

Annual Report 2005



Ideas on the Move for North Rhine-Westphalia

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Key Figures

	2005	2004
	€ millions	€ millions
Total assets	128,115	110,267
Credit volume	129,278	109,270
Certificated liabilities	47,120	49,223
Equity capital pursuant to the German Commercial Code (HGB)	19,342	3,696
Liable capital in accordance with the German Banking Act (KWG*)	3,491	1,400
Net interest income	344	351
Net commission income	14	13
Personnel expenses	92	90
Operating expenses	70	74
Operating profit before risk provisions/result of evaluation	211	205
Operating profit after risk provisions/result of evaluation	157	- 247
Net income/loss for the year	85	- 256
Reduced-interest-grants and subsidies	1	0
Allocation to state housing construction funds	45	55
Profit	38	0
Principle I ratio in %*	25.3	10.4
Staff	1,035	948

* 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 strength ²⁾	B/C ¹⁾	C- ²⁾	-*
Outlook	stable	stable	stable

* not prepared by Standard & Poor's

Status: March 20, 2006

Promotion Volumes*

	2005	2004
	€ millions	€ millions
Promotion of Start-ups and SMEs	932	970
Social Housing Promotion	893	1,021
Infrastructure and Municipal Finance	374	396
Individual Promotion	1,230	1,214

* The Individual Promotion segment was established in 2005. As a result, certain promotion programmes were reallocated.

Annual Report 2005

NRW.BANK

Ideas on the Move for North Rhine-Westphalia





**The Managing Board
of NRW.BANK (from left):**
Ernst Gerlach,
Dr. Ulrich Schröder,
Klaus Neuhaus

Foreword of the Managing Board

Have you got a good idea?

It could be your first step towards setting up your own business. Or a big step towards more growth and jobs. You could enter new markets or expand in existing ones. You could become an export champion. Or a world market leader.

The NRW.BANK.Ideenschiff – or Ship of Ideas – will provide an insight into how ideas can change the world. The Ship of Ideas will travel North Rhine-Westphalia between May and September. With this Annual Report, we want to take you along on this exciting boat trip through North Rhine-Westphalia. The places we will visit are representative of the strength of change and innovation between the rivers Rhine, Ruhr and Weser.

Below deck, the Ship of Ideas houses a multimedia and multi-sensory exhibition, which will give visitors a hands-on impression of “Creativity, Ideas and Innovation in North Rhine-Westphalia”. Exhibits include innovative milestones from NRW as well as an exploration of the very concept of creativity. On deck, numerous events will be organised which will help to support the implementation of future innovations. Read more on pages 6 to 11.

North Rhine-Westphalia is well placed to compete internationally, but we must become even better. Ideas and innovations are what fuels growth and prosperity in our federal state. We need to exploit this “fuel” even more effectively.

Last year, we kept our promise, “Promoting Ideas”, by launching a broad-based product drive in the four business segments of our Bank.

In the promotion of **start-ups and SMEs**, we want to achieve three major objectives:

More variable loan sizes

NRW.BANK offers loans of different sizes – from microcredit to large tranches. The focus will be on the global loans and the new SME loan, which will be funded from the “KfW-Unternehmerkredit” and whose interest rate will be further reduced using funds of NRW.BANK. A volume of € 1 billion makes the SME loan the largest state promotion programme for the year 2006.

Reducing the credit risks for relationship banks

NRW.BANK will assume further risks, thus contributing to a fair distribution of burdens between the development bank and the relationship banks. The focus is on syndicated financing arrangements in which the Bank participates with amounts between € 2 and 15 million and a maximum of 49.9% in SME loans extended by local relationship banks.

Increasing companies' equity ratio

NRW.BANK has greatly expanded the range of corporate equity solutions in financing and consulting. The Seed Fund, the Venture Fund and the SME Fund make a total amount of € 145 million available to businesses in North Rhine-Westphalia – from the start-up phase to successor management.

