, communication and leadership at NRW.BANK), NRW.BANK calls for and supports fair dealings among its employees. This understanding is reflected not only in the enterprise agreement “Fairness am Arbeitsplatz” (fairness at work) signed in 2007 but also in a large number of individual measures, which the Bank has implemented also in order to comply with the German General Equal Treatment Act (AAG). Besides the installation of a Complaints Office, these also include management seminars on equal treatment as well as information on this subject for the entire workforce.

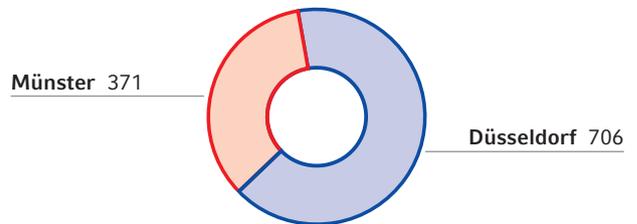
### Work and Family

NRW.BANK seeks to support employees, especially high-performers, in founding a family, allow them to quickly return to their jobs after the “baby break” and, hence, to keep them in the Bank. The Bank therefore offers a high-quality child care centre for up to 29 children aged below three at its two locations in Düsseldorf and Münster. This is accompanied by individualised part-time work schemes and additional services for various family situations and challenges.

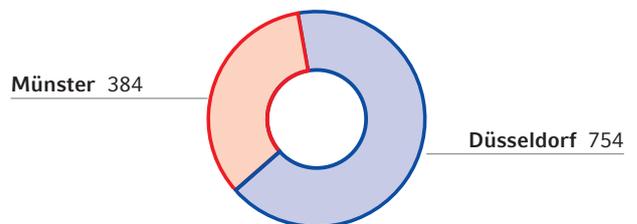
### Employment Growth

As the state development bank for the state of North Rhine-Westphalia, NRW.BANK continued to intensify its business activities in the past fiscal year and hired 61 new employees (+ 5.7%) in this context. Most of the new employees were hired in the fields of Business Promotion, IT/Organisation/Internal Services and Risk Management.

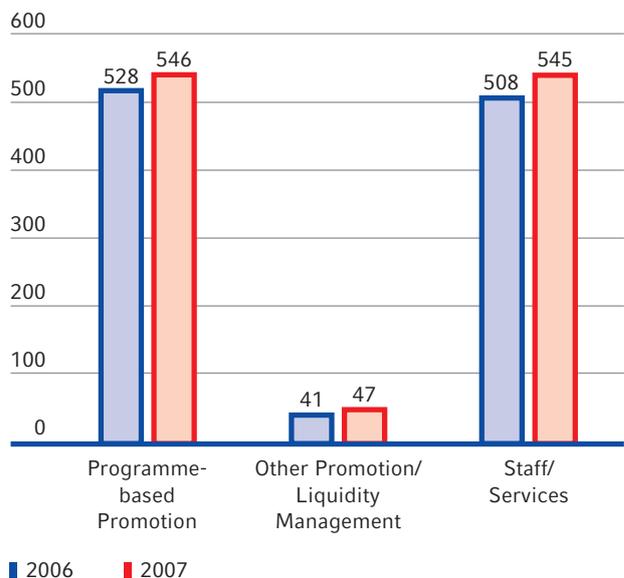
### Employees by locations in 2006



### Employees by locations in 2007



### Employees by segments



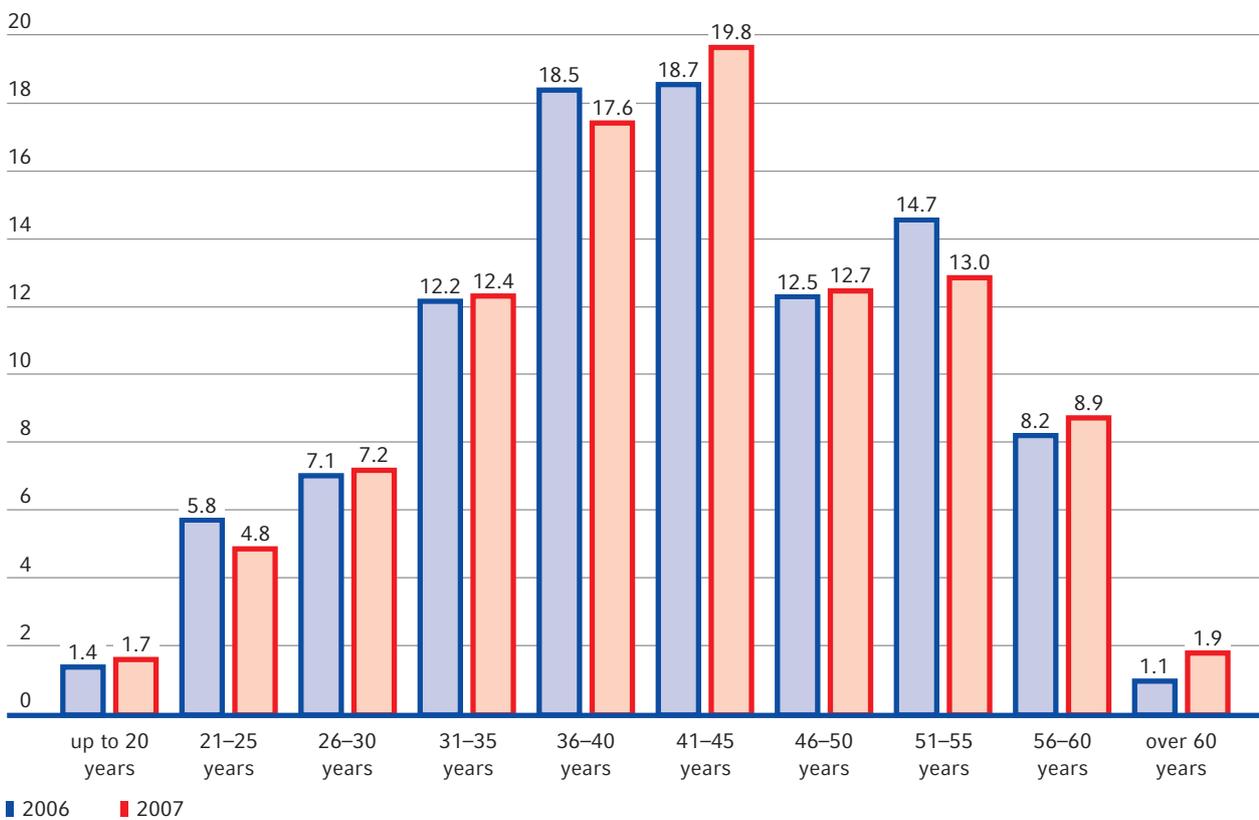
### Age Structure and Service Life

The age structure and the service life, in particular, reflect the history of NRW.BANK. At just under 42 years, the average age has remained almost unchanged as compared to the previous years. The age structure at the executive level has improved as a result of retirements.

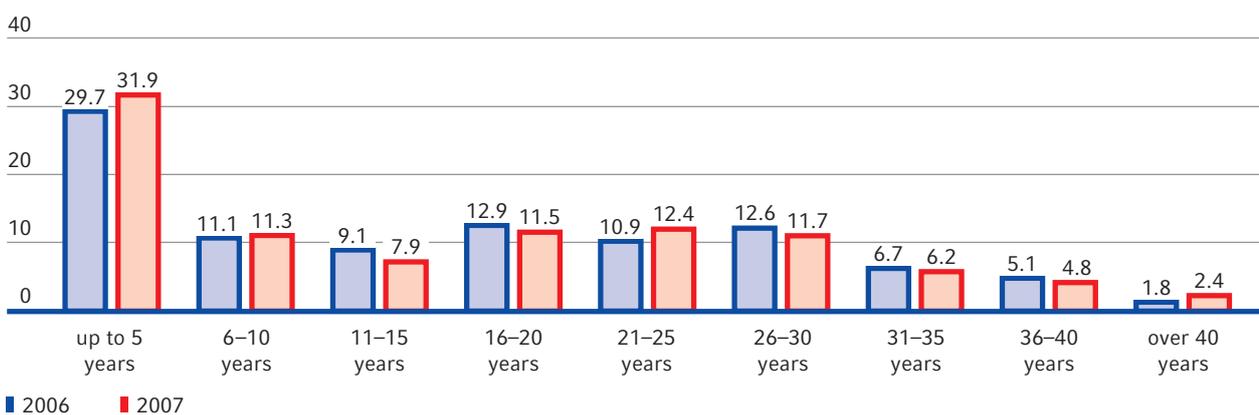
The overall average age has been maintained thanks to targeted hiring of young talent.

On the one hand, the very high share of employees with a service life of less than five years reflects the dynamic development of NRW.BANK since its inception in 2002.

### Age structure in %



### Service life in %



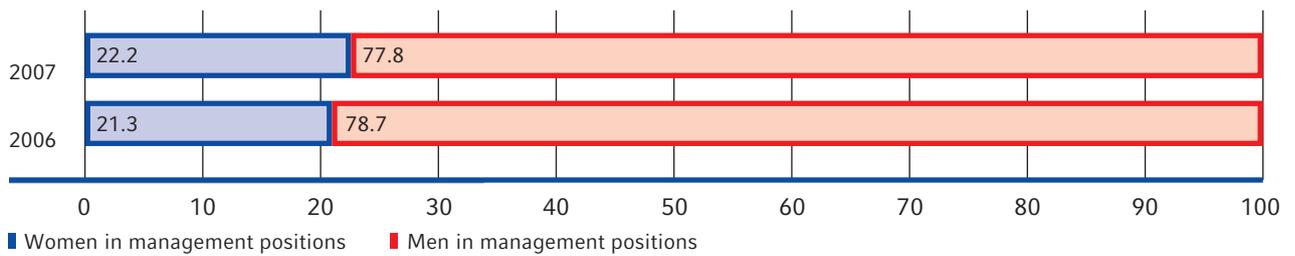
On the other hand, the high concentration of employees with a service life of 21 to 30 years documents the great experience contributed by its predecessor banks. This enables the exchange between generations desired by the Bank, while at the same time highlighting the demands made on its HR development strategy.

#### Composition of the Workforce

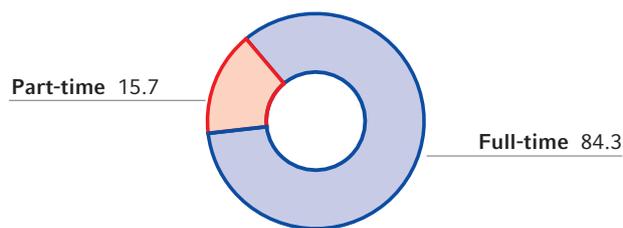
At 49%, the percentage of women at NRW.BANK has remained almost unchanged as compared to the previous years. In 2007, they held approx. 22% of the management positions, which represents a moderate increase.

The percentage of women in part-time positions has remained disproportionately high. 93% of the 173 part-time jobs covered by collective agreements are held by women; of the 27 part-time jobs not covered by collective agreements, only 78% are held by women. The Bank continues its efforts to create more part-time jobs not covered by collective agreements.

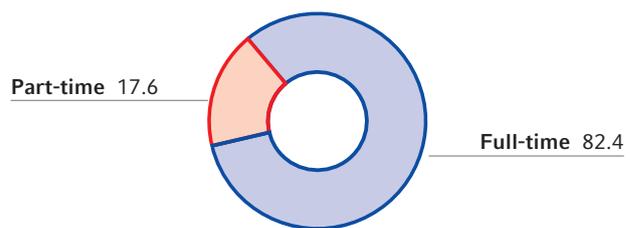
#### Breakdown of management positions in %



#### Part-time/full-time employment 2006 in %



#### Part-time/full-time employment 2007 in %



## Environmental Report

As NRW.BANK strives for maximum transparency, the Bank presents its first report on selected environmental data for the year 2007. The reporting is based on the standards of the VfU<sup>3</sup> and will be refined going forward. Due to important company-specific factors, meaningful data was not available before the year 2007.

### The Starting Situation

In spring 2006, NRW.BANK moved into the purpose-built building at Kavalleriestraße in Düsseldorf. The data base for 2006 is distorted as a result of the required fine-tuning phase. Subsequently, and extending into the year 2007, additional offices for 154 employees were leased at Ernst-Gnoss-Straße in Düsseldorf. For technical reasons, no meaningful environmental data for these offices could be determined in 2007; they will be included in future reports, though. The data for Düsseldorf presented below therefore refers exclusively to the building in Kavalleriestraße, which offers room for 600 employees.

In Münster, the second location of NRW.BANK, comprehensive construction activities were started in 2007, which have led to substantial changes in the property management and to a temporary concentration of work places. By year-end 2009, the new complex is to be completed to similar standards as the Düsseldorf offices. To reflect the Bank's commitment to sustainability and reduced resource consumption as well as the resulting lower environmental impact, the building is designed for an annual heat consumption of 40 kWh per square metre at a later date.

Due to the earlier publication date, some data has been extrapolated from the data as of the end of November. While great care was taken in determining the data, the building situation in Düsseldorf and Münster outlined above means that only a limited comparison is possible.

## Building Energy

Office buildings in which people are supposed to work ergonomically must be heated, cooled, ventilated and provided with sufficient light. The energy consumption of Germany's office buildings has a material impact on the environment.

In Düsseldorf less heating energy was used than in Münster in 2007. This is due to the fact that the Bank deliberately invested in an energy-efficient, yet air-conditioned building, which was occupied in spring 2006. In evaluating the Münster figures, it should be noted that the Bank is currently housed in a complex comprising several poorly insulated old buildings. The old buildings will largely be replaced with new ones by the end of 2009; in this context, the Bank invests an additional € 1 million to achieve a particularly high energy efficiency. To reduce the impact resulting from the air-conditioning of the buildings, district heat is used at both locations. This kind of heating energy is generated by combined heat-and-power plants, which, according to today's findings, is one of the most environmentally friendly forms of energy generation.

### Heating energy consumption in 2007 in absolute and specific terms (per employee and per sqm of office space)

Buildings	absolute kWh/a	kWh/MA *a	kWh/m <sup>2</sup> *a
Düsseldorf (main building)	1,846,080	3,001	80
Münster	1,221,600	3,434	109
<b>Total</b>	<b>3,067,680</b>	<b>3,160</b>	<b>90</b>

### Electricity consumption in 2007 in absolute and specific terms (per employee and per sqm of office space)

Buildings	absolute kWh/a	kWh/MA *a	kWh/m <sup>2</sup> *a
Düsseldorf (main building)	3,483,590	5,664	152
Münster	844,518	2,374	75
<b>Total</b>	<b>4,328,108</b>	<b>4,458</b>	<b>127</b>

<sup>3</sup> Verein für Umweltmanagement in Banken, Sparkassen und Versicherungen e.V., Bonn (association for environmental management in banks and insurance companies). The environmental figures were determined in cooperation with Büro Wirkung, Grevenbroich.

Electricity consumption is low by industry standards.

The major differences in relative electricity consumption are attributable to the different building standards. Most of the offices in Düsseldorf are fully air-conditioned. They have been equipped with cooling ceilings and space ventilation systems.

