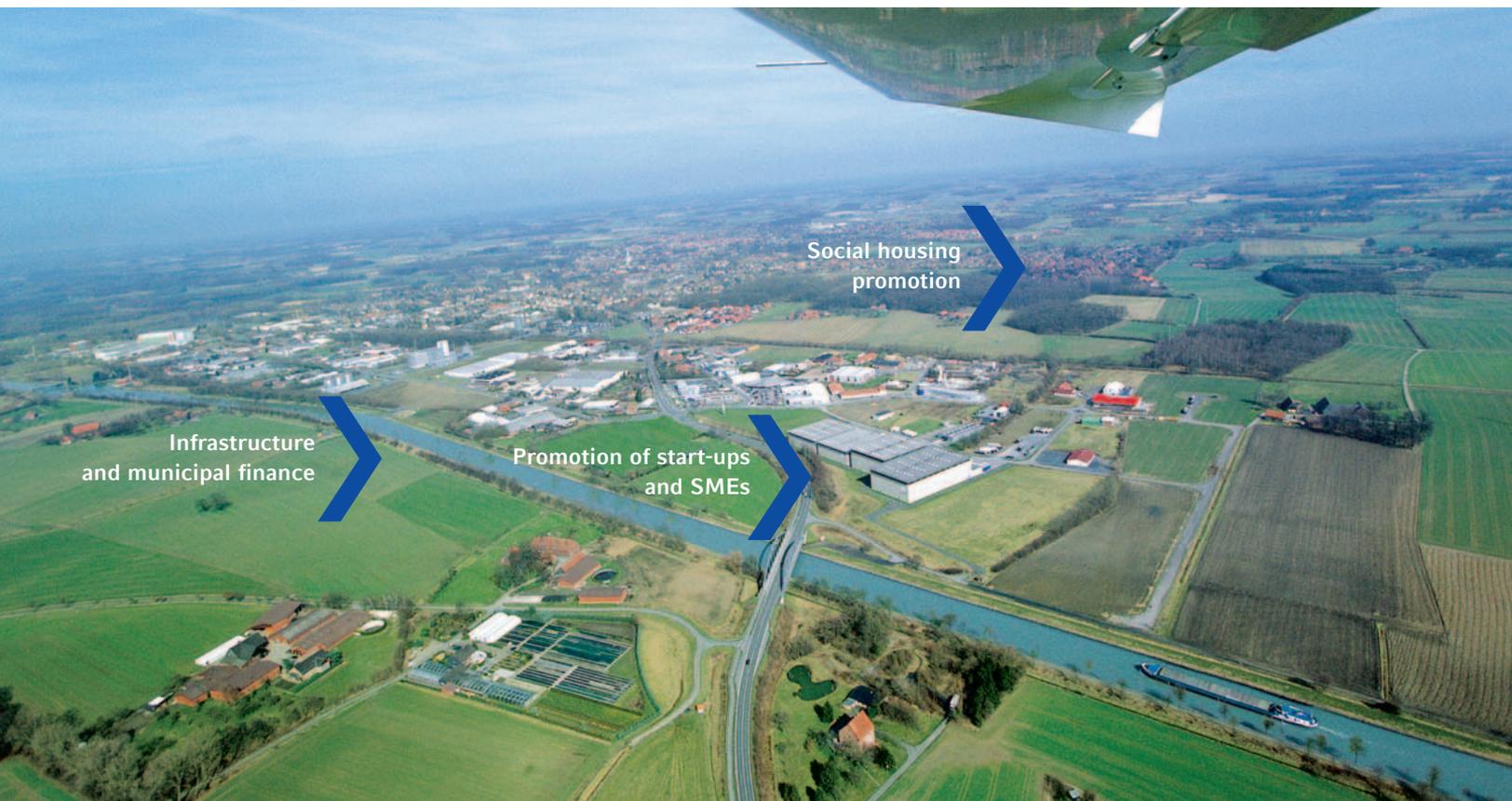


Annual Report 2004



Key Figures

	2004	2003
	€ millions	€ millions
Total assets	110,267	105,028
Credit volume	109,270	103,524
Certificated liabilities	49,223	49,152
Equity capital pursuant to the German Commercial Code (HGB)	3,696	4,919
Liable capital in accordance with the German Banking Act (KWG*)	1,400	6,224
Net interest income	351	356
Net commission income	13	11
Personnel expenses	90	73
Operating expenses	74	88
Operating profit before risk provisions/result of evaluation	205	199
Operating profit after risk provisions/result of evaluation	- 247	- 1,746
Net income/loss for the year	- 256	- 1,770
Allocation to state housing construction funds	55	25
Withdrawals from capital reserves	311	1,796
Profit	0	0
Principle I ratio in %*	10.4	32.5
Staff	948	862

* before approval of the annual accounts

Ratings

	Fitch Ratings	Moody's	Standard & Poor's
Long-term rating	AAA	Aa2	AA-
Short-term rating	F1+	P-1	A-1+
Individual ¹⁾ /financial ²⁾ strength	C/D ¹⁾	C- ²⁾	-*
Outlook	stable	stable	stable

* not prepared by Standard & Poor's

Status: March 31, 2005

Promotion Volumes

	2004	2003
	€ millions	€ millions
Promotion of start-ups and SMEs	1,028	1,116
Social housing promotion	1,021	1,001
Housing loans of KfW Bankengruppe	1,157	1,581
Infrastructure finance	396	447

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NRW.BANK

Promotion with a Vision

Social housing
promotion





NRW.BANK

NRW.BANK

NRW.BANK



At a Glance

NRW.BANK is the Development Bank of the State of North Rhine-Westphalia.

Based in Düsseldorf and Münster, NRW.BANK assists its owners – the State of North Rhine-Westphalia (64.74%) and the Regional Associations of the Rhineland and of Westphalia-Lippe (17.63% each) – in important development and structural tasks.

NRW.BANK leverages the full range of financial development products in three areas of competence – Promotion of Start-ups and SMEs, Social Housing Promotion and Infrastructure and Municipal Finance. Being a competition-neutral development bank, NRW.BANK has a policy of cooperating closely with borrowers' and fund recipients' local relationship banks.

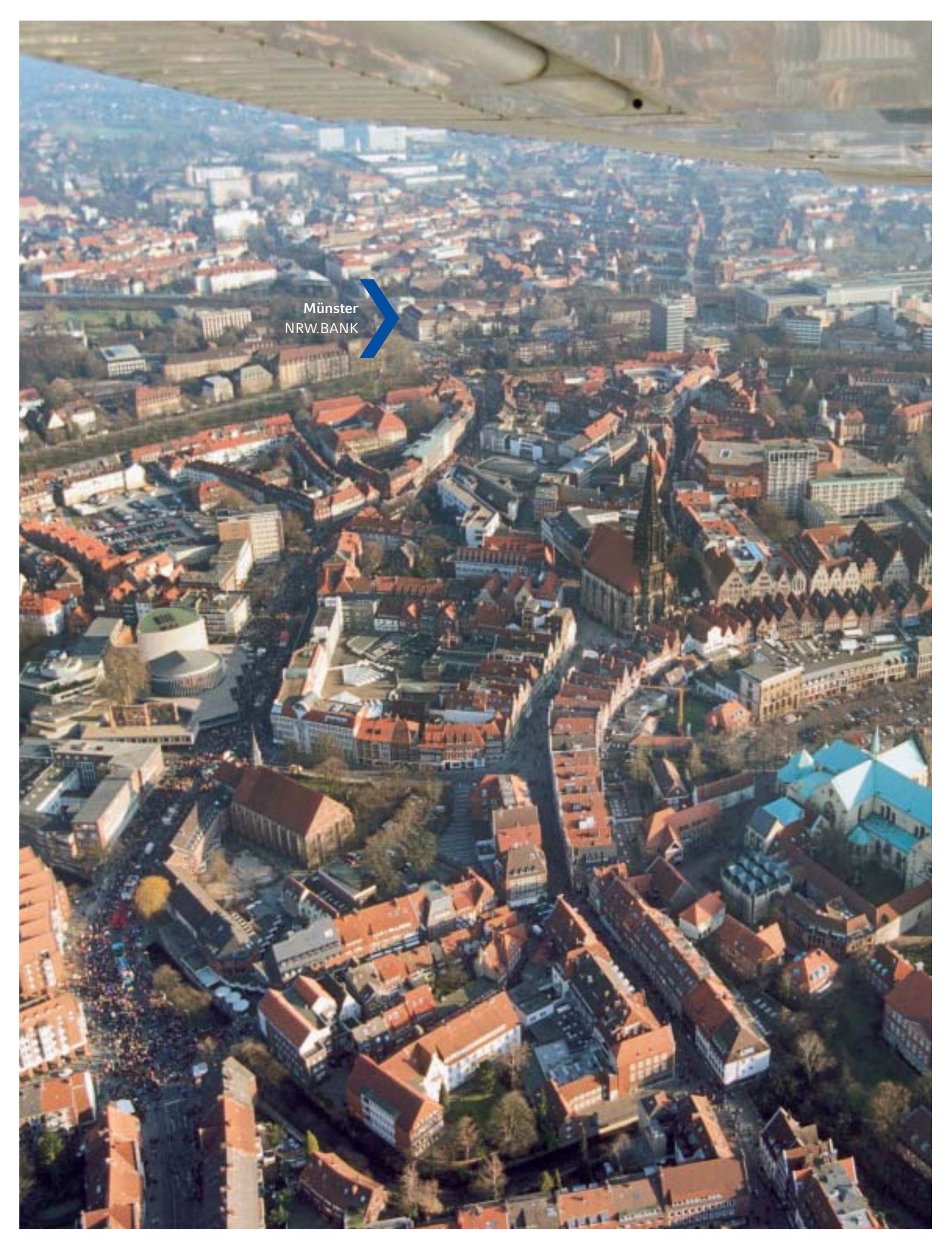
Established on August 1, 2002, Landesbank NRW operates on the basis of the "Gesetz zur Umstrukturierung der Landesbank Nordrhein-Westfalen zur Förderbank des Landes Nordrhein-Westfalen und zur Änderung anderer Gesetze" (Umstrukturierungsgesetz) (Act on the Reorganisation of Landesbank Nordrhein-Westfalen into the Development Bank of the State of North Rhine-Westphalia and on the Amendment of Other Laws – Reorganisation Act).

Under this Act, NRW.BANK fulfils the European regulations for legally independent development banks. According to the so-called "Verständigung II" (Agreement II), an agreement reached between

the Federal Republic of Germany, the European Commission and the Association of German Public Sector Banks (VÖB) on March 1, 2002, development banks continue to benefit from the state guarantees known as institutional liability and guarantor liability. According to the Reorganisation Act, NRW.BANK additionally benefits from an explicit funding guarantee from its guarantors (owners).

NRW.BANK is an institution under public law. Its statutory governing bodies are the Guarantors' Meeting, the Supervisory Board and the Managing Board. As of December 31, 2004, NRW.BANK had a share capital of € 533.3 million. NRW.BANK holds a full bank licence and employs some 950 people.

NRW.BANK is a regular member of the VÖB. In the context of the statutory deposit security scheme, NRW.BANK is part of the compensation scheme of the Association of German Public Sector Banks. NRW.BANK is also an extraordinary member of the Banking Association of North Rhine-Westphalia and of the Rhenish-Westphalian Cooperative Union.



Münster
NRW.BANK





Foreword of the Managing Board

Promotion with a Vision

Seeing the whole and not only the details; identifying correlations instead of taking isolated action; shaping the future instead of being stuck in the past – this is our idea of promotion with a vision.

In the past year, many people have shown that they have a vision – our owners, our customers and our recipients of development funds.

The year 2004 saw us focus on building NRW.BANK into the central development platform in North Rhine-Westphalia. Our progress was marked by three major decisions:

- In March, the North Rhine-Westphalian Parliament unanimously passed the Reorganisation Act; this gave the Bank the status of a competition-neutral development bank.
- The parent-subsidary relationship between NRW.BANK and WestLB AG was terminated in October.
- By signing a framework agreement in November, the North Rhine-Westphalian government laid the foundation for the transfer of development programmes to NRW.BANK.

Competition-neutral Development Bank

Together with our owners and in close coordination with the EU Commission, we worked towards making optimum use of the European regulations for legally independent development banks. The Reorganisation Act, which was unanimously passed on March 31, 2004, has laid the basis for doing this.

NRW.BANK has been given the legal status of a competition-neutral development bank for North Rhine-Westphalia. According to the so-called “Verständigung II” (Agreement II) reached between the Federal Republic of Germany, the European Commission and the Association of German Public-Sector Banks on March 1, 2002, institutional liability and guarantor liability will continue to apply unchanged. In addition, the owners have granted an explicit funding guarantee. As a result of this legally imposed joint and several liability, NRW.BANK’s issues have a solvency weighting of zero. This means that banks which provide NRW.BANK with debt capital no longer have to back these claims with liable capital. The resulting funding advantages are used by the Bank in the context of development programmes in the interest of the recipients of development funds in North Rhine-Westphalia.

Termination of the Parent-Subsidiary Relationship

In the context of the reorganisation of NRW.BANK into a competition-neutral development bank, Rheinischer Sparkassen- und Giroverband (RSGV) and Westfälisch-Lippischer Sparkassen- und Giroverband (WLSGV) resigned as guarantors of NRW.BANK and acquired direct investments in WestLB AG. After the two associations increased WestLB’s share capital by € 1.5 billion, NRW.BANK’s interest in WestLB AG declined to 38.75%. The corporate relationship between NRW.BANK and WestLB AG, the so-called “parent-subsidiary” model, was terminated in October 2004, when the capital increase became effective.



Central Development Platform for North Rhine-Westphalia

The North Rhine-Westphalian government has repeatedly expressed its intention to build NRW.BANK into the central development platform for the state of North Rhine-Westphalia – a single platform for all development initiatives of the federal state, the federal government and international development institutions. In November 2004, the cabinet decided to sign a framework agreement on the cooperation between the federal state and NRW.BANK.

This agreement provides for the following:

- Development programmes are to be pooled at NRW.BANK; in a first step, roughly two dozen development programmes with a combined volume of approx. € 1 billion will be transferred to the Bank from 2005; these will be followed, from 2007, by the EU co-financed development programmes of the new development period.
- NRW.BANK will advise the federal state on the continued development of the development tools; the Bank acts as the federal state's innovation partner and will develop new approaches to the promotion of research, technology, science and qualifications as well as to education finance.
- Projects on behalf and in the interest of the federal state will be advised and managed by NRW.BANK.

NRW.BANK offers increased settlement efficiency by pooling the development programmes on a single platform. Even more importantly, however, the Bank can combine development funds and tools for an improved use of funds.

In fact, traditional (and costly) subsidy funding has been testing the limits of tight public-sector budgets. To step in where the market has failed, promotion must become more intelligent – for instance with subordinated loans, releases from liability and global loans.

These funding tools widen the traditional promotion channel. The return from the loans granted will, in turn, open up new possibilities for promotion.

Our concept is geared to the different phases of life of a company – from start-up to expansion to succession. Together with our owners and customers, we will provide suitable tools to support these phases. We have already launched the "NRW.BANK. Mittelstandsfonds", a fund for fast-growing medium-sized companies as well as the "NRW.BANK.Venture.Fonds" for companies in highly innovative sectors such as life sciences, optical and communications technologies.

NRW.BANK also opens up new scope for funding for local authorities and municipal institutions in North Rhine-Westphalia. This is the Bank's statutory mission. By offering intelligent funding products, customised municipal finance and comprehensive advice, the Bank is set to take some weight off public-sector budgets.

NRW.BANK will become the hub in the "Promotion Network" in North Rhine-Westphalia. In this context, advisory services will play an important role. Shedding some light on the complex issue of development and promotion, providing a sense of direction – these important communication tasks are mainly performed by the Advisory Services unit, which serves as the shared umbrella for product development and



product management – our “bridge into the market” so to speak. Advisory Services liaises with local relationship banks and local authorities and acts as a compact sales unit – for all banks, across the full product range and all development programmes. A new website will complement the traditional advisory services. This will be supported by a new marketing campaign that will focus on our promise: “Promoting Ideas”.

This visionary process has many winners – the people of North Rhine-Westphalia. New ideas prompted more and more people to opt for self-employment in the past year. New ideas help entrepreneurs make their companies fit for the future. New ideas help create new jobs. All these ideas are promoted by a strong partner – NRW.BANK.

The Managing Board

**The Managing Board of
NRW.BANK (from left):**

Dr. Ulrich Schröder
Dr. Bernd Lüthje
Ernst Gerlach

Dr. Bernd Lüthje
Chairman

Ernst Gerlach

Dr. Ulrich Schröder



Report of the Supervisory Board

In compliance with its statutory tasks, the Supervisory Board held four ordinary meetings in fiscal 2004. The Committees composed of the members of the Supervisory Board held 16 meetings.

After the coming into force of the "Gesetz zur Umstrukturierung der Landesbank Nordrhein-Westfalen zur Förderbank des Landes Nordrhein-Westfalen und zur Änderung anderer Gesetze" (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) on March 31, 2004, the savings banks and giro associations exercised their option rights and resigned as guarantors of NRW.BANK. The Supervisory Board addressed the resulting consequences as well as the consequences of the termination of the corporate relationship resulting from the subsequent capital increase at WestLB AG. Moreover, the Supervisory Board and its Committees reviewed the Bank's risk management system and the participation of

the bodies. As a result, the former Credit Committee was converted into a Risk Committee and modified Standing Orders were adopted to reflect the expanded scope of tasks resulting from the amended institutional status.

The Supervisory Board was informed about the situation of the company and major business transactions in regular reports. The Supervisory Board discussed and approved all transactions requiring its approval in accordance with legal or statutory provisions and addressed important matters of business policy in detail. In particular, the Supervisory Board, the Risk Committee and the Audit Committee thoroughly discussed the business and risk policy for the years from 2005 to 2008 and submitted it to the Guarantors' Meeting, which is the responsible body according to the Bank's statutes, for approval. The Guarantors' Meeting approved the proposed policy at its meeting on December 10, 2004.



KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft carried out the audit of the financial statements for 2004 and the management report of NRW.BANK. The financial statements received the auditor's unqualified audit opinion. The Supervisory Board and the Audit Committee formed from among its members discussed in detail the reports of the external auditors on the results of their audits. Following the final result of the audit, they raised no objections.

The Supervisory Board approved the financial statements and the management report established by the Managing Board as well as the consolidated financial statements and the Group management report at its meeting on April 28, 2005 and proposes that the Guarantors' Meeting approve the financial statements for the year 2004.

The option exercised by the savings banks and giro associations also entailed the resignation of their respective representatives from the Bank's bodies. The Supervisory Board of NRW.BANK would like to thank them and the savings banks and giro associations for their fruitful cooperation in building up Landesbank NRW and transforming it into NRW.BANK, the development bank of North Rhine-Westphalia.

Düsseldorf/Münster,
April 28, 2005

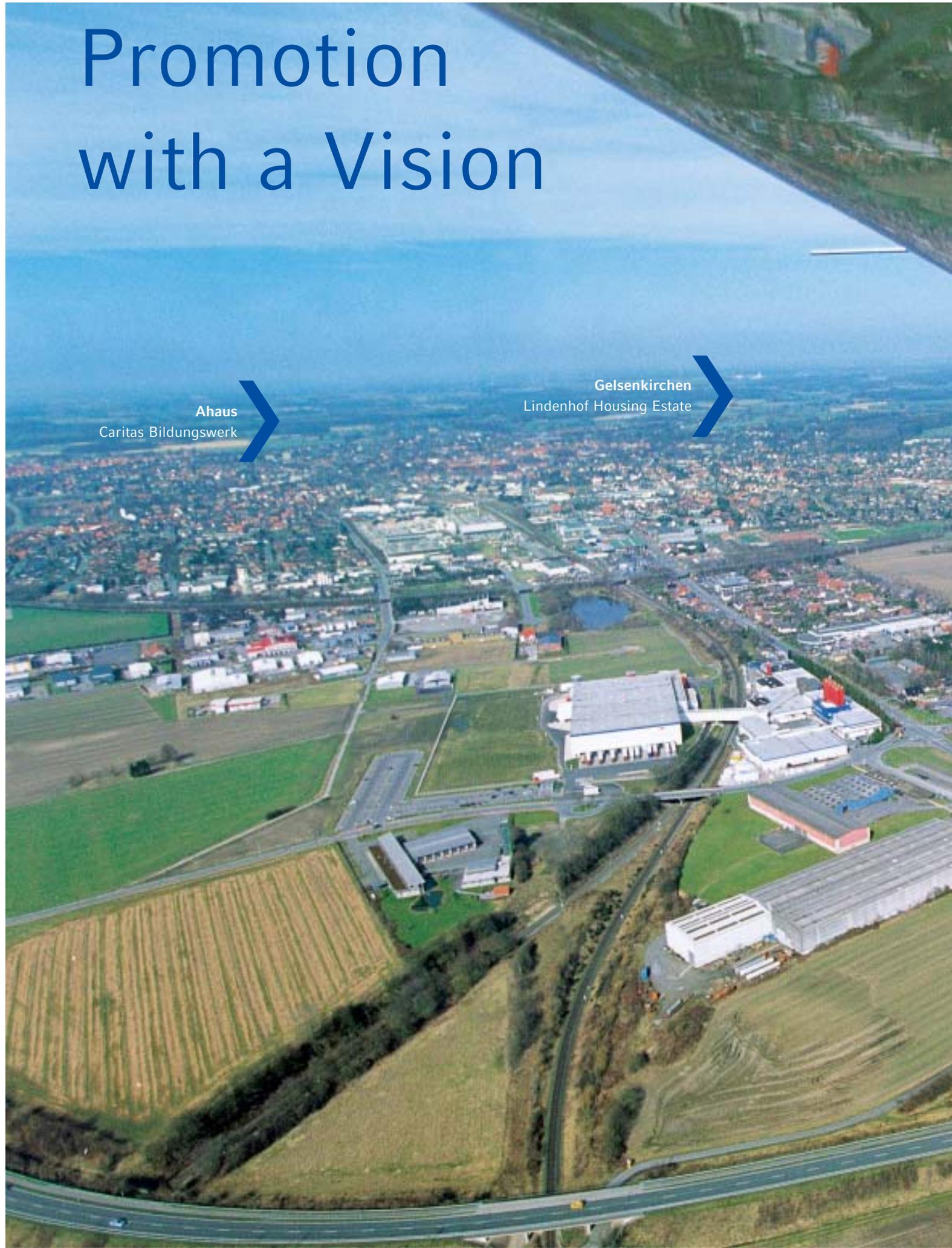
A handwritten signature in blue ink that reads "Harald Schartau".

Harald Schartau
Chairman of the Supervisory Board

Promotion with a Vision

Ahaus
Caritas Bildungswerk

Gelsenkirchen
Lindenhof Housing Estate



An aerial photograph showing a large industrial facility with numerous buildings and a parking lot, situated in a rural area with green fields and a small town in the background. A wind turbine is visible in the foreground. The sky is clear and blue. The image is taken from a high angle, looking down at the facility.

Lünen
microca Kohlenstäube GmbH



In the Lünen coal mills,
the lights seemed to
have gone out forever.
Then an entrepreneur
came and switched
them on again. >

microca Kohlenstäube GmbH, Lünen









› Catching Fire

In the Lünen coal mills, the lights seemed to have gone out forever. Then an entrepreneur came and switched them on again.



Happy about his new perspective in life:
Karl-Friedrich Winkelsett,
Technical Manager of
microca Kohlenstäube
GmbH

For Ulrich Höwing, microca is a blast from the past. In 2001, the businessman from Lünen sold his plant engineering company, which used to operate in the steel and iron industry in the past. Then he heard that the disused coal mills at Lünen's "Stumm-Hafen", a port rich in tradition, were to be dismantled.

Up to 2002, these mills had been owned by Micro Carbon Brennstofftechnik (MCB), a subsidiary of the RAG Group. MCB produced coal dust, which is considered excellent fuel for blast furnaces. But when MCB's main customer, the Hoesch steel mill in Dortmund, was closed, the RAG Group divested its specialist company.

Ulrich Höwing had heard not only of the defunct industrial site but also of the fact that EKO Stahl GmbH in Eisenhüttenstadt was looking for a supplier of coal dust – an excellent basis for a new business. That was when he caught fire and microca Kohlenstäube GmbH was born.

The business and investment plan showed financing requirements of € 7 million – to renew the coal mills, to lay new railway tracks and to build a loading station with 56-metre silos. Moreover, the piping system through which the highly explosive coal dust is pumped into the silos had to be renewed.

Ulrich Höwing invested substantial own funds, the rest came from loans granted by Sparkasse Lünen and two promotion programmes made available through NRW.BANK – in the case of the development loan granted under North Rhine-Westphalia's "Start-up and Growth

Finance" scheme, the relationship bank was partly released from liability; in addition, the company received a subordinated loan under the State of North Rhine-Westphalia's and the European Union's "Ziel 2-Investitionskapital" programme for structurally weak regions.

"Then," the 56-year-old company founder says, "I called Karl-Friedrich Winkelsett back from retirement." Winkelsett was Technical Manager of the former MCB, and Höwing offered him the same position in his new company. The former MCB man, in turn, recruited his "dream team" from among his former colleagues. "As a result, the average age at microca is relatively high," 56-year-old Winkelsett says tongue-in-cheek, "but after all you can operate such a plant only with a great deal of experience."

The company started operations with 30 employees in September 2004. In addition to EKO, microca also supplies coal dust to a large number of other customers. Going forward, the company intends to produce additional fuels – a mix of coal dust and secondary fuel such as plastic waste.

Karl-Friedrich Winkelsett, who had already imagined himself a pensioner, supervises the automated processes. "Two years ago," he says, "I wouldn't have thought it possible that I would one day have such career prospects again."



Performance – Promotion of Start-ups and SMEs

For business start-ups and SMEs in North Rhine-Westphalia, NRW.BANK makes effective use of public promotion and equity finance products and customises them to specific needs. Young, innovative small and medium-sized enterprises (SMEs) are of major importance for structural change in North Rhine-Westphalia, which continues to be dominated by large industrial corporations. But many of these small and medium-sized companies lack the necessary financial resources. Besides weak economic activity, this is mainly attributable to the traditionally low capitalisation of German SMEs and the resulting negative impact on their ratings. Moreover, banks are increasingly reluctant to take risks – especially with regard to business start-ups. It is the aim of NRW.BANK to close this funding gap with innovative promotion and funding products. To serve company founders and SMEs even more effectively, the teams at the Bank's advisory centres in Düsseldorf and Münster have been strengthened.

Promotion an Important Element

As the central development platform, NRW.BANK processes NRW's major promotion programmes channelled through banks and savings banks for start-ups and SMEs in North Rhine-Westphalia. In this context, the Bank cooperates closely with the responsible State Ministries. In 2004 alone, the promotion programmes of the State of North Rhine-Westphalia helped create some 3,500 new jobs and protect just under 8,000 existing jobs. Moreover, NRW.BANK handles the federal programmes of KfW Mittelstandsbank and – since January 2004 – of Landwirtschaftliche Rentenbank for the savings banks organisations in North Rhine-Westphalia and Brandenburg. The state and federal programmes include general economic development programmes for start-ups and SMEs as well as special programmes for environmental protection, technology/innovations and regions. In addition, NRW.BANK performs management and advisory tasks for individual projects on behalf of the State of North Rhine-West-



phalia. The “Employee Equity Participation” initiative of the North Rhine-Westphalian Ministry of Labour and Economics, for instance, has installed the “Employee Equity Participation” project office at NRW.BANK.