Our range of advisory solutions has been rounded off by the takeover of the activities of WIN Wagniskapital für Innovationen NRW GmbH. In the context of early phase financings, WIN advises and assists company founders in their search for capital. The focus is on raising private equity from business angels.



NRW.BANK's [social housing promotion](#) arm, Wohnungsbauförderungsanstalt (Wfa), remains an important instrument of housing construction policy in North Rhine-Westphalia. The proven instruments for residential housing construction and owner-occupied housing allowed us to make affordable housing available to many people in North Rhine-Westphalia last year. There was also strong demand for the new promotion products for housing solutions for the elderly and nursing homes. Another focus of our housing promotion activities is on sustainable construction. Last year, Wfa made additional funds available for investments in the existing housing stock.

In the area of [infrastructure and municipal finance](#), NRW.BANK is a reliable and competent partner to local authorities and municipal facilities in North Rhine-Westphalia. The "WM Global Loan", for instance, is a customised solution developed by the Bank specifically for those cities in North Rhine-Westphalia in which the Soccer World Cup matches will be held – a kick-off for the expansion of urban infrastructure.

The "Tuition Fee Loan" marks the entry of our [Individual Promotion](#) unit in the education finance sector. The Bank offers students a loan that meets the legal requirements for the socially compatible introduction of tuition fees in North Rhine-

Westphalia – without credit investigation and the need to provide collateral. NRW.BANK transfers the money directly to the universities, thus making an important contribution to improving education and research in our federal state.

The Bank fulfils its social responsibility through the Public Corporate Governance Code. As a development bank under public law, we are obliged to do business in a responsible and sustainable manner. NRW.BANK therefore was one of the first public companies in Germany to endorse individual regulations based on the German Corporate Governance Code and the Code of Honour of the German Bundesbank with effect from January 1, 2006. These principles make the Bank's actions transparent and comprehensible to the capital market and the general public.

At the end of last year, the Chairman of NRW.BANK's Managing Board, Dr. Bernd Lühje, resigned from his office as scheduled and contractually agreed. In September 2005, the owners had already appointed Dr. Ulrich Schröder as his successor. He has been a member of the Managing Board since the Bank's inception in 2002.



We were equally pleased that the Supervisory Board appointed Klaus Neuhaus new member of the Managing Board. He joined the three-strong body with effect from January 1, 2006. In his capacity as Back Office Director, he is in charge of risk management. Ernst Gerlach's responsibilities have been expanded to include the entire promotion and development activities of the Bank.

Late 2005 also saw a change on the Supervisory Board and the Guarantors' Meeting, whose chairmanship was taken over by Christa Thoben, North Rhine-Westphalian Minister of the Economy, SMEs and Energy, with effect from January 1, 2006. She has succeeded Udo Molsberger, Director of the Regional Association of the Rhineland, whom we would like to thank for his committed work.

We will develop additional promotion products to support growing industries in North Rhine-Westphalia and provide businesses with effective support in important phases

of their development, especially the start-up and growth phase. By doing so, we want to push ahead structural change in our federal state.

The effectiveness of our instruments will be examined closely with the help of a detailed promotion controlling system. The results of this controlling process will be used to refine our products and the client advisory services provided by our Bank. This will, in turn, allow politicians to closely monitor and control the effectiveness of their economic and infrastructure policies.

There is a sense of new beginnings in our federal state that is giving people fresh courage. Because to use new opportunities, you need not only the creativity for lateral thinking. You must also be ready to venture something new and to take risks to achieve it. We help you shoulder these risks.

Have you got a good idea? Then take it to NRW.BANK.