Moreover, due to the reconstruction activities, work places in Münster had to be concentrated and there are no conference rooms and no entrance hall. Also, the energy-intensive trading rooms of the Bank are located in Düsseldorf.

#### Paper Consumption

In the context of NRW.BANK's business activities, 60 tonnes of office paper were used in 2007. This is equivalent to a specific annual consumption of 52 kg per employee.

The analysis of the paper types used has revealed that there is potential for improvement in environmental terms. This includes printing on both sides and smaller print-outs as well as to the optimised use of TCF-bleached and recycled paper. A project launched in 2007 to increase the efficiency of printing management will also address the effective use of paper.

The Bank hopes that the growing acceptance of the electronic file introduced in 2006 will also have a positive effect on paper consumption. This technology allows for purely computer-based processing and storage of files.

#### Water Consumption

In 2007, the employees of NRW.BANK used a total of 24,404 cubic metres of drinking water in the Düsseldorf and Münster buildings. This is equivalent to a consumption of approx. 101 litres per employee per day.<sup>4</sup>

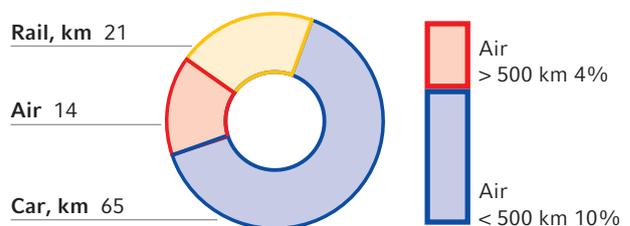
NRW.BANK's toilets in Düsseldorf are flushed using greywater from the ventilation systems. The same concept will be implemented in Münster.

#### Business Travel

The task and the business model of NRW.BANK are clearly reflected in the relative shares of the means of transport used for business trips. It is above all the task of NRW.BANK's Advisory Services unit to ensure that the Bank's products and services are well-known throughout the federal state. Against the background of the infrastructure situation in North Rhine-Westphalia's rural areas, the Bank's employees are forced to use the car as the main form of transport to fulfil this task efficiently. Cars therefore account for a relatively high share of 65% of the Bank's total business travel. Although cars are also frequently used for trips between Düsseldorf and Münster, the main focus here is on direct train connections; accordingly, rail travel accounts for a relatively high share of 21% of the Bank's total business travel.

Air travel plays only a minor role and is mainly attributable to the contacts required in the context of European and Germany-wide issues and the Bank's global funding activities.

#### Means of transport in %



<sup>4</sup> based on 250 working days p.a.

As a consequence of the high percentage of car travel, the company car concept chosen by the Bank attaches great importance to short contractual periods to allow for cars to be replaced with more modern ones at short intervals. Nevertheless, potential for optimisation exists with regard to fleet consumption and the use of particle filters.

### Waste Generation

Some 345 tonnes of waste were produced at the two locations in 2007. This is equivalent to a waste volume of approx. 400 kg per employee.

	Düsseldorf building	Münster building
Waste paper	36.1 t	5.5 t
Document shredding	13.5 t	122.5 t
Residual waste	74.0 t	93.2 t
<b>Total</b>	<b>123.6 t</b>	<b>221.2 t</b>
kg/employee a	201 kg	622 kg
Recycling ratio	50%	58%

(excl. kitchen waste)

The high volume of documents shredded in Münster is attributable to the elimination of archives in Münster in the context of the reorganisation of the properties and the introduction of the electronic file in 2006. The total waste volume must be seen against this background. Potential for improvement exists with regard to the recycling ratio and the separation of waste.

### Greenhouse Gas Production

The Bank's greenhouse gas emissions were derived from the above figures, which had been translated into carbon dioxide equivalents. The amount of the emissions is calculated for the Bank as a whole, i.e. including the employees based at Ernst-Gross-Strasse in Düsseldorf; the figures have been extrapolated accordingly.

In 2007, NRW.BANK emitted 4,089 tonnes of CO<sub>2</sub> in the context of its business activities. This is equivalent to 3.6 tonnes of CO<sub>2</sub> per employee.

As expected, the above figures show that electricity consumption is the biggest producer of CO<sub>2</sub> emissions, followed by business travel and heating energy. They

### CO<sub>2</sub> by emitters at NRW.BANK

	Scope 1 kg <sup>5</sup>	Scope 2 kg <sup>6</sup>	Scope 3 kg <sup>7</sup>	Total kg
	CO <sub>2</sub>	CO <sub>2</sub>	CO <sub>2</sub>	CO <sub>2</sub>
Electricity		2,665,624		
District heat		587,228		
Emergency power diesel	4,806		828	
Long-distance flight			48,194	
Short-distance flight			57,409	
Cars			524,854	
Rails			45,555	
Recycled paper			2,135	
ECF paper			40,746	
No-name paper			4,798	
Water			10,881	
Waste incineration			127,432	
<b>Total CO<sub>2</sub> in kg</b>	<b>4,806</b>	<b>3,252,852</b>	<b>862,832</b>	<b>4,120,490</b>
CO <sub>2</sub> /employee in kg				3,570

<sup>5</sup> Direct emissions

<sup>6</sup> Indirect emissions resulting from purchased energy generation

<sup>7</sup> Other indirect emissions resulting from the production of materials purchased, transports or the use of products

also reveal, however, that the high percentage of incinerated waste and the low use of recycled paper have a major impact on the CO<sub>2</sub> figures.

To live up to its corporate responsibility for environmental protection, NRW.BANK has responded to the emission figures resulting from the generation of electricity and has exclusively purchased electricity from renewable energy sources since the beginning of 2008.

**Conclusions and outlook**

To facilitate the preparation of a report on environmental figures, the environmentally relevant data of NRW.BANK has been determined systematically for the first time. This allows the Bank to undertake competitive benchmarking against its peers.

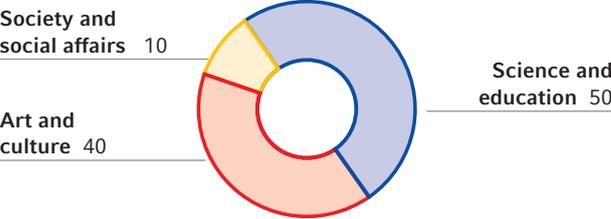
The aim now is to reduce the environmental impact in an ongoing optimisation process, while at the same time working towards health-compatible and motivating working conditions for the employees of NRW.BANK.

**A Commitment to Society**

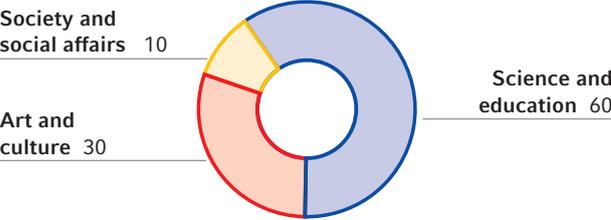
NRW.BANK’s diverse commitment to society and public life in North Rhine-Westphalia is part of its corporate responsibility. The Bank’s activities live up to the diversity of North Rhine-Westphalia, its regions as well as the task and the structure of NRW.BANK as the state development bank. In the past years, NRW.BANK’s donation policy concentrated on science and education, art and culture as well as charity and social affairs. In keeping with its mission to support and push ahead structural change in North Rhine-Westphalia, the main

focus was on science and education. In this context, the Bank supported facilities such as the Institut für Kredit- und Finanzwirtschaft (ikf) in Bochum, the Institut für Raumplanung in Dortmund, the EduScia Foundation of the University of Duisburg-Essen, the centre for financial research (cfr) in Cologne as well as the Business Management Chair of Westfälische Wilhelms-Universität in Münster. The total donations paid out by the Bank in 2006 and 2007 amounted to approx. EUR 250,000.

**Main focus of donations in 2006 in %**



**Main focus of donations in 2007 in %**



On the occasion of the 175th anniversary of Westfälische Provinzial-Hilfsskasse, the earliest predecessor of the Bank, and the 5th anniversary of today's NRW.BANK, the Bank agreed with its owners to make donations to a number of important cultural projects. The following amounts were paid to the following institutions:

- EUR 300,000 to "Stiftung Kloster Dalheim",
- EUR 300,000 to "Stiftung zur Förderung des Kulturzentrums Abtei Brauweiler",
- EUR 300,000 to the Catholic parish of "Sankt Liborius Paderborn" for the maintenance of the Paderborn market and university church and
- EUR 100,000 to "Gesellschaft der Freunde und Förderer der Landesmusikakademie NRW e.V. "

In addition to making donations, NRW.BANK has also sponsored various cultural projects in recent years, primarily in the form of grants for young people starting a career in the cultural or creative field. Among the events sponsored by the Bank in 2007 were the RuhrTriennale, the International Short Film Festival in Oberhausen as well as lit.Cologne.

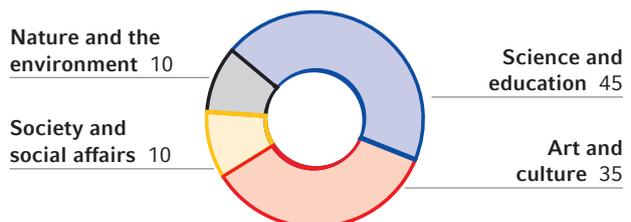
The underlying idea to provide young people with an opportunity for development before or when starting their career is also reflected in the art calendars published by NRW.BANK since 2003/2004. The calendars give young photographers the opportunity to document the diversity of life in North Rhine-Westphalia. In these projects, the up-and-coming artists have great freedom in choosing and designing their motifs. At the same time, they assume responsibility for the successful completion of the projects.

The 2008 art calendar was designed by Sonja Werner, a student at Dortmund Technical College. Sonja Werner was chosen for this project in conjunction with the "Innovationspool" design competition organised as part of the 2006 RuhrTriennale festival. She made first place in the theatre photography competition and thus won the contract to produce the art calendar. Sonja Werner's theme for the calendar was "Sculptures and People in NRW". She impressively shows how sculptures in the public space interact with the people in North Rhine-Westphalia.

Inspired by its considerations regarding corporate responsibility, NRW.BANK has decided, in agreement with its owners, to combine the formerly separate instruments of donations and sponsoring under the shared umbrella of "social commitment". Section 16 No. 2 h) of the statutes has been amended accordingly; the former guidelines on donations and sponsoring will be revised in the course of 2008.

The three focal areas of NRW.BANK's social commitment will be complemented by "nature and the environment" as a key aspect of future developments.

#### Main focus in 2008 in %



<sup>8</sup> Due to the combination of the different budgets, this diagram is not fully comparable with the years 2006 and 2007.

# Report on Public Corporate Governance

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. NRW.BANK reports on the implementation and application of the Code in its Annual Report.

Being one of the largest German issuers, NRW.BANK relies on funding in the international capital market, where the Bank has a well-established position. The Bank's activities are supported by a statutory guarantee from the state of North Rhine-Westphalia. Because of this and with a view to acting in a responsible and transparent manner towards its stakeholders, NRW.BANK has committed itself to public corporate governance.

The Bank's bodies are the Board of Guarantors, the Supervisory Board and the Managing Board. The Managing Board manages the business of NRW.BANK; while the Supervisory Board's supervises the Managing Board's activities. The Board of Guarantors performs the tasks to which it is subjected by law and by the statutes.

Responsibility for managing NRW.BANK is vested solely with the Managing Board. The responsibilities, interfaces and risks of the business activity are clearly defined in organisational and personnel terms. The separation between the operating areas complies with the minimum requirements for risk management (MaRisk) to be fulfilled by banks.

The compensation of the Managing Board comprises fixed and variable components. The variable component is defined individually 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. Additional regulations are adopted by the Executive Committee whenever required. The respective behavioural obligations, especially disclosure towards the Managing Board and the guarantors, were also implemented in 2007. In some 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 relationships are characterised by an open and trusting dialogue. In 2007, the Supervisory Board held four meetings that were attended by the Managing Board. In addition, there is an ongoing exchange between the bodies, especially between the Chairman of the Managing Board and the Chairman of the Supervisory Board. 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 German Housing Promotion Act. The committees convene on the basis of their own codes of procedure and cooperate closely with the Managing Board, which attends their meetings. The Chairwoman of the Supervisory Board may not hold the Chairmanship of the Audit Committee. To create additional transparency, NRW.BANK has published brief profiles of the Supervisory Board members on the Internet.

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. As a result of the amendment of the NRW.BANK Act, employees may now also be represented on the Audit Committee and the Risk Committee. The regular re-election of the employee representatives scheduled for 2008 will include elections to these committees.

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 organises regular information events led by external experts. 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. The members of the Managing Board are appointed for a maximum period of five years.

The Managing Board submits the annual financial statements to the Board of Guarantors via the Supervisory Board. The Board of Guarantors resolves on the approval of the annual financial statements and the appropriation of profits or the coverage of a possible loss as well as the discharge of the acts of the Managing Board and of the Supervisory Board and in agreement with the North Rhine-Westphalian Court of Audit the appointment of the auditor for the annual financial statements as well as of the auditor for verification of the reporting requirements and the code of conduct in accordance with the provisions of the Securities Trading Act. The Board of Guarantors resolves on the principles of business and risk policies. Furthermore, the Board of Guarantors resolves on the discharge of the acts of

the Managing Board and of the Supervisory Board, amendments to the statutes and essential corporate measures such as, in particular, individual purchases and sales of interests and capital measures relating to interests as well as all equity measures pursuant to the German Banking Law (KWG). The Board of Guarantors comprises twelve representatives of the Bank's owners. The guarantors guarantee that NRW.BANK is able to carry out its required functions (institutional liability). They are liable for the obligations of NRW.BANK regardless of the explicit guarantee from the state of North Rhine-Westphalia pursuant to the "Act of the Landesbank Nordrhein-Westfalen" dated March 16, 2004 and the statutes (guarantor liability).

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

The Advisory Board of NRW.BANK was established in 2007 to provide the Bank with expert advice in the performance of its business activities and to promote its relations with the corporate sector, the public administration, the banking sector and the academic community. The members of the Advisory Board are appointed by the Prime Minister of North Rhine-Westphalia. The Advisory Board is chaired by the North Rhine-Westphalian Minister of Economics, SMEs and Energy.

NRW.BANK closely monitors the ongoing development of the German Corporate Governance Code for listed joint-stock corporations. The latest amendments dated June 14, 2007 referred to regulations which the Bank considers to be irrelevant for a public-law company like NRW.BANK. All future amendments will be reviewed with regard to whether they can be incorporated into the Bank's own Code. The Bank is also actively involved in the discussions and consultations about the potential introduction of Public Corporate Governance Codes at federal and state level.

# Report of the Supervisory Board

To fulfil the task to which it is subjected by law, the statutes and the rules of procedure, the Supervisory Board held four meetings in 2007. Another 14 meetings were held by the Committees composed of the members of the Supervisory Board: Five of these meetings were held by the Executive Committee, four each by the Risk Committee and the Building Committee and one by the Audit Committee.