Promotion Business Marked by Moderate Economic Activity

In 2004, new business was marked by what was only a very moderate economic recovery. At € 1,028 million, the commitment volume was down 7.9% on the previous year (€ 1,116 million). The number of credit commitments declined by a good 17% to 8,959 (2003: 10,815). 2,553 commitments and a volume of € 569.6 million made the “KfW-Unternehmerkredit” loan the most important SME promotion product.

New business comprised € 981 million (2003: € 1,032 million) in loans and € 47 million (2003: € 84 million) in subsidies. The decline in subsidies is not least attributable to the fact that NRW’s “Ziel 2-

Investitionskapital NRW” programme provides an attractive alternative in the form of a subordinated low-interest loan. This reflects the change in the promotion landscape that has been ongoing for some years. Due to public-sector budgets’ growing lack of funds, it is important to make promotion more efficient. As a result, low-interest loans are gaining in importance.

At the end of the year, the loan portfolio amounted to € 7.8 billion, down almost 7% on the previous year’s € 8.4 billion. The decline is mainly attributable to – planned and unplanned – repayments, which were not fully offset by new business.

“Start-up and Growth Finance” Programme Revised

The “Start-up and Growth Finance NRW” (GuW-NRW) programme is a joint initiative by the State of North Rhine-Westphalia, KfW Mittelstandsbank and NRW.BANK. It is primarily targeted at commercial businesses and members of the liberal profes-

This is how we promote growth

Healthy and fit: The Bacher chain of health product shops was the first to receive equity capital in the form of a dormant investment from the “NRW.BANK.Mittelstandsfonds”. The company sells products such as foodstuffs, cosmetics and OTC drugs. Growing awareness of health issues makes this a promising market – reason enough for NRW.BANK to support the fast-growing company.

sions in the growth and stabilisation phase as well as people and businesses wishing to acquire and run a commercial enterprise.

This state programme was revised as of August 1, 2004. GuW promotion now takes the form of loans which release the borrower's relationship bank from liability. The advantage for the latter lies in the fact that the State of North Rhine-Westphalia and NRW.BANK bear 50% or 75% of the credit risk, making it easier for SMEs to raise a loan. For business takeovers, growth investments and the market launch of new products, there is even a 100% release from liability. It takes the form of a subordinated loan, which subordinates the relationship bank to the other creditors. The loans have a near-equity character, thus strengthening the company's capital base. This is an effective solution to the low capitalisation of the SME sector. The company can use existing collateral to secure further debt capital requirements.

Despite the weak overall demand for promotion programmes, the new GuW-NRW programme met with a good response. Between August and December 2004, 206 applications were received, of which 92 (with a combined volume of € 18 million) have already been approved.

Launch of "Kleiner Mittelstand" Global Loan

The new "Kleiner Mittelstand" global loan is the first funding tool which allows small and medium-sized companies in North Rhine-Westphalia to benefit from the attractive terms of the "KfW Global Loan". The respective agreement for an amount of € 200 million was signed by KfW Bankengruppe and NRW.BANK in November 2004. This permits savings banks to offer commercial companies which are largely privately owned and whose group sales do not exceed € 500 million loans at favourable terms. Another target group for the global loan are members of the liberal professions.

The low-interest funding possibilities and the straightforward application process of the "Kleiner Mittelstand" global loan make it easier for savings banks to grant small and medium-sized businesses loans of up to € 125,000. At the same time, variable terms between three to eight years make the global loan more flexible than the so-called programme loans. This way, the global loan covers both medium-term and long-term funding requirements. NRW.BANK has developed this product together with KfW Bankengruppe and Deutscher Sparkassen- und Giroverband (DSGV). Applications have been accepted since December 1, 2004. The new product has met with good response from the savings banks, with a funding volume of approx. € 60 million registered in the first month alone.

Water Management Initiative Extended

The sustainable use of natural resources is of great importance for the future of society. This is why environmental protection projects of the SME sector benefit from special promotion programmes. In 2004, some € 51 million (2003: € 47 million) were committed to a total of 281 environmental projects under the "KfW Environmental Programme".

In the context of the "Ecological and Sustainable Water Management NRW" programme, which was launched in 1996, NRW.BANK promotes relevant water management activities with subsidies and loans at attractive terms. The target group are municipal and industrial clients. The latter, for instance, benefit from low-interest loans if they save or purify water in their production processes. Subsidies are granted for innovative industrial projects. The programme is funded from the sewage tax. In 2004, 41 companies received funds totalling approx. € 28 million. Due to high demand, especially from local authorities, the state Ministry for Environmental and Nature Preservation, Agriculture and Consumer Protection has extended the project by one more year until the end of 2005.

Follow-up Project for “Employee Equity Participation” Project Office

The participation of employees in their company’s capital can increase their motivation and cost-consciousness. It can also help solve the (equity) financing problems of the SME sector. It is the task of the “Employee Equity Participation” project office, which is based within NRW.BANK, to increase awareness of this funding tool by way of information events, advisory sessions and coordination services. Established in 2001 on behalf of NRW’s Ministry of Labour and Economics (MWA), the project office supports the “Employee Equity Participation” state initiative. It is co-financed by the European Social Fund.

Since its inception, almost 2,000 interested parties, mostly representing medium-sized companies from North Rhine-Westphalia, have contacted the project office. Some 70 events organised in cooperation with the regional chambers and economic development agencies were attended by over 2,200 participants. Some 150 companies from NRW have been advised on the introduction of employee equity participation schemes in the context of an initial free counselling session.

At the beginning of 2004, the MWA entrusted NRW.BANK with a 2-year follow-up project, in the context of which the Bank is to refine this instrument and increase its importance.

European SME Finance Network

Together with 19 partners from nine EU member states, NRW.BANK joined the pan-European “Network for Regional SME Finance – FinNetSME” in mid-2004. Part-financed by the European Union, the network aims to intensify the contacts between the development agencies and to exchange and exploit specific local experience with SME funding tools. Additional players from the regional economic development sectors, from the political scene and society are involved in the project on an ongoing basis.

The network’s kick-off conference was held in Brussels in November 2004. Representatives of the European Union, the European Investment Fund, the corporate sector and the regions participating in FinNetSME discussed how small and medium-sized companies and regional financiers can jointly increase European competitiveness.

In the context of the project tasks, NRW.BANK is in charge of coordinating the contents addressed by the different work groups, which aim to develop new and innovative products for start-up funding, equity finance and microcredit.

Equity Finance for a Company’s Full Lifecycle

In addition to promotion products, NRW.BANK offers SMEs in North Rhine-Westphalia equity finance with a view to filling the gap in the North Rhine-Westphalian equity capital market.

NRW.BANK’s product portfolio is geared to a company’s lifecycle and has a modular structure. The Bank offers investment finance both for young tech companies and established medium-sized growth companies. Financing can take the form of a direct equity investment or all types of mezzanine finance.

Launch of “NRW.BANK.Mittelstandsfonds”

Launched in December 2004, NRW.BANK’s “Mittelstandsfonds”, supports the repositioning of the state’s funding aids for North Rhine-Westphalian medium-sized companies. The € 75 million fund is targeted at growth companies in North Rhine-Westphalia that need capital, for instance to develop a market, to extend their sales organisation, to expand their production or to manage succession. These companies used to have trouble in raising equity capital of up to € 10 million. The NRW.BANK.Mittelstandsfonds closes this gap by providing equity capital of between € 1 and 7 million, usually in the form of

mezzanine investments, so that the companies remain largely independent. The State of North Rhine-Westphalia bears 49% of the capital risk for the fund.

The NRW.BANK.Mittelstandsfonds responds to the needs of North Rhine-Westphalian medium-sized companies, which is not least reflected in the large number of financing inquiries received long before the launch of the fund. As a result, NRW.BANK acquired the first investment in Bacher GmbH & Co. KG, Remscheid, a chain of health product shops, already in December 2004. This investment allows the company to strengthen its equity position and continue its growth strategy.

NRW.BANK.Venture Fonds

Developed in 2004, NRW.BANK's Venture Fonds provides fresh stimulation to early-phase finance in North Rhine-Westphalia. New technologies and young innovative companies are important not only for the general innovation climate but also for the economy as a whole. Focusing on sectors such as IT and communications, life sciences, optics and materials, the fund has a volume of up to € 40 million and makes direct investments between € 0.5 and 1.5 million. The maximum investment after several funding rounds is € 3 million. As a co-investor, NRW.BANK exclusively acquires minority investments in young companies that have already successfully completed a first venture capital round.

Customised Equity Solutions

In addition to developing specific funds, NRW.BANK supports North Rhine-Westphalian SMEs with customised equity solutions in amounts of up to € 30 million. The focus is on innovative equity products and tailor-made solutions designed to close the equity gap in the North Rhine-Westphalian SME sector.

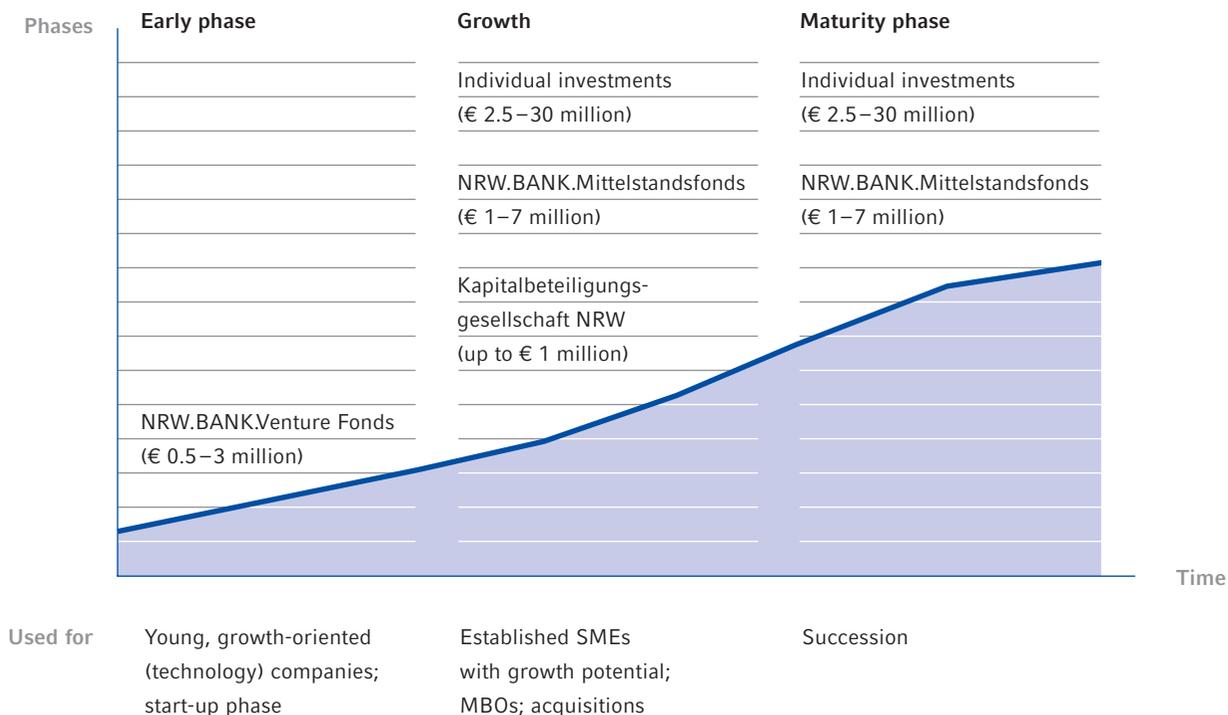
Outlook

In November 2004, the State Cabinet decided to transfer additional state promotion programmes to NRW.BANK, including seven relating to the promotion of start-ups and SMEs. This will strengthen NRW.BANK's role as the central development platform, making the promotion of start-ups and SMEs in North Rhine-Westphalia more transparent and more easily accessible.

NRW.BANK will expand and optimise this range of promotion and funding products in close cooperation with the State of North Rhine-Westphalia. Plans include a new broadly based programme for interest-subsidised funding of SMEs in North Rhine-Westphalia called "NRW.BANK.Kredit".

Moreover, NRW.BANK will support North Rhine-Westphalian SMEs with syndicate finance. Upon invitation from lead banks, NRW.BANK will participate in loans granted by banks and savings banks in North Rhine-Westphalia. This distribution of risk will give relationship banks greater lending scope and make it easier for North Rhine-Westphalian SMEs to raise loans.

**NRW.BANK equity products
for different phases in a company's lifecycle**



In spring 2005, a global loan will be launched in the context of a state programme. For this purpose, KfW Bankengruppe and NRW.BANK signed a funding agreement in March 2005. The € 500 million programme is targeted at all banking groups and provides favourable funding for loans of between € 125,000 and € 5 million with relevance for North Rhine-Westphalia.

The State of North Rhine-Westphalia, the companies in NRW, investment companies and the banking sector will also continue to benefit from NRW.BANK's equity products and consulting expertise. The new NRW.BANK.Mittelstandsfonds and NRW.BANK.Venture Fonds will be complemented by a fund for seed finance to complete NRW.BANK's range of products tailored to specific lifecycle phases.

In the past, the sky over the Lindenhof Housing Estate in Gelsenkirchen was clouded with industrial fumes. Today, the modernised homes use solar energy for heating. >

Lindenhof Housing Estate, Gelsenkirchen











› Bright Prospects

In the past, the sky over the Lindenhof Housing Estate in Gelsenkirchen used to be clouded with industrial fumes. Today, the modernised homes use solar energy for heating.

North of Schalke, between former industrial estates and the district of Buer, lies Gelsenkirchen-Erle, a working-class area from the fifties with grey houses with small windows and clothes-driers in the gardens. Today, the solar era has already begun here.

On the roofs of the old Lindenhof housing estate, solar collectors are shining in the sun, and an underground network of pipes circulates hot water between the modernised buildings. All houses have airy balconies and doors leading out to the gardens. "It's a showcase project," Sonja Herbrand, who regularly leads visitors through the estate, says with pride. She heads the Tenants' Centre of Landesentwicklungsgesellschaft (LEG) Wohnen Essen GmbH, the owner of the Lindenhof houses. And she is one of the mothers of the "Lindenhof Solar Estate".

Up to the year 2000, LEG managed 46 simple blocks of small flats heated with coal between Cranger Straße and Wilhelmstraße. LEG then decided to renovate the outdated buildings, give them new floor plans and convert them into a "solar estate" in the context of a pilot project.

LEG received support from the "50 Solar Estates in NRW" project launched by the "Future Energies NRW" initiative. To Project Manager Andreas Gries it makes sense to upgrade old buildings with solar collec-

tors and heat insulation. "Old buildings waste particularly large amounts of energy," he says. Wohnungsbauförderungsanstalt NRW (Wfa), a division of NRW.BANK, supported the projects with loans totalling € 5.6 million from NRW state programmes for modernisation and energy-efficiency. As a central development agency, Wfa handles all of NRW's social housing promotion programmes. The North Rhine-Westphalian Ministry of Urban Development and Housing, Culture and Sports granted an additional subsidy of almost € 190,000.

In autumn 2000, LEG organised an event to inform residents about the planned reconstruction measures. After all, they would be exposed to construction noise for months and would have to move from one house to the next until final completion. The event was a great success – all tenants stayed with LEG.

Tenants like 78-year-old Gertrud Lipscomp, for instance, who has lived at Lindenhof with her husband since 1996. She is happy in her modernised flat under the solar collectors. While the rent per square metre has increased by € 1.5 per month, heating and hot water cost only half as much as before, as all heat is delivered by the sun. And, equally importantly, "in the past we had to carry coal," Gertrud Lipscomb says and laughs, "now it's so much nicer."

Happy in her modernised flat:
Gertrud Lipscomp,
tenant at Lindenhof,
Gelsenkirchen



Responsibility – Social Housing Promotion

NRW.BANK's Wohnungsbauförderungsanstalt (Wfa) unit extends low-interest loans for the construction of rented flats and the construction and acquisition of owner-occupied homes for low-income households. The aim is to ensure an appropriate supply of housing to these households. Wfa is responsible for the disbursement and management of loans, subsidies and guarantees. In addition, Wfa monitors the North Rhine-Westphalian housing market and uses the information collected in this context to publish regular reports on the latest trends. This makes Wfa an important instrument in North Rhine-Westphalia's housing policy.

Increase in Social Housing Promotion Funds

Wfa's funds helped finance the construction and purchase of 15,960 flats. An amount in excess of € 991 million was committed for this purpose. Together with the promotion of investments in existing buildings, this represents a housing promotion volume of € 1.021 billion, an increase by approx. 2% over the previous year (€ 1.001 billion). This funding effort will trigger total investments of roughly € 2.9 billion.

Upward Trend in Rental Housing Construction

In the rental housing construction sector, social housing promotion isolated itself from the negative general trend in the construction sector. The number of funded rented flats increased by one third to 4,696, while the funding volume rose by 35% to € 332 million. These figures show that the revision of the promotion scheme in 2003 has paid off.

Continued Demand for Owner-occupied Housing

Owner-occupied housing promotion benefited from the discussion about the subsidy for owner-occupied housing, which led to a high result in 2004. A total of 10,407 homes (- 4.8%) benefited from promotion funds of € 628 million (2003: € 682 million). Of this amount, € 505 million were used for the construction or first-time purchase of 7,542 owner-occupied homes. An amount of € 123 million was available to fund the acquisition of 2,865 existing homes. The continued high demand shows that social housing promotion is an important element of construction funding for low-income earners.



Decline in investments

In contrast to the positive construction and acquisition results, investments in existing buildings declined in 2004. An amount of € 29.8 million (2003: € 47.3 million) was granted for this purpose. Although promotion rates for investments were raised to the same level as those for new construction, the result from investments in extension and expansion declined noticeably. An amount of € 8.2 million was used to complete 84 flats, while € 21.6 million were invested in the modernisation of 771 flats.

Reuse of Disused Land

For two years, Wfa has been granting additional loans for rented flats built on disused land. The reactivation of former commercial, industrial or military sites is to reduce the consumption of land. In 2004, an amount of € 6.5 million was made available for the construction of 943 new rented flats.

New Housing Promotion Products for the Elderly

In response to the demographic development, the State of North Rhine-Westphalia developed new products promoting innovative housing solutions for the elderly in 2004. These include rented group apartments for people in need of care, who organise this care individually with the help of mobile care services. Nursing homes will also increasingly be integrated into the promotion schemes for rental housing with a view to allowing different generations to live together.

In the past fiscal year, the first promotion funds were made available for 22 group apartments. In addition, € 7.9 million were granted to fund the construction of 157 nursing home places and the modernisation of 191 nursing home places. To ensure the success of the first housing projects for the elderly and present them to the public, the North Rhine-Westphalian Ministry of Urban Development and Housing, Culture and Sports (MSWKS) has established an Advisory Commission, which reviews the proposed projects and singles out those that it deems worthy of public funding. Wfa regularly attends the meetings of the Commission and provides advice on funding the projects.

This is how we promote housing

Two families, one house – the Apaydin and Alici families asked the responsible authorities of the City of Moers for financial support for their joint construction project. The project was approved, the funds were made available through Wfa, and the two families jointly built their duplex home. Their shared garden offers plenty of space for their children to play and run about.

Increase in State Housing Assets

Promotion funds in excess of € 1.1 billion were paid out in 2004, including funds approved in previous years. Wfa received € 1 billion in repayments and appropriate budget funds. As of year-end 2004, Wfa managed just under 400,000 loan accounts in a total amount of € 24.5 billion. The loan volume incl. payment obligations was down € 6 million on the previous year. State housing assets increased by just under 1% to € 18.194 billion, while total assets were up by a moderate € 0.1 billion.

Monitoring the Housing Markets

The demographic change will be the greatest challenge for housing policy in the coming years. Issues such as the avoidance of vacancies and the revitalisation of inner cities will require growing attention.

Wfa's market monitoring activities make an important contribution to the analysis of the housing market. For over ten years, Wfa has monitored both the subsidised rent-controlled market and the free housing market. The results are published in regular reports.

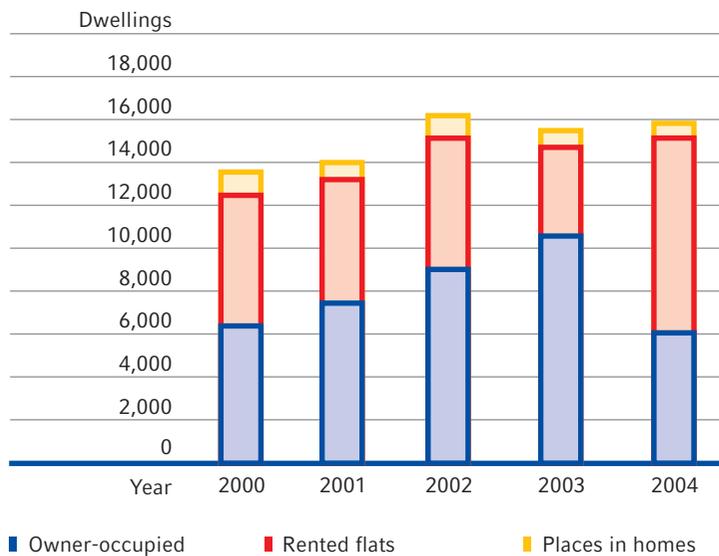
For the second consecutive year, Wfa performed extensive regional analyses in addition to the nation-wide analysis. In 2004, these regional analyses covered Aachen, Bielefeld and Siegen, following Düsseldorf/Lower Rhine, Paderborn and the eastern Ruhr area in 2003. Wfa has

adopted this regional approach in response to the growing differences both within and between the individual regions.

To broaden the information base for the development of the housing markets at the municipal level, Wfa has launched the "Initiativkreis Kommunale Wohnungsmarktbeobachtung" (communal housing market monitoring initiative). NRW.BANK's coordination office provides the communities with expert advice and helps them establish their own housing market monitoring systems. The representatives of the almost 30 member cities regularly meet for an exchange of information and experience with a view to expanding their housing know-how.

In 2003, the ongoing convergence between the individual communities in the eastern Ruhr area prompted Wfa to launch a trial project entitled "Regionale Wohnungsmarktbeobachtung Östliches Ruhrgebiet" (Monitoring of the Housing Market in the eastern Ruhr area). In 2004, Wfa continued to provide the 20 member communities with organisational and functional support. Mid-2005 will see the publication of the first regional housing market report, with input provided by many actors in the regional housing market.

Social housing promotion since 2000



Advice Gaining in Importance

Wfa provides comprehensive services to the different players in the housing promotion market. Both private customers and companies in the banking and housing sectors are advised on promotion possibilities, processes and responsibilities. Municipal employees responsible for granting housing promotion funds are trained in workshops and regularly informed by way of circulars and personal consultations.

In addition, Wfa regularly communicates with the MSWKS to help the latter revise and refine the housing promotion programmes on the basis of Wfa's past experience. Wfa's range of services is rounded off by an "interactive consultant" on Wfa's website. This programme allows prospective home-builders to obtain information about promotion possibilities for owner-occupied housing as well as an initial indication of the amount of promotion funds they are likely to receive. Wfa is currently working on an extension to this module, which will enable users to file electronic applications.

Outlook

The housing promotion programme for 2005 will remain largely unchanged from the 2004 programme. It is planned to fund some 13,500 dwellings with a total amount of € 810 million. The funds will be used for the construction of 4,800 new rented flats as well as for the construction and purchase of 8,000 owner-occupied dwellings and 700 places in homes.

The promotion of housing for people in need of care, which was still a pilot project in 2004, will be continued. An additional amount of € 175 million will be invested in existing buildings, e.g. for the modernisation of nursing facilities.

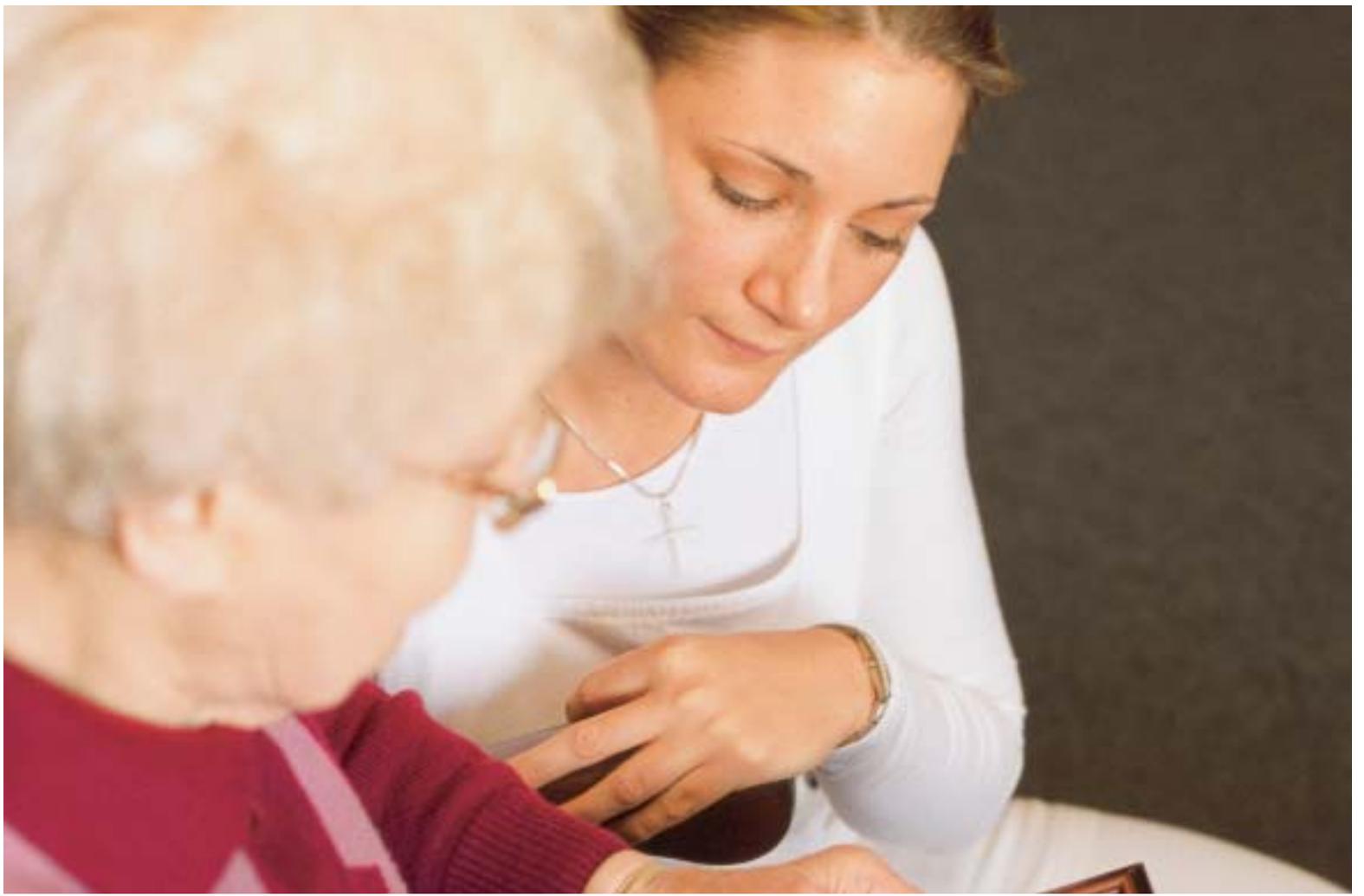
Two nursing school heads in the Netherlands and in Germany had a simple idea: Why not develop a training course that would be officially recognised in both countries? >

Caritas Bildungswerk Ahaus GmbH, Ahaus











› Promoting Partnership

Two nursing school heads in Germany and the Netherlands had a simple idea: Why not develop a training course that would be officially recognised in both countries?