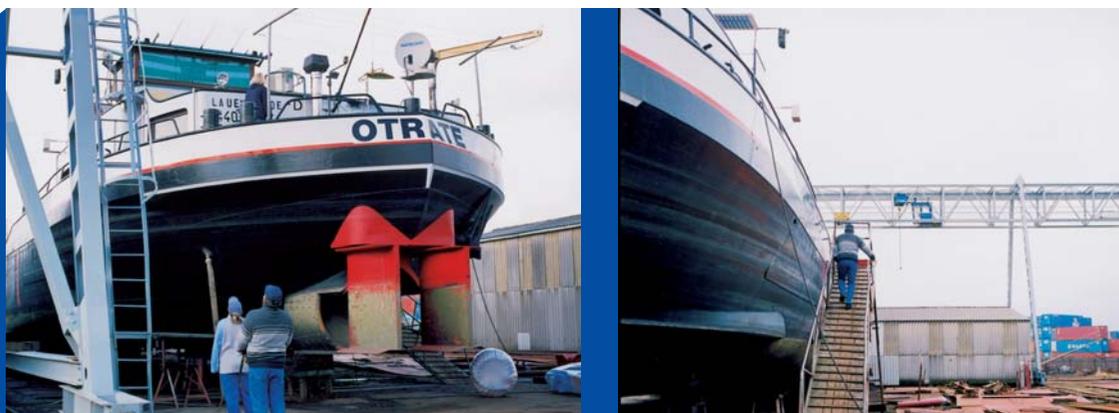
The Managing Board of NRW.BANK

Dr. Ulrich Schröder
Chairman

Ernst Gerlach

Klaus Neuhaus

Full Speed Ahead! Ideas and Innovations for NRW



“Nothing is stronger than an idea whose time has come.” This saying by French poet Victor Hugo is especially true for North Rhine-Westphalia, as this federal state has been the home of famous inventors and researchers for over one hundred years.

Innovation has a Tradition in NRW

Wilhelm Conrad Röntgen from Remscheid-Lennep discovered the X-rays that were later named after him. In Elberfeld and Barmen, which today form the city of Wuppertal, the local government solved the traffic problem by building the unique suspension railway almost 120 years ago. North Rhine-Westphalia is the cradle of Aspirin tablets, Knirps pocket umbrellas, jellybeans and Phillips screws. Global corporations such as Bertelsmann and Bayer,

Deutsche Post and Deutsche Telekom, Henkel, E.ON and RWE are headquartered here. Artists from Germany’s most heavily populated federal state have clearly influenced the international scene, e.g. the band Kraftwerk from Düsseldorf, the pioneers of electronic pop music, or Pina Bausch, whose Wuppertal dance company has transformed contemporary dance and theatre.

North Rhine-Westphalia is also Europe’s leading economic region in terms of economic performance and foreign trade. At € 487.5 billion, the federal state reported the highest gross domestic product of all German federal states in 2005. Over the past years, the ideas that were born here have pushed ahead structural change and increased North Rhine-Westphalia’s social and cultural attractiveness even further. People from all over the world live here peacefully and with the will to learn from each other.



NRW.BANK Launches “Ideas Initiative”

As a modern development bank and leading partner to the corporate sector and the people in North Rhine-Westphalia, NRW.BANK is committed to encouraging innovation with a view to supporting economic growth. The state development bank has set the course for a fresh start and launched the so-called “Ideas Initiative” which seeks to encourage people, companies and local authorities to embrace a new “ideas culture”. The Initiative, which will be under the patronage of Dr. Jürgen Rüttgers, Prime Minister of North Rhine-Westphalia, is designed to help, in particular, small and medium-sized businesses, business start-ups and local authorities to identify creative potential and will provide information on the origination of ideas, their importance for everyday life and the federal state. After all, a positive climate for ideas will also create the right atmosphere for investments.

One of the three central elements of the Ideas Initiative is the “Ideas Contest”, which was launched on the website www.wirfoerdernideen.de in December 2005. This platform allows local authorities in NRW to present and compare their ideas. Representatives from the political, corporate, research and media communities will assess the projects entered based on criteria such as their degree of innovation, their exemplary nature and their sustainability. The jury is led by Dr. Ingo Wolf, Minister of the Interior of North Rhine-Westphalia, who is also the patron of the contest. The contest will run until the end of April 2006. This way, NRW.BANK is making an important contribution towards raising awareness for and promoting the diversity of municipal innovations.