The Supervisory Board has monitored the proper conduct of the business and obtained regular reports on the latest business developments and the risk situation. 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, the Supervisory Board discussed in detail the business strategy presented by the Managing Board on the basis of the Minimum Requirements for Risk Management (MaRisk) as well as the complementary risk strategy for 2008–2010, which had previously been discussed by the Risk Committee. The Supervisory Board recommended to the Board of Guarantors to adopt and approve the principles of the business and risk policies formulated for 2008. In addition, the Supervisory Board recommended to the Board of Guarantors that the adjustments resulting from the amendments to the NRW.BANK Act be implemented in the statutes and rules of procedure; in addition, the Supervisory Board implemented certain adjustments which came under its own responsibility. At its meeting dated December 10, 2007, the Board of Guarantors decided to comply with these recommendations of the Supervisory Board.

At the recommendation of the Supervisory Board, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft was again appointed as auditor for the year 2007 by the Board of Guarantors. KPMG carried out the audit of the financial statements for 2007 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.

At its meeting on March 14, 2008, the Supervisory Board approved the financial statements and the statements of financial condition established by the Managing Board in accordance with commercial law principles and proposed that the Board of Guarantors approve the financial statements for the year 2007. As in the two previous years, no consolidated financial statements were prepared, as the Bank is not obliged to do so under commercial law.

Düsseldorf/Münster, March 14, 2008



Christa Thoben  
Chairwoman of the Supervisory Board

# Management Report

of NRW.BANK at December 31, 2007

## State Development Bank of North Rhine-Westphalia

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

## 175 Years of Promotion and Development

In 2007, NRW.BANK celebrated two anniversaries: Five years ago, in August 2002, the Bank was established in its present form. 175 years ago, in January 1832, NRW.BANK's earliest predecessor, Provinzial-Hülfskasse für Westfalen, started operations in the Münster Town Hall. Just like Hülfskasse did in the past, today's NRW.BANK focuses on serving the people. When Hülfskasse was established in 1832, its main task was to promote and support the communities and the economy at the time, in the so-called "Province of Westphalia" by extending loans to municipalities to allow them to consolidate their budgets or to build churches, schools and roads, to innovative businesses as well as to land owners who wanted to cultivate unused land or implement cultural improvements. The public mission of today's NRW.BANK is still more or less the same: The Bank supports the federal state and its local and regional governments in the performance of public tasks, especially with regard to infrastructure, economic, social and housing policies. NRW.BANK also supports business start-ups as well as small and medium-sized enterprises in their development. This similarity of missions shows that promotion and development have proven their worth over the years and can help close gaps in the economic development.

## Successful Product Development

NRW.BANK aims to identify structural weaknesses in the market and to develop suitable financial instruments to eliminate the deficiencies with a view of supporting the development of the state in agreement with its owners. For this purpose, NRW.BANK offers both universal promotion and development products as well as tailor-made products for individual target groups or business sectors.

NRW.BANK launched a number of new products in 2007, thus complementing its existing product portfolio. For instance, the Bank expanded its cooperation with Bürgschaftsbank Nordrhein-Westfalen and now offers the "NRW.BANK.Mittelstandskredit" loan with optional guarantee not only to start-ups but also to existing companies. The Bank also developed two new product families under the names of "NRW.BANK.Ausland" and "NRW.BANK.Film" in order to provide effective support to the international business activities of North Rhine-Westphalian companies and to North Rhine-Westphalia's media sector, respectively. In addition, the newly established NRW.BANK.Seed Fund provides equity capital to research-intensive start-up projects in North Rhine-Westphalia via six regional funds that have been developed jointly with partners. NRW.BANK also expanded its range of advisory services for North Rhine-Westphalian municipalities and launched two attractive and flexible development programmes under the names of "NRW.BANK.Kommunal Invest" and "NRW.BANK.Kommunal Invest Plus".

In 2007, NRW.BANK demonstrated its flexibility and performance especially in crisis situations. In January, Hurricane Kyrill caused severe damage in North Rhine-Westphalia's forests. In order to offer swift assistance to forest owners, communities and wood processors, NRW.BANK immediately launched special credit programmes in cooperation with the Ministry of the Environment and Nature Conservation, Agriculture and Consumer Protection. Since summer 2007, the Bank has additionally offered a reforestation programme.

## NRW.BANK – Partner to the Regions

Building on the success of the “Ideas Initiative” of the year 2006, the NRW.BANK Weeks strengthened the bank’s presence in the regions of North Rhine-Westphalia in 2007. The more than 20 events staged in Essen, Bielefeld and Aachen were attended by some 1,000 guests. The Bank’s aim was to bring the corporate sector together with the political and financial communities at a regional level and to initiate regional concepts for continued growth in the federal state. NRW.BANK also had the idea for North Rhine-Westphalia’s first Private Equity Conference. The conference which was co-organised by NRW.BANK and held in June 2007 in Düsseldorf had an excellent response.

## Economic Climate

### Economic Development in Germany

Following the dynamic development in 2006, the German economy was also in good shape in 2007. Despite the dampening effects of the VAT increase and the turmoil in the financial markets, price-adjusted GDP increased by 2.5% (2006: + 2.9%) according to the Federal Statistical Office’s preliminary figures. Growth was supported by both domestic and international demand. The good economic situation and the high level of competitiveness of German companies stimulated exports net exports contributed 1.4 percentage points to GDP growth. Domestic investment and consumption contributed one percentage point. In particular, spending on plant and equipment increased noticeably, primarily due to the high capacity utilisation in the manufacturing sector. Construction spending rose more slowly than in the previous year, as special effects expired. Private consumption was clearly affected by extraordinary factors which resulted in an overall decline; the VAT hike, in anticipation of which purchases had been brought forward to the previous year, and the sharp rise in energy and food prices clearly had a dampening effect. The labour market again benefited from the positive economic

development. Employment rose by 1.7% on an annual average, which is attributable to the higher number of both self-employed and those subject to social insurance contributions. The decline in unemployment, which began in 2006, accelerated in 2007. The unemployment rate declined by 1.8 percentage points to 9.0% on an annual average.

### Economic Development in North Rhine-Westphalia

According to the latest projections of Rheinisch-Westfälisches Institut für Wirtschaftsforschung Essen (RWI), North Rhine-Westphalia’s real GDP climbed by 2.6%. This means that the economic performance of Germany’s most populous state was slightly more dynamic than that of the nation as a whole.

Growth was mainly fuelled by capital spending and exports. Similar to the nation-wide trend, spending on plant and equipment increased particularly strongly; this is also reflected in the growth recorded in new corporate lending. Loans of up to € 1 million with an initial fixed-interest period of more than five years achieved the strongest growth, which was also supported by promotion products. Compared to the nation-wide average, the effect of the weak dollar on exports was less visible in North Rhine-Westphalia since exporters were extremely active in China, India and Russia, with the USA playing only a minor role as an output market. The construction sector continued to develop positively, although the overall performance was weaker than in the previous year, which had benefited from the fact that investments had been brought forward. Housing construction stagnated, while the commercial construction sector developed very dynamically. At the bottom line, construction output increased by approx. 2.5%. At 1.9%, growth in the services sector was on a par with the previous year and was mainly driven by corporate services.

There was a good sentiment in the commercial sector in 2007. NRW.BANK has commissioned the ifo Institute to analyse the business climate in North Rhine-Westphalia's corporate sector and has published the results on a monthly basis in the NRW.BANK.ifo-Index since May 2007. The Index has shown an average annual value of 107.3 which was higher than the German-wide average all throughout most of the year. Although business climate declined somewhat towards the end of the year it stabilised at what can still be considered a high level. The economic development also had a positive effect on the labour market. The number of persons subject to social insurance contributions increased by an expected 2% on an annual average, with the unemployment rate declining to 9.5%.

#### Financial markets

While the financial market crisis had only a limited effect on the development of Germany's real economy in 2007, it dampened expectations regarding the future development. Unlike the real economy, the money and capital markets clearly suffered from the crisis, which had a strong impact on the earnings position, the balance sheets and the market positions of financial institutions. The loss of confidence was a key factor that adversely affected prices, volatility and the tradability of financial instruments in certain market segments as well as the availability of liquidity. The strength and direction of the impact on a specific financial institution was strongly correlated with the development of the level of confidence in that financial institution. In such a market environment, the development banks defended their standing as attractive and reliable market partners not least due to the fact that they benefit from guarantor liability and institutional liability.

#### Accounting and Reporting Standards

NRW.BANK 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 DRS 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

2007 was another very successful year for NRW.BANK. The Bank improved its net income for the year before taxes and promotion dividend by € 28.5 million to € 164.3 million. The strong increase in the result is primarily attributable to higher net commission income and net income from trading operations. Total assets increased sharply by € 15.4 billion to € 151.0 billion, while the business volume rose by 17.7% to € 168.5 billion.

NRW.BANK's earnings can be broken down into the following segments:

	Programme-based Promotion		Other Promotion/ Liquidity Management		Staff/Services		NRW.BANK Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Net interest income	238.1	231.5	70.6	85.1	23.6	23.9	332.3	340.5
Net commission income	10.4	8.8	20.1	8.9	- 1.6	- 1.5	28.9	16.2
Net income from trading operations	0.0	0.0	4.4	1.2	0.0	0.0	4.4	1.2
Other operating result	3.4	2.3	0.0	0.1	- 11.3	- 3.3	- 7.9	- 0.9
Administrative expenses	- 81.2	- 81.4	- 29.0	- 26.0	- 79.4	- 79.0	- 189.6	- 186.4
- Personnel expenses	- 44.8	- 49.7	- 5.9	- 5.5	- 55.4	- 49.4	- 106.1	- 104.6
- Operating expenditure	- 36.4	- 31.7	- 23.1	- 20.5	- 24.0	- 29.6	- 83.5	- 81.8
<b>Operating income before risk provisions/revaluation adjustments</b>	<b>170.7</b>	<b>161.2</b>	<b>66.1</b>	<b>69.3</b>	<b>- 68.7</b>	<b>- 59.9</b>	<b>168.1</b>	<b>170.6</b>
Risk provisions/revaluation adjustments	- 52.3	- 52.1	70.1	74.1	- 21.6	- 9.2	- 3.8	12.8
<b>Operating income after risk provisions/revaluation adjustments</b>	<b>118.4</b>	<b>109.1</b>	<b>136.2</b>	<b>143.4</b>	<b>- 90.3</b>	<b>- 69.1</b>	<b>164.3</b>	<b>183.4</b>
Extraordinary income	0.0	- 19.7	0.0	- 0.7	0.0	- 27.2	0.0	- 47.6
<b>Net income for the year before taxes and promotion dividend</b>	<b>118.4</b>	<b>89.4</b>	<b>136.2</b>	<b>142.7</b>	<b>- 90.3</b>	<b>- 96.3</b>	<b>164.3</b>	<b>135.8</b>
Taxes on income and revenues	- 1.0	- 1.0	0.0	0.0	- 7.4	- 7.1	- 8.4	- 8.1
Promotion dividend	- 29.6	- 25.8	0.0	0.0	0.0	0.0	- 29.6	- 25.8
<b>Net income/loss for the year after taxes and promotion dividend</b>	<b>87.8</b>	<b>62.6</b>	<b>136.2</b>	<b>142.7</b>	<b>- 97.7</b>	<b>- 103.4</b>	<b>126.3</b>	<b>101.9</b>
<b>Average risk-weighted assets (in € billion)</b>	<b>8.4</b>	<b>7.4</b>	<b>19.2</b>	<b>9.2</b>	<b>0.6</b>	<b>0.2</b>	<b>28.2</b>	<b>16.8</b>
<b>Employees (number)</b>	<b>546</b>	<b>528</b>	<b>47</b>	<b>41</b>	<b>545</b>	<b>508</b>	<b>1,138</b>	<b>1,077</b>

The **Programme-based Promotion** segment comprises the departments Economic Development and Equity Investments as well as Social Housing Promotion and Individual Promotion. It also comprises the units Structured Finance and Structural Promotion from the Municipal and Infrastructure Finance department.

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

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

## Earnings Position

### Net Interest Income

NRW.BANK's net interest income of € 332.3 million almost reached the previous year's level of € 340.5 million. At € 238.1 million, net interest income in the Programme-based Promotion segment exceeded the previous year's level mainly due to the fact that greater use was made of the NRW.BANK.Mittelstandskredit loan for SMEs. By contrast, declining margins in the promotion business and the scheduled termination of higher-margin assets had a dampening effect. As in 2006, the Social Housing Promotion department made a strong contribution (€ 187.9 million) to net interest income. At € 70.6 million, net interest income of the Other Promotion/Liquidity Management segment was down by € 14.5 million on the previous year. This decline is related, on the one hand, to the scheduled termination of high-interest assets and, on the other hand, to the good result from securities. Net interest income in the Staff/Services segment remained almost unchanged.

### Net Commission Income

Since credit derivatives increasingly replaced direct investments, net commission income rose by an impressive € 12.7 million to € 28.9 million.

### Net Income from Trading Operations

In the context of the trading book, the Other Promotion/Liquidity Management segment engages in short-term trading transactions with interest rate products. In 2007, net income from trading operations developed very positively. At € 4.4 million, it clearly exceeded the previous year's € 1.2 million.

### Other Operating Income/Expenses

At € – 7.9 million, other operating income/expenses were clearly below the previous year's € – 0.9 million. In the context of the construction project in Münster, the Bank incurred expenses of € 3.3 million for the destruction of buildings. Due to the pending proceedings before the Bundesverwaltungsgericht regarding the increase in the so-called "Kostendämpfungspauschale" with effect from January 1, 2003, an amount of € 6.5 million was allocated to provisions for benefit obligations. These provisions cover subsequent claims by WestLB employees who are eligible to benefits. The release of provisions no longer needed had a compensatory effect.

### Administrative Expenses

Compared to the previous year, administrative expenses increased by € 3.2 million to € – 189.6 million.

**Personnel expenses** rose by € 1.5 million to € – 106.1 million. In the context of the ongoing expansion of the promotion business and the additional IT support, the workforce was increased by 61 to 1,138 active employees (including 32 trainees). The main reasons for the moderate increase in personnel expenses were the headcount growth and the rise in collective wages agreed to in 2007.

Pension, early retirement and benefit obligations were measured by using the internationally accepted 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. At 4.8%, the discount rate used to calculate the provisions for pension, early retirement and benefit obligations as at December 31, 2007 is more conservative than the discount rate required under International Financial Reporting Standards (IFRS).

**Operating expenditure** increased slightly by € 1.7 million to € – 83.5 million. Expenses for buildings and offices rose by € 2.9 million, while audit and consulting expenses climbed by € 2.0 million. Following the celebrations for the 175th anniversary of NRW.BANK's earliest predecessor and its own 5th anniversary, the Bank donated € 1.0 million to especially deserving facilities and projects in North Rhine-Westphalia in addition to its regular activities. The above expenses were partly offset by the € 4.7 million decline in marketing expenses.

The **cost-income ratio** (CIR) for 2007 rose by 2.2 percentage points to 44.7% (2006: 42.5%).