For Sabine Boell, the binational diploma is quite normal. The young woman is from Stadtlohn, less than ten kilometres from the Dutch border. Her partner is Dutch. She had worked in a hospital before and therefore thought it a good idea to do a nursing training course that is accepted on both sides of the border.

For two years, Sabine Boell has been training as a nurse for the elderly at Caritas Bildungswerk in the German city of Ahaus and at the regional training centre for nursing professions, ROC Twente Plus (Regionaal Opleidingen Centrum) in the Dutch city of Almelo. She is one of 23 German students in a project entitled “Cross-border nursing training for cross-border nursing care” and will have two diplomas when the course ends in September 2005.

The dual training course is the result of a meeting between two teachers. Maurits Duzijn, Head of Training at the Dutch nursing school, had heard of the work of his German colleague Reinhard Sicking, 70 kilometres to the south. He contacted him in 1999. Both found out that they were actually doing the same thing. “Only according to a different curriculum,” Reinhard Sicking says. Their idea was to develop a training course that would be officially recognised in both Germany and the Netherlands. It was actually quite an obvious idea, given that every day many people were commuting between Germany’s Münsterland region, where the brick houses look exactly the same as on the other side of the border, and the Netherlands. Only nurses didn’t, as the

diplomas were not recognised on the respective other side of the border. Duzijn and Sicking asked the German-Dutch EUREGIO e.V. association for funds to support the cross-border training course. The European Union contributed half of the funds. The innovative project helps open the labour market and increases the mobility of employees living in the border region and therefore received a subsidy from the “INTERREG III A” programme, which was committed by NRW.BANK in 2004. The Dutch ROC Twente Plus contributed 25%. Another 15% was funded by the State of North Rhine-Westphalia. Yet another portion of the costs was borne by the Borken District and Caritas Bildungswerk Ahaus GmbH.

In October 2001, the project team began to develop a joint curriculum, which was finalised after twelve months. Maurits Duzijn explains that, in accordance with German practice, the curriculum addresses some aspects of elderly care in greater detail than is usually the case in the Netherlands. On the other hand, the modular structure was adopted from the Netherlands, with each module training students in a different skill, e.g. helping handicapped people wash, dress, stand up, etc. These modules replace the subjects that are typical in Germany.

When the first class get their innovative dual diploma, they are expected to have excellent job opportunities. Sabine Boell, in any case, is happy: “I am looking at a much bigger job market now.”

About to conquer a bigger market:
Sabine Boell, student in the “Cross-border Nursing Training” project



Partnership – Infrastructure and Municipal Finance

NRW.BANK is a reliable and competent partner to local authorities and municipal institutions in the financing of infrastructure activities and municipal budgets. In view of the continued tight public-sector budgets, there is strong demand for intelligent financing solutions. Solid lending know-how coupled with decades of experience in the promotion business is therefore becoming increasingly important. This is where NRW.BANK's broad product portfolio comes into play. As the central development platform in NRW, the Bank processes the key infrastructure funding products of the State of North Rhine-Westphalia and the federal government. These include economy-related infrastructure programmes just as well as environmental, urban development, educational and social initiatives. NRW.BANK's Municipal Finance unit provides local authorities in North Rhine-Westphalia with advice, structuring and customised funding products for interest rate and cash management. In the context of its infrastructure finance activities, the Bank additionally structures and finances public private partnerships (PPP) with relevance for North Rhine-Westphalia and participates in structured loans. Equity products round off the range of products and services for the public sector.

In the fourth quarter of 2004, NRW.BANK set up an advisory team for public-sector clients with a view to enhancing its services for the local authorities in North Rhine-Westphalia. The purpose of the team is to assist administrative districts, local authorities and municipal institutions in North Rhine-Westphalia in financing, promoting and structuring their projects.

The Development Business

Despite a moderate economic recovery and persistently low interest rates, local authorities continued to face structural budget problems in 2004. Many cities and communities had difficulties in raising the required own funds for the large number of necessary investments. Given that many activities could no longer be postponed, however, the volume per investment declined; by contrast, the number of commitments even increased moderately. The volume of funds committed for infrastructure projects declined by 11.5% to € 396 million. The number of funded projects increased by 4% to 573.

New business in the Infrastructure Finance segment comprised loans in a total amount of € 270 million (2003: € 288 million) and subsidies of € 126 million (2003: € 159 million). At year-end 2004, the portfolio of infrastructure loans



amounted to € 4.05 billion. Here, too, there is growing demand for intelligent financing solutions, which is reflected, for instance, in the growing importance of PPP projects.

**“KfW Infrastructure Programme”
Benefits from Positive Special Effects**

The “KfW Infrastructure Programme” contributed roughly € 117 million to local infrastructure development projects. The 28.4% increase is mainly attributable to the success of the “Wachstumsimpuls” special fund launched for 2003 and 2004, which offered very favourable terms as well as possibilities for infrastructure projects of non-municipal sponsors. The special fund was used to promote social institutions such as hospitals and kindergartens.

Steady Trend in “Regional Business Promotion”

Under the State of North Rhine-Westphalia’s “Regional Business Promotion” programme (RWP), infrastructure initiatives of local authorities and their umbrella organisations receive subsidies of up to 80% of the funds eligible for subsidy. Projects range from large-scale projects such as the BioMedizinPark Ruhr-Bochum to smaller reconstruction activities in a business incubator.

In 2004, one focus of the programme was on the promotion of tourism. On the occasion of the official opening of the Eifel National Park in January, funds were made available for the development of tourist facilities within the park. In the course of the year, funds were also committed to the national park gates in Simmerath-Rurberg, Schleiden and Heimbach. Commitments under the RWP remained unchanged at 46 and a volume of € 106.3 million.

Water Management Initiative Extended

In the context of the “Ecological and Sustainable Water Management NRW” programme, which was launched in 1996, NRW.BANK promotes relevant water management activities with subsidies and loans at attractive terms. The target group are municipal and industrial clients. Municipal projects eligible for funding include, for instance, the (re)construction of sewage treatment plants, the modernisation of sewer networks and measures aimed at collecting and draining rain water. In the context of the programme, loans of up to 50% of the costs eligible for funding are granted (max. € 5 million). The programme is funded from the sewage tax.

This is how we promote local authorities

Ruhrbania – this is the name of the urban development plan of Mülheim an der Ruhr. The plan focuses on the new Ruhr promenade to be built on the banks of the river. But that’s not all. The city’s museum will be linked and extended to form a so-called “Museum Mile”; the “Stadthalle” will be built into a congress centre and, above all, the city of Mülheim will be developed and marketed as a location for investment. The creation of a business incubator has just begun. The result of the project: “Life, Work and Fun on the Waterfront”. NRW.BANK supports the city of Mülheim with municipal loans.

The latest figures show that local authorities' need for funding remains high. In 2004 alone, NRW.BANK made 386 commitments to municipal projects with a combined promotion volume of € 152 million. Due to the continued strong demand, the Ministry for Environmental and Nature Preservation, Agriculture and Consumer Protection has extended the initiative by one year until the end of 2005.

“INTERREG” promotes European integration

Launched in 1990, “INTERREG” is an important programme of the European Union for the promotion of economic, spatial and social integration across national borders. The programme is designed to support a consistent and well-balanced development of the European region and enable a more effective use of the advantages offered by the common market. In the context of the “INTERREG III A” programme (2000–2006), the European Union and several co-financing partners promote the cooperation in the border region of Belgium, the Netherlands, Lower Saxony and North Rhine-Westphalia by granting subsidies of up to 80% of the costs eligible for subsidy. Projects eligible for funding refer to areas such as infrastructure, economic development, technology, labour market, nature and the environment. There is a wide range of eligible applicants, from local authorities and their umbrella associations to Chambers of Industry and Commerce, Chambers of Handicrafts and other associations to foundations and social institutions. To qualify for subsidisation, all projects must be of a cross-border nature. In 2004, commitments for 60 projects with a subsidy volume of € 20 million were issued by NRW.BANK.

Pushing ahead Public Private Partnerships

Public private partnerships (PPP) are designed to enable infrastructure investments also in financially difficult times. Under a PPP model, specific services previously provided by the public sector are transferred to the private sector. The pooling of responsibilities for both the construction and the future operation of the public assets results in potential advantages for the public sector. The private-sector operator is responsible for the construction, the financing and the operation within the framework of previously agreed targets and profit levels. The State of North Rhine-Westphalia has installed a task force for the development of PPP models. Attached to the North Rhine-Westphalian Ministry of Finance, it was the first public task force of its kind in Germany. As a member of the PPP task force, NRW.BANK was involved in the following activities in 2004:

- Development of the first pilot project for the construction/modernisation of municipal schools and administration buildings
- Advice and support for PPP pilot authorities in their PPP allocation procedures
- Support in the publication of several PPP guides
- Drafting of PPP models for the transport sector and hospitals
- Specialist support in settling funding issues for PPP projects (project finance, forfaying models)

Numerous successful projects make North Rhine-Westphalia one of Germany's leading PPP players. NRW.BANK's special expertise has contributed to this success.

Growth in Municipal Finance

As the development bank of North Rhine-Westphalia, NRW.BANK's mission under the so-called "Reorganisation Act" of March 2004 is to provide the regional and local authorities with direct and indirect finance. In 2004, the Bank's portfolio of loans to regional and local authorities increased by over 10% to approximately € 11.5 billion. Cash advances were added to the product range with a view to covering the increased cash requirements of the local authorities in North Rhine-Westphalia.

Going forward, NRW.BANK will attach growing importance to the financial management, the analysis and the use of hedging instruments, especially in conjunction with promotion products. In 2004, NRW.BANK's advisory services therefore also included interest management instruments – especially in combination with promotion instruments – in addition to traditional forms of finance. The product catalogue will be expanded gradually and aligned with the requirements of local authorities.

As a competition-neutral development bank, NRW.BANK is committed to non-discriminating cooperation with all banks and savings banks in North Rhine-Westphalia. The "middleman model" is a platform which responds to both the requirements of the various bank groups and the specific tasks of a development bank. This model allows the banks to actively inte-

grate NRW.BANK's specific strengths – such as funding terms of up to 40 years – in their own consulting activities. As a result, NRW.BANK was able to arrange finance for local authorities in North Rhine-Westphalia in cooperation with other banks and savings banks in 2004.

In addition to providing finance and advisory services to local authorities, NRW.BANK presented itself as a competent financing partner to municipal treasurers' associations as well as at special events and trade fairs.

Outlook

In 2005, NRW.BANK will add innovative forms of finance to its existing range of funding products. In the area of project finance, the Bank expects to see a strong increase in PPP finance. NRW.BANK will assist the State of North Rhine-Westphalia and the local authorities in identifying and implementing potential PPP projects. In the area of municipal finance, NRW.BANK will develop and refine its financing and advisory activities mainly with regard to interest rate and cash management. At the same time, the Bank plans to combine development activities, e.g. for projects in the context of the 2006 Soccer World Cup, with customised finance.



Success – Capital Markets

The Capital Markets unit performs a wide range of tasks, from asset/liability management to funding to treasury.

Challenges Mastered Successfully

Establishing the NRW.BANK brand in the market was the prime task of the year 2004. The market was systematically prepared for the “new” issuer, with visits paid to over 500 investors in Germany and Europe in the course of only ten weeks. The purpose of these visits was to inform investors about NRW.BANK’s new legal foundation, the so-called Reorganisation Act of March 2004, and its consequences. As the development bank of the State of North Rhine-Westphalia, NRW.BANK continues to benefit from institutional liability and guarantor liability as well as from an explicit funding guarantee granted by its guarantors.

Rating Agencies Reward New Risk Profile

This strengthened liability structure forms the basis for the excellent ratings – Aa2/AA-/AAA, stable outlook – awarded to NRW.BANK by the rating agencies. Also, NRW.BANK’s creditworthiness is now identical with that of the State of North Rhine-Westphalia.

Revised Funding Strategy

In the context of the strengthened liability structures, NRW.BANK shifted its funding activities from public-sector Pfandbriefe to uncovered bonds with a direct and unconditional guarantee from the guarantors in spring 2004. The capital market accepted the new funding strategy at the same terms. As a result, NRW.BANK’s funding activities continued to contribute to the efficiency of the Bank’s funding mission.

NRW.BANK issued short to long-term securities with a total volume of a good € 20 billion in 2004. At just under € 16 billion, traditional medium to long-term registered and bearer bonds issued on an uncovered basis accounted for most of this amount.

In addition to NRW.BANK’s long-established cooperation with the local capital market, the Bank is becoming increasingly successful in raising international funds to the benefit of North Rhine-Westphalia.



Well-established Funding Programmes

In April 2004, NRW.BANK signed its Global Commercial Paper Programme (GCP). Maturities range from one month to six months. A total of 73 tranches with a combined volume of € 4.7 billion were drawn under the GCP. Issues were made in three currencies, with the main emphasis on the euro (62%).

With a view to complementing its funding activities under domestic documentation, NRW.BANK launched a Debt Issuance Programme (DIP) under international law in May 2004. In the context of the DIP, 19 issues, including two benchmark bonds, with a combined volume of € 5.2 billion were placed in the market in various currencies. Both programmes are well established in the market and remain important milestones in the Bank's funding strategy.

Debut in the Euro Capital market

In early June 2004, NRW.BANK made its debut in the euro capital market. The 5-year € 2 billion benchmark bond issued under the DIP met with great interest. The Bank was able to spread the bond across a wide range of sectors and regions, with over 50% placed outside Germany. The second 3-year € 2 billion benchmark bond issued in November 2004 further expanded the Bank's investor base.

Independent Issuer

The corporate relationship with WestLB AG was terminated. In October 2004, NRW.BANK's interest in WestLB AG – which was held on behalf of the Bank's owners – declined to 38.75%. This makes NRW.BANK an independent issuer in the capital market. The resulting credit lines contribute to the ongoing optimisation of the Bank's funding.

Outlook

The main task in 2005 will be to consolidate and strengthen NRW.BANK's position in the capital market. In addition to expanding its activities in the euro-zone, NRW.BANK will focus on Asia. The capital market debut in USD is already being planned.

Moving Forward Together





Düsseldorf
New NRW.BANK building

Düsseldorf
New NRW.BANK building



Shaping Processes, Limiting Risks – Internal Services

Maintaining the banking operations, shaping internal processes and ensuring compliance with legal requirements – these are the tasks of NRW.BANK's Internal Services. In addition to these regular tasks, 2004 saw Internal Services complete numerous special projects, with the main emphasis on building NRW.BANK into the development bank of the State of North Rhine-Westphalia.

Finance/Controlling/Bank Taxation

The Finance/Controlling/Bank Taxation unit pools all accounting-related and regulatory functions and held functional responsibility for the IAS/IFRS and BASLE II projects. The unit's project work also focused on the termination of the corporate relationship with WestLB AG. In this context, regulatory reporting tasks, which were still being performed by WestLB AG, were transferred to NRW.BANK. In addition, the unit was responsible for organising and implementing the consequences of the termination of the single-entity relationship between the two banks.

Moreover, the unit supported the development of NRW.BANK's new corporate strategy, which is based on the status of the "Verständigung II" agreement reached on March 31, 2004. In the context of the resulting exemption from income tax, additional tax issues had to be settled.

Risk Controlling

Effective and forward-looking risk controlling is a key task which covers NRW.BANK's entire risk potential across all units and risk types. In the context of overall bank management, the Risk Controlling unit allocates and monitors risk limits. Relevant risk positions of the Bank, such as default and market price risks in the capital market business are analysed continuously and reassessed on a daily basis. The networking of all relevant information enables an early response to any changes identified. The growing complexity of the business calls for appropriate, standardised analysis and limit systems, which need to be adjusted on an ongoing basis in close cooperation with Credit Management and other units. The same applies to the introduction of new products – whether it's measurement procedures, accounting procedures or internal processes, Risk Controlling liaises closely with the respective units to develop solutions and manage their integration into existing limit structures.

In 2004, NRW.BANK expanded its overall bank management approach and geared it to the relevant risk types and segments. A concept based on economic capital and a risk-return variable ensures that risks taken are in line with the Bank's strategy and capitalisation.

In addition, a new systems solution has improved the possibilities for timely analysis of market price risks. The Risk Controlling unit also completed the first phase of the "Operational Risks" projects. NRW.BANK manages operational risks on the basis of quantitative and qualitative solutions and in accordance with the requirements of Basle II.

Credit Management

Attached to the back office, Credit Management is an independent unit that is responsible for risk assessment and credit decisions and processes comprehensive credit portfolios. The year 2004 reflects the consolidation of the project work in the context of Basle II and MaK (Minimum requirements for the credit business of credit institutions). The focus was on the risk strategy, which had to be revised and expanded. In addition, the risk classification procedures were adapted to the specific lending activities of a development bank. The Credit Management unit is excellently positioned to identify, manage and monitor risks and perform the function of a neutral risk manager.

Internal Audit

The key task of the Internal Audit unit is to audit all operational and business processes within NRW.BANK. Its work is based on the Minimum requirements for the internal audit function of credit institutions (MaIR) issued by the Federal Financial Supervisory Authority (BaFin). In 2004, the unit completed an ambitious audit programme, in the context of which the Bank's new status as a "Verständigung II" bank, the reorganisation of the commercial promotion business units and the ongoing development of the IT architecture had to be taken into account. Building on its cross-disciplinary expertise as well as on its independent status within the organisation, the Internal Audit unit also supported the Bank's key projects and commented on various banking-related issues during 2004.



Legal/Compliance/ Anti-Money Laundering

The Legal/Compliance/Anti-Money Laundering unit advises the Bank's owners, the Managing Board and the individual units on all types of legal issues. The unit is an integral management tool which is used by the Managing Board to ensure a shared understanding of the law, mitigate legal risks and enforce the Bank's claims. The unit is also responsible for the Compliance Office, money laundering prevention and data protection.

At the beginning of 2004, the unit was involved in the final phase of the draft statute for the reorganisation of NRW.BANK into a development bank (Reorganisation Act) and the preparation of the new statutes. In the second half of the year, the Legal unit primarily supported the project for the transfer of promotion programmes from the State of North Rhine-Westphalia to NRW.BANK and settled legal issues relating to the termination of the corporate relationship between NRW.BANK and WestLB AG.

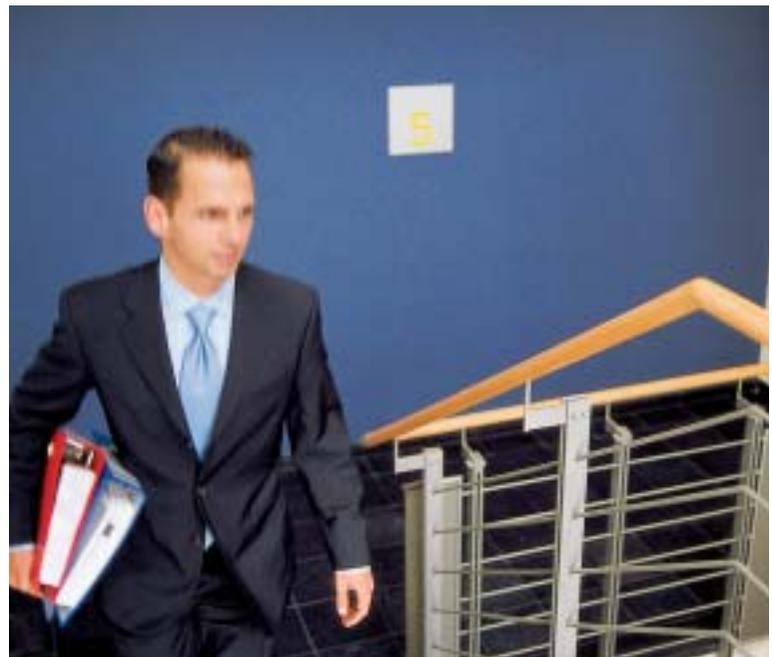
Office of the Managing Board

This office supports the work of the Managing Board. Essential tasks in 2004 included the transformation of NRW.BANK into the central development platform of North Rhine-Westphalia and the termination of the parent-subsiary model. In addition to providing services to the institutional bodies, the Executive Services unit was instrumental in repositioning the Bank. Internal and external communication in 2004 focused on communicating the Bank's new legal foundation and its new name as well as the termination of the corporate relationship with WestLB AG.

Business Support

The Business Support unit was established in the context of the reorganisation of NRW.BANK with effect from April 1, 2004. The new unit pools the settlement and service functions for the securities and lending business and the other development business (with the exception of Wfa).

The Promotion Business Back Office is mainly responsible for managing and controlling funds for the development programmes. This unit also manages the asset/liability loan accounts of NRW.BANK (except Wfa) and updates the customer master data. On behalf of the Labour and Economics Ministry of North Rhine-Westphalia (MWA), the Promotion Business Back Office acts as the payment office for the "INTERREG" and "Ziel 2-Investitions-kapital NRW" programmes. The payment office manages the funds from the European regional fund as well as the German and Dutch co-financing funds and pays them out to the respective recipients.



The Capital Markets Back Office is responsible for the settlement of all of NRW.BANK's capital market products. While the Capital Markets Back Office initially performed only controlling functions, it has meanwhile become a settlement platform for internal and external clients. Accordingly, the year 2004 was characterised by insourcing activities such as the change of the settlement platform and the provider as well as the performance of all activities for the settlement of own issues and the issue of registered securities.

Information Technology, Organisation and Internal Services

In response to NRW.BANK's transformation into the development bank of the State of North Rhine-Westphalia, the Managing Board realigned the organisational structures with effect from April 1, 2004 with the aim of facilitating more effective advice and support for the clients and optimising the sales structures. This has been ensured by the launch of the new Advisory Services and Business Support units and the reorganisation of the promotion/development units according to target groups.

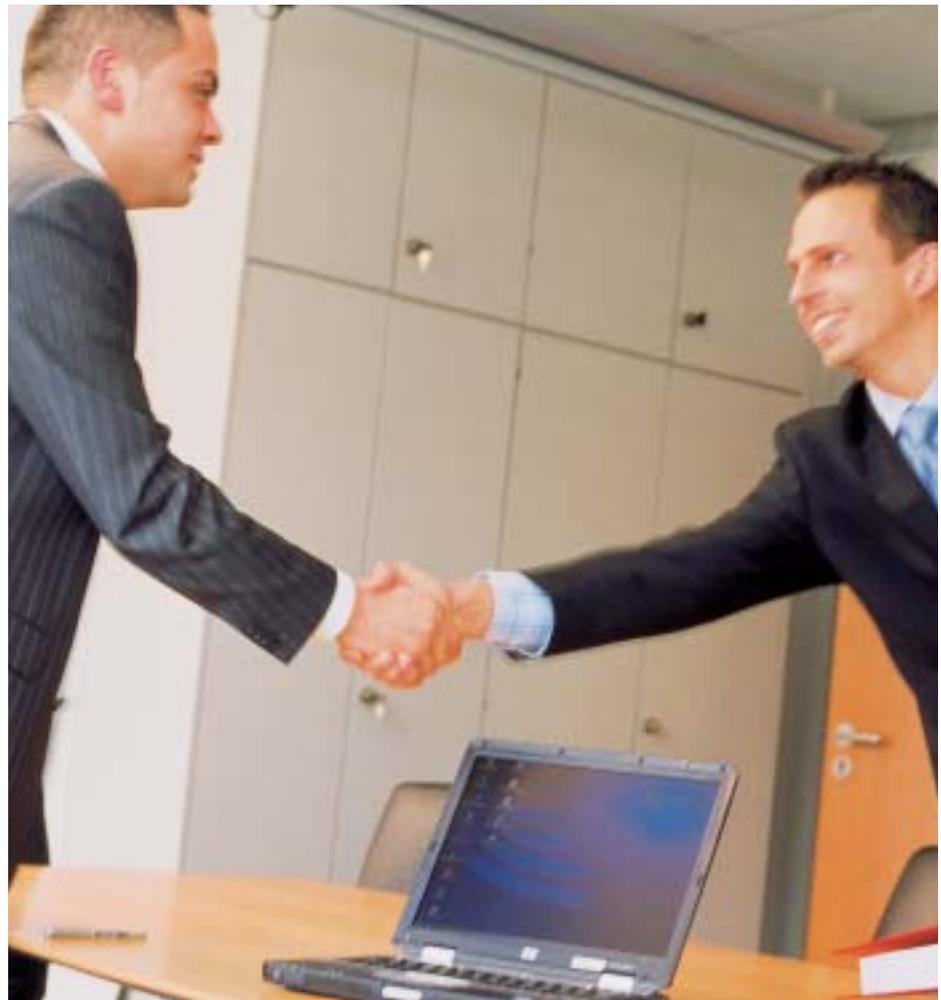
The realignment of internal processes has also resulted in numerous advantages. The introduction of "FGCenter", an IT-based solution for the settlement of the promotion business, has optimised the interface with the relationship banks and increased the processing speed and the data quality. The unit also prepared the transfer of promotion programmes from the State of North Rhine-Westphalia to NRW.BANK. With regard to the capital market business, the way has been paved towards even more efficient and flexible settlement through the concentration of product competencies on small teams and the consolidation of the IT systems.



In 2004, NRW.BANK began to outsource business documents to an external service provider. As a result, space requirements for the storage of files have been reduced significantly, and processes have been simplified. These outsourcing activities will probably be completed at the end of 2005. At the end of 2004, the Bank additionally decided to introduce electronic archives with a view to implementing largely paperless processes.

Significant savings have been achieved through insourcing of previously outsourced services, newly tendered contracts and supplier changes. At the same time, new legal requirements such as IAS/IFRS and Basle II were taken into account.

Construction of the new head office in Düsseldorf is making swift progress, with the Bank scheduled to move into the new building in 2006. In Münster, NRW.BANK purchased the main properties at Friedrichstraße and launched an architecture contest for the renovation and reconstruction of the complex of buildings.





Bringing out the Best in People – Staff Report

NRW.BANK has set itself ambitious goals. At the interface between politics, business and the financial market, the Bank promotes ideas and fosters the future to the benefit of the people and the economy in North Rhine-Westphalia. To achieve these goals, NRW.BANK needs qualified and motivated employees who provide their clients and business partners with competent advice and active support.

Bringing out the Best

Whether it's managers or office clerks, assistants, trainees or specialists – all employees at NRW.BANK are offered a host of opportunities to update and develop their acquired know-how. The Bank has always attached great importance to promoting young talent and filling senior positions from within its own ranks. To make performance and achievements visible, executives agree ambitious objectives with their employees and provide authoritative feedback on an annual basis.

Support and Development

One of the key tasks of human resources management is to provide employees with individualised support and executives with competent advice. The main elements of staff development therefore include a range of seminars tailored to each individual's specific requirements, a differentiated potential analysis process and support and advice for junior managers. The Bank also supports employees' efforts to further their careers through part-time study schemes.

Job and Family

At NRW.BANK, employees with children benefit from family-friendly schemes such as flexible working hours and child care services. In the Promotion Plan for Women, NRW.BANK has set itself the objective to achieve a balanced distribution of women across all levels. The Bank remains fully committed to achieving this shared goal.

All this shows that our Bank offers an excellent environment for all those who wish to actively shape their future.



Developing Junior Staff

NRW.BANK's first intake of trainees began their traineeships on September 1, 2004. Eleven young people are trained as communication specialists in the field of banking, as "Diplom-Betriebswirte" and as IT specialists. Four of them are trained in Münster. NRW.BANK currently has a total of 18 trainees. In the context of the continued expansion of the training schemes, the Bank aims to increase this number to approximately 35 in 2005.