NRW.BANK additionally offers a creativity test. This online “ideas check” has been specifically developed for www.wirfoerdernideen.de. It is based on the latest findings of creativity research and invites the citizens of North Rhine-Westphalia to learn more about their individual innovative potential in a playful manner. The interactive test allows users to find out in which areas of creative thinking they are particularly strong and how they can take maximum advantage of their skills and abilities. The test is rounded off by useful information on aspects such as imaginativeness and “thought blockades”.

NRW.BANK.Ideenschiff: Exhibition, Event and Exchange

The heart of the Ideas Initiative is the “NRW.BANK.Ideenschiff” – or Ship of Ideas – which will travel North Rhine-Westphalia from mid-May to mid-September 2006. The freight ship and the water – an important transport route – call to mind the era of the mining industry and, hence, North Rhine-Westphalia’s industrial heyday. The ship has been converted into an ultramodern exhibition space and venue to make it a symbol of innovation and progress. Every day, up to 1,000 people can visit the exhibition entitled “Creativity, Ideas and Innovation”. Multimedia installations – some of them interactive – will be displayed on 300 square metres, divided into three areas: Ideas in Everyday Life – Ideas in Science – Ideas in North Rhine-Westphalia. This way, the NRW.BANK’s Ship of Ideas will answer many questions about innovation: What is the difference between an idea and an innovation? How are innovations born? How do they influence our everyday life?



During the four-month trip, information and specialist events, panel discussions and seminars for clients and partners of NRW.BANK and for the general public will additionally be offered on board the Ship of Ideas. The prize ceremony for the winners of the Ideas Contest will also be held on board the ship.

A Diverse Display of Successful Innovation

On its trip through the “state of ideas”, the ship will call in nine cities: Düsseldorf, Minden, Münster, Dortmund, Gelsenkirchen, Duisburg, Oberhausen, Bonn and Cologne. In and around four of these cities, projects supported by NRW.BANK have been put into practice. They include the successful succession at Westfalia Kunststoffe GmbH & Co. KG in Minden, the con-

struction of the old people’s home in Duisburg’s Philosophenweg, the farm of Max Kallen near Cologne and the modernisation and extension of the sewage works in Saerbeck near Münster. They are exemplary of NRW.BANK’s diverse and successful activities in North Rhine-Westphalia. Accompany us on a trip through North Rhine-Westphalia and read more about the people who live here and their dedicated efforts.