#### **Risk Provisions/Revaluation Adjustments**

At € – 3.8 million, risk provisions/revaluation adjustments were down by € 16.6 million on the previous year. In the lending business, the result improved by € 3.4 million to € – 65.9 million. The result from securities declined by € 15.5 million to € 66.0 million. In line with its conservative accounting policy, NRW.BANK allocated an amount of € 30.0 million to provisions in the Other Promotion/Liquidity Management segment to hedge its securities portfolio including structured financial instruments in view of the ongoing weakness of the international financial markets. Based on the December 2002 agreement concerning the "stille Einlage" (silent participation) in WestLB AG NRW.BANK must purchase a fixed number of shares created through the conversion of individual tranches from the option holders who have exercised the option. In this context, NRW.BANK's Staff/Services segment incurred expenses of € 3.8 million in 2007.

Based on a conservative valuation of the loans extended, the Bank established sufficient provisions for all risks.

#### **Extraordinary Result**

NRW.BANK reported no extraordinary result for the year 2007. The previous year's extraordinary result was attributable to non-recurrent effects resulting from the reduction in the discount rate for the calculation of pension and benefit provisions.

#### **Net Profit**

At € 164.3 million, NRW.BANK's net profit before income tax and promotion dividend was up by € 28.5 million or 21.0% on the previous year.

Due to NRW.BANK's exemption from income tax, the Bank's income tax in an amount of € – 8.4 million is primarily comprised of income from strategic equity investments in partnerships, part of which is charged to the latter in other operating income.

NRW.BANK uses 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 2007, an amount of € 29.6 million was allocated to the available promotion dividend. Compared to the previous year's allocation of € 25.8 million, this represents an increase of 14.7%.

Net profit for 2007, after taxes and promotion dividend, rose by € 24.4 million to € 126.3 million. Pursuant to Section 18 para. 3 of the Wohnungsbauförderungsgesetz (WBFG), Wfa previously paid out € 25.0 million towards federal interest expenses as well as € 22.0 million to Grundstücksfonds Nordrhein-Westfalen. Pursuant to Section 18 para. 3 of the WBFG, another € 44.9 million is also earmarked for distribution. The capital of Wohnungsbauförderungsanstalt NRW was increased by € 7.6 million. After an allocation of € 3.0 million to reserves stipulated in the statutes a distributable net income of € 23.8 million remains.

#### **Net worth position**

Total assets of NRW.BANK rose by an impressive € 15.4 billion to € 151.0 billion. At 11.4%, the increase in total assets was much higher than in the previous year.

The credit volume also increased significantly by 21.6% to € 107.6 billion.

NRW.BANK Credit Volume	Dec. 31, 2007	Dec. 31, 2006		Change
	€ millions	€ millions	€ millions	%
Receivables from banks	36,142.5	31,023.5	5,119.0	16.5
Receivables from customers	54,111.2	49,939.7	4,171.5	8.4
Contingent liabilities	14,050.9	4,521.2	9,529.7	> 100
Irrevocable loan commitments	3,311.1	3,032.8	278.3	9.2
<b>Total</b>	<b>107,615.7</b>	<b>88,517.2</b>	<b>19,098.5</b>	<b>21.6</b>

The development in total assets in 2007 can be attributed to an increase in receivables from banks by € 5.1 billion, receivables from customers by € 4.2 billion and bonds and other interest-bearing securities by € 6.3 billion.

To strengthen and stabilise its earnings, NRW.BANK increasingly invested in receivables from banks, insurance companies and financial service providers. In addition, corporate risks from the investment sector were added to the portfolio. This contributed to the € 10.0 billion growth in the Other Promotion/Liquidity Management segment's average risk-weighted assets to € 19.2 billion.

The development in receivables from banks is mainly attributable to an increase in short-term receivables in the form of time deposits by € 3.5 billion. Of this amount, € 2.2 billion referred to domestic banks and € 1.3 billion to foreign banks. The rise in long-term municipally guaranteed receivables by € 1.3 billion and in other long-term receivables by € 1.1 billion also contributed to this development. The main reason for this is promotion business handled according to the "local relationship bank method". Under this method, local banks submit promotion 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 remained the most successful and highest-volume development programme of NRW.BANK and the state of North Rhine-Westphalia in 2007. 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, a portion of NRW.BANK's earnings is used to further optimise the lending terms. In 2007, the NRW.BANK.Mittelstandskredit loan was extended to 5,129 companies. The commitment volume amounted to € 1.9 billion. Receivables from buy/sell-back and reverse repo transactions increased by € 0.5 billion, while interest receivables from swaps also climbed by € 0.5 billion. The € 0.7 billion decline in savings bank certificates and the € 0.6 billion reduction in registered municipal note loans had the opposite effect.

Long-term receivables from customers rose by € 4.2 billion to € 54.1 billion, mainly due to an increase of € 3.7 billion in registered bonds, primarily from international public-sector debtors, and a € 0.6 billion increment in other long-term receivables. In the short-term segment, short-term lendings were up by € 0.6 billion. The € -0.7 billion decline in note loans in the sovereign lending business had a compensatory effect.

NRW.BANK's conservative investment policy is also reflected in the balance sheet item "bonds and other interest-bearing securities" which is reported at € 55.0 billion. The increase is mainly the result of a rise in Floating Rate Notes by € 3.6 billion and in Medium Term Notes by 2.1 billion. Other bonds and notes as well as bearer money-market instruments climbed by € 0.2 billion to € 31.2 billion. Zerobonds and foreign registered money-market instruments climbed by € 0.2 billion each. NRW.BANK primarily stepped up its investments in securities of European commercial banks (excl. Germany).

They rose by € 4.5 billion to € 7.3 billion. The Bank also increased its portfolio of securities from mostly European companies from the financial sector by € 3.3 billion to € 7.6 billion. Investments in foreign public-sector securities rose by € 1.5 billion to € 13.4 billion, while investments in instruments from domestic banks and public-sector issuers declined by € 3.2 billion to € 26.0 billion. Structured financial products played only a negligible role.

The book values of NRW.BANK's equity interests in non-affiliated and affiliated companies grew by a total of € 6.3 million to € 2,406.0 million. The capital of the NRW.BANK.Mittelstandsfonds, the NRW.BANK.Seed Fonds and the NRW.BANK.Venture Fonds was increased in the fiscal year due to the growing business volumes. The volume of investments managed by the funds amounted to € 21.0 million in the past fiscal year.

## 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+
Outlook	stable	stable	stable

The Liquidity Management/Other Promotion segment is responsible for the funding of NRW.BANK. As a development bank benefiting from a state guarantee, NRW.BANK, which is Germany's second largest public issuer in the capital market behind KfW-Bankengruppe, reported growing demand for its issues in 2007. In the fiscal year, the Bank issued approx. € 17 billion to an increasingly international investor base. To optimise its funding, NRW.BANK continues to use the following funding programmes: the Global Commercial Paper Programme with a volume of € 8.0 billion to cover maturities of up to twelve months, the Debt Issuance Programme with a volume of up to € 50.0 billion to cover medium and long maturities as well as the Kangaroo Programme in an amount of AUD 3.0 billion.

As an intermediary between supply and demand for liquidity, NRW.BANK passed its good funding possibilities directly on to the promotion business.

Due to the decrease in importance of the "trustee" promotion segment the pertinent assets and corresponding liabilities declined by € 78.8 million to € 2,313.0 million.

## Financial position

In its capacity as the state development bank, which benefits 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.

The Fitch Ratings, Moody's and Standard & Poor's rating agencies completed the annual review of NRW.BANK's credit standing and reaffirmed the Bank's ratings with a stable outlook.

In particular, this benefited the funding of North Rhine-Westphalia's mid-market in the form of the NRW.BANK.Mittelstandskredit.

On the liabilities side, growth was mainly supported by a 17.6% increase in liabilities to banks, a 5.0% rise in liabilities to customers and a 14.9% increment in certificated liabilities. Due to the financial market crisis, investor demand shifted to safe products with good ratings. NRW.BANK's excellent creditworthiness, which is based on institutional guarantee, guarantor liability and an explicit funding guarantee, was a main reason for the higher demand for short-term debt, in particular.

Liabilities to banks rose by € 7.6 billion to € 50.7 billion, mainly due to an increase in liabilities from sell/buy-back and repo transactions by € 8.6 billion.

Transmitted credits funded via KfW-Bankengruppe and paid out under the "local relationship bank method" on the assets side, especially in the form of the NRW.BANK. Mittelstandskredit, were up by € 2.7 billion. This growth was offset by the € 2.7 billion drop in time deposits, the € 0.7 billion decline in municipal bonds and the € 0.3 billion reduction in other bonds. The largely programme-driven lending business is predominantly funded from transmitted credits of KfW Bankengruppe and Landwirtschaftliche Rentenbank, which are paid out to borrowers by way of their local relationship banks.

Compared to the previous year, liabilities to customers climbed € 1.0 billion to € 22.8 billion.

This is mainly due to an increase in issues of uncovered registered bonds by € 1.8 billion and a decline in registered municipal bonds by € – 0.8 billion.

The sharp rise in certificated liabilities by € 6.9 billion to € 53.2 billion is primarily attributable to the turmoil in the global financial markets. Due to the high demand for short-term paper with excellent ratings, NRW.BANK increasingly issued money-market instruments (€ 13.6 billion more than in 2006), thus improving its funding base. Other bonds climbed by € 0.5 billion. This was offset by a € – 7.2 billion decline in municipal bonds.

## 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	
<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>
Allocation to other reserves from retained earnings					11.1	– 11.1	0.0
Distribution of profit for the year						– 12.1	– 12.1
Budget funds/Other			102.3				102.3
Net profit						126.3	126.3
Advanced payout from Wfa due to legal requirements						– 47.0	– 47.0
Designated payout from Wfa due to legal requirements						– 44.9	– 44.9
Allocation to reserves required by NRW.BANK's statutes in statement of income				3.0		– 3.0	0.0
Allocation to capital of Wohnungsbau- förderungsanstalt NRW			7.6			– 7.6	0.0
<b>As of Dec. 31, 2007</b>	<b>675.0</b>	<b>255.8</b>	<b>18,602.2</b>	<b>12.2</b>	<b>13.5</b>	<b>23.8</b>	<b>19,582.5</b>

NRW.BANK's equity capital increased by € 124.6 million to € 19,582.5 million. The subscribed capital remained unchanged at € 675.0 million. Reserves required by statutes were increased by € 3.0 million to € 12.2 million at the time of the preparation of the 2007 financial statements. As of December 31, 2007, profit for the year amounted to € 23.8 million (2006: € 23.2 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 December 31, 2007, the Bank's liable capital as defined by the German Banking Act (KWG) amounted to € 3,548.5 million (2006: € 3,514.8 million).

## Capital Ratios

	Dec. 31, 2007	Dec. 31, 2006
	%	%
Principle I ratio	11.2	16.5
Core capital ratio	9.7	14.4

## Risk Report

NRW.BANK uses a comprehensive set of risk monitoring and management tools to manage the risks to which it is exposed. A framework of clearly defined processes, organisational structures and guidelines is in place. They are used to identify, measure, aggregate and manage the risks and ensure that sufficient equity capital has been allocated. NRW.BANK applies high standards to its risk management process, which is tailored to the relevant risks.

Due to 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. As the state development bank, NRW.BANK is subject to all regulatory risk management standards.

NRW.BANK is primarily exposed to counterparty default risk. The borrower structure and the special collateralisation arrangements under the "local 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 takes market price risks as necessary.

The new product approval process is used to manage the ongoing expansion of NRW.BANK's product portfolio. The process ensures that the risk management framework is

reviewed regularly and when necessary updated so that the risks inherent in the Bank's financial products are incorporated in the risk process correctly.

NRW.BANK's risk management tools and processes proved their effectiveness also during the financial market crisis in the second half of 2007.

### Organisation of Risk Management

The Managing Board bears the overall responsibility for risk management at NRW.BANK. The Bank's risk management organisation incorporates the Asset Liability Committee (ALCO) and the Credit Committee.

The Asset Liability Committee is responsible for issues relating to market price risks and liquidity risks. It also addresses general topics such as capital allocation, profit management and balance sheet structure management.

The Credit Committee prepares credit decisions to be made by the Managing Board and makes credit decisions based on their limits and level of competence. In addition, it addresses general issues of a general nature 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.

## Organisation of Risk Management



The business and risk strategies are defined in the annual strategy process for the Bank. They are discussed by the Risk Committee and the Supervisory Board. The annual strategy process is concluded by way of a resolution passed by the Board of Guarantors on the principles of the risk policy and the business policy.

In keeping with the MaRisk requirements, risks are monitored and communicated independently from the front office units. The Bank-wide monitoring of risks 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.

Internal Audit reviews the effectiveness and appropriateness of risk management.

### Counterparty Default Risk

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

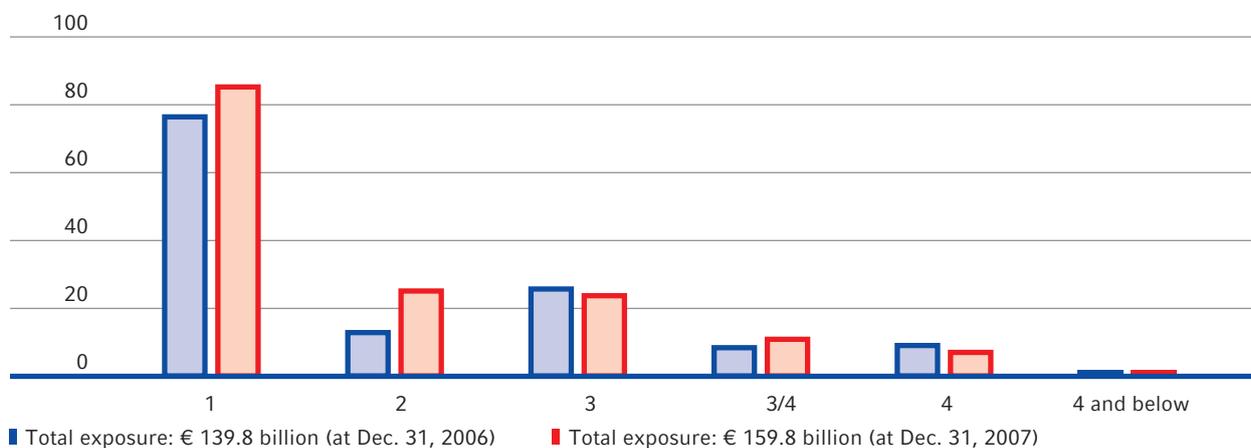
In accordance with its strategic function as a state development bank, NRW.BANK extends development loans. As a rule, development funds are collateralised or granted by way of the low-risk "local relationship bank" method. Accordingly, the portfolio has a first-rate risk structure.

NRW.BANK enters into derivatives on the stock exchange or over the counter with selected market partners with a good credit standing.

Netting and collateral is used to reduce the counterparty default risk.

The internal rating process of the exposures is of central importance for managing counterparty default risks. Counterparties are rated regularly on the basis of comprehensive documents and analyses.

## Total Exposure by Rating Class in € billions



NRW.BANK's total exposure in 2007 was € 159.8 billion (2006: € 139.8 billion).

99% of the asset portfolio is of investment grade quality (internal rating classes 1 to 4). Sub-investment grade exposures are permissible as an exception only if this is required as part of the Bank's public mission, e.g. in the case of social housing promotion.