Staff Numbers

In 2004, additional staff were hired above all in the fields of Economic Development, Other Promotion Programmes, Infrastructure Finance and Advisory Services. NRW.BANK's total headcount rose by 86 to 948, of whom 48% are women and 52% men.



Acknowledgement

The year 2004 made high demands on the commitment and flexibility of our employees in Düsseldorf and Münster. We are pleased that we were able to close the year to the satisfaction of everybody and that NRW.BANK has laid a good basis to push ahead its transformation into the central development platform. We would therefore like to thank our employees in Düsseldorf and Münster. Our thanks also go to the members of the staff council for their constructive cooperation in an atmosphere of mutual trust.

Active employees

Active employees of NRW.BANK as at December 31, 2004	948
- thereof	
Düsseldorf	632
Münster	316
- Male/female staff (in %)	52/48





Using Resources Sparingly – Sustainability

As a development bank, NRW.BANK has the public mission to make sparing use of natural resources and contribute to environmental protection in North Rhine-Westphalia through operational measures and the use of suitable products.

In the context of its investments in technical equipment, its procurement activities and the construction work in Düsseldorf and Münster, NRW.BANK takes a wide variety of different measures to contribute to environmental protection. For instance, employees use only recycled paper for internal purposes. Paper waste and normal waste are separated, and consumables and data carriers for the IT infrastructure are destroyed separately. Under the agreement with the cleaning contractors, the Bank is expressly entitled to have a say in what cleaning agents should be used. The new NRW.BANK building in Düsseldorf will use rain water and feature a rooftop garden. The facades are insulated for a significant reduction in energy consumption. Moreover, the Düssel river adjacent to the site will be reclaimed, replacing the existing concrete pipe with a natural stream.

NRW.BANK supports the State of North Rhine-Westphalia and its local and regional authorities in fulfilling their public missions. In doing so, the Bank complies with the sustainability principle as defined in § 3 (1) of the “Reorganisation Act”. The Bank offers a wide range of promotion products for commercial municipal and private environmental protection projects. The main emphasis of NRW’s promotion efforts is on the “Ecological and Sustainable Water Management Initiative”, which aims to avoid or reduce waste water at local authorities or commercial enterprises.

The rules for social housing promotion also contain a large number of provisions relating to the reduction of pollution. New buildings are designed according to the German “low energy house standard” and should use long-life, resource-efficient products. Space consumption is reduced by the fact that building land eligible for promotion may not exceed a certain size and that additional subsidies are granted for the construction of rented flats on land previously used for industrial, commercial or military purposes. Projects for the avoidance or reduction of waste, noise and air pollution as well as measures aimed at saving energy or solving contamination problems additionally benefit from funding under the federal programme of KfW Bankengruppe. Moreover, NRW.BANK funds communal special-purpose associations to support their activities, e.g. in the field of water protection.

Sustainability will remain a key issue for NRW.BANK. For sustainability is not a status but a process. As a development bank, NRW.BANK is especially committed to environmental protection – both when it comes to implementing existing regulations and providing fresh stimulation for new developments. This is why dialogue with leading scientific institutions is to be intensified going forward.

Annual Accounts



NRW.BANK
Annual Accounts





Management Report

of NRW.BANK at December 31, 2004

NRW.BANK: The Development Bank of the State of North Rhine-Westphalia

The main theme of all activities in 2004 was continuing to expand NRW.BANK to become the primary platform for infrastructure support and economic development in North Rhine-Westphalia. Here the emphasis was on three major resolutions:

- The Reorganisation Act (Umstrukturierungsgesetz), which was adopted unanimously by the lower house of the state legislature in March, and which assigned the Bank the status of a development bank that does not engage in competition, as established under what is known as "Verständigung II" between the German Government and the European Commission;
- The dissolution of the parent-subsidiary relationship between NRW.BANK and WestLB AG in October as part of WestLB AG's capital increase, when NRW.BANK waived its pre-emptive rights as a shareholder; and
- The framework agreement, adopted by the state's cabinet in November and signed in December, for transferring the state's development programmes to NRW.BANK.

A Development Bank for North Rhine-Westphalia

The state of North Rhine-Westphalia, represented by its Minister of Finance, has worked closely with the European Commission to make optimum use of the conditions provided under European law for legally independent infrastructure and development institutions. The groundwork for this evolution has been laid out in 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" (the "Reorganisation Act," or Umstrukturierungsgesetz) of March 16, 2004, which was adopted unanimously by the lower house of the state legislature and took effect on March 31, 2004.

The Act assigned NRW.BANK the legal status of a development bank that does not engage in competition. It is to work primarily through borrower's banks, and retain institutional liability and guarantor liability under what is known as "Verständigung II" of March 1, 2002, between the Federal Republic of Germany and the European Commission. The Bank also holds an explicit refunding guarantee under § 4 (3) of Article 1 of the new Act. On this basis, securities issued by NRW.BANK carry a solvency weighting of zero, meaning that NRW.BANK's creditor banks do not have to back their lendings to it with liable capital. NRW.BANK will employ the resulting refinancing advantages for the benefit of recipients of assistance in North Rhine-Westphalia. Effective with the 2004 investment period, NRW.BANK has been included in the listing of banking institutions exempt from income tax under § 5 (1) No. 2 of the German Corporate Income Tax Act (KStG) and § 3 No. 2 of the Local Business Tax Act (GewStG).

The new name NRW.BANK underscores how the Bank stands apart from Landesbank-type institutions, which engage in competition. The Bank was established as Landesbank Nordrhein-Westfalen when the former Westdeutsche Landesbank Girozentrale was split up into two legally independent financial institutions on

August 1, 2002. The new structure drew a clear line between the commercial business (WestLB AG, which was to operate under private law) and public sector operations (Landesbank NRW, which was to operate under public law). Under what was known as a parent-subsiary model, WestLB AG became a wholly owned subsidiary of Landesbank NRW. Landesbank NRW's guarantors (owners) were the State of North Rhine-Westphalia (43.2%), the Savings Banks and Giro Associations of the Rhineland and of Westphalia-Lippe (16.7% each) and the Regional Associations of the Rhineland and Westphalia-Lippe (11.7% each). An option agreement in 2001 accorded the associations the right to own direct interests in WestLB AG.

As part of the conversion of the first tranche of their undisclosed contribution to WestLB AG in December 2002, NRW.BANK's guarantors contributed the new shares created in the conversion during spring 2004 to NRW.BANK's subscribed capital as a capital increase, in the form of a contribution in kind of € 33.3 million. Consequently NRW.BANK's subscribed capital at year's end was € 533.3 million.

Phasing Out the Parent-Subsidiary Model

As the process of systematically reorganising NRW.BANK into an infrastructure and development bank advanced, the Savings Bank and Giro Associations of the Rhineland and of Westphalia-Lippe ceased to be guarantors as of June 30, 2004, and acquired direct interests in WestLB AG instead. Even after the savings bank associations had exercised their options, for the time being NRW.BANK remained the majority owner of WestLB AG, with a stake of 70.68%. The other 29.32% was held one-half each by the two savings bank and giro associations. Then on June 29, 2004, the shareholders' meeting of WestLB AG adopted a resolution

to increase that bank's capital by € 1.5 billion, one-half of which would be contributed by each of the savings bank and giro associations. There would be no other contributors. At that point NRW.BANK's stake in WestLB AG declined to 38.75%. Once the capital increase took effect and was recorded in the Commercial Registers of Düsseldorf and Münster on October 20, 2004, the original group structure under the parent-subsidiary model came to an end. The termination of the parent-subsidiary model means that § 25a of the German Banking Act (the Kreditwesengesetz) no longer applies to relations between NRW.BANK and WestLB AG. Following the capital increase, the Savings Banks and Giro Associations of the Rhineland and of Westphalia-Lippe together now hold a permanent majority interest in WestLB AG.

As a consequence of the change in its guarantors, NRW.BANK is now owned 64.74% by the State of North Rhine-Westphalia, and 17.63% each by the two Regional Associations, of the Rhineland and of Westphalia-Lippe. NRW.BANK has its registered offices in Düsseldorf and Münster.

A Central Development Platform for North Rhine-Westphalian Development

In the "Düsseldorf Signal," a declaration issued on June 30, 2003 by the North Rhine-Westphalia state government, Governor Peer Steinbrück had already announced the government's intent to transfer as many of the state's bank-based development programmes as possible to NRW.BANK. On November 16, 2004, the cabinet formally decided to sign a "Framework Agreement Conferring Missions of the State of North Rhine-Westphalia on NRW.BANK."

As of its signing date, December 15, 2004, this framework agreement replaced the “General Business Assistance Agreement” of July 1, 1992, between the state and Westdeutsche Landesbank Girozentrale. The state and NRW.BANK will collaborate in the following ways:

- To expand the range of development tools, the state and NRW.BANK will found a joint development commission.
- In its conduct of programmes and other steps to promote development, NRW.BANK may apply procedures under public law, in addition to the private-law procedures it already uses.
- NRW.BANK may be engaged to perform missions for the public, such as carrying out funding grant and recall procedures under public law.

Currently NRW.BANK works in three strategic lines of business:

- Promotion of start-ups and SMEs
- Housing promotion
- Infrastructure and municipal finance

A fourth line of business in broad-based subsidies, which form a rather small portion of operations, is in preparation. The bank is to provide support for the state’s long-range transformation toward a knowledge, information and service society, and is helping to smooth out structural deficits. The objective is to strengthen the competitiveness and innovative strength of the state of North Rhine-Westphalia, and to support the state’s efforts as competition among EU regions intensifies.

The programme for promoting new business formations and building small and medium enterprises uses the “borrower’s bank” method, in which the Bank works through other banking institutions without influencing competition. As the central development platform for businesses and municipalities, NRW.BANK offers counselling on development assistance and on funding from a single source. NRW.BANK is also the centre of competence for EU assistance programmes in North Rhine-Westphalia.

The Bank’s organisation has been set up with these tasks in mind. The support-oriented units – such as Economic Development and Infrastructure Funding – are responsible for product development and product management in cooperation with clients. They handle processing for these development programmes and advise clients, particularly the state ministries. The bank-wide sales and communications channel for all of NRW.BANK’s development and financing products is the Advisory Services unit. It maintains contacts with borrowers’ banks, public-sector clients and the grant agencies, and functions as a compact sales and distribution unit for all banking institutions.

Economic Climate

Economic Development in Germany

In 2004 the German economy emerged from a stubborn three-year phase of stagnation. Real gross domestic product (GDP) grew again, by 1.7% in real terms, to € 2,016.1 billion. Average GDP growth for the European Union was only 2.4%. By comparison, the figure was 4.4% for the United States, and 4.2% for Japan. But Germany’s recovery was weaker than

previous upswings; 0.5% of the figure was attributable to the additional working days in the 2004 calendar. The primary contributor to growth was the success of German exports (+ 8.2%), which expanded despite the strong euro (an encumbrance for overseas trade) and the year's high oil prices. In exports, the stability of prices in Germany compared to the rest of Europe helped out, and long-term supply commitments are still calculable. Imports grew moderately (+ 5.7%). Unimpressed by these positive influences from foreign trade, domestic demand remained slack, gaining only 0.5%. Construction spending in particular was down 2.5%, and gross capital equipment expenditures were down 0.7%. Disposable income rose slightly (+ 1.3%), as German households held fast to high levels of savings (+ 10.9%), not least of all because of nagging doubts about the future of the country's social insurance systems. The labour market did not parallel the uptrend of the economy as a whole. Unemployment, at 10.5%, remained at the same level as the year before. Rising stock indexes indicated that the fundamental mood of the financial markets was improving.

Economic Development in North Rhine-Westphalia

In North Rhine-Westphalia, Germany's most populous state and No. 13 among the world's most important economic regions, economic development paralleled events in the country at large. According to preliminary data from the State Office for Data Processing and Statistics, real gross domestic product was up 1.3% to € 445.4 billion. Although the efficacy of economic

drivers in North Rhine-Westphalia was below the average for all German federal states combined, the state continues to lead the nation, generating 22.1% of German GDP, followed by Bavaria with 17.8%. Manufacturing made a positive showing in the state during the year. Transportation and communications also had a stabilising influence. But both construction and mining and quarrying were down.

In foreign trade, North Rhine-Westphalia's exports rose 9.2% between January and November of 2004, to reach € 121.0 billion. Imports increased 6.0%, to € 125.6 billion.

The number of persons earning an income in the North Rhine-Westphalian labour market grew 0.5% (vs. 0.3% for the nation as a whole). Unemployment gained 0.2 percentage points, averaging 10.2% for the year. But this figure was still below the national average.

Business at NRW.BANK

The principal feature of 2004 was the expansion of NRW.BANK as the development bank for the state of North Rhine-Westphalia.

NRW.BANK's earnings performance in 2004 was positive. Operating income before risk provisions was up € 5.6 million from the prior year, to € 204.8 million. Operating income after risk provisions was up some 30%, to € 63.8 million. Apart from higher profitability in general, lower allocations for individual allowances in the lending business at the Wohnungsbauförderungsanstalt (Wfa) also contributed to this income increase.

Since the capital increase at WestLB AG in 2004, NRW.BANK's equity interest in that company has decreased; among other effects, the capital increase diluted this stake considerably. WestLB AG itself has indicated that its operating earnings grew significantly from the prior year, but despite this uptrend, the stake in WestLB AG continues to hold back NRW.BANK's results. Nor is the holding in WestLB AG consistent with the business system of a development bank. It was in order to comply with EU requirements governing state subsidies that the former Westdeutsche Landesbank Girozentrale, as a commercial stock corporation under private law, was originally spun off from the government's development assistance operations, while the influence of the former shareholders was pooled

through the parent company. But now that the Reorganisation Act has taken effect and the two North Rhine-Westphalian savings bank and giro associations have exercised their options, there is no longer any reason to maintain the connection. The two banks will now go their own ways.

Total assets of NRW.BANK grew 5.0%, to € 110.3 billion. Business volume was up 5.2%, to € 114.2 billion.

Liabilities covered by the explicit funding guarantee came to € 105.6 billion as of December 31, 2004.

Total loans (credit volume) in the strict sense were up 1.2%, to € 69.9 billion.

NRW.BANK credit volume	Dec. 31, 2004	Dec. 31, 2003	Change	
	€ millions	€ millions	€ millions	in %
Due from banks	35,381.9	37,627.4	- 2,245.5	- 6.0
Due from customers	30,707.2	28,027.0	2,680.2	9.6
Contingent liabilities	1,263.7	1,116.1	147.6	13.2
Irrevocable loan commitments	2,498.5	2,220.8	277.7	12.5
Credit Volume narrowly defined	69,851.3	68,991.3	860.0	1.2
Deposits with central banks	120.7	43.1	77.6	180.0
Bonds and other fixed-interest-bearing securities	36,406.1	30,441.1	5,965.0	19.6
Equity investments	2,377.1	3,569.6	- 1,192.5	- 33.4
Other assets	514.4	478.8	35.6	7.4
Credit volume broadly defined	109,269.6	103,523.9	5,745.7	5.6

The Reorganisation Act requires NRW.BANK to continue its former strategic orientation, which accordingly was officially adopted by NRW.BANK's governing bodies in December 2004.

The Bank handles the state's development programmes as well as federal programmes in its capacity as the central banking institution for savings banks in North Rhine-Westphalia and Brandenburg. Additionally, the Bank carries out projects for clients in the public sector. It also acts as an advisor and initiator for development programmes. In North Rhine-Westphalia, it is the market leader in furnishing lending support for structural policy operations. Another emphasis is furnishing equity products for small and medium enterprises. NRW.BANK has adjusted its new organisational structures to allow optimum implementation of its mission under the Reorganisation Act.

During 2004 the Bank pursued systematic preparations for its entry into the capital market. Thus, even though it was a new issuer, NRW.BANK quickly became well established in international market centres in 2004, enabling it to optimise refinancing charges for all its operations as a development bank and for all the maturities and structures it needs. In parallel, it has been building up and optimising a portfolio of treasury assets that will serve to safeguard liquidity, cushion risks, and generate income that can be poured into the development banking business as development dividends.

Assistance to economic development and infrastructure growth in North Rhine-Westphalia declined slightly in 2004. The dominant features in new business were fewer new company formations and lower capital expenditures. Not until the second

half did the Advisory Services unit detect rising demand for assistance in capital investments. This result – which on the whole is still weak – had its origins not just in the slow recovery of the economy, but also in deficits on the financing end among small and medium enterprises in Germany. Capital expenditures have been particularly inhibited by these businesses' traditionally weak equity capitalisation, with its adverse impact on ratings. Hence financing through equity resources became all the more important in the economic development business. Development funds accompanied by a subordinated priority agreement can be treated as equity, and thus create additional leeway for financing through borrowing. Demand for greater equity was also evident from the various development programmes that were most popular.

NRW.BANK carried out an internal reorganisation to take better account of its orientation as the state's central development platform, with initially three areas of competence: promotion of start-ups and SMEs, housing promotion, and infrastructure and municipal finance.

As a first step towards offering a combination of development funding and financing tools able to take properly focused account of the interests of small and medium enterprises, new business founders and local governments, as well as the Bank's partners in the capital markets, the former INVESTITIONS-BANK NRW, once a part of Westdeutsche Landesbank Girozentrale, was divided into three units: Economic Development, Infrastructure Finance, and Other Promotion Programmes.

The various units contributed to NRW.BANK's earnings as follows:

	Development*	Wfa	Municipal Finance/ Capital Markets	Equity Investments	Other	NRW.BANK Total
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Net interest income	45.8	178.8	114.4	7.5	4.9	351.4
Net commission income	7.5	5.1	2.3	0.0	- 2.4	12.5
Personnel expenses	- 10.6	- 33.1	- 3.9	- 1.3	- 40.6	- 89.5
Operating expenditure	- 10.6	- 20.9	- 20.9	- 0.9	- 20.3	- 73.6
Other operating income/ expense	- 0.3	3.7	0.0	0.5	0.1	4.0
Operating income before risk provisioning	31.8	133.6	91.9	5.8	- 58.3	204.8
Risk provisions/ revaluation adjustments	- 2.6	- 75.7	17.1	- 1.0	- 78.8	- 141.0
Operating income after risk provisioning	29.2	57.9	109.0	4.8	- 137.1	63.8
Write-down/ provisions WestLB AG	0.0	0.0			- 310.5	- 310.5
Extraordinary expense	0.0	- 3.2	0.0	0.0	0.0	- 3.2
Net income for the year before taxes	29.2	54.7	109.0	4.8	- 447.6	- 249.9
Taxes on income and revenues	0.0	0.0			- 5.9	- 5.9
Net income for the year after taxes	29.2	54.7	109.0	4.8	- 453.5	- 255.8

* Economic Development, Infrastructure Finance and Other Promotion Programmes

NRW.BANK's **Economic Development** unit conducts state and federal development programmes in the form of grants, Euroloans and "trustee" loans in which the Bank itself does not assume the lending risk. Assistance goes to new business founders and commercial operations. As part of support under programmes from the state of North Rhine-Westphalia, Economic Development works with all banking groups; for federal programmes of the

Landwirtschaftliche Rentenbank (as of January 1, 2004) and the KfW banking group, it works together with the savings banks in North Rhine-Westphalia and Brandenburg. Central banking functions for the savings banks of the state of Brandenburg were assumed back in 1992 by what was then the Westdeutsche Landesbank Girozentrale. When that bank was split up in 2002, this central banking function for the development business was transferred to NRW.BANK.

The Economic Development unit's development funds are always allocated with no impact on competition, using the "borrower's bank" method. In these transactions, NRW.BANK takes on the credit risk from the pass-through bank. The commitment to the borrower's bank is collateralised by assigning the claim against the ultimate borrower, but this additional collateral is not taken into account in deciding on the loan application.

New business in the Economic Development unit reflected development events in North Rhine-Westphalia in general. In fiscal 2004, total new loans granted came to € 1,018.9 million. But new business did not make up for large scheduled and unscheduled redemption payments in the large programme for Financing New Companies and Growth (GuW). At year's end, the Economic Development unit's development loan portfolio came to € 7.8 billion.

To improve funding for small and medium enterprises, in 2004 NRW.BANK refined and expanded its range of products. As of August 1, 2004, it reorganised the state programme for Financing New Companies and Growth, adding two new variants: Equity Reinforcement Loans for Small and Medium Enterprises (subordinated loans), and Capital Investment/Equipment Loans with a 50% Liability Exemption. Since December 1, 2004, the Bank has offered a programme of KfW global loans for small businesses, in its capacity as the pool for North Rhine-Westphalian savings banks.

The **Infrastructure Finance** unit combines all the NRW.BANK's development activities for infrastructure projects by both municipal and private-sector investors. Here the Bank is involved in infrastructure development activities for the economic, environmental protection, urban renewal, social, and educational and training infrastructures, agricultural infrastructure and rural regions, transportation infrastructure, energy infrastructure, and telecommunications infrastructure.

In addition to programmes refinanced by the Bank itself, it also handles development programmes for the state and for the KfW banking group. New business, with new loans granted for a total of € 396 million, was below the previous year. But the number of projects assisted was up 4%, to 573. This comparatively positive change is largely the result of exceptional influences from especially low-interest-rate programmes from the KfW banking group. As of the reporting date, the loan portfolio came to € 4.0 billion.

Additionally, the Infrastructure Finance unit participated in a number of existing project funding and structured-funding operations to fill out the portfolio and to generate income for the development business without influencing competition. The volume assumed in this segment was some € 632.9 million as of the reporting date.

In 2004 NRW.BANK again supported the state of North Rhine-Westphalia in projects that put the public-private partnership (PPP) concept into action.

The **Other Promotion Programmes** unit pools NRW.BANK's assistance activities directed to private parties as the recipients. This unit primarily conducts the KfW banking group's programmes and the state's broad-based "REN" programme to support rational energy use and renewable energy sources.

In all, new business here, at € 1,164 million, likewise fell short of the prior year's exceptionally high level. The 13.1% decline was primarily caused by the sharp drop in lending by the KfW banking group to the housing industry by way of NRW.BANK. Here easily half the new business for 2004 was generated by the KfW's homeownership assistance programme. The total portfolio transferred to the Other Promotion Programmes unit was up € 0.9 billion at year's end, to € 6.2 billion. The principal causes were the increase in new business in home-ownership assistance (not including the Wfa) and large disbursements on development loans approved during the prior year. Broad-based subsidies are being launched as an additional function of NRW.BANK. In the future, job-market development, agricultural development, educational funding, and social and family assistance will each have their own programmes.

NRW.BANK's equity products provide one of the cornerstones for founding a new business and for the development of small and medium enterprises in the state. The Bank's **Equity Investments** unit offers these products for all phases of a firm's development. In fiscal 2004 NRW.BANK cooperated with the state of North Rhine-Westphalia to set up the

€ 75 million NRW.BANK.Mittelstandfonds, a fund offering equity investment capital to medium-sized growth companies based in the state. In December 2004 it was decided to set up the NRW.BANK.Venture Fonds. Capitalised at € 40 million this fund provides equity investment capital to young, innovative companies in North Rhine-Westphalia.

The Equity Investments unit also handles NRW.BANK's commitments undertaken on behalf of the public sector. The portfolio volume is still largely shaped by the remaining interests held in WestLB AG. The ownership structure of WestLB AG changed during the year.

The capital-raising measures carried out in fiscal 2004, especially the € 1.5 billion capital increase option exercised by the savings bank associations and the resulting substantial change in NRW.BANK's holdings in WestLB AG, made it necessary to reappraise the interest held in WestLB AG as of December 31, 2004. Although the net operating income of WestLB AG rose as a whole against the prior year, the dilution effects agreed upon by contract among the owners and resulting from the change in ownership ratios in WestLB AG, including the intended capital increase associated with the EU/Wfa Decision, have adversely affected the valuation of NRW.BANK's holding in WestLB AG. As a consequence the book value of this interest as of December 31, 2004, was € 2.2 billion, compared to a book value of € 3.4 billion a year earlier.

For regulatory reasons, the state of North Rhine-Westphalia intends to assume a guarantee towards the NRW.BANK for the book value of the Bank's interest in WestLB AG. Expected in April 2005, this guarantee will also release NRW.BANK from all future risks associated with its holding in WestLB AG. The requisite budgetary groundwork was laid by the lower house of the state's legislature in the 2005 Budget Supplement Act (Nachtragshaushaltsgesetz) of March 1, 2005.

In all, NRW.BANK's equity investment portfolio was worth € 2,377.1 million at year's end. Not including the stake in WestLB AG, equity investments in affiliated and non-affiliated companies came to € 177.1 million.

Housing Promotion

The number of building permits issued dropped 9.2% last year, to 275,000, from the previous year's elevated values. But the number of housing units completed in 2004 was up 9.3%, to 268,100. Construction activity in the North Rhine-Westphalian housing market paralleled these developments: the number of building permits was down 12.5%, to roughly 50,700, while units completed were up 6.6%, to 56,600.

Once again, housing promotion with public funding was an important support for the generally weak construction industry in North Rhine-Westphalia. Support for publicly funded housing in the state is the mission of the **Wohnungsbauförderungsanstalt (Wfa)** unit, the central financing instrument for housing policy in North Rhine-Westphalia. Through this unit, NRW.BANK

administers long-term development loans to assist housing built with public funding. The target group includes private owner-occupiers within certain income limits, and investors in public rental housing construction and in housing upgrades.

Funds allocated in 2004 were up 3.8% against the prior year, from € 954.7 million to € 991.2 million. This assistance spurred total investment of some € 2.9 billion. Wfa funds supported the construction of 15,960 new residential units. Bucking the general trend in housing construction, publicly funded rental housing benefited especially from this support. A total of € 332.4 million (+ 35.5%) in assistance was provided for 4,696 (+ 33.4%) units. Assistance for places in long-term care facilities and other development support grew 10.7% during the year, to € 31.2 million.

Once again, most assistance, at € 627.8 million (– 6.9%), went for owner-occupied residential properties. A total of € 505.9 million was provided for new construction or first-time purchases of 7,542 owner-occupied homes in all. Purchases of existing homes rose slightly from the year before, to 2,865 units (+ 1.5%). Support was provided for a total of 10,407 units of owner-occupied housing, a decline of 4.8%.

Last year the Wfa provided € 29.9 million for investments in the housing inventory.

Wfa loans are restricted geographically to the state of North Rhine-Westphalia. The Wfa's lending is normally of subordinate priority and is mortgage-backed.

Development loans of more than € 1.1 billion were paid out during the year. Thus disbursements were nearly constant from the year before. Existing disbursement obligations were down € 0.2 billion, to € 1.6 billion.

Capital Markets

Less and less federal and state grant funding is available for development efforts. Besides developing new funding and development tools, NRW.BANK generates additional resources through its own refinancing, which is optimised to the greatest possible degree. Refinancing for NRW.BANK and overseeing the interests of partners in the capital markets, together with municipal financing duties, are all handled by the Bank's **Capital Markets** unit.

Capital markets were very volatile in 2004. The high level of uncertainty was caused partly by high, short-term-oriented liquidity worldwide, with investors showing a preference for low-risk investments, and partly by the sharply fluctuating and highly variable business conditions in the world's various regions. Returns on ten-year German federal government bonds, or "Bunds," fluctuated between 4.5% and 3.5%. The European bond market was favoured by the vigorous rise in the value of the euro. For example, returns on ten-year bonds reached 3.7% at the end of 2004, close

to their historic low of 3.6%. At the same time, margins remained narrow but stable. Amid this environment, the market segment of government-guaranteed issuers expanded. Among the beneficiaries of these conditions was NRW.BANK, whose issues continue to be much sought after in the market.