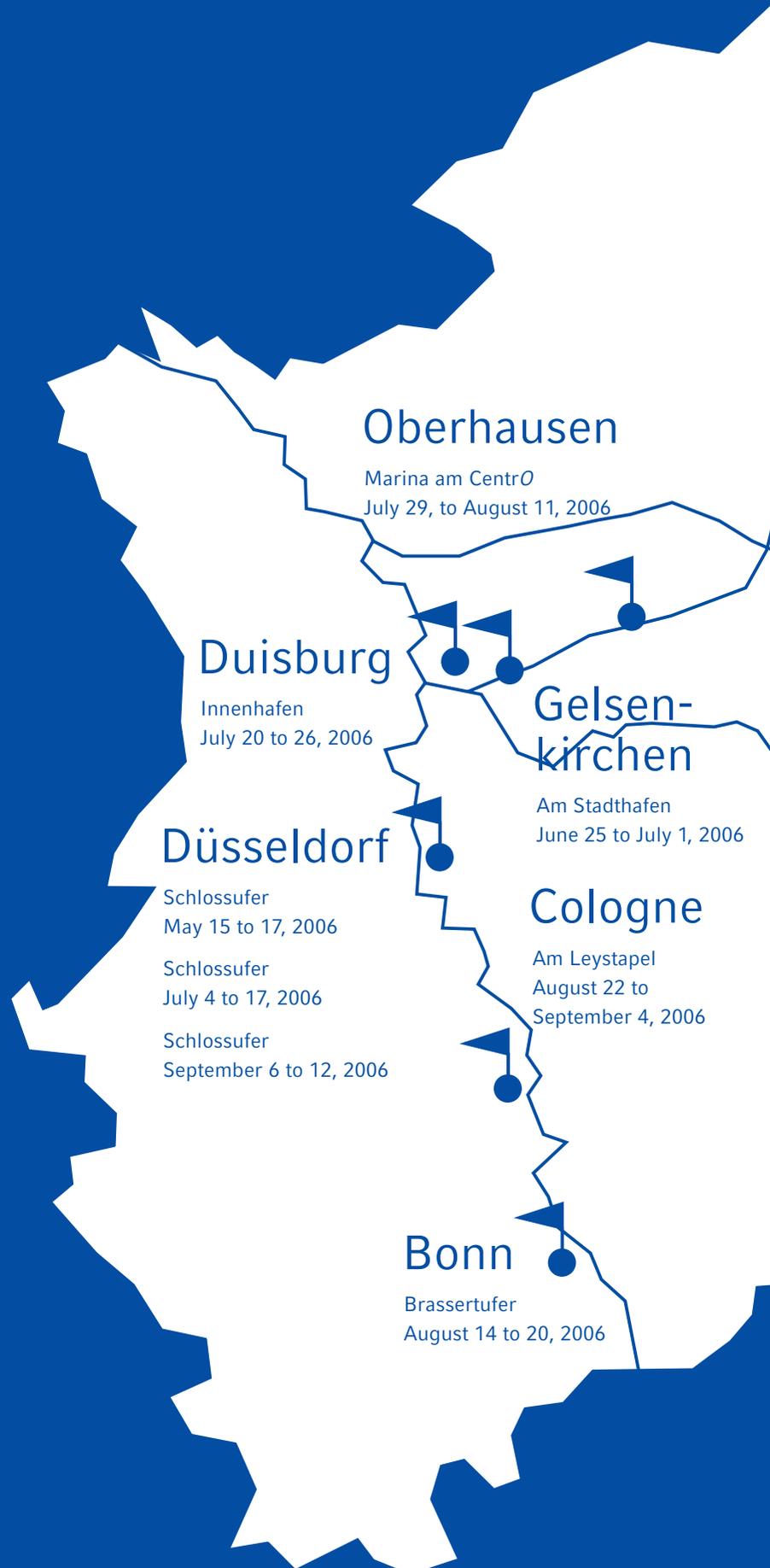
Experiencing Ideas

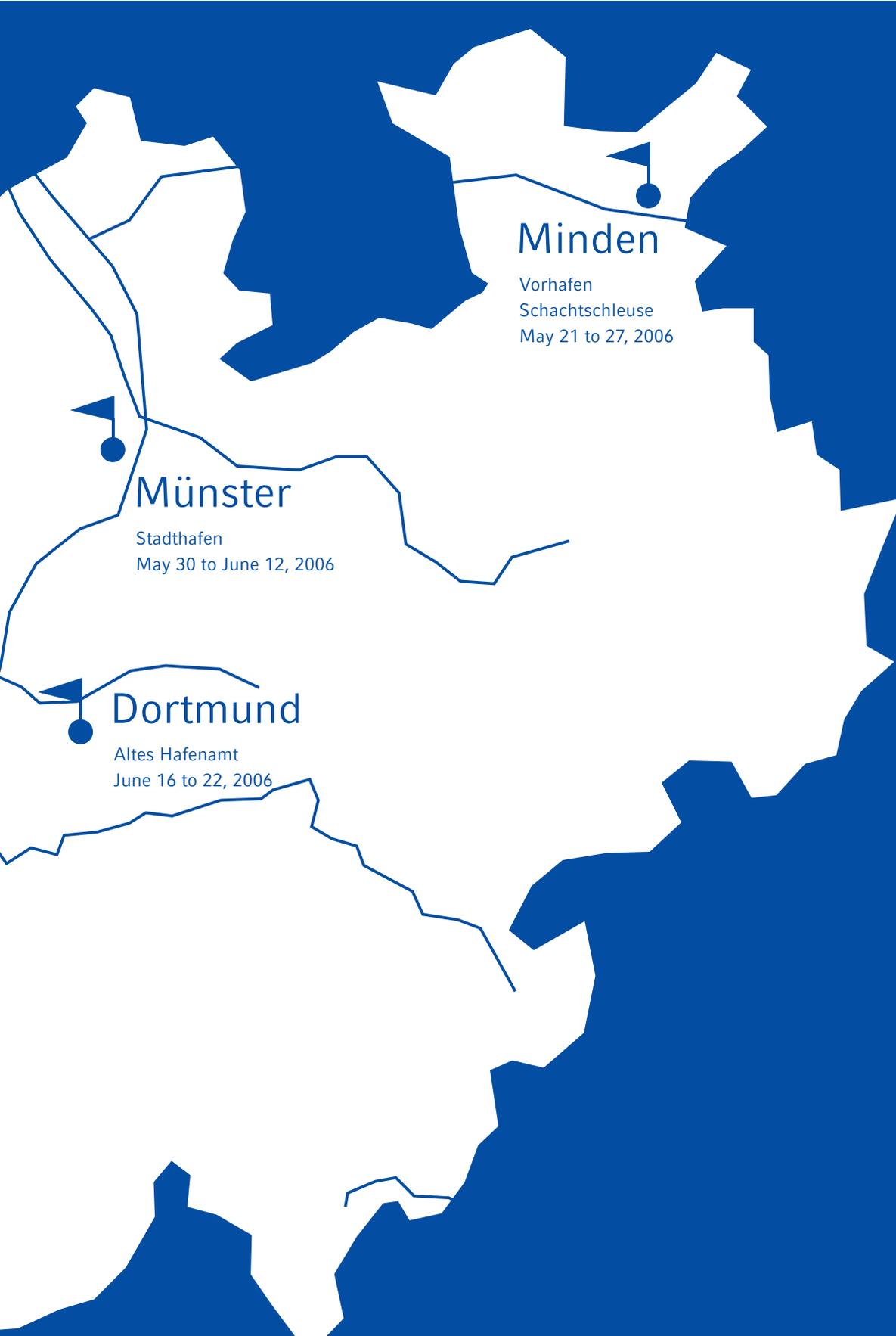
Where do flashes of inspiration come from? Can creativity be learned? What innovations from North Rhine-Westphalia have changed our everyday lives? These and many other questions will be answered by the "Creativity, Ideas and Innovations" exhibition, which will tour the federal state for four and a half months on board NRW.BANK's Ship of Ideas.

Multimedia installations and interactive exhibits on a total of 300 square metres will introduce visitors to the world of ideas and bring about an atmosphere of creativity. Numerous events, panel discussions and seminars – for both the general public and clients and partners of NRW.BANK – will complement the programme of NRW.BANK's Ship of Ideas.

The Ship of Ideas will take NRW.BANK's Ideas Initiative direct to the people in North Rhine-Westphalia. It will stop in Düsseldorf, Minden, Münster, Dortmund, Gelsenkirchen, Duisburg, Oberhausen, Bonn and Cologne.