In addition to the rating classes, other structural features such as sector concentrations are taken into consideration when entering into transactions. Risk concentrations are reported to the Board as a part of the monthly risk report.

Maximum limits are defined at the customer's group level (single name concentration limits) in order to limit concentration risk.

Structured securities are acquired for the purpose of portfolio diversification and to generate the promotion dividend used by the Bank. In keeping with its conservative risk strategy, NRW.BANK engages only in transactions with very good ratings. The investments are screened for companies whose securities are listed in public markets and the respective exposures are counted towards specific single-name concentration limits.

Geographically, NRW.BANK is primarily exposed to Germany (72.4% of the total exposure, prev. year 80.2%), with the main emphasis on North Rhine-Westphalia. The current foreign exposure in an amount of € 44.1 billion (27.6% of the total exposure, prev. year 19.8%) concentrates entirely on countries with investment-grade ratings. European countries account for € 34.7 billion, while non-European countries account for € 9.4 billion. Separate limits exist for country concentrations.

NRW.BANK applies adequate control mechanisms to ensure the good rating quality of its portfolio. These centre on the Bank's risk strategy, in association with an economic capital concept. The limits are set at the portfolio level on the basis of a Credit VaR for a holding period of one year and a 99.98% confidence level. The computations are incorporated into extensive scenario and stress analyses. The economic capital for counterparty default risks was € 4,241 million as of the reporting date.

### 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 counterparty default risks resulting 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. This allows the Bank to counteract risks at an early stage.

Equity investment exposures are included in economic capital management and reflected in the counterparty default risk of the Bank.

The risk-limiting measures taken at the time of new commitments include setting limits for the amount of individual exposure and, if applicable, syndicating portions of the exposure. Additionally, the contracts for equity investments usually grant NRW.BANK the right to approve or reject certain transactions.

Regarding 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 due to a guarantee of 49% from the State of North Rhine-Westphalia.

As at December 31, 2007, the book values of equity investments in non-affiliated and affiliated companies totalled € 2,406.0 million (2006: € 2,399.7 million).

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.

### Risk Provisions

Risk provisioning/revaluation adjustments in the lending business for 2007 were € – 65.9 million (2006: € – 69.3 million).

Risk provisioning in the lending business includes individual allowances, global allowances, and provisions and allowance reserves under Section 340 f of the German Commercial Code. 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 € 576.9 million (2006: € 560.1 million) were counterbalanced as of the reporting date by individual allowances and comparable provisions totalling € 281.2 million (2006: € 299.4 million).

### 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. The Bank does not take share price and commodity risks.

The main elements of market price risk for NRW.BANK are the general market and counterparty-specific interest rate risks in the investment book. The resulting fluctuations in the market values of financial assets are not recognised as profit or loss in the HGB accounts, unless there is a permanent impairment in value. 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 is exposed to limited foreign-exchange risks. Foreign-exchange are mainly hedged with derivatives, so that foreign-exchange risk is primarily confined to the margin earned.

The Bank controls and monitors its market price risks using of a value-at-risk approach. Value at risk (VaR) is calculated for daily management at a 95.0% confidence level for a one-day holding period.

The value-at-risk approach takes into account all relevant risk factors, such as interest rates, foreign exchange rates, implicit volatilities and credit spreads. 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 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 2007.

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

The economic capital for market price risks was € 660 million as of the reporting date. This figure cannot be compared with that of the previous year due to methodological changes (especially the integration of counterparty-specific interest rate risks and conservative risk shielding since the beginning of 2007).

### Liquidity Risk

The liquidity risk includes 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 and 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).

NRW.BANK's liquidity profile is characterised by primarily fixed cash flows, which can be easily planned. To safeguard its ability to meet payment obligations at any time, the Bank has 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 the general lack of liquidity resulting from the US subprime crisis in the second half of 2007 – the Bank is able to generate sufficient liquidity largely irrespective of the general market situation. Accordingly, demand for NRW.BANK's issues increased despite the capital market turmoil.

Given its good rating and the associated refinancing capabilities, NRW.BANK views its liquidity risk in the narrower sense and the refinancing risk as low.

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 based on a continuous analysis of incoming and outgoing cash flows in all units for various planning horizons.

Liquidity management also incorporates compliance with both Principle II and the regulatory minimum reserve requirements. Both requirements were met at all times in the financial year 2007. The liquidity ratio as of the reporting date was 2.5, well above the regulatory required minimum of 1.0.

#### **Operational Risks**

The operational risk comprises risks in operational systems or processes, specifically 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 incorporates both qualitative and quantitative aspects. Quantitative management is based on the basic indicator approach, while qualitative management is founded on the MaRisk requirements.

By using a combination of decentralised and centralised risk management and risk monitoring, the Bank ensures that management can respond promptly as needed, and that the Managing Board can simultaneously take the necessary decisions based on 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 annually on a Bank-wide basis.

An operational risk event database is used to capture losses and events that are viewed as a potential risk on a continuous basis. It forms the basis for a structured analysis of risk trends.

In addition, risk indicators are monitored continuously throughout the Bank as part of the early warning system.

As a part of the new product approval process, 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 € 111 million as of December 31, 2007.

#### **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's strategic risks are manageable.

#### Overall Risk Assessment

Economic capital which incorporates various risk types and segments is the most crucial risk control parameter used by NRW.BANK. It measures the various risks (counterparty default risk, market price risk, operational risk) and combines them in a methodologically consistent manner using a risk horizon of one year to generate a key number for the entire Bank.

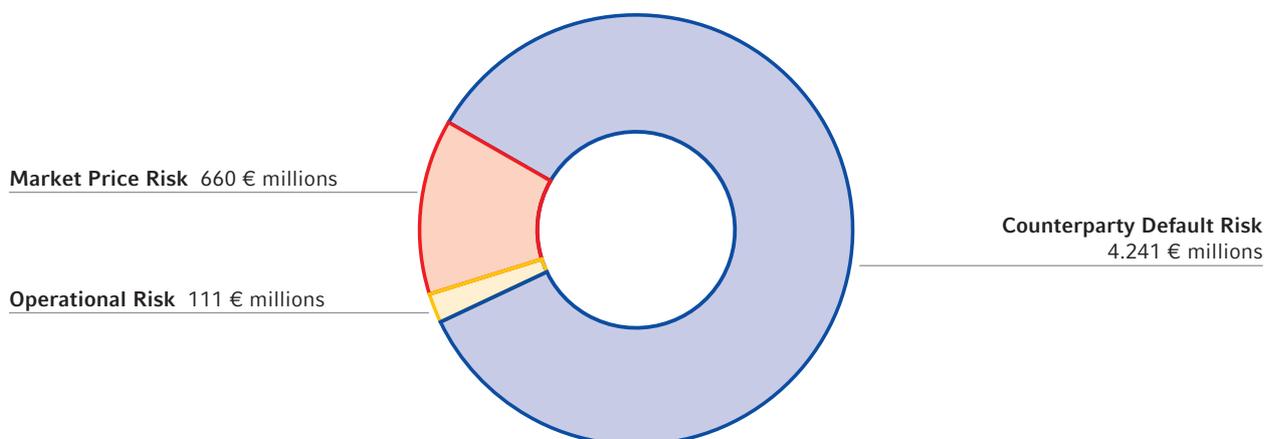
The limit for economic capital is reviewed for the Bank as a whole and allocated to risk categories and segments during the annual strategy process of the Bank.

The Managing Board ensures that the ratio between economic capital limit 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 is appropriate for the risk strategy. This approach ensures that risk taken is always consistent with the Bank's strategy, and that the Bank's business is always viable in light of risk exposure.

The economic capital for the individual risk types is determined by the methods described above; operations are monitored regularly with respect to limit utilization. All limits were complied with consistently in financial year 2007.

Total economic capital for the Bank is calculated by adding the economic capital for the individual risk types. The Bank's total economic capital is € 5,012 million. This ensures an appropriate relation with the capital cover in an amount of € 9,650 million.

#### Limits for Economic Capital by Type of Risk



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

#### Development of the Economic Environment

NRW.BANK expects the overall economy to develop positively, yet at a slower pace, in the next two years. According to the NRW.BANK.ifo-Index of December 2007, North Rhine-Westphalia's manufacturing sector were optimistic about the orders on hand and the export outlook; production and employment plans were geared to continued growth.

Spending activity in Germany will remain dynamic, even though the high growth rates of 2007 are unlikely to be repeated. On the one hand, higher interest rates and stricter lending terms have a dampening effect on credit demand; on the other hand, they increase the demand for development and promotion products with attractive interest rates and risk protection.

NRW.BANK believes that the political objective to strengthen innovation in the state of North Rhine-Westphalia as well as the challenges of climate change and the demographic development will open up broad fields of activity for public development and promotion programmes. The Bank also believes that sufficient promotion funds from the federal state, the federal

government, the EU as well as contributions out of its own profits will be made available. The Bank remains committed to extending its funds almost exclusively in the form of bank products (debt capital, guaranties and equity capital). Subsidies will continue to play only a minor role.

The effects of the financial market turmoil of the year 2007 will continue to be felt in 2008. NRW.BANK is confident that it will be able to successfully defend its good market position in an environment characterised by increased uncertainty.

#### Development of the Bank

With this background, NRW.BANK expects to be able to continue its successful strategy and to further expand its position as the development bank and central development platform of the state of North Rhine-Westphalia in future years in agreement with its owners. The risk strategy has been revised in accordance with the business strategy with the aim of reducing new risks and further improving management.

NRW.BANK intends to increase the volume of development and promotion by expanding its product portfolio. In accordance with the revised risk strategy, the expansion of the securities portfolio is subject to strict limits. Total assets will grow at a low single-digit rate in 2008. A further moderate increase is planned for the year 2009.

NRW.BANK expects its earnings to reach the previous year's level. Earnings will continue to be adversely affected by the gradual maturity of a portfolio of interest rate swaps by the year 2012, which was taken over in the context of the split-up of Westdeutsche Landesbank Girozentrale. To expand its range of development and promotion products with attractive interest rates, NRW.BANK will use a portion of its earnings to increase the promotion dividend by approx. 50%.

NRW.BANK will not only continue to refine and develop its business activities but also wants to optimise its cost structure in the medium term through improvements of its IT systems and processes. The headcount will increase at a lower rate than last year in line with the tasks at hand; the Bank will primarily recruit young talent. The expansion of the workforce, anticipated pay rises and higher expenses on old-age provisions will cause an increase in personnel expenses by an expected 8%. Other administrative expenses will rise sharply to over € 90 million. The main reasons are the IT support needed to meet the growing requirements of the promotion units as well as the consistent implementation of the Bank's IT strategy. NRW.BANK plans to accelerate the replacement of old IT systems in 2008 and 2009; in this context, the Bank will incur incremental expenses due to project costs and the temporary parallel operation of systems. In addition, real estate expenses will go up as a result of modernisation, new construction activities and the move into new offices. The development of income and expenses outlined above will lead to a lower net profit than in the previous year.

The Bank's plans regarding volumes, income and risks are based on conservative estimates. Uncertainties exist primarily with regard to the development of the economy and the financial markets. Should economic activity slow down more strongly than expected, credit demand may decline. This may, however, stimulate demand for development and promotion products offering enhanced terms and risk protection. Against the background of the current yield curve and the financial market situation, the Bank has a relatively neutral positioning with regard to general interest rate risks. Earnings may also be affected by unexpected delays in the implementation of the major projects of the IT strategy. This also applies to new regulatory requirements that cannot be foreseen today and which may have to be given the same priority. Overall, NRW.BANK feels that a deviation from the anticipated development due to the above uncertainties is little likely.

Another factor of uncertainty which is mainly influenced by external factors, is the development of investments held in the interest of the federal state. Effects on NRW.BANK's balance sheet and earnings position cannot be ruled out.

#### **Development of the segments**

In the Programme-based Promotion segment NRW.BANK primarily aims to round off and expand the portfolio of promotion products in line with actual requirements.

In the Start-up and SME Promotion, the Bank's new product efforts will focus on environmental/climate protection and innovation. Last year, the Bank's product development activities focused on export promotion and film funding, which resulted in the launch of two new product families NRW.BANK.Ausland and NRW.BANK.Film. Another focus will be on expanding the volume of direct business.

In addition, NRW.BANK will provide equity and mezzanine solutions to young and innovative technology firms, established companies and the SME sector. The expansion of the products and services for the SME sector and for technology companies will further strengthen the North Rhine-Westphalian equity investment market. The seed and venture solutions will primarily benefit technology-oriented start-ups. The ongoing development of the business angels platform (win) will help to expand the advisory services and networks.

In 2008, NRW.BANK's Social Housing Promotion department will make available € 840 million 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. In response to the challenges of climate change and the demographic development, the focus of activity will shift from the promotion of new housing to the promotion of existing housing. In addition, future urban development activities will be integrated more closely with social housing promotion.

NRW.BANK's Individual Promotion department will continue to push ahead the development of new promotion products. The set of targets includes housing promotion, climate protection, education funding, social promotion (e.g. micro-credit for start-ups) as well as agriculture and forest management. The Bank intends to further expand the market share of the Tuition Fee Loan introduced in 2006/2007.

The Structural Promotion unit plans to expand its product range and the overall promotion volume. In this field of promotion, NRW.BANK will take the growing importance of integrated advice, promotion and financing into account in the context of specific projects. This is not least reflected in the Bank's role as coordinator of promotion competitions of the North Rhine-Westphalian government in the context of the "Ziel 2" programme. The introduction of a broad-based programme will push

ahead the promotion of municipal investments. This will be complemented by promotion programmes geared to specific issues of the future of North Rhine-Westphalia such as environmental and climate protection.

The Structured Financing unit will focus on specific financings for the social infrastructure, environmental projects as well as PPP projects in the urban development sector, especially with regard to demographic aspects.

In the Other Promotion/Liquidity Management segment, NRW.BANK aims 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.

The securities portfolio will continue to be optimised and expanded carefully in the context of the revised risk strategy with a view to strengthening and stabilising the Bank's profitability. Existing and future exposures will focus on public sector debt. Additional investments will be made in the covered bond market as well as in the corporate and financial sector.

On the funding side, NRW.BANK plans to expand the range of products and currencies to more effectively address a broader investor base. In the context of the long-term funding strategy, the funding volume in the capital market will be kept more or less at the previous year's level.

In the Staff/Services segment, the development of the investment portfolio will be a relevant factor. The book value of WestLB AG in NRW.BANK's books is secured by a value guarantee from the state of North Rhine-Westphalia. With a view to the future development of

WestLB AG, it will be important to see whether the bank will be able to position itself successfully in the ongoing consolidation process in the banking sector and whether it will be able to generate sustainable profits on the basis of a feasible business model.

The development of NRW.BANK's promotion, financing and advisory programmes outlined above will enable the Bank to support the corporate sector, the municipalities and the people in North Rhine-Westphalia in mastering the challenges of the future in a dynamic and innovative manner.

The Managing Board of NRW.BANK  
February 2008

# Balance Sheet

of NRW.BANK as at December 31, 2007

## Assets

see Notes No.