Volume in the conventional municipal lending business grew from € 9.5 billion to € 10.4 billion. The course of business during the year clearly shows that NRW.BANK has positioned itself as the leading conventional lender to municipalities in North Rhine-Westphalia. In addition to established municipal loans, the Bank now also offers local governments short-term cash facilities to bridge liquidity shortfalls. Plans call for expanding the product range further, guided by municipalities' needs.

Until it received the status of the development bank of the state of North Rhine-Westphalia, NRW.BANK was refinanced primarily with public-sector Pfandbriefe. Once NRW.BANK became a development bank, which carries a 0% risk weighting because of the guarantors' explicit guarantee, it ceased to issue any further Pfandbriefe. Since that time the Bank has been refinanced by way of other capital-market instruments.

To expand its investor base, in 2004 NRW.BANK set up a Global Commercial Paper (GCP) programme and a Debt Issuance Programme (DIP). By year's end, a total of € 4.7 billion had been raised under the GCP programme. The largest share of this amount – 62% – was denominated in euros.

Once the DIP had been established, about one-quarter of the total refinancing volume was issued within the DIP framework. In addition to two "benchmark" bonds, there were also smaller issues in a variety of currencies.

Fresh borrowings for all medium and long-term refinancing totalled € 20.2 billion. These amounts were countered by scheduled and unscheduled redemptions of € 18.7 billion. The euro remained NRW.BANK's dominant issuing currency, with a share

of 97% (2003: 99.5%). Other issues were in Swiss francs, pounds sterling, yen and U.S. dollars.

NRW.BANK's ratings from Fitch Ratings, Moody's and Standard & Poor's changed in two cases. In July 2004, Moody's upgraded NRW.BANK's financial-strength rating from D+ to C-. Moody's found that reducing the proportional stake in WestLB AG improved both the financial profile and the value performance of NRW.BANK. Moreover, Moody's recognised the Bank's progress in improving its overall profitability. In December 2004, Standard & Poor's lowered the long-term rating of the state of North Rhine-Westphalia from AA/Stable to AA-/Stable, because of the state's debt situation. Because the state provides the institutional liability and guarantor liability for NRW.BANK, in the rating agency's opinion the change affects the Bank to the same degree.

A summary of current ratings (as of January 2005):

	Fitch Ratings	Moody's	Standard & Poor's
Long-term rating	AAA	Aa2	AA-
Short-term rating	F1+	P-1	A-1+
Individual ¹⁾ /Financial strength ²⁾	C/D ¹⁾	C- ²⁾	-*

* not offered by S&P

Revenues

Statement of Income

	2004	2003	Change	
	€ millions	€ millions	€ millions	%
Net interest income	351.4	355.8	- 4.4	- 1.2
Net commission income	12.5	10.7	1.8	16.8
Other operating income, net	4.0	- 6.6	10.6	> 100.0
Administrative expenses	- 163.1	- 160.7	- 2.4	1.5
- Personnel expenses	- 89.5	- 72.6	- 16.9	23.3
- Operating expenditure	- 73.6	- 88.1	14.5	- 16.5
Operating income before risk provisions/ revaluation adjustments	204.8	199.2	5.6	2.8
Risk provisions/Revaluation adjustments	- 141.0	- 150.1	9.1	- 6.1
Operating income after risk provisions/ revaluation adjustments	63.8	49.1	14.7	29.9
Write-downs/Provisions WestLB AG	- 310.5	- 1,795.5	1,485.0	- 82.7
Extraordinary income/expense	- 3.2	- 6.2	3.0	- 48.4
Net income for the year before taxes	- 249.9	- 1,752.6	1,502.7	- 85.7
Taxes on income and revenues	- 5.9	- 17.5	11.6	- 66.3
Net income for the year after taxes	- 255.8	- 1,770.1	1,514.3	- 85.5
Changes to reserves	310.5	1,795.5	- 1,485.0	- 82.7
Allocation to capital of Wohnungsbauförderungsanstalt NRW	- 54.7	- 25.4	- 29.3	> 100.0
Profit for the year	0.0	0.0	0.0	0.0

Net Interest Income and Net Commission Income

Net interest income is the net result of interest income and interest expenses for the development units, the Equity Investments unit and the Capital Markets unit of NRW.BANK. Despite the slight decrease of € 4.4 million from the prior year to € 351.4 million, it remains the Bank's primary source of revenue. As in prior years, the Bank's development operations (including the Wfa) generated

the lion's share of net interest income, 63.9%. The Capital Markets unit incurred expenses for prematurely closing out interest-rate derivatives used for hedging. As in previous years, these expenses were not included in the net interest income, but allocated to the item for risk provisions and revaluation adjustments. Income from equity investments in affiliated and non-affiliated companies contributed € 15.3 million to the net interest income.

Net commission income is a minor source of revenue for a development bank. For fiscal 2004, NRW.BANK's net commission income was € 12.5 million. Income from the administration, contract and trustee business is a significant contributor here, at € 8.8 million. The rise of € 1.8 million in net commission income against the prior year was largely the result of savings on costs for custodian fees, and higher fees on the Bank's lending business.

Other Operating Expenses/Income

Net other operating income came to € 4.0 million, an improvement of € 10.6 million from 2003. The change resulted from a decrease of € 6.4 million in the allocation to reserves for employee benefits, to € 14.0 million. Since Westdeutsche Landesbank Girozentrale was split up in 2002, NRW.BANK provides such benefits to employees of WestLB AG who were employed by Westdeutsche Landesbank Girozentrale prior to January 1, 1999, in compliance with Art. 1 § 4 (4) of the Act on Redefining the Legal Status of Public-Law Banking Institutions in North Rhine-Westphalia (Bank Redefining Act) of July 2, 2002. A one-time payment for these benefits was made in 2002 as part of the split-up. Under the parent-subsidiary model, NRW.BANK had to assume the obligations for a certain group of individuals designated under the former Westdeutsche Landesbank

Girozentrale pension agreement, because the benefits payments were to be made by NRW.BANK as a public-law banking institution. Last year, the computation parameters were adjusted to reflect current changes in costs in the health care sector, resulting in a substantial charge against earnings. These charges were counter-balanced by writing back a provision for association contributions, which had been set up as a matter of prudent business practice. Countering book losses of € 0.3 million on office equipment, occasioned by replacing the IT office infrastructure, indemnification payments for the improper use of housing built with public assistance contributed € 0.9 million to other operating income during the year.

Administrative Expenses

The Bank's administrative expenses for the year were € 163.1 million, up only slightly (+ 1.5%) from the year before.

After service contracts with WestLB AG were terminated or wound down, formerly outsourced services were transferred to in-house departments. Additional preparations for taking over further development programmes from the state of North Rhine-Westphalia, together with the establishment of 11 additional training positions, caused the active staff to grow by 86 individuals, to 948. Additionally, 60 employees were let go during the year and 25 took parental leave. Personnel expenses grew further because of increases in wages under collective bargaining agreements and

allocations to pension reserves. Allocations to pension reserves were up € 5.7 million against 2003, while expenses for social security, pensions and other employee benefits grew a total of 28.8%, to € 26.4 million. The year's expenses for wages and salaries came to € 63.1 million. Thus total personnel expenses were € 89.5 million (+ 23.3%).

The operating expenditure for the year was helped out by the termination or expiration of service contracts with WestLB AG, and

by changing outside service providers. The figure was down 16.5% to € 73.6 million. Of the roughly 120 service contracts still in existence with outside vendors or WestLB AG at the beginning of the year, about 50 were cut back, and the associated tasks were absorbed by NRW.BANK.

The cost-income ratio (CIR), which sets incurred operating expenses against income, improved to 41.9% during the year. The Bank is holding firm to its goal of reducing this ratio further.

Risk Provisions/Revaluation Adjustments

	2004	2003	Change
	€ millions	€ millions	€ millions
Lending business*	- 119.5	- 121.2	1.7
Securities	29.5	6.3	23.2
Equity investments (not incl. WestLB AG)	- 1.0	- 0.2	- 0.8
Fund for general banking risks	- 50.0	- 35.0	- 15.0
Subtotal**	- 141.0	- 150.1	9.1
Write-downs/Provisions WestLB AG	- 310.5	- 1,795.5	1,485.0
Total	- 451.5	- 1,945.6	1,494.1

* including provisions and allowance reserves per § 340f German Commercial Code (HGB)

** excluding write-downs and provisions associated with the Bank's stake in WestLB AG

As they were for the prior year, risk provisions and revaluation adjustments were dominated by the write-down of the equity interest in WestLB AG. After adjustment for this effect, risk provisions and revaluation adjustments narrowed 6.1%, from € – 150.1 million to € – 141.0 million. Expenses in the lending business were cut € 1.7 million during the year, to € – 119.5 million. Lower allocations for Wfa loans were almost entirely counterbalanced by allocations in other NRW.BANK business units. Additionally, provisions for other risks associated with the lending business came to € 7.8 million; these were set aside for potential risks from Supreme Court decisions on the Legal Counsel Act (Rechtsberatungsgesetz) and for the calculation of commutation fees. Exceptional redemptions, as well as an earnings-oriented optimisation of the portfolio, made it necessary for NRW.BANK to reapportion some of its securities portfolio. Trading gains on securities held in the investment portfolio and earnings on the associated derivatives were countered by considerably lower trading losses on exceptional redemptions than was the case a year earlier. The result was that the revaluation adjustment for securities yielded an increase of € 23.2 million, to € 29.5 million. The allocation to the fund for general banking risks, at € 50.0 million, was € 15.0 million greater than the year before.

In all, on the basis of a conservative appraisal of its loan exposure, the Bank formed individual and global allowances adequate to cover all discernible risks.

Operating Income and Net Income

Operating income for 2004 after risk provisions and revaluation adjustments came to € 63.8 million. This was an increase of some 30% from the comparable item a year earlier, resulting from both a 2.8% increase in net operating income to € 204.8 million, and a 6.1% reduction in risk provisions and revaluation adjustments, to € – 141.0 million.

An appraisal by an independent expert on the basis of WestLB AG's own projections yielded a valuation of € 2.2 billion for NRW.BANK's interest in WestLB AG. Accordingly, NRW.BANK wrote down the book value of this equity interest by € 287.3 million.

The framework agreement for the December 2002 undisclosed capital contribution to WestLB AG obligates NRW.BANK, if option holders exercise their options, to purchase a fixed number of shares resulting from the conversion of those holders' individual tranches. Consequently NRW.BANK must form an impending loss provision equal to the difference between the contractual purchase price and the book value per share. A total of € 23.2 million was set aside for this provision.

The extraordinary expense of € – 3.2 million includes restructuring expenses for the Wfa, which were down from the year before.

Effective with the 2004 investment period, NRW.BANK has been included in the listing of banking institutions exempt from income tax under § 5 (1) No. 2 of the German Corporate Income Tax Act (KStG)

and § 3 No. 2 of the Local Business Tax Act (GewStG), resulting in a considerable reduction in the tax burden. The remaining income taxes of € – 5.9 million are owed on income from equity investments that are held by NRW.BANK on behalf of the public, but that do not fall under the income tax exemption for activities pursuant to “Verständigung II.”

The after-tax loss for 2004 came to € 255.8 million. Pursuant to § 17 of the German Housing Promotion Act (WbFG) in conjunction with § 27 of NRW.BANK’s articles and bylaws, € 54.7 million is being allocated to state housing construction funds. After a withdrawal of € 310.5 million from capital reserves – to compensate for write-downs and provisioning associated with the Bank’s stake in WestLB AG – the net distributable income is zero.

Volume

In 2004 the total assets of NRW.BANK grew 5.0% to € 110.3 billion. Asset growth was largely the consequence of the ongoing expansion of the liquid bond exposure in the portfolio (+ 19.6% to € 36.4 billion). The growing municipal lending business is reflected in the rise in receivables from customers, up 9.6% to € 30.7 billion. More than 97% of new loans extended to clients during the year, or some € 2.0 billion, went to local governments. Receivables from banks, at € 35.4 billion, were down 5.9% from a year earlier. In compliance with the requirements that the Bank must meet under Verständigung II, this volume will be reduced further.

The increase in liabilities to customers at maturities of less than two years also caused an increase in NRW.BANK’s minimum reserve position. Average cash reserves were up accordingly during the year. At the reporting date, NRW.BANK had cash reserves of € 120.7 million (2003: € 43.1 million).

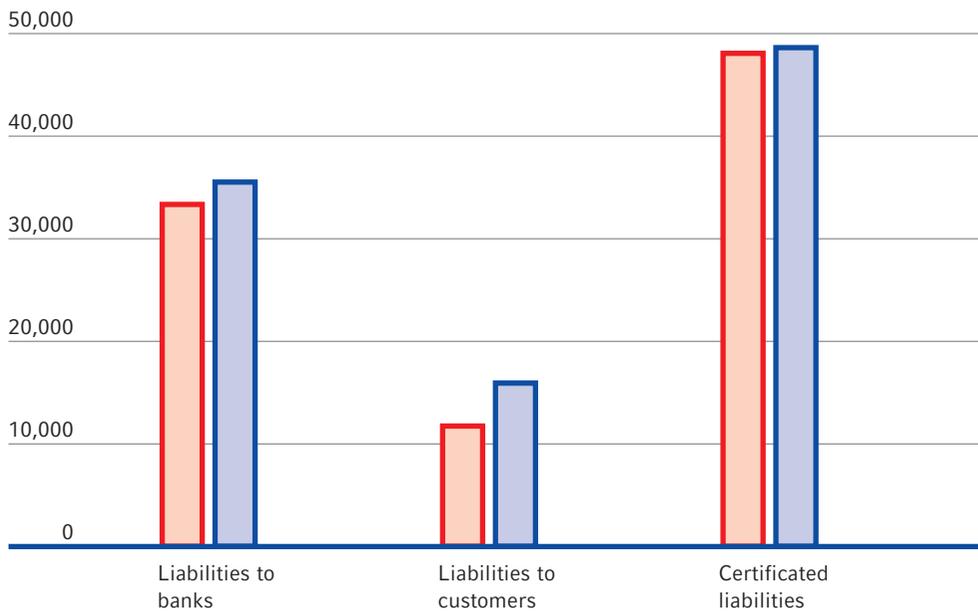
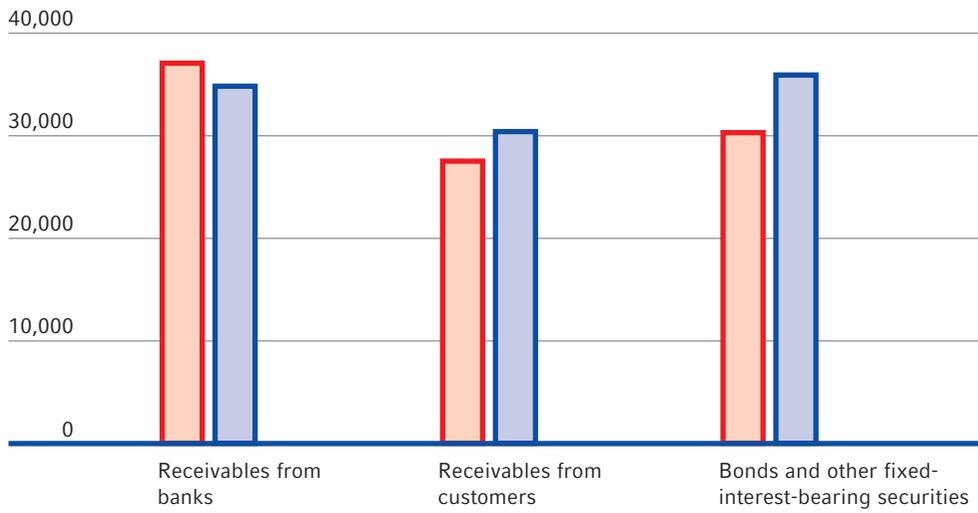
The reduction in the Bank’s proportional stake in WestLB AG to 38.75% caused WestLB AG to be removed from the scope of consolidation. The WestLB AG interest is therefore no longer reported as an affiliated company but as a non-affiliated company in the balance sheet. Consequently, equity investments in affiliated companies were down to € 64.4 million. The increase of the item for equity investments in non-affiliated companies, to € 2.3 billion, comes not only from including WestLB AG under this item, but also from the addition of further non-affiliated companies. By acquiring a minority interest in E.6 München GmbH, NRW.BANK took the necessary first steps toward building a medical technology facility in Cologne. In preparation for the establishment of the NRW.BANK.Mittelstandsfonds, NRW.BANK acquired a silent interest in Reformhaus Bacher GmbH & Co. KG.

Because of the receding importance of “trustee” loans in the development business, the associated assets and liabilities declined € 0.1 billion, to € 2.6 billion.

At the reporting date, NRW.BANK showed intangible assets of € 23.1 million. Pursuant to the first application of Regulation IDW RS HFA 11 published by the German Institute of Chartered Accountants (Institut der Wirtschaftsprüfer), third-party software – largely for the BASLE II and IAS/IFRS conversion projects – was transferred from fixed assets to intangible assets.

WestLB AG's acquisition of the bank building at the Münster site for € 10.8 million contributed to the rise in tangible assets to € 13.4 million.

Development of selective balance sheet items € millions



■ Dec. 31, 2003 ■ Dec. 31, 2004

On the equity and liabilities side, registered note issues raised liabilities to customers by 33.5%, to € 16,497.3 million, and liabilities to banks by 6.5%, to € 36,072.9 million. New issues of bearer securities caused certificated liabilities, at € 49,222.7 million, to increase € 70.8 million from a year earlier.

An expansion of subordinated funding increased subordinated liabilities 15.9% to € 405.0 million.

NRW.BANK acted as a guarantor for credit default swaps worth € 1.0 billion. As a consequence, contingent liabilities rose 13.2% for the year, to € 1.3 billion.

Equity Capital

The equity capital of NRW.BANK as of December 31, 2004, was € 3,695.8 million. This figure includes the capital reserves, which were down € 1,256.5 million to € 3,160.1 million, and retained earnings reserves unchanged at € 2.4 million.

Three major events caused changes totalling € – 1,223.2 million in NRW.BANK's equity capital during 2004.

- The new stock issued in the second quarter of 2004 as a result of the undisclosed contribution to WestLB AG in 2002 was contributed to NRW.BANK as a capital increase by its then-guarantors, in the form of a contribution in kind. For the time being, this contribution increased subscribed capital and capital reserves by € 119.2 million.

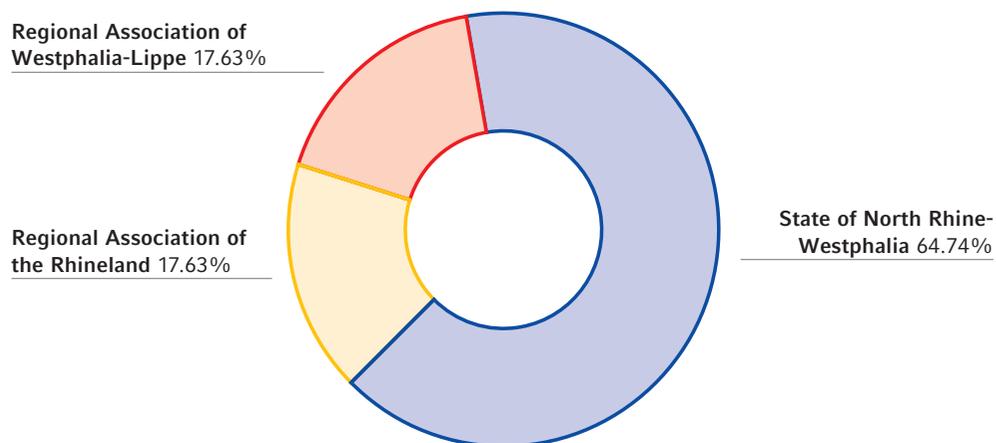
- Then in mid-year, the two savings banks associations exercised their option to acquire a direct interest in WestLB AG, in return for surrendering their positions as guarantors of NRW.BANK. As a consequence, NRW.BANK came to hold shares of its own stock, which were then retired. By a resolution of the Guarantors' Meeting, these shares were offset with a treasury-shares reserve of € 1,031.9 million, formed by taking a charge against the capital reserves.

- The write-down of € 287.3 million on the equity investment in WestLB AG, and the impending-loss provision of € 23.2 million to be formed, yielded a net loss for the year. To compensate for this loss, € 310.5 million was withdrawn from capital reserves.

The guarantors participating in NRW.BANK's subscribed capital of € 533.3 million are:

The state of North Rhine-Westphalia, holding 64.74%, and the Regional Associations of Westphalia-Lippe and of the Rhineland, holding 17.63% each.

NRW.BANK's owners shares of subscribed capital



Prior to adoption of the balance sheet, and taking exceptional effects into account, liable capital in accordance with the German Banking Act (KWG) was € 1,400 million.

Capital ratios

	Dec. 31, 2004	Dec. 31, 2003
	%	%
NRW.BANK – Single entity		
Principle I ratio – Total figure	10.4	32.5
Core capital ratio	10.4	30.0
NRW.BANK – Group		
Principle I ratio – Total figure	13.3	12.7
Core capital ratio	8.9	8.6

After adoption of the balance sheet as of December 31, 2004, the core capital ratio and the total Principle I ratio for NRW.BANK as a single entity were each approximately 10%.

In 2002, the guarantors of NRW.BANK agreed upon a direct investment option that was also incorporated into the Bank Redefining Act of July 2, 2002, allowing them to acquire a direct interest in WestLB AG. This direct investment option enables the savings bank and giro associations and the regional associations to withdraw as guarantors of NRW.BANK, after transferring their rights and obligations to NRW.BANK.

The Savings Bank and Giro Associations of the Rhineland and of Westphalia-Lippe exercised their option on June 30, 2004.

If the two regional associations also exercise their option, the state of North Rhine-Westphalia would remain as the sole owner of NRW.BANK.

Risk Report

NRW.BANK is subject to all regulatory requirements for risk management and oversight at banks.

Additionally, it sets its own high standards for internal risk management, which it tailors to the relevant risks.

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

Most of the Bank's risks are counterparty default risks. The borrower structure that the Bank has evolved, and the special collateralisation arrangements under the

"borrower's bank" method, have helped the Bank to develop a portfolio whose credit risks have almost exclusively good to very good ratings. The Bank also assumes market price risks as necessary.

Organisation of Risk Management

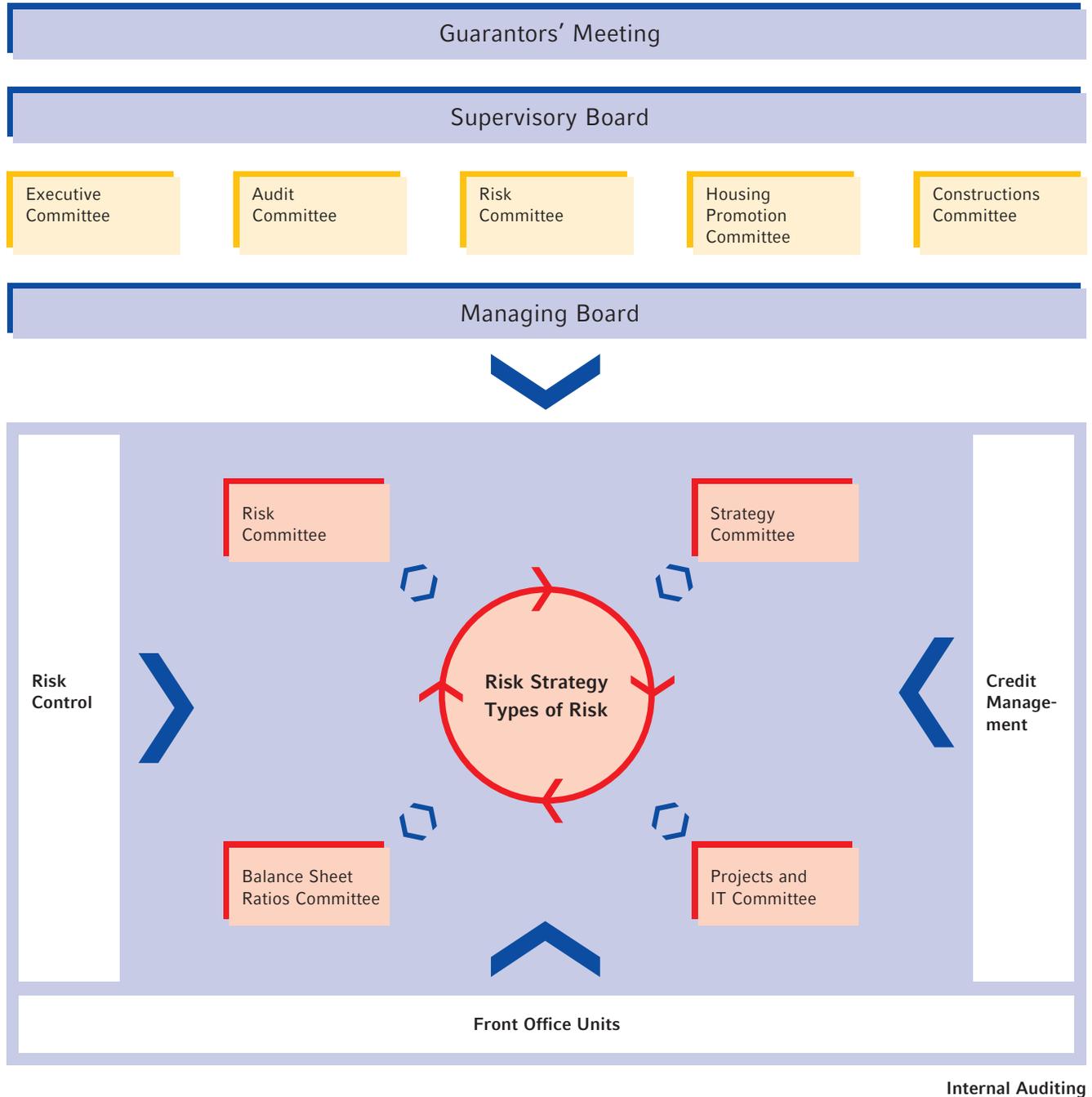
The Managing Board bears the overall responsibility for managing risk at NRW.BANK. With certain exceptions, the Bank complies with the terms of § 25a of the German Banking Act (KWG), in the version in force as of January 1, 2005. The exceptions, imposed by state law, relate to the full integration of the Wohnungsbauförderungsanstalt. During 2004, NRW.BANK concentrated its risk management process by forming four committees headed by the Managing Board.

- The Risk Committee addresses issues of both fundamental strategic risk and concrete risk.
- The Strategy Committee is concerned with the Bank's strategic corporate and business planning.
- The Balance Sheet Ratios Committee is concerned with fundamental questions of balance sheet ratios and liquidity.
- The Projects and IT Committee deals with the overall orientation of IT strategy and project planning.

These committees report to the full Managing Board. They have no independent decision-making powers.

The Supervisory Board monitors the Managing Board's management performance. The Credit Committee – a committee of the Supervisory Board – was redefined in 2004 as a Risk Committee that deals with all forms of risk taken on by the Bank. As a rule, it receives quarterly reports on the risk profile for the various risk categories.

Organisation of Risk Management



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

In keeping with the Minimum requirements for the trading activities of credit institutions (MaH) and the Minimum requirements for the credit business of credit institutions (MaK), the units that oversee risks (Risk Control and Credit Management), up to and including the level of the Managing Board, are functionally independent from front office units. Risk controlling includes regular monitoring to see that limits set by the Managing Board are complied with and that reporting stays at-tuned to risk content and regulatory requirements, including

procedures for escalation and issuing alarms.