www.wirfoerdernideen.de





Minden

Vorhafen
Schachtschleuse
May 21 to 27, 2006

Münster

Stadthafen
May 30 to June 12, 2006

Dortmund

Altes Hafenamt
June 16 to 22, 2006



Minden

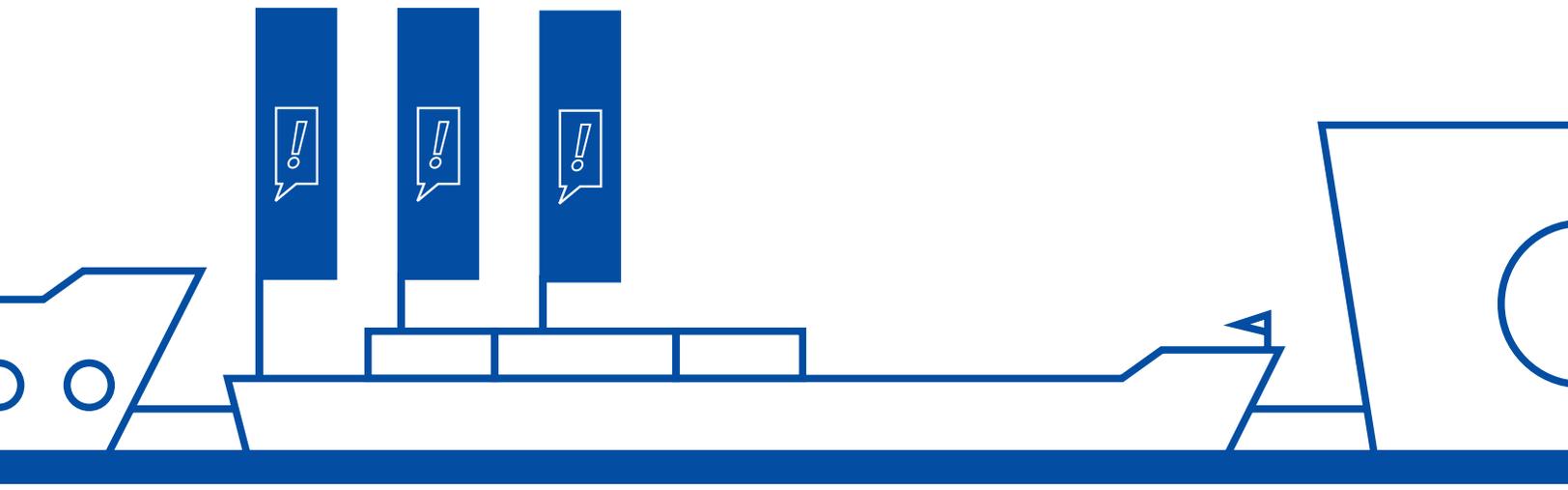
May 21 to 27, 2006, Vorhafen Schachtschleuse



In the Heart of Europe

Half-timbered houses, an impressive cathedral, narrow lanes – Minden has a proud history of 1,200 years as well as good prospects for the future, being situated right in the heart of Europe. This is where the Mittelland Canal meets the River Weser and the motorways to Berlin and to the Netherlands are within easy reach – the city is in a central location on the major European traffic routes.

Good connections mean good business. This is also proven by Westfalia Kunststoffe GmbH & Co. KG, a successful international player benefiting from support by NRW.BANK.



Securing the future
with strong yarns.
This has been achieved
by an entrepreneur
in Minden.



Resistant, environmentally
sound and suitable for
multiple uses – materials
made from polyethylene
and polypropylene.





“We produce in all desired colours and shapes from quantities as small as one ton,” says Thomas Horstmann, Managing Partner of Westfalia. “Due to our relatively small size and our great flexibility, we can assist our customers quickly in case of supply bottlenecks.” This commitment and this flexibility are very much appreciated by many loyal customers in Germany and another ten EU countries.

Good Business with Granulates

Yarns, belts and fabrics – products made from polypropylene are delivered to customers in half of Europe by Minden-based Westfalia Kunststoffe GmbH & Co. KG, which has secured itself a solid position in the market.

At first sight, the small, round and shiny white grains look like rice. And they almost feel like rice. But we’re talking of granulate made from polypropylene – a synthetic material that stands out for its hardness, heat resistance and environmental compatibility. The products made from this material are as varied as polypropylene’s positive characteristics – from toys to household appliances to automotive spare parts.

Yarns, belts and fabrics can also be made from polypropylene – and this is what Westfalia Kunststoffe GmbH & Co. KG does. Employing 14 people, the company is a fast and reliable supplier to over 120 regular customers. Managing Partner Thomas Horstmann takes pride in his well-trained staff, who allow him to respond highly effectively to changing market conditions and to low-cost competition from the east. Under a collaborative approach, he develops strategies jointly with his employees that allow the company to remain competitive.