31. 12. 2006

	€	€	€	€ thousands
<b>1. Cash</b>				
a) cash on hand		14,701.55		(19)
b) balances with central banks		163,022,138.64		(96,908)
including:				
with Deutsche Bundesbank	163,022,138.64 €			
			<b>163,036,840.19</b>	96,927
<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		18,698,839.92		(18,073)
including:				
eligible for refinancing with Deutsche Bundesbank	18,698,839.92 €			
			<b>18,698,839.92</b>	18,073
<b>3. Receivables from banks</b>	<b>1, 11, 22, 26</b>			
a) payable on demand		1,354,069,504.04		(1,639,516)
b) other		34,788,446,549.82		(29,383,978)
			<b>36,142,516,053.86</b>	31,023,494
<b>4. Receivables from customers</b>	<b>2, 3, 11, 22, 26</b>		<b>54,111,160,981.38</b>	49,939,690
thereof:				
secured by mortgages	20,326,122,118.25 €			
loans to public authorities and entities under public law	26,976,368,810.66 €			
<b>5. Bonds and other interest-bearing securities</b>	<b>4, 9, 11, 12, 22, 24, 26</b>			
a) money market instruments				
aa) of other issuers		99,671,112.38	99,671,112.38	(-)
b) bonds and notes				
ba) of public institutions	26,351,070,393.77			(26,592,745)
thereof: eligible as collateral for Deutsche Bundesbank advances	25,225,529,909.78 €			
bb) of other issuers	28,375,799,859.94			(22,018,005)
thereof: eligible as collateral for Deutsche Bundesbank advances	22,002,520,611.77 €	54,726,870,253.71		(48,610,750)
c) bonds issued by the Bank		170,209,146.10		(76,968)
principal amount	172,033,764.59 €		<b>54,996,750,512.19</b>	48,687,718
			<b>145,432,163,227.54</b>	129,765,902
		To be carried forward:		

## Liabilities

		see Notes No.		31. 12. 2006	
		€	€	€	€ thousands
<b>1. Liabilities to banks</b>	<b>13, 22, 25</b>				
a) payable on demand		82,952,828.06			(46,707)
b) with agreed maturity or period of notice		<u>50,622,521,463.81</u>		<b>50,705,474,291.87</b>	(43,082,016)
					<b>43,128,723</b>
<b>2. Liabilities to customers</b>	<b>14, 22</b>				
a) other liabilities					
aa) payable on demand		139,136,730.58			(98,901)
ab) with agreed maturity or period of notice		<u>22,717,496,808.82</u>			(21,726,490)
			<u>22,856,633,539.40</u>	<b>22,856,633,539.40</b>	(21,825,391)
					<b>21,825,391</b>
<b>3. Certificated liabilities</b>	<b>15, 22, 26</b>				
a) bonds and notes issued by the Bank		53,185,829,512.71			(46,319,428)
				<b>53,185,829,512.71</b>	<b>46,319,428</b>
<b>4. Trust liabilities</b>	<b>16</b>				
thereof:					
trust loans		2,312,973,480.72 €		<b>2,312,973,480.72</b>	<b>2,391,825</b>
<b>5. Other liabilities</b>	<b>17, 22</b>				
				<b>282,496,750.43</b>	<b>374,880</b>
<b>6. Deferred items</b>	<b>18, 22</b>				
				<b>388,175,734.24</b>	<b>471,077</b>
<b>7. Provisions</b>	<b>19</b>				
a) for pensions and similar obligations		842,296,950.43			(792,964)
b) tax reserve		7,683,926.51			(4,557)
c) promotion dividend		48,931,701.90			(25,546)
d) other		<u>295,662,657.95</u>			(258,446)
				<b>1,194,575,236.79</b>	<b>1,081,513</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>
				<b>131,331,158,546.16</b>	<b>115,997,837</b>
			To be carried forward:		



## Liabilities

see Notes No.		31. 12. 2006	
	€	€	€ thousands
	To be carried forward:	<b>131,331,158,546.16</b>	115,997,837
<b>9. Capital with participation rights</b>	<b>20</b>	<b>11,000,000.00</b>	11,000
thereof:			
due in less than two years	0.00 €		
<b>10. Fund for general banking risks</b>		<b>85,000,000.00</b>	85,000
<b>11. Equity capital</b>	<b>21</b>		
a) subscribed capital	675,000,000.00		(675,000)
b) capital reserves	18,858,035,166.68		(18,748,114)
thereof:			
special reserves pertaining to the Wohnungsbauförderungsanstalt	18,602,201,222.22 €		
c) reserves from retained earnings			
ca) reserves required by NRW.BANK's statutes	12,200,000.00		(9,200)
cb) other reserves	13,526,772.70		(2,447)
d) profit for the year	23,800,000.00	<b>19,582,561,939.38</b>	19,457,927
<b>Total liabilities</b>	<b>22</b>	<b>151,009,720,485.54</b>	135,551,764
<b>1. Contingent liabilities</b>	<b>23</b>		
liabilities from guarantees and indemnity agreements		<b>14,050,920,169.23</b>	4,521,150
<b>2. Other commitments</b>	<b>23</b>		
irrevocable loan commitments		<b>3,311,134,328.46</b>	3,032,822
<b>3. Administered funds</b>		<b>102,346,682.20</b>	120,862

# Profit and Loss Account

of NRW.BANK for the Period January 1 – December 31, 2007

see Notes No.

1.1.–31.12.2006

	€	€	€	€ thousands
<b>1. Interest income from</b>				
a) lending and money market transactions	3,237,063,563.32			(2,851,603)
b) interest-bearing securities and book-entry securities	2,234,430,130.96			(1,701,702)
		5,471,493,694.28		(4,553,305)
<b>2. Interest expenses</b>		5,153,748,287.41		(4,228,828)
			317,745,406.87	324,477
<b>3. Income from</b>				
a) shares and other non-interest-bearing securities		813,157.93		(583)
b) equity investments in non-affiliated companies		0.00		(243)
c) equity investments in affiliated companies		8,938,133.94		(11,088)
			9,751,291.87	11,914
<b>4. Income from profit pooling, profit transfer and partial profit transfer agreements</b>			4,774,820.02	4,118
<b>5. Commission income</b>	27	121,480,910.01		(62,707)
<b>6. Commission expenses</b>		92,574,535.69		(46,499)
			28,906,374.32	16,208
<b>7. Net profit from trading operations</b>			4,438,181.61	1,225
<b>8. Other operating income</b>	28		12,146,442.36	8,617
<b>9. General administrative expenses</b>				
a) personnel expenses				
aa) wages and salaries		79,319,847.37		(75,757)
ab) social security contributions and expenses for pensions and other employee benefits		26,735,131.09		(28,800)
thereof:		106,054,978.46		(104,557)
for pensions	11,882,772.37 €			(17,338)
b) other administrative expenses		75,399,475.58		(74,167)
			181,454,454.04	178,724
<b>10. Depreciation and value adjustments on intangible and tangible fixed assets</b>			8,092,463.18	7,665
<b>11. Other operating expenses</b>	28		20,055,150.46	9,470
		To be carried forward:	168,160,449.37	170,700

see Notes No.	€	€	€ thousands
	To be carried forward:	168,160,449.37	170,700
12. Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions		7,610,626.91	61,818
13. Income from revaluation of equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets		3,756,445.25	74,574
14. Expenses from the assumption of losses		134.22	4
15. Result from normal operations		164,306,133.49	183,452
16. Extraordinary expenses	0.00		(47,611)
17. Extraordinary result		0.00	- 47,611
18. Taxes on income and revenues	8,424,460.81		(8,033)
19. Other taxes not shown under other operating expenses	62,827.01	8,487,287.82	8,118
20. Allocation to provisions for promotion dividend		29,556,241.09	25,840
21. Net profit		126,262,604.58	101,883
22. Allocation to capital of Wohnungsbauförderungsanstalt NRW		7,570,145.89	42,181
23. Advanced payout from Wfa due to legal requirements		47,015,553.57	33,736
24. Designated payout from Wfa due to legal requirements		44,876,905.12	-
25. Allocation of net income to reserves from retained earnings			
a) reserves required by NRW.BANK's statutes		3,000,000.00	2,800
		3,000,000.00	2,800
26. Profit for the year		23,800,000.00	23,166

# Notes

## of NRW.BANK at December 31, 2007

### 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 € 18,602.2 million as of December 31, 2007.

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 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 [3] Sentence 1 and Sentence 2 of Wohnungsbauförderungsgesetz (WBFG), advance payments in an amount of € 47,015,553.57 had to be made to the federal state in the financial year 2007. In a letter dated December 20, 2007, the North Rhine-Westphalian Construction and Transport Ministry additionally claimed the net profit for the year 2007 to the extent that it will be needed to meet statutory requirements. An amount of € 44,876,905.12 has therefore been earmarked for meeting statutory requirements. 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 effective 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.

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. The receivables acquired from the federal state in 1998 are recognised at their present value.

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 associated hedge transactions 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 as 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 due to 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 € 38,550,008,537.10, an aggregate market value of € 37,386,167,437.95 was determined. Because these securities have been funded at matching maturities and interest rates, and because none of the issuers' credit ratings indicated sustained weakening (no permanent impairment in value expected), 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 (mainly in the form of euro-interest swaps), are not recognised.

NRW.BANK incorporated the principles of the draft of the IDW statement on accounting (IDW ERS HFA 22) of December 5, 2007 in the current financial statements. According to these principles, each structured financial instrument held in the investment portfolio is generally recognised as an integral asset. In those cases where the structured financial instruments has much higher or additional risks than the basic instrument due to an embedded derivative, each individual component is recognised separately as an underlying transaction and a derivative.

Equity investments in affiliated and non-affiliated companies are carried at cost taking existing collateral into account; 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 2005, 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 6a of the German Income Tax Act (EstG) at an interest rate of 6%. During financial year 2007, the interest rate was 4.8%.

The newly 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, the provisions for healthcare benefits were calculated using an annual cost increase of 3%. An interest rate of 4.8% was used for the fiscal year 2007. The average rate of the benefit payments over the past seven years was taken as the basis.

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 31, 2007.

## Balance Sheet

### Receivables from Banks (1)

#### Breakdown by Maturity

	Dec. 31, 2007	Dec. 31, 2006
	€ millions	€ millions
Payable on demand	1,354.1	1,639.5
With residual maturities of		
– up to 3 months	7,962.3	4,138.2
– between 3 months and 1 year	3,732.8	3,493.4
– between 1 and 5 years	8,297.9	9,004.9
– more than 5 years	14,795.4	12,747.5
<b>Total receivables from banks</b>	<b>36,142.5</b>	<b>31,023.5</b>

As in the previous year, receivables from banks do not include receivables from affiliated companies. The receivables from other companies in which equity investments are held totalled € 2,191.7 million (2006: € 1,878.3 million).

## Receivables from Customers (2)

### Breakdown by Maturity

	Dec. 31, 2007	Dec. 31, 2006
	€ millions	€ millions
With residual maturities of		
– up to 3 months	1,803.6	2,360.3
– between 3 months and 1 year	1,996.5	2,595.8
– between 1 and 5 years	9,205.1	7,886.2
– more than 5 years	41,106.0	37,097.4
<b>Total receivables from customers</b>	<b>54,111.2</b>	<b>49,939.7</b>
including:		
– receivables with indefinite maturities	62.0	24.8

As in the previous year, receivables from customers do not include receivables from affiliated companies. The receivables from other companies in which equity investments are held totalled € 126.5 million (2006: € 128.1 million).

## Receivables Secured by Mortgages (3)

### Breakdown by Maturity

	Dec. 31, 2007	Dec. 31, 2006
	€ millions	€ millions
Receivables from customers with residual maturities of		
– up to 3 months	166.8	140.3
– between 3 months and 1 year	364.6	364.1
– between 1 and 5 years	1,799.1	1,894.7
– more than 5 years	17,995.6	18,082.7
<b>Total receivables secured by mortgages</b>	<b>20,326.1</b>	<b>20,481.8</b>

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

### Marketability

	Dec. 31, 2007	Dec. 31, 2006
	€ millions	€ millions
Bonds and other interest-bearing securities		
– listed on a stock exchange	50,560.5	45,159.0
– not listed on a stock exchange	4,436.3	3,528.7
<b>Total bonds and other interest-bearing securities</b>	<b>54,996.8</b>	<b>48,687.7</b>
including:		
amounts that will become due by December 31 of the following financial year	6,452.7	3,989.6

As in the previous year, bonds and other interest-bearing securities do not include securities from affiliated companies and none from other companies in which equity investments are held.

Of the total bonds and other interest-bearing securities, € 54.6 million (2006: € 208.1 million) are held in the trading portfolio, € 1,122.7 million (2006: € 2,358.8 million) are held as part of the liquidity reserve and € 53,819.4 million (2006: € 46,120.8 million) are held in the investment portfolio.

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

Marketability	Dec. 31, 2007	Dec. 31, 2006
	€ millions	€ millions
Shares and other non-interest-bearing securities		
– listed on a stock exchange	0.0	0.0
– not listed on a stock exchange	1.9	26.9
<b>Total shares and other non-interest-bearing securities</b>	<b>1.9</b>	<b>26.9</b>

Of the total shares and other non-interest-bearing securities, no securities (2006: € 25.0 million) are held as part of the liquidity reserve and € 1.9 million (2006: € 1.9 million) are held in the investment portfolio.

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

NRW.BANK holds € 2,320.9 million (2006: € 2,323.5 million) in equity investments in non-affiliated companies and € 85.1 million (2006: € 76.1 million) in equity investments in affiliated companies. Of this amount, € 2,212.4 million (2006: € 2,211.7 million) are evidenced by marketable securities. However, none are listed on a stock exchange.

An itemised list of NRW.BANK's investments pursuant to Section 285 No. 11 and 11 a of the German Commercial Code (HGB) is shown separately is attached with the notes.

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, 2007	Dec. 31, 2006
	€ millions	€ millions
Receivables from banks	180.9	163.1
Receivables from customers	2,132.1	2,228.7
<b>Total trust assets</b>	<b>2,313.0</b>	<b>2,391.8</b>

### Other Assets (8)

The total figure of € 610.6 million (2006: € 576.1 million) contains, among other things, € 566.0 million (2006: € 522.0 million) in receivables from WestLB AG for reimbursement of pension and benefit obligations, € 21.4 million (2006: € 9.0 million) in receivables from the state of North Rhine-Westphalia under the value guarantee as well as € 4.9 million (2006: € 13.9 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, 2007				Dec. 31, 2007	
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Bonds and other interest-bearing securities forming part of fixed assets	45,262.9				52,825.7	0.0
Shares and other non-interest-bearing securities forming part of fixed assets	1.9				1.9	0.0
Equity investments in non-affiliated companies	3,880.5				2,320.9	2.9
Equity investments in affiliated companies	76.2				85.1	0.0
Intangible assets	31.7	3.9	0.1	13.2	22.3	6.1
Land and buildings	18.4	3.6	3.5	0.5	18.0	0.2
Office equipment	10.9	2.0	0.6	3.4	8.9	1.8
		Net change pursuant to Section 34 (3) Sentence 2 RechKredV: € 6,012.1 million				

€ 14.2 million of the amount shown under land and buildings represent land and buildings used for business purposes (2006: € 17.7 million).