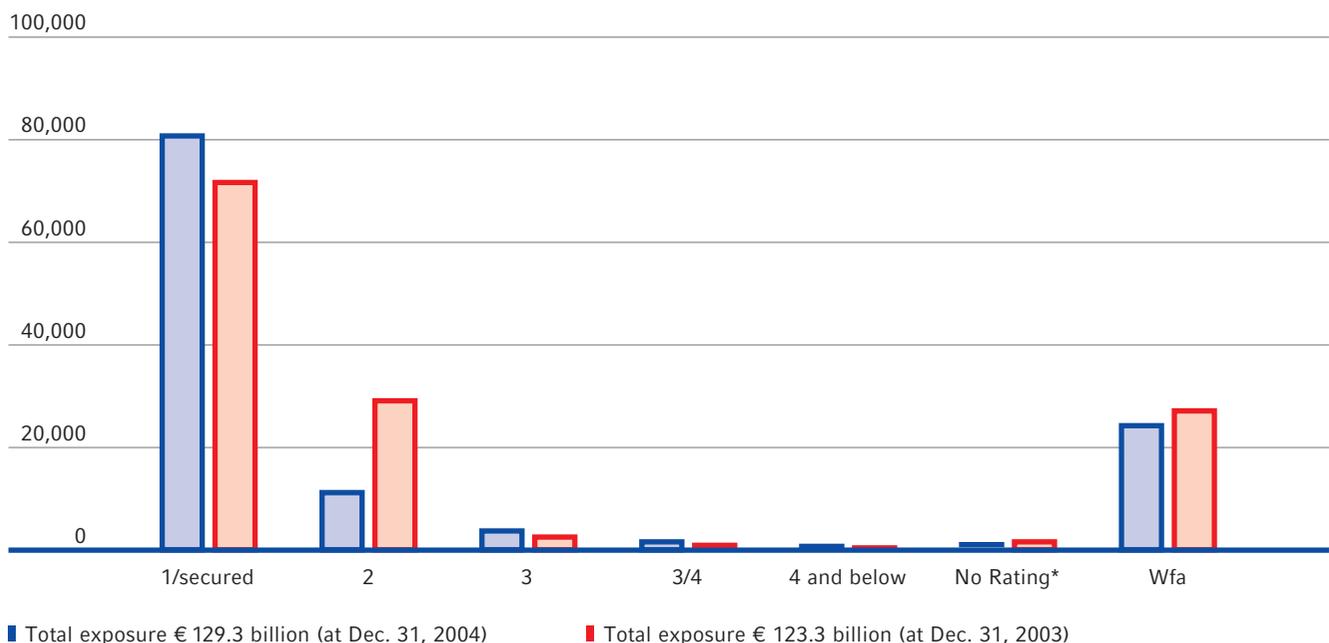
The risk report complies with the requirements of German Accounting Standard (DRS) 5–10.

Counterparty Default Risk

As an economic development bank, the Bank engages primarily in municipal financing and in granting development loans, as its strategic lines of business.

As a rule, development funds are collateralised or granted by way of the low-risk "borrower's bank" method. Accordingly, the portfolio has a first-rate risk structure.

Total Exposure by Rating, 2004 € millions



* Unrated commitments are largely debtors with municipal guarantors and unrated real-estate financing, which is in the process of being shed under Verständigung II.

NRW.BANK's total exposure in 2004 was € 129.3 billion (2003: € 123.3 billion).

Over 96.3% of the portfolio (not including the Wohnungsbauförderungsanstalt) are loans to debtors that are internally rated as very good (1) to satisfactory (3), or loans secured under the Public-Sector Pfandbriefe Act (ÖPG) or the Mortgage Banking Act (Hypothekenbankgesetz). The Wfa portfolio is secured not only by the Wfa's assets, but also under the provisions of § 19 and § 21 of the German Housing Promotion Act (Wohnungsbauförderungsgesetz).

The percentage of commitments rated 1 increased against the prior year, especially because of an expansion of business with municipal customers and the incorporation of guarantee mechanisms (such as collateral) into the ratings.

In keeping with its mission as a development bank, NRW.BANK operates almost exclusively in Germany (85.8% of its total exposure, vs. 90.1% in 2003). The present foreign exposure results primarily from treasury operations, and concentrates entirely on countries with at least investment-grade ratings. Thus euro zone countries (including Germany) account for € 125.3 billion (96.9%, vs. 99%) of all exposures. As of December 31, 2004, € 4.0 billion, or 3.1% of all exposures, entailed a transfer risk (2003: € 1.6 billion and 1.3%). For that reason, country risks are of secondary importance at NRW.BANK.

NRW.BANK engages in derivative transactions with selected market partners, primarily for hedging purposes. The Bank significantly expanded its use of netting and collateralisation in 2004 to reduce counterparty default risk.

The internal rating of the portfolio is of key importance in managing counterparty default risks at NRW.BANK. Exposures are rated regularly on the basis of extensive documentation and analysis.

The Bank applies adequate control mechanisms to safeguard good rating quality. These centre on the Bank's risk strategy, in association with an economic capital concept. Here limits are set at the portfolio level on the basis of a Credit VaR for a holding period of one year and a 99.0% confidence level. In setting the parameters for its calculations, the Bank builds on the terms set by the Basle Banking Committee or on ratings analyses from outside agencies. The calculations are put through extensive scenario and stress analyses.

This risk management at the level of individual exposures is supplemented with borrower-specific caps. The association between the two risk management levels – economic capital and individual exposures – is established in part by setting limits for individual risk classes.

Risk Provisions

Total risk provisioning in the lending business for 2004 was € 119.5 million, of which € 75.7 million was for the Wfa (2003: € 121.2 million, of which the Wfa accounted for € 102.5 million).

Loan exposures with elevated latent risk came to € 700 million, of which € 586 million was for the Wfa (2003: € 597.7 million, with € 533.1 million for the Wfa). The allowances for specific accounts and doubtful debt provisions covering these engagements came to € 290.5 million, of which € 270.4 million was for the Wfa (2003: € 235.9 million, Wfa € 227.8 million).

Risk provisioning in the lending business includes both individual allowances and a global allowance. Individual allowances are formed, taking existing collateral into account, for specific borrower account risks identified and quantified during the course of the year. For real-estate financing in excess of € 250 thousand, the property serving as collateral is appraised at earning capacity value, with the deduction of a collateral discount.

A global allowance is formed for counterparty default risks that may already have arisen at the reporting date but have

not yet been identified. The amount of this allowance is based on historical averages for default probabilities and loss ratios. The consideration of global risk also includes all loan exposures up to a value of € 250 thousand each. Amounts are determined by statistical credit risk measurement methods, making allowances for current developments in the business cycle and overall economic conditions.

Participation Risks

Counterparty default risks in the Equity Investments business derive primarily from the employment of capital. Market price risks resulting from refinancing are pooled and managed together by the Capital Markets unit.

As of December 31, 2004, the total book value for equity investments in affiliated and non-affiliated companies, adjusted for reporting of the book value of WestLB AG, was € 177.1 million (2003: € 169.6 million).

Summary of Equity Interests in Affiliated and Non-Affiliated Companies

Book value in € millions/Share of capital	Dec. 31, 2004		Dec. 31, 2003	
	€ millions	%	€ millions	%
WestLB AG	2,200.0	38.75	3,400.0	100.00
ILB InvestitionsBank des Landes Brandenburg	51.1	50.00	51.1	50.00
LEG Landesentwicklungsgesellschaft NRW GmbH	32.3	22.25	32.3	22.25
Enterprises in the entertainment industry	63.1	100.00	63.1	100.00
Other equity investments	30.6		23.1	
Total	2,377.1		3,569.6	

Individual risks arising from equity investments are normally managed by the Equity Investments unit. It detects and manages risks relating to specific equity investments at the time of their acquisition and for the entire time they are held thereafter. Counterparty default risks here derive mainly from 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.

In addition to the Equity Investments unit, the Risk Committee in particular, as well as the Credit Management and Risk Control units, are also involved in risk management. Moreover, an independent second opinion is prepared by the Credit Management unit to ensure compliance with minimum requirements for the credit business in all relevant matters.

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

For the Bank as a whole, equity investment commitments are included in economic capital management (December 31, 2004: € 42.9 million).

Because of the option agreement with the Regional Associations of the Rhineland and Westphalia-Lippe, which remains in force subsequent to WestLB AG's measures to raise its capital, it is still possible that these regional associations may exercise their options, and thereby also cease to be among the owners of NRW.BANK. If that option is exercised, both NRW.BANK's equity and its potential dividend entitlements would be reduced significantly.

For certain other equity investments, the counterparty default risk is limited by a strong direct or indirect involvement of public funding. For example, such risks may be reduced by indemnity bonds. The NRW.BANK.Mittelstandsfonds, a fund established in 2004 to assist medium enterprises, is covered by a guarantee from the state of North Rhine-Westphalia for 49% of the capital invested at any given time. In the case of LEG Landesentwicklungsgesellschaft NRW GmbH, public-sector entities hold a majority interest.

For subsidiaries in the entertainment sector in which the Bank is the sole shareholder, strategic risks particularly result from more intense competition from unlicensed vendors. These risks are countered with appropriate product policies and with investments oriented to the future. In addition to the representatives of the Bank as the shareholder, the Advisory Board of these companies also includes representatives of the state, ensuring that the shareholder's business interests can be coordinated with the state's regulatory interests at an early stage.

Market Price Risk

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

Thus far, the Bank has assumed no stock risks. The Bank assumes only limited foreign exchange risks because its business purpose keeps its operations focussed primarily within Germany. If products denominated in foreign currencies are employed as part of Treasury activities, the foreign exchange risk is largely hedged with derivatives, so that any such risk largely remains confined to the margin earned.

The Bank manages and monitors all market price risks using the **Value at Risk method** and a Monte Carlo simulation conforming to market standards; day-to-day management has a 95.0% confidence level for a one-day holding period.

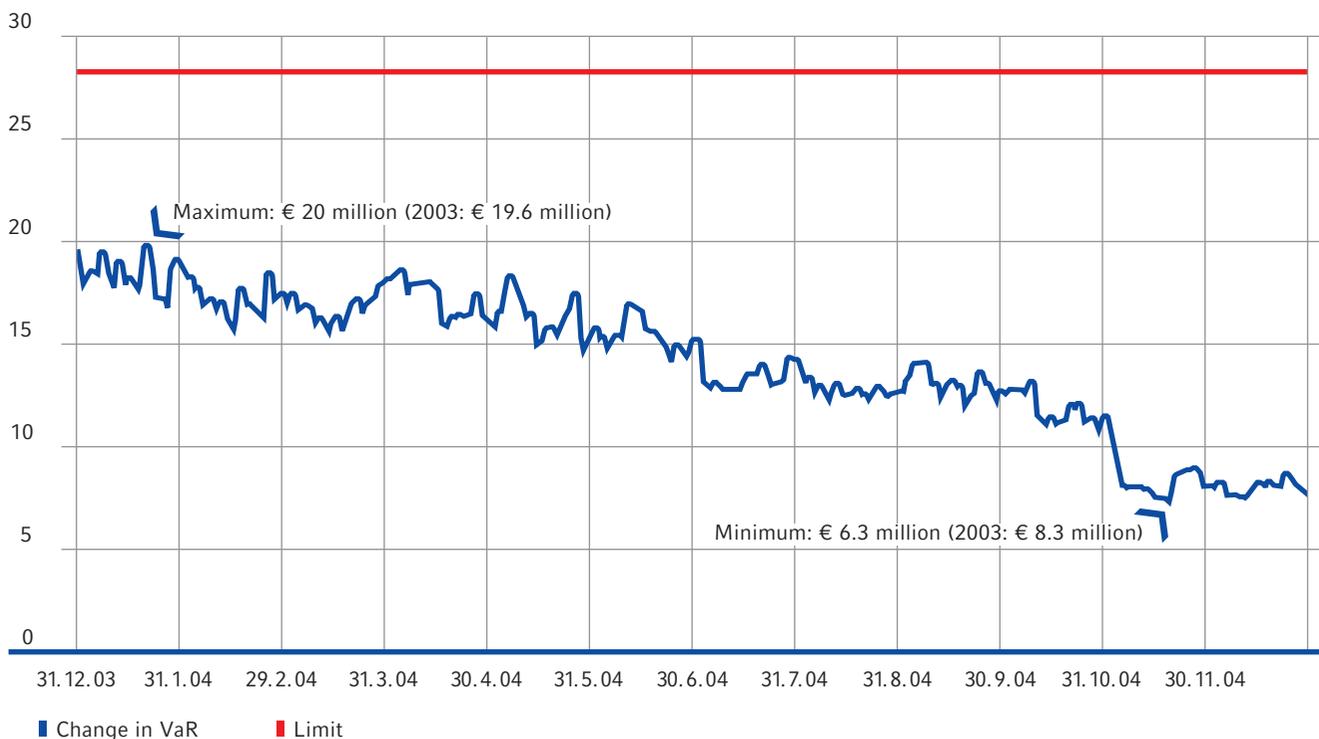
In 2004, NRW.BANK improved its short-term analysis capabilities with a new VaR system solution based directly on the Bank's trading system. The historical period to be observed was set at 50 days. Heavier weighting of events from the recent past shortens the response time of VaR figures when the market changes, thus supporting prompt management action. Because of the quiet market environment, the changeover caused a reduction of some € 3 million in the VaR figures. The quality of the risk figures is checked by daily backtesting.

In addition to daily computation of VaR figures, stress and scenario analyses are performed regularly, both on the basis of individually developed situational scenarios and on the basis of the results of standardised scenarios specified by the regulatory authorities.

For strategic management of economic capital, the Bank assumes a uniform 99% confidence level; for market price risks, the holding period is scaled to 10 days. The economic capital for market price risks was € 31.2 million as of December 31, 2004.

Evolution of NRW.BANK's Total Value at Risk in 2004 € millions

Average: € 13.6 million (2003: € 17.1 million)



Liquidity Risk

The liquidity situation at NRW.BANK is characterised by largely fixed cash flows, which can therefore be rather easily planned. To safeguard its ability to pay at any time, the Bank maintains not only extensive money-market facilities, but also a substantial portfolio of high-liquidity securities or securities that can be deposited with the European Central Bank (ECB). Thus even in stress situations such as unforeseen fluctuations in cash flow, the Bank is able to generate extensive liquidity largely irrespective of the general market situation.

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

In fiscal 2004, the Bank's liquidity ratio required under the banking laws was above the 1.0 regulatory minimum at all times (end of December: 1.82; 2003: 1.3).

Management of NRW.BANK's structural liquidity is intended to guarantee that the Bank is solvent at all times, and additionally to minimise refinancing risks resulting from higher costs of procuring medium

and long-term funds. This capability is ensured by diversification of investor groups, regions and products. Because of its **good rating**, NRW.BANK views the liquidity risk as rather minimal, including in structural terms.

Operational Risks

Operational risk management at NRW.BANK comprises both qualitative and quantitative aspects.

Qualitative aspects have been covered since the implementation of a **management concept for operational risks** based on such standards as the Basle "Sound Practices for the Management and Supervision of Operational Risk."

A combination of **decentralised and centralised risk management** and risk monitoring at the Bank ensures that management steps are taken promptly, cumulative effects are recognised, and decisions about material risks can be taken at the Managing Board level.

The detection of **risk events** makes events with potential risk for the analysis of risk trends transparent. **Self assessment** mechanisms have been established to make a qualitative appraisal of potential operational risks on the basis of risk scores. Risk management is supported by the development of **risk indicators** that serve as early warning signs, with the aim of refining the structured monitoring of potential developments.

Emergency planning is in place for emergencies and catastrophic events. Adequate insurance coverage has been provided.

In preparation for the deconsolidation of WestLB AG and its subsidiaries, the Bank reviewed in due time its procurement of IT and other services from its former subsidiary, scaled these back and adjusted them further, and ensured through appropriate agreements that services would continue to be provided in the requisite quality.

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.

For the quantitative aspects of risk management relating to economic capital, the Bank calculates operational risks by a method founded on the basic indicator approach of the Basle Committee on Banking Supervision. The economic capital for operational risks was € 18.3 million as of December 31, 2004.

Strategic Risks

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 beyond July 18, 2005, NRW.BANK operates within an environment that may be considered stable.

To forestall strategic risks, NRW.BANK regularly reviews both the internal and the environmental premises of its corporate strategy on the basis of a rolling multi-year projection procedure, and derives

conclusions for the Bank's strategic positioning. Central Controlling and the Strategy Committee track the progress and compliance of key management variables.

Overall Risk Assessment

Risk assessment has evolved at NRW.BANK into a complete management concept founded on economic capital and a risk-return ratio. This approach ensures that risk assumption is always consistent with the Bank's strategy and capitalisation, and that the Bank's business is always viable in light of risk exposure.

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

In this process, the Managing Board maintains an appropriate ratio between the limit for economic capital and **capital**

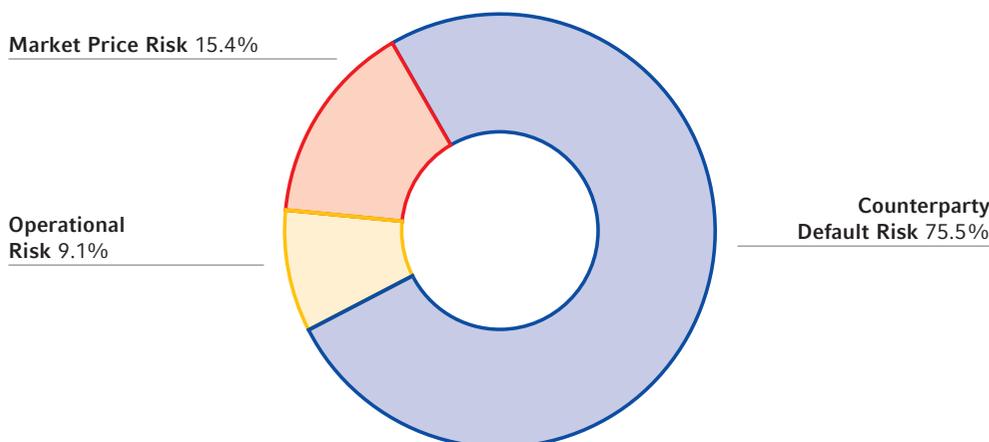
cover, which is determined by methods that are standard practice in the market with due allowance for the equity components required by banking regulations and reported in the balance sheet.

The economic capital for counterparty default risks and market price risks is determined by the consistent Value-at-Risk method described above; operations are monitored regularly as to how closely they approach the established limits. For all operations, the economic capital limit for operational risks is managed on the basis of the Basle recommendations.

Economic capital for the Bank as a whole is calculated conservatively on an aggregate basis, and thus makes no allowance for the effects of diversification among different types of risk. The Bank's total economic capital is € 201.5 million.

The total risk exposure as of the end of the year was composed as follows:

Economic Capital by Type of Risk, 2004



Because of the Wfa's special legal situation as an organisationally and economically independent public-law institution of NRW.BANK, having no legal capacity of its own but with its own liability mechanisms, the Wfa is analysed and evaluated separately.

The management concept is supplemented with **stress and scenario analyses** that check that the bank has adequate risk-bearing capacity with regard to the capital cover not allocated as a limit.

Risk management for the Bank as a whole will be refined further in 2005, with an emphasis on liquidity risks and operational risks.

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

Looking Ahead

The nation's incipient economic recovery has not achieved stability yet, and remains vulnerable primarily to further changes in the world market, in foreign-exchange rates, and in oil prices. The greatest challenge for the future will be to hedge or cushion these risks, and to establish the upswing on a basis of healthy domestic demand while encouraging exports to recede. There have been encouraging indications: the first signs of positive figures in Spending on plant and equipment, and business taking a more optimistic view of the economy.

Real gross domestic product is expected to grow 1.5% in 2005. Yet because the calendar will include fewer work days than in 2004, the pace of macroeconomic growth will remain largely constant. For the time being there is no sign that the upswing may pick up momentum. This expectation is in part founded on shrinking exports, especially to the United States and China, economies that formerly powered the global recovery but are now slowing down. Domestic demand, which is only gradually picking up steam, will not be able to make up for the difference. Spending on construction will suffer in particular. Building permits and new orders will

continue to decline. Corporate interest in capital spending will grow, but still be too limited in scale. Assuming there are no effective reforms of the labour market, a similar situation will hold true for unemployment, which will shrink only gradually and only slightly. Consequently income growth will remain flat, and the inclination to save will remain strong. Hence no appreciable expansion in consumer spending can be expected.

As the world economy will recover only mildly, growth will remain weak. Key lending rates in the United States are expected to keep rising in moderate increments. A slight increase by the European Central Bank (ECB) is also conceivable in the second half. The ECB's monetary policy will remain expansionary. Changes in money-market rates will affect yields. Large deficits will limit the options for government spending policies to inject positive impetus. Given the still-strong euro, the bond market is well supported, but a significant rise in yields is unlikely.

Outlook for NRW.BANK

At the Guarantors' Meeting on December 10, 2004, NRW.BANK's guarantors adopted the Bank's strategic business plan for 2005–2008, with the associated risk strategy, submitted at the proposal of the Managing Board. This plan establishes the framework for NRW.BANK's operations – especially in the development business, with its core activities in support for start-ups and SMEs, infrastructure and municipal finance, and housing promotion.

On that basis, the Bank expects moderate growth in 2005. Total assets will grow about 3% this year. Operating income will improve by about the same order of magnitude for 2005. Gains in income from interest and commissions will outpace increases on the cost side of the ledger. Staff will be expanded, in keeping with the adopted business strategy. Here it should be borne in mind that in back-office departments, some of the necessary staff build-up will result from the insourcing of operations that had formerly been outsourced to WestLB AG or its subsidiaries.

As of the reporting date, the Bank held 38.75% of WestLB AG. After write-downs totalling € 2,082.8 million for the year under review and the year before, the book value of this investment is now € 2.2 billion.

WestLB AG is in the process of repositioning itself as a European business bank, with a presence in the appropriate international financial marketplaces, and as a strong central bank and association bank for the savings banks of North Rhine-Westphalia. WestLB AG's decisions about strategy and business policy will reportedly focus mainly on tapping future potential for higher earnings and lower costs. WestLB AG's plans are ambitious, and carry more than a negligible degree of risk. Not until the medium term will it become possible to measure the success of this strategic reorientation.

If the plans of the Managing Board of WestLB AG fail to become reality, especially in the years after 2006, and if the fundamental situation remains unchanged otherwise, the effect on the valuation of WestLB AG would be substantial, and the further write-downs that might then become necessary would have an impact on the future annual financial statements and equity of NRW.BANK.

The Bank projects that new business in the founding of businesses and in support for small and medium enterprises in North Rhine-Westphalia will expand slightly. The gathering momentum of the economic revival leads the Bank to assume that capital spending will increase, with a consequent further rise in demand for development funds. Global loans in particular will spread to all banking groups. NRW.BANK offered them for the first time in 2004, through the savings banks in the state.

In financing for equity investments, the Bank will comply with EU regulations for government assistance and with *Verständigung II*, further expanding its range of equity financing for small and medium enterprises in North Rhine-Westphalia. The Bank has founded the NRW.BANK.Mittelstandsfonds and endowed it with a total of € 75 million. This fund will be used to finance equity solutions for small and medium growth enterprises in the state, within limits of € 1 to 7 million each. This is a mixed

form of financing that may include characteristics of both equity and borrowings. Additionally, the guarantors have approved the NRW.BANK.Venture Fonds for financing selected future-oriented industries and technologies, thus supporting innovation in North Rhine-Westphalia.

The housing promotion programme for 2005 will remain almost unchanged from 2004. Total grants of € 810 million will be applied to assist 13,500 additional units of housing, and € 175 million will go toward investments in housing stock. The programme's funding is expected to be utilised in full again this year. New development options for innovative types of housing represent a first response from the state of North Rhine-Westphalia to problems of the aging population. For example, assistance will be provided for new forms of housing for seniors and for those in need of long-term care. Assistance to models for modernising long-term care facilities will also continue in 2005.

In infrastructure and municipal financing, the Bank will further expand its role in providing public funding for budgets and infrastructure development in the state. It will offer local governments in North Rhine-Westphalia advisory services, structuring services and custom solutions for their financing issues. In project financing, the Bank particularly expects a substantial increase in private-public partnership (PPP) financing. NRW.BANK will support the state in identifying and implementing potential PPP projects. The repertoire of development tools will be expanded with innovative forms of financing.

Refinancing activities will be optimised further in 2005 to meet the needs of a development bank, primarily by building a broader investor base and applying product innovations individually tailored to the needs of each investor. NRW.BANK has the same rating as the state of North Rhine-Westphalia. Within the development business, the Bank will apply the advantages of its liability tools (institutional liability and guarantor liability) entirely without influencing competition. In this connection, the range of uncovered bonds will be expanded further. Depending on where the market stands, NRW.BANK will also offer investors bonds denominated in foreign currencies. The Debt Issuance Programme, specially tailored to investor needs, and the Commercial Paper Programme, designed for short maturities, will be built up further.

For the year as a whole, total new issues are likely to remain on the same order as last year, at roughly € 20 billion.

In Düsseldorf, the new NRW.BANK offices on Kavalleriestraße will be finished in the spring of 2006. Until now, staff has been spread out among three different buildings. NRW.BANK will be the sole lessee of the building complex.

In Münster, NRW.BANK has acquired the historic complex of buildings of the former Westdeutsche Landesbank Girozentrale on Friedrichstraße. As in Düsseldorf, the new offices will make it possible to gradually assemble staff in one building, instead of the three locations being used here at present. A pan-European architectural competition will decide in 2005 about the structural changes to be made to the complex.

NRW.BANK's clear strategic focus as the central development platform for the state of North Rhine-Westphalia has laid down a solid foundation for the Bank's successful business operations – for the benefit of all the state's recipients of development assistance.

Balance Sheet

of NRW.BANK as at December 31, 2004

Assets

see Notes No.		31. 12. 2003	
	€	€	€ thousands
Cash			
a) cash on hand	7,474.67		(–)
b) balances with central banks	120,660,110.75		(43,116)
including:			
with Deutsche Bundesbank 120,660,110.75 €		120,667,585.42	43,116
Receivables from banks	1, 20, 25		
a) payable on demand	2,070,276,945.71		(614,461)
b) other	33,311,671,835.75		(37,012,962)
		35,381,948,781.46	37,627,423
Receivables from customers	2, 3, 20, 25		
thereof:			
secured by mortgages 5,018,544,038.55 €			
loans to public authorities and entities under public law 24,925,119,578.60 €			
		30,707,223,496.39	28,027,040
Bonds and other interest-bearing securities	4, 8, 20, 22, 25		
a) bonds and notes			
aa) of public institutions	27,643,373,188.99		(19,645,010)
thereof:			
eligible as collateral for Deutsche Bundesbank advances 25,321,478,214.68 €			
ab) of other issuers	8,683,273,850.20		(10,686,517)
thereof:			
eligible as collateral for Deutsche Bundesbank advances 8,062,274,000.83 €	36,326,647,039.19		(30,331,527)
b) bonds issued by the Bank	79,420,646.85		(109,578)
principal amount 74,998,737.53 €		36,406,067,686.04	30,441,105
	To be carried forward:	102,615,907,549.31	96,138,684

Liabilities

see Notes No.