### Deferred Items (10)

Breakdown of Deferred Items	Dec. 31, 2007	Dec. 31, 2006
	€ millions	€ millions
Discounts from underwriting business	110.6	113.3
Discounts from liabilities	0.2	133.2
Pre-paid swap fees	67.6	65.4
Other	18.4	28.3
<b>Total deferred items</b>	<b>196.8</b>	<b>340.2</b>

### Subordinated Assets (11)

Subordinated assets are included in:

Breakdown by Asset Type	Dec. 31, 2007	Dec. 31, 2006
	€ millions	€ millions
Receivables from banks	0.8	0.8
Receivables from customers	9.5	5.1
Bonds and other interest-bearing securities	20.4	20.3
Shares and other non-interest-bearing securities	1.9	1.9
<b>Total subordinated assets</b>	<b>32.6</b>	<b>28.1</b>

### Pledged Assets (12)

Of the assets reported, NRW.BANK pledged € 14,103.8 million (2006: € 5,548.2 million) under repurchase agreements.

### Liabilities to Banks (13)

Breakdown by Maturity	Dec. 31, 2007	Dec. 31, 2006
	€ millions	€ millions
Payable on demand	82.9	46.7
With residual maturities of		
– up to 3 months	17,518.8	13,708.9
– between 3 months and 1 year	4,244.5	1,687.0
– between 1 and 5 years	9,134.2	9,299.2
– more than 5 years	19,725.1	18,386.9
<b>Total liabilities to banks</b>	<b>50,705.5</b>	<b>43,128.7</b>

As in the previous year, liabilities to banks do not include liabilities to affiliated companies. The liabilities to other companies in which equity investments are held totalled € 2,067.9 million (2006: € 3,109.4 million).

### Liabilities to Customers (14)

Breakdown by Maturity	Dec. 31, 2007	Dec. 31, 2006
	€ millions	€ millions
Payable on demand	139.1	98.9
With residual maturities of		
– up to 3 months	700.7	673.0
– between 3 months and 1 year	744.7	280.2
– between 1 and 5 years	4,416.2	4,276.5
– more than 5 years	16,855.9	16,496.8
<b>Total liabilities to customers</b>	<b>22,856.6</b>	<b>21,825.4</b>

### Certificated Liabilities (15)

#### Breakdown of Certificated Liabilities

	Dec. 31, 2007	Dec. 31, 2006
	€ millions	€ millions
Notes issued		
– mortgage bonds	32.3	32.3
– municipal bonds	9,623.1	16,789.5
– other bonds	43,530.4	29,497.6
<b>Total certificated liabilities</b>	<b>53,185.8</b>	<b>46,319.4</b>

Of the € 53,185.8 million in notes issued (2006: € 46,319.4 million), € 16,203.3 million (2006: € 17,772.2 million) is due in the following year.

### Trust Liabilities (16)

#### Breakdown of Trust Liabilities

	Dec. 31, 2007	Dec. 31, 2006
	€ millions	€ millions
Liabilities to banks	63.9	78.0
Liabilities to customers	1,553.5	1,594.2
Other liabilities	695.6	719.6
<b>Total trust liabilities</b>	<b>2,313.0</b>	<b>2,391.8</b>

### Other Liabilities (17)

Other liabilities totalling € 282.5 million (2006: € 374.9 million) include the balancing item from foreign exchange valuation (in accordance with Section 340h of the German Commercial Code [HGB]) in an amount of € 186.7 million (2006: € 190.7 million) as well as € 44.9 million (2006: € 4.1 million) in liabilities owed to the state of North Rhine-Westphalia, € 30.4 million (2006: € 5.7 million) in liabilities owed to the Tax Office and € 5.4 million (2006: € 14.2 million) in interest to be paid on existing profit participation rights and subordinated liabilities once the annual accounts have been approved.

### Deferred Items (18)

#### Breakdown of Deferred Items

	Dec. 31, 2007	Dec. 31, 2006
	€ millions	€ millions
Premiums from underwriting business	39.6	63.0
From refinancing of a Wfa loan recognised in equity	3.6	12.1
Swap fees received in advance	343.4	382.8
Other	1.6	13.2
<b>Total deferred items</b>	<b>388.2</b>	<b>471.1</b>

### Provisions (19)

The provision for pensions and benefits includes € 566.0 million (2006: € 522.0 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, which is shown in "other assets".

NRW.BANK's provision for additional benefits is at € 195.8 million (2006: € 186.2 million). This amount includes € 171.6 million in obligations to persons covered under the former pension agreement of Westdeutsche Landesbank Girozentrale, for which NRW.BANK has assumed the additional benefit payments since the spin-off from Westdeutsche Landesbank Girozentrale. An additional € 23.7 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 (2006: € 405.0 million):

Currency	Nominal Amount	Interest Rate	Term
	€ millions	%	
EUR	50.0	4.8	2004–2014
EUR	50.0	4.8	2004–2034
EUR	50.0	4.8	2004–2019
EUR	50.0	4.7	2004–2024
EUR	50.0	4.7	2004–2024

The remaining subordinated liabilities of € 155.0 million carry an average interest rate of 5.1% (2006: 5.0%) 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 the financial year 2007.

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 € 19.0 million (2006: € 15.8 million) were incurred for subordinated liabilities.

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

In 2007, no capital with participation rights matured, and no new capital with participation rights was issued. Hence, the total capital with participation rights was € 11.0 million (2006: € 11.0 million).

### Equity Capital (21)

As of December 31, 2007, NRW.BANK's subscribed capital was € 675.0 million (2006: € 675.0 million). The reserves totalled € 18,883.8 million (2006: € 18,759.7 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, 2007	Dec. 31, 2006
	€ millions	€ millions
Subscribed capital	675.0	675.0
Capital reserves	18,858.0	18,748.1
thereof:		
special reserves pertaining to the Wohnungsbauförderungsanstalt	(18,602.2)	(18,492.3)
reserves from retained earnings		
– reserves required by NRW.BANK's statutes	12.2	9.2
– other reserves	13.5	2.4
Profit for the year	23.8	23.2
<b>Total</b>	<b>19,582.5</b>	<b>19,457.9</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 € 3,566.6 million (2006: € 3,534.5 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 € 9,064.3 million (2006: € 4,022.9 million) and foreign currency liabilities valued at € 9,174.4 million (2006: € 7,124.0 million).

### Contingent Liabilities and Other Commitments (23)

Contingent liabilities totalled € 14,050.9 million (2006: € 4,521.2 million) and incorporate € 13,833.3 million (2006: € 4,087.8 million) for credit derivatives and € 217.6 million (2006: € 433.4 million) for other guarantees and indemnity agreements.

Of the € 3,311.1 million in irrevocable credit commitments (2006: € 3,032.8 million), € 1,281.1 million (2006: € 1,357.8 million) was for commitments made in connection with the Wohnungsbauförderungsanstalt.

### Assets Used as Collateral (24)

Bonds and notes totalling € 11,374.7 million (2006: € 8,157.6 million) were pledged to the European Central Bank as collateral for loans. Securities with a nominal value of € 50.0 million (2006: € 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 € 334.5 million (2006: € 329.5 million) were pledged as collateral for overnight loans. In addition, an amount of € 101.3 million (2006: € 64.2 million) was transferred as collateral for repo transactions and securities in an amount of € 2.0 million (2006: € 2.0 million) were assigned as rent deposit.

### Collateral for Own Liabilities (25)

Collateral for registered mortgage bonds amounted to € 7.1 million (2006: € 7.5 million) and registered municipal bonds and notes to totalled € 181.6 million (2006: € 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, 2007, the details of the cover were as follows:

Cover	Dec. 31, 2007		Dec. 31, 2006	
	Cover I € millions	Cover II € millions	Cover I € millions	Cover II € millions
Mortgage bonds and municipal bonds issued	147.7	21,824.6	170.6	30,440.3
Loans raised secured with registered mortgage bonds or registered municipal bonds and notes	7.1	181.6	7.1	186.7
<b>Liabilities requiring cover</b>	<b>154.8</b>	<b>22,006.2</b>	<b>177.7</b>	<b>30,627.0</b>
Mortgage and/or municipal loans	680.4	29,273.1	904.0	33,632.8
Other ordinary cover (securities)	–	2,428.0	–	6,419.2
<b>Cover funds</b>	<b>680.4</b>	<b>31,701.1</b>	<b>904.0</b>	<b>40,052.0</b>
<b>Excess cover</b>	<b>525.6</b>	<b>9,694.9</b>	<b>726.3</b>	<b>9,425.0</b>

### Statement of Income

#### Services Rendered for Third Parties (27)

The net commission income includes € 7.9 million (2006: € 7.8 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 composed of € 1.1 million (2006: € 0.8 million) in cash payments and payments from settlements involving the improper use of public housing, € 4.4 million (2006: € 0.4 million) in income from the write-back of other provisions and € 3.6 million (2006: € 4.2 million) in tax contributions received from affiliates.

Other operating expenses include € 16.1 million (2006: € 8.5 million) in addition to the provisions for additional benefits established for employees of WestLB AG.

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

In financial year 2007, expenses of € 2.2 million (2006: € 2.3 million) were recognised in the statement of income, € 2.0 million of which accounted for fees for the auditing of the annual accounts and € 0.2 million for other auditing and consulting services.

#### **Miscellaneous**

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

NRW.BANK had annual long-term rental and leasing obligations of € 6.5 million with a remaining term of 13 years, € 0.6 million with a remaining term of 9 years and € 1.9 million with a remaining term of 8.5 years.

There is an obligation to make additional contributions in the amount of € 2.4 million to the European Investment Fund.

##### **Other Obligations**

NRW.BANK has other obligations pursuant to Art. 1 Section 3 Sentence 1 of the Bank Redefining Act of July 2, 2002.

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 € 171,745 million (2006: € 158,148 million).

## Derivatives – Volumes

	Nominal Values		Positive Market Values	Negative Market Values
	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2007	Dec. 31, 2007
	€ millions	€ millions	€ millions	€ millions
<b>Interest rate risks</b>				
Interest rate swaps	127,424	134,680	2,263	2,782
FRA's	-	-	-	-
Interest rate options				
– bought (long)	7,733	7,018	55	-
– written (short)	7,388	5,273	-	451
Caps, floors	178	96	1	-
Stock market contracts	4,572	1,209	-	-
Other interest rate forwards	1,696	1,683	35	23
<b>Total interest rate risks</b>	<b>148,991</b>	<b>149,959</b>	<b>2,354</b>	<b>3,256</b>
<b>Currency risks</b>				
Foreign exchange forwards, swaps	794	1,847	23	4
Currency swaps/Interest currency swaps	3,484	4,318	105	168
Foreign exchange options				
– bought (long)	-	-	-	-
– written (short)	-	-	-	-
Stock market contracts	-	-	-	-
Other currency forwards	-	-	-	-
<b>Total currency risks</b>	<b>4,278</b>	<b>6,165</b>	<b>128</b>	<b>172</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)	791	1,771	13	-
– written (short)	4,088	13,850	7	267
<b>Total credit derivatives</b>	<b>4,879</b>	<b>15,621</b>	<b>20</b>	<b>267</b>
<b>Total</b>	<b>158,148</b>	<b>171,745</b>	<b>2,502</b>	<b>3,695</b>

The market values were determined taking deferred items and foreign exchange balancing items in the financial statements into account.

The higher nominal volume of derivatives is mostly attributable to an increase in credit derivatives (surrogate loan transactions). The portfolio of currency and interest rate derivatives was expanded moderately. These 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, 2007 to December 31, 2007 was € 184,852 million (2006: € 151,137 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. Swap fees paid or received in advance are recognised in the respective deferred item.

The breakdown of derivative transactions by counterparty is as follows:

#### Derivatives – Breakdown by Counterparty

	Nominal Values		Positive	Negative
	Dec. 31, 2006	Dec. 31, 2007	Market Values	Market Values
	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2007	Dec. 31, 2007
	€ millions	€ millions	€ millions	€ millions
OECD banks	137,084	147,889	2,262	3,038
Non-OECD banks	–	–	–	–
OECD public-sector entities	263	398	3	7
Other counterparties	20,765	23,458	237	650
<b>Total</b>	<b>158,112</b>	<b>171,745</b>	<b>2,502</b>	<b>3,695</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 interest rate contracts are spread across the entire spectrum of maturities, with approx. 49% (2006: 41%) 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, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Residual maturity						
– up to 3 months	21,826	15,438	794	1,784	70	135
– 3 months to						
1 year	21,212	11,668	669	463	203	700
– 1 to 5 years	44,485	53,123	1,750	1,892	595	3,019
– more than 5 years	61,468	69,730	1,065	2,026	3,975	11,767
<b>Total</b>	<b>148,991</b>	<b>149,959</b>	<b>4,278</b>	<b>6,165</b>	<b>4,843</b>	<b>15,621</b>

The volume of credit derivatives where NRW.BANK is the beneficiary (protection buyer) amounted to € 1,771 million on December 31, 2007 (2006: € 791 million). Credit derivatives where NRW.BANK is the guarantor (protection seller) amounted to € 13,850 million on December 31, 2007 (2006: € 4,088 million) and were included under contingent liabilities.

### Number of Employees

The average number of female staff employed by NRW.BANK in 2007 was 593 (2006: 563), and the average number of male staff, including the Managing Board, employed over the year was 580 (2006: 566). The total number of employees at the end of the year was 1,138 (2006: 1,077).

### Remuneration

The total remuneration paid to the Chairman of the Managing Board was € 815,201.50 in 2007; that paid to other Managing Board members was € 1,265,733.80.

The remuneration of the Supervisory Board totalled € 0.1 million (2006: € 0.1 million). The remuneration of the Advisory Board formed in the fiscal year also amounted to € 0.1 million (2006: € 0.0 million).

### Loans

The members of the Managing Board and Supervisory Board of NRW.BANK received advances and loans totalling € 0.9 million (2006: € 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  
Ströer Out-of-Home Media AG

**Ernst Gerlach**

Georgsmarienhütte GmbH (until June 30, 2007)  
InvestitionsBank des Landes Brandenburg  
LEG Landesentwicklungsgesellschaft NRW GmbH  
Mannesmannröhren-Werke AG  
Ruhr-Lippe Wohnungsgesellschaft mbH  
(since October 1, 2007)

#### Seats Held by Employees

**Rainer Hofmann**

Ruhr-Lippe Wohnungsgesellschaft mbH  
(until June 30, 2007)

#### Board of Guarantors/Supervisory Board/ Managing Board

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

#### Board of Guarantors

#### 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

**Dr. Wolfgang Kirsch**

Deputy Chairman  
Director of LWL  
Regional Assembly of Westphalia-Lippe  
Münster

#### Members Appointed by the Board of Guarantors

**Dr. Jens Baganz**

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

**Karsten Beneke**

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 Parliamentary 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

**Dr. Wolfgang Kirsch**

Deputy Chairman  
Director of LWL  
Regional Association of Westphalia-Lippe  
Münster

**Members Appointed by the Board of Guarantors****Volkmar Klein, MdL**

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

**Hannelore Kraft, MdL**

State Assembly of North Rhine-Westphalia  
Chairwoman of the SPD Parliamentary Group  
of North Rhine-Westphalia  
Düsseldorf

**Prof. Dr. Andreas Pinkwart**

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

**Oliver Wittke, MdL**

Minister of Construction and Transport  
of North Rhine-Westphalia  
Düsseldorf

**Dr. Jürgen Rolle**

Chairman of the SPD Parliamentary Group  
Regional Assembly of the Rhineland  
Cologne

**Roland Trottenburg**

Chairman of the CDU Parliamentary 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, Federal and State Sector  
ver.di Vereinte Dienstleistungsgewerkschaft  
Regional Office Weser-Ems  
Osnabrück

**Christiane Stascheit**

Secretary, Financial Services  
ver.di Vereinte Dienstleistungsgewerkschaft  
Regional Office Hamburg  
Hamburg

**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 Heilgenberg**

Assistant Secretary  
Ministry of Finance of North Rhine-Westphalia  
Düsseldorf

**Harry Voigtsberger**

Regional Councillor  
Regional Association of the Rhineland  
Cologne

**Dr. Hans-Ulrich Predeick**

(until March 31, 2007)  
Regional Councillor  
Regional Association of Westphalia-Lippe  
Münster

**Dr. Fritz Baur**

(since April 1, 2007)  
Regional Councillor  
Regional Association of Westphalia-Lippe  
Münster

#### Managing Board

**Dr. Ulrich Schröder (Chairman)**

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

Düsseldorf/Münster, February 19, 2008

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, 2007. 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, February 20, 2008

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Möllenbrink  
Wirtschaftsprüfer

Kügler  
Wirtschaftsprüfer

# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of NRW.BANK, and the management report includes a fair review of the development and performance of the business and the position of NRW.BANK, together with a description of the principal opportunities and risks associated with the expected development of NRW.BANK.

Düsseldorf/Münster, February 19, 2008

NRW.BANK

The Managing Board



Dr. Schröder



Gerlach



Neuhaus

# Members of the Advisory Board

## Members pursuant to Section 23 of the statutes

### **Minister Christa Thoben**

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

### **Prof. Dr. Achim Bachem**

Chairman  
of the Managing Board of Forschungszentrum Jülich GmbH

### **Dr. Karlheinz Bentele**

President  
of the Savings Banks and Giro Association  
of the Rhineland  
(until December 31, 2007)

### **Dr. Wulf H. Bernotat**

Chairman of the Managing Board  
of E.ON AG

### **Werner Böhnke**

Chairman of the Managing Board  
of WGZ BANK AG  
Westdeutsche Genossenschafts-Zentralbank

### **Michael Breuer**

President  
of the Savings Banks and Giro Association  
of the Rhineland  
(since January 1, 2008)

### **Regierungspräsident Jürgen Büsow**

Düsseldorf Regional Government

### **Heinrich Deichmann**

Chairman of the management  
of Heinrich Deichmann-Schuhe GmbH & Co. KG

### **Regierungspräsident Helmut Diegel**

Arnsberg Regional Government

### **Dr. Reinhold Festge**

Managing Partner  
of HAVER & BOECKER OHG  
Drahtweberei und Maschinenfabrik

### **Heinz Fiege**

Chairman of the Managing Board  
of Fiege Holding Stiftung & Co. KG

### **Otto Rudolf Fuchs**

Shareholder  
of Otto Fuchs Metallwerke

### **Dr. Rolf Gerlach**

President  
of the Savings Banks and Giro Association  
of Westphalia-Lippe

### **Dr. Jürgen Großmann**

Chairman of the Managing Board  
of RWE AG  
(since January 1, 2008)

### **Lord Mayor Thomas Hunsteger-Petermann**

City of Hamm

### **Norbert Kleyboldt**

Vicar-general  
of Bischöfliches Generalvikariat Münster

### **Dr. Johannes Kramer**

Managing Director  
of Städtische Kliniken Bielefeld gem. GmbH

### **District Administrator Thomas Kubendorff**

President  
of Landkreistag Nordrhein-Westfalen e.V.

### **Dr. Heiner Leberling**

Chairman of the Managing Board  
of Bankenvereinigung Nordrhein-Westfalen e.V.  
(since January 1, 2008)

### **Lord Mayor Dr. Jürgen Linden**

City of Aachen

### **Regierungspräsident Hans Peter Lindlar**

Cologne Regional Government

### **Wolfgang Lubert**

Managing Director  
of enjoyventure Management GmbH

### **Dr. Thomas Middelhoff**

Chairman of the Managing Board  
of Arcandor AG

### **Konstantin Neven DuMont**

Managing Director  
of Unternehmensgruppe M. DuMont Schauberg

**Dr. Hermann Niehues**

Chairman of the Supervisory Board  
of REMONDIS AG & Co. KG

**Dr. Paul-Josef Patt**

Member of the Managing Board  
of eCAPITAL New Technologies Fonds AG

**Mayor Heinz Paus**

1st Vice President  
of Städte- und Gemeindebund Nordrhein-Westfalen  
(until December 31, 2007)

**Regierungspräsident Dr. Peter Paziorek**

Münster Regional Government  
(since January 1, 2008)

**Gerd Pieper**

President  
of IHK im mittleren Ruhrgebiet zu Bochum

**Dr. Henner Puppel**

Member of the Supervisory Board and  
former Spokesman of the Managing Board  
of NATIONAL-BANK AG  
(until December 31, 2007)

**Lord Mayor Dr. Wolfgang Reiniger**

City of Essen

**Harry Roels**

Former Chairman of the Managing Board  
of RWE AG  
(until September 30, 2007)

**Prof. Dr. Volker Ronge**

Chairman of the Directors Conference  
of the Universities in NRW  
Bergische Universität Wuppertal

**Mayor Roland Schäfer**

President  
of Städte- und Gemeindebund Nordrhein-Westfalen  
(since January 1, 2008)

**Guntram Schneider**

District Chairman  
of Deutscher Gewerkschaftsbund NRW

**Lord Mayoress Dr. Ottilie Scholz**

City of Bochum

**Dr. Joachim Schorr**

Managing Director  
of QIAGEN GmbH

**Lord Mayor Fritz Schramma**

Chairman  
of Städtetag Nordrhein-Westfalen

**Prof. Wolfgang Schulhoff**

President  
of the Düsseldorf Chamber of Handicrafts

**Dr.-Ing. Ekkehard D. Schulz**

Chairman of the Managing Board  
of ThyssenKrupp AG

**Maria Seifert**

Chairwoman  
of the Regional Assembly of Westphalia-Lippe

**Regierungspräsidentin Marianne Thomann-Stahl**

Detmold Regional Government

**Regierungspräsident a.D. Dr. Jörg Twenhöven**

Münster Regional Government  
(until December 31, 2007)

**Mayor Hans-Josef Vogel**

City of Arnsberg

**Werner Wenning**

Chairman of the Managing Board  
of Bayer AG

**Kurt Henning Wiethoff**

Director General  
of 3M Deutschland GmbH

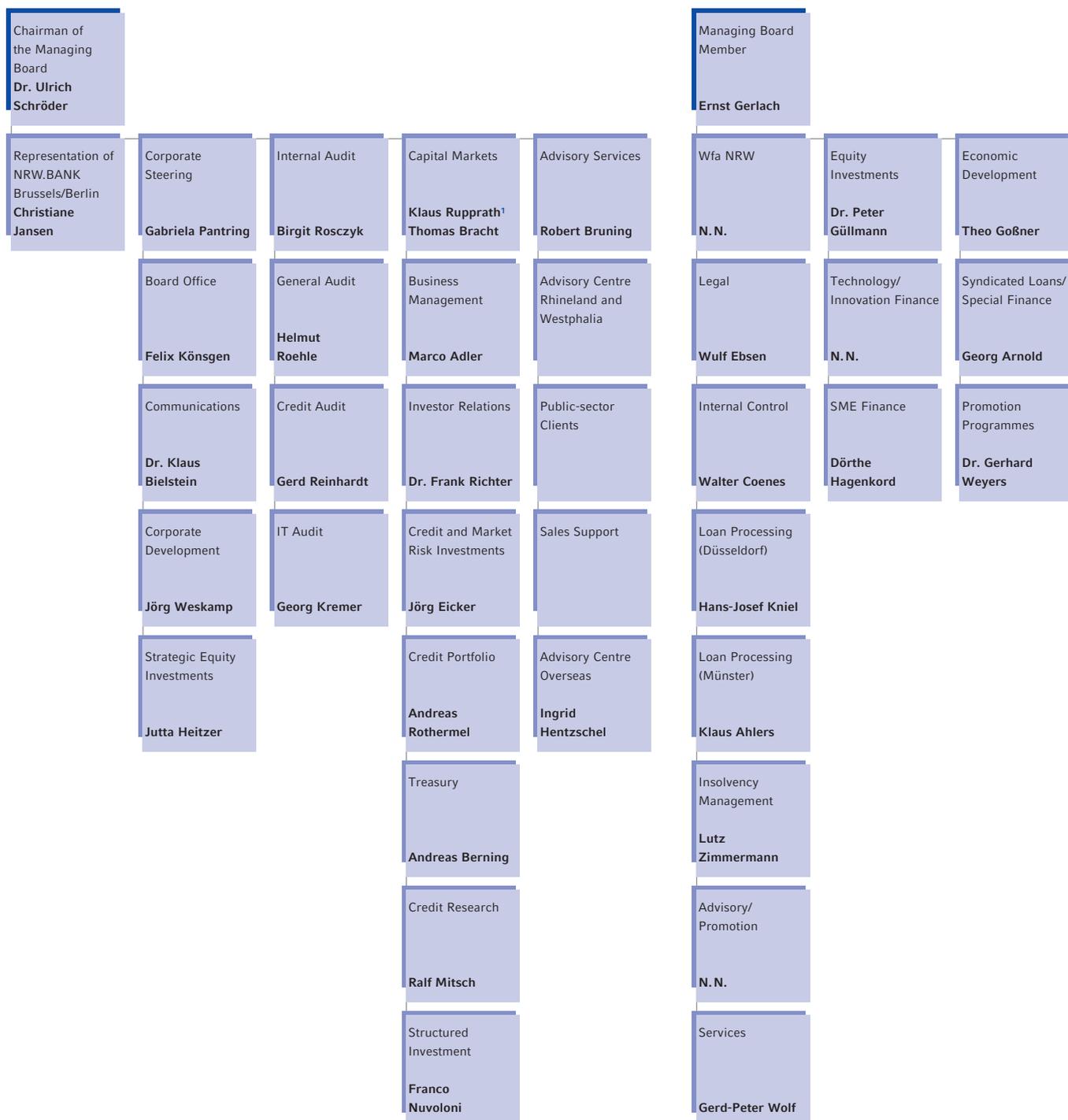
**Dr. Jürgen Wilhelm**

Chairman  
of the Regional Assembly of the Rhineland

**Council Member Klaus Winterhoff**

Legal Vice President  
of the Evangelical Church of Westphalia

# Organisation Chart of NRW.BANK



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

Managing Board Member  
**Klaus Neuhaus**

Municipal and Infrastructure Finance <b>Andreas Kötter</b>	Individual Promotion <b>Margret Hirthammer</b>	Legal, Compliance, Money Laundering Prevention <b>Oliver Blaß</b>	Finance <b>Wolfgang Beimel</b>	Human Resources <b>Achim Meierkamp</b>	Risk Management <b>Michael Stölting</b>	Business Support <b>Dr. Ortwin Schumacher</b>	IT/Organisation/Internal Services <b>Tobias Schmitt</b>
Structured Financing <b>Andreas Wittler</b>	Housing Sector Promotion <b>Uwe Beckmann</b>		Accounting <b>Joachim Kiesau</b>	Personnel Development/Management Training <b>Ralf Groß-Heitfeld</b>	Basic Issues/Controlling <b>Sabine Lamers</b>	Back Office Capital Markets <b>Gabriele Nowak</b>	IT-Services <b>Matthias Lersch</b>
Municipal Financing <b>Bernd Kummerow</b>	Business Unit Development <b>Werner Kindsmüller</b>		Financial Accounting <b>Ute Kuschel</b>	Personal Development/Basic Issues <b>Petra Kalthoff</b>	Credit Risk <b>Dr. Michael Kuhlbrodt</b>	Central Services Promotion Business <b>Astrid Demme</b>	IT Non-Trading <b>Klaus Elschenbroich</b>
Structural Promotion Programmes <b>Anton Render</b>			Banking Supervision <b>Dr. Rüdiger Krautheuser</b>	Human Resources Administration and Controlling <b>Peter Schröder</b>	Real Estate Loan Processing <b>Rolf-Werner Huckenbeck</b>	Back Office Promotion Business <b>Matthias Voß-Geßmann</b>	IT Trading <b>Dr. Jens Heinrich</b>
			Tax <b>Sybill Heberer-Wilhelm</b>		Municipal and Syndicated Financing <b>Hubert Venneker</b>		Organisation <b>Dr. Jürgen Schulte</b>
			Controlling <b>Walter Wohlhage</b>		Market and General Risk <b>Florian Merkel</b>		Internal Services <b>Ralf Welter</b>

# 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

**Legal Status** Public law bank

**Head Offices** Düsseldorf and Münster

## Contact at NRW.BANK

### Advisory Centre Rhineland

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## NRW.BANK

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### Concept and design

AM | COMMUNICATIONS  
Cologne

### Production and typesetting

WestTeam Marketing GmbH  
Düsseldorf

### Printed by

Woeste Druck+Verlag  
GmbH & Co. KG, Essen-Kettwig

## Financial Calendar 2008

<b>May 6, 2008</b>	Publication of the promotion result for the first quarter of 2008
<b>August 5, 2008</b>	Publication of the promotion result for the first half of 2008
<b>November 4, 2008</b>	Publication of the promotion result for the third quarter of 2008
<b>December 11, 2008</b>	Capital market press conference in Frankfurt

## Key Figures

	2007	2006
	€ millions	€ millions
Total assets	151,010	135,552
Certificated liabilities	53,186	46,319
Equity capital pursuant to the German Commercial Code (HGB)	19,583	19,458
Liabile capital in accordance with the German Banking Act (KWG*)	3,549	3,515
Net interest income	332	341
Net commission income	29	16
Personnel expenses	106	105
Operating expenses	84	82
Operating income before risk provisions/revaluation adjustments	168	171
Operating income after risk provisions/revaluation adjustments	164	183
Promotion dividend	30	26
Allocation to capital of Wohnungsbauförderungsanstalt NRW	8	42
Profit for the year	24	23
Principle I ratio in %*	11.2	16.5
Staff	1,138	1,077

\* 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+
Outlook	stabil	stabil	stabil

Status: February 22, 2008

## Promotion Volumes

	2007	2006
	€ millions	€ millions
Promotion of Start-ups and SMEs	3,028	1,908
Infrastructure and Municipal Finance	2,670	1,733
Social Housing Promotion	855	851
Individual Promotion	1,571	1,655