31. 12. 2003

	€	€	€	€ thousands
Liabilities to banks	11, 20, 23			
a) payable on demand		65,951,705.91		(33,364)
b) with agreed maturity or period of notice		36,006,948,297.92		(33,847,149)
			36,072,900,003.83	33,880,513
Liabilities to customers	12, 20			
a) other liabilities				
aa) payable on demand		210,503,814.49		(84,054)
ab) with agreed maturity or period of notice		16,286,770,240.64		(12,268,942)
			16,497,274,055.13	(12,352,996)
				12,352,996
Certificated liabilities	13, 20, 25			
a) bonds and notes issued by the Bank		42,175,050,871.56		(49,151,949)
thereof:				
money market instruments		1,614,712,220.22 €		
b) other certificated liabilities		7,047,691,850.09		(-)
			49,222,742,721.65	49,151,949
Trust liabilities	14			
thereof:				
trust loans		2,598,084,877.09 €		
			2,598,084,877.09	2,691,208
Other liabilities	15			
			27,693,929.33	74,662
Deferred items	16, 20			
			564,710,028.48	519,219
Provisions	17			
a) for pensions and similar obligations		617,112,135.28		(592,695)
b) tax reserve		7,397.68		(10,410)
c) other		230,044,867.10		(200,770)
			847,164,400.06	803,875
Subordinated liabilities	18			
thereof:				
due in less than two years		-.— €		
			405,000,000.00	349,561
			106,235,570,015.57	99,823,983
		To be carried forward:		

Balance Sheet

of NRW.BANK as at December 31, 2004

Assets

see Notes No.		31. 12. 2003	
		€	€ thousands
		€	€ thousands
		To be carried forward:	96,138,684
Equity investments in non-affiliated companies	5, 8	2,312,709,235.44	105,379
thereof:			
equity investments in banks	2,252,989,508.98 €		
Equity investments in affiliated companies	5, 8	64,366,195.82	3,464,242
thereof:			
banks	— €		
Trust assets	6	2,598,084,877.09	2,691,208
thereof:			
trust loans	2,598,084,877.09 €		
Intangible assets		23,148,880.52	—
Tangible fixed assets	8	13,400,103.81	11,187
Other assets	7	514,353,848.63	478,763
Deferred items	9, 20	2,125,217,316.25	2,138,564
Total assets	20	110,267,188,006.87	105,028,027

Profit and Loss Account

of NRW.BANK for the Period January 1 – December 31, 2004

see Notes No.		1.1.–31.12.2003	
	€	€	€ thousands
Interest income from			
a) lending and money market transactions	3,125,874,170.08		(3,336,132)
b) interest-bearing securities and book-entry securities	1,474,390,769.25		(1,238,812)
	4,600,264,939.33		(4,574,944)
Interest expenses	4,264,153,949.44		(4,234,060)
		336,110,989.89	340,884
Income from			
a) equity investments in non-affiliated companies	2,504,402.13		(2,538)
b) equity investments in affiliated companies	10,280,184.24		(9,998)
		12,784,586.37	12,536
Income from profit pooling, profit transfer and partial profit transfer agreements		2,553,039.67	2,395
Commission income	26	19,118,491.84	(17,782)
Commission expenses		6,640,515.88	(7,041)
			12,477,975.96
Other operating income	27		19,645,220.36
General administrative expenses			
a) personnel expenses			
aa) wages and salaries	63,143,849.75		(52,076)
ab) social security contributions and expenses for pensions and other employee benefits	26,391,216.49		(20,510)
thereof:		89,535,066.24	(72,586)
for pensions 17,244,174.40 €			(14,305)
b) other administrative expenses	71,644,095.81		(86,569)
			161,179,162.05
Depreciation and value adjustments on intangible and tangible fixed assets		1,931,678.89	1,585
Other operating expenses	27		15,629,874.00
		204,831,097.31	199,230
		To be carried forward:	

see Notes No.

1.1.-31.12.2003

	€	€	€	€ thousands
		To be carried forward:	204,831,097.31	199,230
Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions			248,231,485.59	338,524
thereof:				
transfer to fund for general banking risks 50,000,000.00 €				(35,000)
Write-downs and value adjustments on investments, shares in affiliated companies and securities treated as tangible fixed assets			202,778,872.02	1,607,061
Expenses from the assumption of losses			449,417.16	–
Result from normal operations			– 246,628,677.46	– 1,746,355
Extraordinary expenses	28	3,239,946.12		(6,196)
Extraordinary result			– 3,239,946.12	– 6,196
Taxes on income and revenues		5,929,151.02		(17,554)
Other taxes not shown under other operating expenses		20,992.63		(1)
			5,950,143.65	17,555
Result of the year			– 255,818,767.23	– 1,770,106
Allocation to capital of Wohnungsbauförderungsanstalt NRW			54,702,505.45	25,397
Withdrawals from capital reserves			310,521,272.68	1,795,503
Profit for the year			–.—	–

Notes

of NRW.BANK at December 31, 2004

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 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 and Management Report are given in € millions.

To promote housing and small residential development projects, NRW.BANK operates Wohnungsbauförderungsanstalt Nordrhein-Westfalen (Wfa) – Anstalt der NRW.BANK – pursuant to § 1 (4) of its articles and bylaws. Wfa is an unincorporated, public-law institution with headquarters in Düsseldorf that operates financially and organisationally on a stand-alone basis. By law, Wfa must prepare separate annual accounts and a management report.

The net assets brought into the predecessor institution of NRW.BANK as part of the transfer of Wfa in its entirety effective January 1, 1992 amounted to € 3,016.6 million. This amount continues to be reported within capital reserves as the special reserves pertaining to the Wohnungsbauförderungsanstalt. A substantial portion of this amount is recognised as liable capital under banking regulations.

In the 2004 accounts, the assets and liabilities of Wfa have been carried at the amount of the assets originally contributed, with transactions between the Bank and Wfa eliminated. Because the appropriation of the state housing assets is governed by statute, the funds allocated to Wfa by the State of North Rhine-Westphalia and the German federal government following the transfer have not been taken into account.

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. Wfa's profit for the year of € 54.7 million was allocated to the state housing assets as mandated by law. Additional information about Wfa's earnings is provided in the management report.

Accounting and Valuation Principles

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

Claims 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 claims and liabilities are reported under deferred items as an asset or liability, respectively. The proportionate

amount of interest on a claim or liability at year-end is generally included with the claim or liability to which it applies. Deferred items resulting from the issuing and lending business are valued according to the proportionate interest method. Non-interest bearing loans to employees are reported at their amortised cost in accordance with tax regulations. Zero-coupon bonds are carried as liabilities at their issue price plus interest accrued as of the reporting date.

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 claims and contingent liabilities. Value adjustments were deducted from assets. Non-performing loans were written off.

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

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

For securities held in the investment portfolio with a book value of € 35,430,142,556.92, an aggregate market value of € 35,423,850,363.07 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, it was not necessary to write the securities down to market.

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

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

At € 2.2 billion, the stake in WestLB AG, Düsseldorf/Münster, represents the lion's share of the holdings in banks making up equity investments in non-affiliated companies as of the balance sheet date. Its book value is based on an external report about the return on NRW.BANK's investment in WestLB AG, which itself is based on WestLB AG's own estimates. Additional information about the risks inherent in the projections from WestLB AG and the associated risks for NRW.BANK is available in the management report.

All other things being equal, if the estimates of WestLB AG's managing board do not materialise, particularly as concerns the time after 2006, this would have a substantial impact on the valuation of WestLB AG and, due to additional write-downs that might become necessary at that time, on the future annual accounts and equity capital of NRW.BANK.

Owing to the decision of the savings banks associations to exercise their direct investment option, converting their shares in NRW.BANK into direct holdings in WestLB AG, and their exclusive participation in a capital increase at the latter, NRW.BANK's stake in WestLB AG dropped to 38.75%. The resulting dissolution of the parent-subsidiary structure between NRW.BANK and WestLB AG meant that the stake in WestLB AG went from being an equity investment in an affiliated company to an equity investment in a non-affiliated company. For this reason, there has been a shift with respect to the previous year in the numbers reported in the notes to the relevant balance sheet items for business with affiliated companies and business with other companies in which equity investments are held.

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.

For the first time, software developed externally with a book value of € 8.8 million was removed from office equipment and reclassified as intangible assets in fiscal 2004; this brought the total for intangible assets to € 23.1 million.

Adequate provisions have been made for contingent liabilities and anticipated losses from open contracts. A provision for anniversary expenses has been established in the amount permitted under tax law. The provision for pensions was established on the basis of actuarial principles in accordance with § 6a of the German Income Tax Act (EStG). On the basis of an expert opinion about a decision of the German Federal Tax Court (Bundesfinanzhof), funds were allocated again in fiscal 2004 to the provision for additional benefits guaranteed to pensioners and current employees when they retire.

There are reserve risk provisions pursuant to § 340f of the German Commercial Code (HGB) and a fund for general bank risks pursuant to § 340g of the German Commercial Code (HGB). Allocations were made to both in the year under review.

Foreign currency amounts have been translated in accordance with § 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 30, 2004.

Balance Sheet

Claims on Banks (1)

Breakdown by Maturity	Dec. 31, 2004	Dec. 31, 2003
	€ millions	€ millions
Payable on demand	2,070.3	614.5
With residual maturities of		
– up to 3 months	3,545.5	3,849.4
– between 3 months and 1 year	3,085.9	3,353.4
– between 1 and 5 years	15,006.9	17,557.3
– more than 5 years	11,673.3	12,252.8
Total claims on banks	35,381.9	37,627.4

Claims on banks include no claims on affiliated companies (2003: € 3,597.1 million). The claims on other companies in which equity investments are held totalled € 3,470.0 million (2003: € 2,549.6 million).

Claims on Customers (2)

Breakdown by Maturity	Dec. 31, 2004	Dec. 31, 2003
	€ millions	€ millions
With residual maturities of		
– up to 3 months	1,756.7	949.2
– between 3 months and 1 year	2,623.2	2,278.0
– between 1 and 5 years	9,162.6	9,861.5
– more than 5 years	17,164.7	14,938.3
Total claims on customers	30,707.2	28,027.0
including:		
– claims with indefinite maturities	47.5	13.4
– loans of the Wohnungsbauförderungsanstalt	3,895.6	3,828.1

Claims on customers include no claims on affiliated companies (2003: € 11.6 million). The claims on other companies in which equity investments are held totalled € 42.5 million (2003: € 130.1 million).

Claims Secured by Mortgages (3)

Breakdown by Maturity	Dec. 31, 2004	Dec. 31, 2003
	€ millions	€ millions
Claims on customers with residual maturities of		
– up to 3 months	129.3	79.8
– between 3 months and 1 year	292.5	361.0
– between 1 and 5 years	1,178.9	1,437.5
– more than 5 years	3,417.8	3,306.3
Total claims secured by mortgages	5,018.5	5,184.6

Bonds and Other Interest-Bearing Securities (4)

Marketability	Dec. 31, 2004	Dec. 31, 2003
	€ millions	€ millions
Bonds and other interest-bearing securities		
– listed on a stock exchange	34,741.6	26,542.6
– not listed on a stock exchange	1,664.5	3,898.5
Total bonds and other interest-bearing securities	36,406.1	30,441.1
including:		
amounts that will become due by		
December 31 of the following fiscal year	2,732.2	3,677.6

Bonds and other interest-bearing securities include no securities from affiliated companies (2003: € 124.9 million) and none from other companies in which equity investments are held (2003: € 1,173.1 million).

Of the total bonds and other interest-bearing securities, € 234.8 million (2003: € 105.8 million) is held as part of the liquidity reserve and € 36,171.3 million (2003: € 30,335.3 million) is held in the investment portfolio.

At December 31, 2004, NRW.BANK carried € 1,932.2 million (2003: € 5,440.7 million) in financial assets on its books that were funded at a fixed rate and valued as fixed assets.

Equity Investments in Non-Affiliated and Affiliated Companies (5)

Due to the dissolution of the parent-subsidary structure with WestLB AG, NRW.BANK holds € 2,312.7 million (2003: € 105.4 million) in equity investments in non-affiliated companies and € 64.4 million (2003: € 3,464.2 million) in equity investments in affiliated companies. Of this amount, € 2,200.0 million (2003: € 3,400.0 million) is evidenced by marketable securities. However, none are listed on a stock exchange.

The itemised list of NRW.BANK's holdings pursuant to § 285 No. 11 and 11a of the German Commercial Code (HGB) has been deposited with the Local Courts in Düsseldorf and Münster.

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

WestLB AG
 InvestitionsBank des Landes Brandenburg (ILB)
 LEG Landesentwicklungsgesellschaft NRW GmbH
 E.6 München GmbH

Trust Assets (6)

Breakdown by Asset Type	Dec. 31, 2004	Dec. 31, 2003
	€ millions	€ millions
Claims on banks	180.9	200.2
Claims on customers	2,417.2	2,491.0
Total trust assets	2,598.1	2,691.2

Other Assets (7)

The total figure of € 514.4 million (2003: € 478.8 million) chiefly consists of the following:

	Dec. 31, 2004	Dec. 31, 2003
	€ millions	€ millions
Claims on WestLB AG for reimbursement of pension obligations	462.7	453.6
Refund claims from prepaid and withheld corporate income tax, the solidarity surcharge and investment income tax on investment income and dividends	24.0	1.1
Claims from profit and loss pooling agreements with companies in which equity investments are held	10.9	13.9
Land and buildings acquired as part of bail-out transactions	6.0	4.2
Offsetting items from the valuation of foreign currencies	5.6	0.0
Offsetting items with WestLB AG	1.1	0.6
Paid premiums for options	1.6	1.6

Fixed Assets (8)

Schedule of Fixed Assets	Acquisition Cost/Cost of Production	Additions	Retirements	Total Depreciation and Amortisation	Net Book Value	Depreciation/Amortisation in the Fiscal Year
	Jan. 1, 2004				Dec. 31, 2004	
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Bonds and other interest-bearing securities forming part of fixed assets	29,726.4	Net change pursuant to § 34 (3) Sentence 2 RechKredV: € 4,511.2 million			35,430.1	0.0
Equity investments in affiliated companies	3,464.2				64.4	0.0
Equity investments in non-affiliated companies	105.4				2,312.7	287.3
Intangible assets	0.0	24.3	0.0	1.2	23.1	0.7
Land and buildings	0.0	11.3	0.0	0.1	11.2	0.1
Office equipment	14.9	1.0	12.1	1.6	2.2	1.2

Land and buildings are included for the first time; € 10.8 million of the amount shown represents land and buildings used by NRW.BANK for operations.

Deferred Items (9)

Breakdown of Deferred Items	Dec. 31, 2004	Dec. 31, 2003
	€ millions	€ millions
Discounts from underwriting business	193.7	218.4
Discounts on liabilities	173.1	187.3
Prepayment from discount of promotion activities	1,681.8	1,658.9
Pre-paid swap fees	73.1	73.1
Other	3.5	0.8
Total deferred items	2,125.2	2,138.5

Pledged Assets (10)

Of the assets reported, NRW.BANK pledged € 5,308.5 million (2003: € 3,267.2 million) under repurchase agreements.

Liabilities to Banks (11)

Breakdown by Maturity	Dec. 31, 2004	Dec. 31, 2003
	€ millions	€ millions
Payable on demand	66.0	33.4
With residual maturities of		
– up to 3 months	12,752.4	8,469.1
– between 3 months and 1 year	1,331.8	3,734.7
– between 1 and 5 years	8,650.7	8,420.8
– more than 5 years	13,272.0	13,222.5
Total liabilities to banks	36,072.9	33,880.5

Liabilities to banks include no liabilities to affiliated companies (2003: € 8,721.7 million). The liabilities to other companies in which equity investments are held totalled € 5,153.7 million (2003: € 163.9 million).

Liabilities to Customers (12)

Breakdown by Maturity	Dec. 31, 2004	Dec. 31, 2003
	€ millions	€ millions
Payable on demand	210.5	84.1
With residual maturities of		
– up to 3 months	631.0	461.3
– between 3 months and 1 year	631.9	369.2
– between 1 and 5 years	3,493.6	2,889.9
– more than 5 years	11,530.3	8,548.5
Total liabilities to customers	16,497.3	12,353.0

Certificated Liabilities (13)

Breakdown by Maturity	Dec. 31, 2004		Dec. 31, 2003	
	€ millions	€ millions	€ millions	€ millions
Notes issued		42,175.0		49,151.9
– mortgage bonds	109.4		190.8	
– municipal bonds	35,741.6		43,834.7	
– other bonds	6,324.0		5,126.4	
Money market instruments		1,614.7		0.0
Other certificated liabilities		5,433.0		0.0
Total certificated liabilities		49,222.7		49,151.9

Of the € 42,175.0 million in notes issued (2003: € 49,151.9 million), € 13,917.3 million (2003: € 11,786.8 million) is due in the following year.

Trust Liabilities (14)

Breakdown by Liability Type	Dec. 31, 2004		Dec. 31, 2003	
	€ millions	€ millions	€ millions	€ millions
Liabilities to banks	109.6		131.4	
Liabilities to customers	1,688.5		1,717.5	
Other liabilities	800.0		842.3	
Total trust liabilities		2,598.1		2,691.2

Other Liabilities (15)

The total figure of € 27.7 million (2003: € 74.7 million) chiefly consists of the following:

	Dec. 31, 2004		Dec. 31, 2003	
	€ millions	€ millions	€ millions	€ millions
Interest to be paid on existing profit participation rights and subordinated liabilities once the annual accounts are approved	22.0		37.0	
Good faith deposits on futures contracts	0.7		1.6	
Funds from the State of North Rhine-Westphalia that have not yet been disbursed	0.5		21.4	
Premiums from swaptions	0.5		0.9	
Taxes	0.1		0.9	
Offsetting items from the valuation of foreign currencies	0.0		10.4	

Deferred Items (16)

Breakdown of Deferred Items	Dec. 31, 2004	Dec. 31, 2003
	€ millions	€ millions
Premiums from underwriting business	100.5	129.8
Refinancing adjustments pertaining to Wfa	42.5	63.7
Swap fees received in advance	416.1	317.4
Other	5.6	8.3
Total deferred items	564.7	519.2

Provisions (17)

The provision for pensions includes € 462.7 million (2003: € 453.6 million) in pension obligations to employees of WestLB AG who have claims for or are entitled to a pension under the laws relating to civil servants. Under Art. 1 § 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. The entitlement itself will be adjusted each year according to actual needs.

NRW.BANK's provision for additional benefits stands at € 157.5 million (2003: € 149.0 million). This amount includes € 146.4 million in obligations to persons covered under the former pension agreement of Westdeutsche Landesbank Girozentrale, for which the public-law NRW.BANK assumed the additional benefit payments as part of the parent-subsidiary model. An additional € 11.1 million has been set aside for claims to additional benefits that employees of NRW.BANK have for their retirement.

Subordinated Liabilities and Profit Participation Rights (18)

The following subordinated liabilities exceed 10% of the total subordinated liabilities of € 405.0 million (2003: € 349.6 million):

Currency	Nominal Amount	Interest Rate	Term
	€ millions	%	
EUR	50.0	2.24	2004–2014
EUR	50.0	2.26	2004–2034
EUR	50.0	4.83	2004–2019
EUR	50.0	2.21	2004–2024
EUR	50.0	2.23	2004–2024

The remaining subordinated liabilities of € 155.0 million carry an average interest rate of 4.8% and have original maturities between 10 and 25 years. None of the subordinated liabilities have a remaining time to maturity of less than two years (2003: € 249.6 million).

The amount of subordinated liabilities increased by € 305.0 million (2003: € 25.0 million) because of new issues in fiscal 2004; € 249.6 million (2003: € 0.0 million) fell due.

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 expense of € 8.1 million (2003: € 23.1 million) was incurred for subordinated liabilities.

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

In fiscal 2004, € 11.0 million in new profit participation rights was issued, while rights in the amount of € 10.2 million were withdrawn from circulation early and redeemed. This brings the total of outstanding profit participation rights to € 250.8 million (2003: € 250.0 million).

Capital and Reserves (19)

At December 31, 2004, NRW.BANK had a subscribed capital of € 533.3 million (2003: € 500.0 million). The reserves totalled € 3,162.5 million (2003: € 4,419.0 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, 2004	Dec. 31, 2003
	€ millions	€ millions
Subscribed capital	533.3	500.0
Capital reserves	3,160.1	4,416.6
including:		
Special reserves pertaining to the Wohnungsbauförderungsanstalt	(3,016.6)	(3,016.6)
Reserves from retained earnings		
– pursuant to the articles and bylaws	2.4	2.4
– other	0.0	0.0
Total	3,695.8	4,919.0

Once the annual accounts are approved, the own funds of NRW.BANK under § 10 of the German Banking Act (KWG) will total € 3,400.2 million (2003: € 4,477.1 million).

Foreign Currency Assets/Foreign Currency Liabilities (20)

At year-end, NRW.BANK had foreign currency assets valued at € 1,016.9 million (2003: € 136.4 million) and foreign currency liabilities valued at € 1,436.0 million (2003: € 352.4 million).

Contingent Liabilities and Other Commitments (21)

The contingent liabilities of € 1,263.7 million (2003: € 1,116.1 million) stem from the lending business and from liquidity lines.

Of the € 2,498.5 million in irrevocable credit commitments (2003: € 2,220.8 million), € 1,622.4 million (2003: € 1,806.0 million) was for commitments made in connection with the Wohnungsbauförderungsanstalt.

Assets Used as Collateral (22)

Bonds and notes totalling € 5,279.6 million (2003: € 4,096.6 million) were pledged to the European Central Bank as collateral for loans. In addition, securities with a nominal value of € 50.0 million (2003: € 50.0 million) were deposited as collateral for forward transactions with the Eurex (eurexchange, electronic futures and options exchange), while securities with a nominal value of € 320.0 million were pledged as collateral for overnight loans.

Collateral for Own Liabilities (23)

There is € 10,118.0 million (2003: € 9,788.0 million) in collateral for NRW.BANK's own liabilities to banks.

Other Financial Obligations (24)

NRW.BANK had long-term rental and leasing obligations of € 1.5 million in 2004 (2003: € 1.8 million). The remaining term on the leases averaged one to four years.

Cover (25)

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

At December 31, 2004, the details of the cover were as follows:

Cover	Dec. 31, 2004	Dec. 31, 2003
	€ millions	€ millions
Mortgage bonds	389.3	609.3
Assets used for covering purposes		
– claims on banks	0.0	0.0
– claims on customers	1,339.5	1,577.2
Excess cover	950.2	967.9
Municipal bonds	62,554.0	70,253.2
Assets used for covering purposes		
– claims on banks	29,134.9	32,644.5
– claims on customers	23,191.5	21,552.9
– bonds and notes	20,123.4	21,457.5
Excess cover	9,895.8	5,401.7

Statement of Income

Services Rendered for Third Parties (26)

The net commission income includes € 8.8 million (2003: € 9.4 million) resulting from the administration of loans and subsidies held in trust.

Other Operating Income and Expenses (27)

The principal contribution towards other operating income is made up of € 0.9 million (2003: € 1.1 million) in cash payments and payments from settlements involving the improper use of public housing and € 10.4 million (2003: € 6.4 million) in income from the write-back of other provisions.

Other operating expenses include € 14.0 million (2003: € 20.4 million) in allocations to the reserve for additional benefits established for employees of WestLB AG.

Extraordinary Expenses (28)

This item includes € 3.2 million (2003: € 6.2 million) in personnel expenses that arose in connection with the release of employees from active duty.

Miscellaneous

Other Obligations

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

NRW.BANK is liable for InvestitionsBank des Landes Brandenburg (ILB) in the amount of three times its capital contribution.

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). Once this took effect, NRW.BANK's membership in the security reserves of the Landesbanks maintained by the German Savings Banks and Giro Association was terminated.

Derivatives

In honouring the broader disclosure obligations relating to derivative financial instruments contained in the German Accounting Reform Act (Bilanzrechtsreformgesetz), information on negative market values was added to the presentation of derivative volumes.

The total nominal value of derivative transactions was € 87,768 million (2003: € 66,000 million) and was spread out over the following interest rate and currency linked products:

Derivatives – Volumes

	Nominal Values		Positive	Negative
	Dec. 31, 2003	Dec. 31, 2004	Market Values	Market Values
	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2004	Dec. 31, 2004
	€ millions	€ millions	€ millions	€ millions
Interest rate risks				
Interest rate swaps	53,574	78,487	2,252	- 3,529
FRAs	-	-	-	-
Interest rate options				
– bought (long)	128	1,193	32	-
– written (short)	1,636	2,970	-	- 347
Caps, floors	719	25	-	-
Stock market contracts	7,081	560	61	-
Other interest rate forwards	512	1,082	6	- 29
Total interest rate risks	63,650	84,317	2,351	- 3,905
Currency risks				
Foreign exchange forwards, swaps	-	223	1	- 11
Currency swaps/Interest currency swaps	425	858	12	- 22
Foreign exchange options				
– bought (long)	-	-	-	-
– written (short)	-	-	-	-
Stock market contracts	-	-	-	-
Other currency forwards	-	-	-	-
Total currency risks	425	1,081	13	- 33
Share price and other price risks				
Stock forwards	-	-	-	-
Stock options	-	-	-	-
– bought (long)	-	-	-	-
– written (short)	-	-	-	-
Stock market contracts	-	-	-	-
Other forwards	-	-	-	-
Total share price and other price risks	-	-	-	-
Credit derivatives				
– bought (long)	1,025	1,355	-	-
– written (short)	900	1,015	11	-
Total credit derivatives	1,925	2,370	11	0
Total	66,000	87,768	2,375	- 3,938

The average nominal value of the derivatives and other forward transactions entered into by NRW.BANK for the period from January 1, 2004 to December 31, 2004 was € 83,681 million (2003: € 54,129 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 captured under "other assets" and "other liabilities", respectively.

The breakdown of derivative transactions by counterparty is as follows:

Derivatives – Breakdown by Counterparty

	Nominal Values		Positive	Negative
	Dec. 31, 2003	Dec. 31, 2004	Market Values Dec. 31, 2004	Market Values Dec. 31, 2004
	€ millions	€ millions	€ millions	€ millions
OECD banks	55,315	83,136	2,218	- 3,871
Non-OECD banks	-	-	-	-
OECD public-sector entities	10,652	57	4	-
Other	33	4,575	153	- 67
Total	66,000	87,768	2,375	- 3,938

Interest rate derivatives are used as microhedges for specific transactions or as macrohedges for overall exposure, exclusively in the Bank's proprietary business. Their result is captured in net interest income.

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

The interest rate contracts are spread across the entire spectrum of maturities, with approx. 44% (2003: 38%) 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, 2003	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Residual maturity						
– up to 3 months	5,560	7,106	–	143	–	–
– 3 months to 1 year	11,912	6,837	–	69	–	1
– 1 to 5 years	22,132	33,027	321	588	325	355
– more than 5 years	24,046	37,347	104	281	1,600	2,014
Total	63,650	84,317	425	1,081	1,925	2,370

The volume of credit derivatives where NRW.BANK is the beneficiary (protection buyer) amounted to € 1,355.4 million at December 31, 2004 (2003: € 1,025.4 million). Credit derivatives where NRW.BANK is the guarantor (protection seller) amounted to € 1,015 million at December 31, 2004 (2003: € 900 million) and were included under contingent liabilities.

Number of Employees

The average number of female staff employed by NRW.BANK over the year was 478 (2003: 433), and the average number of male staff, including the Managing Board, employed over the year was 494 (2003: 431). The total number of employees at the end of the year was 948 (2003: 862).

Remuneration

The total remuneration paid to the Chairman of the Managing Board was € 681,344.50 in 2004; that paid to other Managing Board members was € 1,084,541.75. The remuneration of the Supervisory Board totalled € 0.2 million (2003: € 0.3 million). The Advisory Boards of the former INVESTITIONS-BANK NRW unit received € 0.1 million (2003: € 0.1 million) for their work.

Loans

The members of the Managing Board and Supervisory Board of NRW.BANK received advances and loans totalling € 0.9 million (2003: € 4.7 million).

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

Seats Held by Members of the Managing Board

Dr. Bernd Lüthje

LEG Landesentwicklungsgesellschaft
NRW GmbH
WestLB AG (until June 30, 2004)

Ernst Gerlach

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

Dr. Ulrich Schröder

InvestitionsBank des Landes Brandenburg
ProHealth AG
WestLB Systems GmbH (until March 31, 2004)

Seats Held by Employees

Rainer Hofmann

Aachener Siedlungs- und
Wohnungsbaugesellschaft mbH
Deutsche Wohnungsgesellschaft mbH
(DEWOG)
Ruhr-Lippe Wohnungsgesellschaft mbH

Horst Jann

LEG Bauträger GmbH
Ströer Out-of-Home Media AG

Guarantors' Meeting/Supervisory Board/ Managing Board

Guarantors' Meeting

Chairman and Deputy Chairmen

Harald Schartau

Chairman

Minister of Economics and Labour
of North Rhine-Westphalia
Düsseldorf

Jochen Dieckmann, MdL

Deputy Chairman

Finance Minister
of North Rhine-Westphalia
Düsseldorf

Udo Molsberger

Deputy Chairman

Regional Director
of the Regional Association of the Rhineland
Cologne

Wolfgang Schäfer

Deputy Chairman

Regional Director
of the Regional Association
of Westphalia-Lippe
Münster

Dr. Karlheinz Bentele

(until June 30, 2004)

Deputy Chairman

President
of the Savings Banks and Giro Association
of the Rhineland
Düsseldorf

Dr. Rolf Gerlach

(until June 30, 2004)

Deputy Chairman

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

Members Appointed by the Guarantors' Meeting

Dr. Josef Fischer

Under Secretary
Ministry of Economics and Labour
of North Rhine-Westphalia
Düsseldorf

Dr. Thomas Griese

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

Jörg Hennerkes

Under Secretary
Ministry of Transport, Energy and State
Planning of North Rhine-Westphalia
Düsseldorf

Bernd Kiesow

Senior Principal
Ministry of Finance of North Rhine-Westphalia
Düsseldorf

Wolfram Kuschke

(until October 24, 2004)
Minister of National and European Affairs
and Media
Düsseldorf
North Rhine-Westphalia's Representative
to the Federal Government
Düsseldorf

Angelika Marienfeld

(from October 25, 2004)
Under Secretary
Head of the State Chancellery
of North Rhine-Westphalia
Düsseldorf

Manfred Morgenstern

Under Secretary
Ministry of Urban Development
and Housing, Culture and Sport
of North Rhine-Westphalia
Düsseldorf

Winfried Schittges, MdL

(until January 27, 2005)
Chairman
of the Regional Assembly of the Rhineland
Cologne

Andrea Ursula Asch

(from January 28, 2005)
Chairman of the Alliance 90/Green party
Regional Assembly of the Rhineland
Cologne

Dr. Wolfgang Kirsch

(until January 20, 2005)
District Administrator
Chairman of the CDU Group of the
Regional Assembly of Westphalia-Lippe
Warendorf

Dieter Gebhard

(from January 21, 2005)
Chairman of the SPD Group of the
Regional Assembly of Westphalia-Lippe
Gelsenkirchen

Michael Kranz

(until June 30, 2004)
Savings Bank Director
Chairman of the Managing Board
of Sparkasse Bonn
Bonn

Dr. Hans-Christian Vollert

(until June 30, 2004)
District Administrator
of the Viersen District
Viersen

Dr. Norbert Emmerich

(until April 30, 2004)
Savings Bank Director
Chairman of the Managing Board
of Sparkasse Münsterland Ost
Münster

Hans Pixa

(until June 30, 2004)
District Administrator
of the Coesfeld District
Coesfeld

Hans-Georg Vogt

(May 1, 2004 – June 30, 2004)
Savings Bank Director
Chairman of the Managing Board
of Sparkasse Bielefeld
Bielefeld

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Chairman and Deputy Chairmen of the
Guarantors' Meeting**

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Department Head
Ministry of Economics and Labour
of North Rhine-Westphalia
Düsseldorf

Gerhard Heilgenberg

Section Head
Ministry of Finance
of North Rhine-Westphalia
Düsseldorf

Harry Voigtsberger

Regional Councillor
Regional Association of the Rhineland
Cologne

Dr. Hans-Ulrich Predeick

Regional Councillor
Regional Association of Westphalia-Lippe
Münster

Heinz Biesenbach

(until June 30, 2004)
Association Director
Savings Banks and Giro Association
of the Rhineland
Düsseldorf

Dr. Klaus Wienberg

(until June 30, 2004)
Association Director
Savings Banks and Giro Association
of Westphalia-Lippe
Münster

Supervisory Board

Chairman and Deputy Chairmen

Harald Schartau

Chairman

Minister of Economics and Labour
of North Rhine-Westphalia
Düsseldorf

Jochen Dieckmann, MdL

Deputy Chairman

Finance Minister
of North Rhine-Westphalia
Düsseldorf

Udo Molsberger

Deputy Chairman

Regional Director
of the Regional Association
of the Rhineland
Cologne

Wolfgang Schäfer

Deputy Chairman

Regional Director
of the Regional Association
of Westphalia-Lippe
Münster

Dr. Karlheinz Bentele

(until June 30, 2004)

Deputy Chairman

President
of the Savings Banks and Giro Association
of the Rhineland
Düsseldorf

Dr. Rolf Gerlach

(until June 30, 2004)

Deputy Chairman

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

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Guarantors' Meeting**

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DGB District NRW
Düsseldorf

Dr. Helmut Linssen, MdL

First Vice President
of the State Assembly
of North Rhine-Westphalia
Düsseldorf

Edgar Moron, MdL

Chairman
of the SPD Parliamentary Group
of North Rhine-Westphalia
Düsseldorf

Dr. Michael Vesper

Minister of Urban Development
and Housing, Culture and Sport
of North Rhine-Westphalia
Düsseldorf

Paul Heidrich

(until January 27, 2005)
Chairman of the CDU Group of the
Regional Assembly of the Rhineland
Mülheim an der Ruhr

Dr. Jürgen Rolle

(from January 28, 2005)

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

Dr. Berthold Tillmann

(until January 20, 2005)

Lord Mayor of the City of Münster
Münster

Dr. Wolfgang Kirsch

(from January 21, 2005)

District Administrator
Chairman of the CDU Group of the
Regional Assembly of Westphalia-Lippe
Warendorf

Dieter Pützhofen

(until June 30, 2004)

Lord Mayor
of the City of Krefeld
Krefeld

Hans Pixa

(until June 30, 2004)

District Administrator
of the Coesfeld District
Coesfeld

Representatives of the Bank's Staff

Martin Bösenberg

(until June 30, 2004)

Banker
NRW.BANK
Münster

Fred Eicke

Vice President
NRW.BANK
Düsseldorf

Christian Gnegel
(until June 30, 2004)
Banker
NRW.BANK
Münster

Hannelore Heger-Golletz
Associate Director
NRW.BANK
Münster

Franz-Georg Schröermeyer
Secretary
Financial Services ver.di Vereinte
Dienstleistungsgewerkschaft, Münster
Regional Office
Münster

Christiane Stascheit
Deputy Director
for the Düsseldorf Region ver.di Vereinte
Dienstleistungsgewerkschaft, Düsseldorf
Regional Office
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Michael Tellmann
Banker
NRW.BANK
Düsseldorf

**Permanent Representatives of the
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Ministry of Economics and Labour
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Düsseldorf

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of the Rhineland
Düsseldorf

Dr. Klaus Wienberg
(until June 30, 2004)
Association Director
Savings Banks and Giro Association
of Westphalia-Lippe
Münster

Managing Board

Dr. Bernd Lüthje (Chairman)
Ernst Gerlach
Dr. Ulrich Schröder

Düsseldorf, March 22, 2005

NRW.BANK
The Managing Board
Dr. Lüthje, Gerlach, Dr. Schröder

Auditor's Report

We have audited the annual financial statements, together with the bookkeeping system, and the management report of the NRW.BANK Düsseldorf/Münster for the business year from January 1 to December 31, 2004. 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 NRW.BANK'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 § 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (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 NRW.BANK and evaluations of 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, the annual financial statements 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. On the whole the management report provides a suitable understanding of the NRW.BANK's position and suitably presents the risks of future development.

Düsseldorf, March 31, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Pukropski
Wirtschaftsprüfer

Kügler
Wirtschaftsprüfer

Glossary

A

Approval Authorities

According to § 3 of the Federal Housing Promotion Act, social housing promotion is performed at state level, and each state government has to define its own approval procedures. By way of § 2 of the North Rhine-Westphalian State Housing Promotion Act, responsibility for the approval of social housing promotion funds has been assigned to the various local governments (for towns with populations over 60,000) and district governments. These communities have so-called approval authorities which are entitled to commit promotion funds on behalf of Wohnungsbauförderungsanstalt NRW (Wfa). Based on these commitments under public law, Wfa then extends private-law loans to the recipients of the promotion funds.

B

Backtesting

A process for validating the forecasting accuracy of a risk model (→ VaR). The potential future losses in a → portfolio calculated by a model are compared with the losses which have actually materialised.

Basle II

The term “Basle II” has come to be used as a short form for the equity capital recommendations developed by the Basle Committee on Banking Supervision. Basel II has introduced a differentiated and risk-driven approach to calculating the required capital backing of credit risks, which used to be based on relatively roughly calculated lump sums. Capital backing of operational risks is another new element. The recommendations also focus on qualitative

principles for banking supervision and more comprehensive regulatory disclosure obligations. Most of these recommendations are planned to become part of a EU directive which is to come into force in parallel to the Basle recommendation in 2007.

Basle Paper “Sound Practices for the Management and Supervision of Operational Risk”

Published by the Basle Committee on Banking Supervision, this general guideline sets out ten principles for the management of operational risks.

C

CIR

Cost Income Ratio

CIR highlights the ratio between total costs (personnel, non-personnel, extraordinary results) and total income (interest, commission, net trading income, other operating income plus net changes in the prices of securities). This ratio provides a rough indication of an institution’s operating efficiency.

Confidence Level

The confidence level is used in the calculation of value at risk (→ VaR). It defines the probability of a potential loss actually remaining within the defined range during a given period.

D

Derivative Instruments

Derived from underlying values such as stocks, interest rates and indices, these instruments include swaps, options and futures which are traded on stock exchanges or in over-the-counter markets.

DIP

A *Debt Issuance Programme* is an internationally recognised legal framework for raising debt on an ongoing, flexible basis, mostly using mid to long-term instruments.

DRS

Deutscher Rechnungslegungsstandard
A set of German accounting standards for companies with international operations. These German standards have been adapted to international accounting standards. Following publication by the Federal Ministry of Justice according to § 342 (2) of the German Commercial Code (HGB), these standards are deemed to be principles of proper accounting for groups of companies.

E

Economic Capital

A ratio for the overall management of the bank taking into account market price risk, counterparty risk and operational risk. Management can limit the economic capital in relation to the bank's → risk tolerance. The limit correlates with the Bank's risk appetite.

Employee Equity Participation

Based on a voluntary agreement between a company and its employees, the latter can participate in the capital of the company. This participation can be of a permanent or temporary nature and requires a formal agreement.

Equity Capital

- **Liable equity capital** (acc. to § 10 of the German Banking Act)
The sum total of core capital and supplementary capital subject to certain discounts.
- **Commercial equity capital** (acc. to § 2 of the German RechKredV)
The sum total of subscribed capital, capital reserves, profit reserves and net profit.

Explicit Funding Guarantee

This statutory guarantee means that the owners of a bank are jointly and severally obliged to cover a bank's funding (refinancing) requirements. All existing and future issues of a bank covered by such a guarantee benefit from a → "zero solvency weighting" on their creditors' books.

G

GCP

Global Commercial Paper Programme

An internationally recognised legal framework for raising debt on an ongoing basis, mostly using short-term instruments. CP issues serve as money market surrogates.

Guarantor Liability

Enacted by way of a law or a directive, "Guarantor Liability" is a direct guarantee extended by a public law entity (state, municipality or institution under public law) to the creditors of a German public-law bank. It obliges the guarantors to indemnify the creditors in case of an insolvency or liquidation of the bank. This guarantee is not deemed to be a general principle of German law but needs to be legally instituted in each specific case.

Guarantors' Meeting

The guarantors of NRW.BANK represent the interests of the Bank's owners. The tasks and responsibilities of the Guarantors' Meeting are defined in the institutional charter of NRW.BANK.

I

IAS/IFRS

The *International Accounting Standards* and the *International Financial Accounting Standards* were drafted by an international professional body in order to facilitate global comparability of annual accounts. Accounts prepared to IAS are designed to provide investors with relevant information on companies' assets, finances and profitability as well as changes thereof over time. § 292 of the German Commercial Code (HGB) defines the possible application of IAS on group accounts.

IFRS

According to a decision by the International Accounting Standards Board, all new publications relating to accounting standards will use the wording "*International Financial Reporting Standards*" instead of → IAS. All current, previously published and revised standards will continue to use the wording "International Accounting Standards" (IAS).

Institutional Liability

Institutional Liability ("Anstaltslast") denotes the state's obligation to keep a German public-sector institution functioning and solvent at all times. As such, Institutional Liability constitutes a guarantee which is unlimited both in terms of its amount and of its duration. It is deemed to be a general principle of German law.

K

Kapitaldeckungsmasse

The term "Kapitaldeckungsmasse" denotes the aggregate of capital elements available to calculate the Bank's → risk tolerance. These elements include the expected annual profit, reserves and provisions under § 340 f of the German Commercial Code (HGB) and § 340 g of the German Commercial Code (HGB), profit reserves, capital reserves, subscribed capital and subordinated capital (e.g. profit participation rights).

M

MaH

The “*Minimum requirements for the trading activities of credit institutions*” have been defined by the Federal Financial Supervisory Authority. They define the functional and organisational frameworks which financial institutions need to have in place. The term “trading activities” is defined more widely than in § 340 c (1) of the German Commercial Code (HGB).

MaIR

The “*Minimum requirements for the internal audit function of credit institutions*” have been defined by BaFin, the regulator supervising Germany’s financial services sector.

These rules govern the organisation and performance of banks’ internal audit functions. According to these rules, each financial institution must have in place a functional internal audit department which, acting independently on behalf of the managing board, monitors the operational and business processes within the financial institution, its risk management and risk controlling activities as well as its internal control system. The rules also define the principles underlying internal auditing, the performance of audits, the outsourcing of auditing tasks and group auditing.

MaK

Minimum requirements for the credit business of credit institutions

Functional and organisational regulations for the conduct of the lending business.

Mezzanine Financing

Mezzanine capital is a hybrid form of capital combining characteristics of both debt capital and equity capital. Mezzanine financing structures can be flexibly designed as sources of economic capital and as equity capital at the same time. Typical equity-type mezzanine structures include the German “*typische/atypische Stille Beteiligung*”, participation certificates, convertible bonds as well as capital injections which let investors benefit in the increase of the company’s value.

Microfinance

Microfinance is a collective term for special finance instruments designed for small-scale borrowers who do not have (or have lost) access to conventional financing instruments. While there is no clearly defined “border” between microfinance and conventional finance, the ceiling should be considered to be in the region of € 25,000. Apart from microlending instruments, microfinance also includes guarantee systems, subsidy programmes and other forms of support.

Monte Carlo Method

This statistical evaluation method uses random numbers and values to simulate scenarios (e.g. varying interest rate trends) to analyse the effect of such parameters on the value of a → portfolio.

N

Netting

Two parties can enter into a legally binding agreement to “net” their mutual claims and receivables. The sum total of their default risks arising under individual contracts may be reduced in this way, resulting in lower capital backing required for regulatory purposes (under Germany’s Principle I rule).

P

Portfolio

Structured along organisational or product lines, portfolios can be collections of investments, transactions, businesses etc.

PPP

Public Private Partnership

A long-term agreement between a public-sector entity and a private-sector contractor/operator aimed at providing certain tasks which were previously provided by the public sector. The agreement should be designed to allocate the project risks in a balanced manner between the two sides. As such, PPP models are a hybrid form of procurement ranging somewhere between traditional procurement and full-fledged privatisation.

R

Rating

A standardised classification of borrowers or issuers reflecting their risk positions. While internal ratings reflect a bank's own view, external ratings are assigned by rating agencies.

Release from Liability

A "release from liability" means that a borrower's relationship bank is indemnified for the respective portion of the default risk, while the borrower remains obliged to service and repay the loan. As such, this instrument gives local relationship banks added scope for lending and simplifies their lending to small and mid-sized companies.

Risk Return Ratio

The risk return ratio defines the relation between net profit before taxes (profit contribution after operating expenses and standard risk costs) and tied-up economic capital. A transaction generating a higher margin than another transaction is not necessarily more profitable if the higher margin can be generated only at a higher risk. The higher risk capital qualifies this transaction.

Risk Scores/Self-Assessment

Self-assessment is an internal procedure used for the early identification and qualitative assessment of operational risks. Risks are assessed using risk scores, which show the relevance and potential frequency of occurrence of the risks on a scale.

Risk Tolerance

Maximum capital of the Bank (→ Kapitaldeckungsmaße less Principle I tie-up) that is objectively available to cover risks (→ Economic capital).

S

Scenario Analysis

Computations simulating the effects of potential future incidents (e.g. changes in interest rates) on a → portfolio. Scenario analyses are required under certain regulations such as → MaH.

State Housing Assets

The assets of Wohnungsbauförderungsanstalt NRW (Wfa) are booked as a special reserve of NRW.BANK (the so-called state housing assets). Given that these housing assets are subject to a variety of federal and state laws (federal housing promotion act, state housing promotion act) and housing-specific regulations, they may only be used to fund and finance activities directly related to Wfa's housing-related mission in the state of North Rhine-Westphalia.

Stress Test

Analysis of unlikely scenarios

Subordinated Loans

These loans are beneficial to borrowers in that they improve their economic capital and do not require the posting of collateral. For the lender, this means that his claim will be subordinated to the claims of other creditors in the event of the borrower becoming insolvent.

Supervisory Board

The Supervisory Board supervises the activities of the Managing Board. Its tasks are defined in the institutional charter of NRW.BANK. The Supervisory Board is entitled to form committees comprised of its members in addition to the committees already formed (Executive Committee, Audit Committee, Risk Committee, the Construction Committee).

T

Treasury

Treasury is responsible for managing the Bank's cash position. Traditionally this means maturities of up to one year. In addition to interbank money dealings, business is increasingly dominated by the issue of commercial papers. Treasury also ensures compliance with regulatory requirements, above all Principle II management, and fulfils the minimum reserve requirements.

U

Umstrukturierungsgesetz (Reorganisation Act)

"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"

Based on this Act, which was unanimously adopted by the North Rhine-Westphalian Parliament and came into force on March 31, 2004, NRW.BANK continues to benefit from → institutional liability and → guarantor liability. In addition, the guarantors have agreed to grant an → explicit funding guarantee for their development bank. As a result of this legally imposed liability, all existing and future issues of NRW.BANK have a → zero solvency weighting.

V

VaR

Value-at-risk

Potential future (unexpected) loss that will not be exceeded within a given period of time with a certain probability (→ Confidence level). VaR (e.g. with regard to market-price risks) is typically calculated using either the variance-covariance method, the historic simulation, or the → Monte Carlo Method.

Verständigung I Agreement

An agreement reached between the EU Commission, the Federal Republic of Germany and Deutscher Sparkassen- und Giroverband (DSGV) on July 17, 2001. According to this agreement, the public-law banks doing competition-exposed business will no longer benefit from the state guarantees known as → Institutional Liability and → Guarantor Liability after July 18, 2005.

Verständigung II Agreement

According to a second agreement (the so-called "Verständigung II") reached between the EU Commission, the Federal Republic of Germany and Bundesverband Öffentlicher Banken Deutschlands e. V. (VÖB) on March 1, 2002, → Institutional Liability, → Guarantor Liability and similar state guarantees and tax privileges will continue to be available for development banks whose activities are confined to bona-fide development and promotion (e.g. SME promotion, technology promotion, environmental promotion). These banks must not compete with private-sector banks and their public development and promotion missions must be clearly documented in their charters and guidelines. All requisite implementation measures must be completed no later than March 31, 2004.

Z

Zero Solvency Weighting

Also called: Solva 0

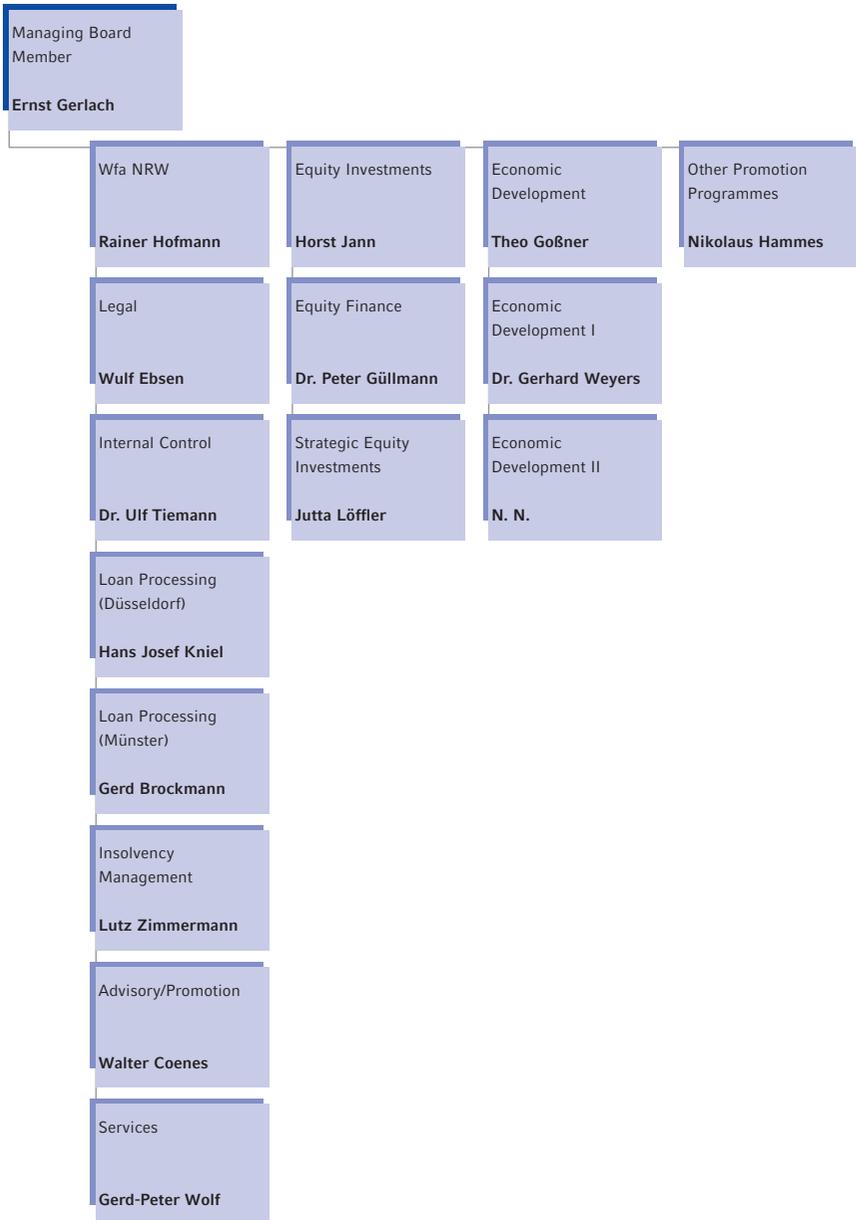
Debt capital made available to NRW.BANK by financial institutions need not be backed with equity capital on their balance sheets.

Ziel 2-Investitionskapital NRW

Running from 2000 to 2006, this NRW-EU programme is designed to promote economic and social conversion in structurally challenged regions of North Rhine-Westphalia.

Organisation Chart of NRW.BANK





Promotion Programmes

	Start-ups/ growth companies	SMEs	Agriculture	Local Authorities	Housing/ Private
NRW Promotion Programmes					
Start-up and Growth Finance NRW – investment/working capital loans with 50% or 75% release from liability	■	■			
Start-up and Growth Finance NRW – subordinated capital – equity-strengthening loans for SMEs	■	■			
Ziel 2-Investitionskapital NRW	■	■			
Regional Economic Development Programme – Commercial Sector	■	■			
Regional Economic Development Programme – Advisory Support		■			
Regional Economic Development Programme – Infrastructure				■	
Ecological and Sustainable Water Management NRW Initiative		■		■	
Rational Energy Use and Use of Inexhaustible Energy Sources		■			■
INTERREG III A				■	
Social Housing Promotion					
Construction and Purchase of Owner-occupied Housing					■
Construction of Rented Flats					■
Investments in Existing Buildings					■
Places in Homes for Handicapped People and Places in Nursing Homes					■
Construction of Rented Flats for Groups of Elderly People and Handicapped People					■
Reuse of Disused Land and Measures Aimed at Improving Residential Environments					■
Promotion of Housing Cooperatives					■
Measures for People with Serious Disabilities					■
Acquisition of tenant placement rights					■
Home ownership assurance aid					■

	Start-ups/ growth companies	SMEs	Agriculture	Local Authorities	Housing/ Private
Federal Promotion Programmes					
KfW-Unternehmerkredit	■	■			
KfW-Unternehmerkapital-Arbeit		■			
KfW-Unternehmerkapital-Gründung	■				
KfW-Unternehmerkapital-Wachstum	■	■			
KfW-Mikrodarlehen	■				
KfW-StartGeld	■				
KfW-Umweltprogramm		■			
KfW-ERP-Umwelt		■			
KfW-Globaldarlehen „Kleiner Mittelstand“	■	■			
BMU-Programm zur Förderung von Demonstrationsvorhaben		■		■	
KfW-ERP-Innovationsförderung		■			
KfW-ERP-Regionalprogramm	■	■			
KfW-CO ₂ -Gebäudesanierungsprogramm				■	■
KfW-Erneuerbare Energien		■	■	■	■
KfW-Infrastrukturprogramm				■	■
KfW-Wohneigentumsprogramm					■
KfW-Wohnraum modernisieren				■	■
KfW-Ökologisch bauen				■	■
KfW-Solarstrom erzeugen		■	■		■
LR-Dorferneuerung und ländliche Entwicklung		■	■	■	■
LR-Räumliche Strukturen				■	
LR-Landwirtschafts-/Junglandwirte- förderung			■		
LR-Tiergerechte Haltungsverfahren			■		

	Start-ups/ growth companies	SMEs	Agriculture	Local Authorities	Housing/ Private
NRW.BANK Equity Finance					
NRW.BANK.Venture Fonds	■				
NRW.BANK.Mittelstandsfonds		■			
SME Finance		■			
Project finance		■		■	
NRW.BANK Debt Finance					
Project finance		■		■	
Public Private Partnership		■		■	
Projects at NRW.BANK					
Employee Equity Participation		■			

As at March 31, 2005

SME = Small and medium-sized enterprises

BMU = Federal Ministry for the Environment, Nature Preservation and Reactor Safety

KfW = Kreditanstalt für Wiederaufbau

LR = Landwirtschaftliche Rentenbank

ERP = European Recovery Program

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