Why did he take over the company in early 2005 despite the fierce competition? “It had long been my wish to work independently,” he explains. However, Thomas Horstmann had hardly any capital to buy Westfalia. A solution was found by his relationship bank (Dresdner Bank) in cooperation with NRW.BANK. In addition to the loan extended by Dresdner Bank and the KfW loan from the equity assistance programme and the ERP start-up loan, NRW.BANK granted a development loan from the Start-up and Growth Finance NRW programme to strengthen the company’s equity capital. This financing plan allowed the new successor to take over.

After the smooth start, Thomas Horstmann is now thinking about modernising his equipment – slowly and carefully. “Modernisation only makes sense where it is required for reasons of efficiency and quality,” he says. This is why he has bought a new machine for quality control – a tearing machine, which tests the resistance of the yarn, at what points it might tear and when the stress is so high that it will tear. Says Thomas Horstmann: “Quality takes top priority for our company.”



Smart technology and the right temperature turn white granulate into blue yarn.



Promotion of Start-ups and SMEs

NRW.BANK offers new business start-ups as well as small and medium-sized companies in North Rhine-Westphalia a wide range of public funding products and customised equity finance solutions, which often make a critical contribution to the financing of business projects. The aim of NRW.BANK is to further improve the financial situation of this target group in line with their actual requirements. In 2005, the Bank therefore launched a product initiative, which focuses on three key tasks: more variable loan sizes, reducing the credit risks for relationship banks and effective support for increasing companies' equity ratios.

NRW.BANK as a Development Platform

As a central development platform, NRW.BANK processes North Rhine-Westphalia's main development and promotion products channelled through banks and savings banks. For this purpose, the Bank cooperates with all bank groups on a competition-neutral basis. Moreover, NRW.BANK handles the federal programmes of KfW Bankengruppe for the savings banks 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 Westphalia.

Upward Trend in Start-up Programmes

In 2005, new business was again marked by moderate economic activity. At € 932.1 million, the commitment volume was down 4% on the previous year. The number of commitments declined by 12% to 5,712.

By contrast, there was strong demand for the subordinated loan from the Start-up and Growth Finance NRW programme (€ 21.2 million, +297%), which is also used to finance company takeovers. The KfW Microloan, which has been specifically designed for company founders, also developed positively (€ 6.5 million, +16%). Demand was also strong for the "KfW-Startgeld" product, which is mainly targeted at business start-ups and supported 860 start-up projects with total funds of € 28.4 million.

At € 515.6 million, the "KfW-Unternehmerkredit" loan again achieved the highest commitment volume in the SME promotion segment. The "NRW.BANK.Mittelstandskredit" loan, which was launched on December 1, 2005 as part of the Bank's product initiative, also made an important contribution.

NRW.BANK's SME Loan Has Highest Volume of All State Promotion Programmes

Launched in December 2005, NRW.BANK's SME Loan closed a gap in the North Rhine-Westphalian promotion and funding system. Flexible promotion loans with reduced interest rates are designed to facilitate business start-ups and investments in Germany's most heavily populated federal state. The SME Loan may be used for various purposes. Start-ups and SMEs can use it to finance investments, working capital requirements or company acquisitions. Accordingly, the loan amounts are variable between € 25,000 and € 5 million. Development funds totalling roughly € 1 billion have been made available for the year 2006 alone. Applications must be filed through the prospective borrower's relationship bank.

To keep the interest rate low, NRW.BANK uses the "KfW-Unternehmerkredit" loan as a low-cost funding base and additionally subsidises the SME Loan from its own funds. This way, the Bank reduces the interest rate for the end user clearly below the market price level, especially for start-up projects. Thanks to the extremely favourable pricing, NRW.BANK's SME Loan creates additional incentives for investments in North Rhine-Westphalia, making an important contribution to higher growth and employment.

In the first month after the product launch, NRW.BANK already committed € 40.6 million for 115 projects, over 10% of which were new business start-ups.

Global Loans for Low-cost Funding

NRW.BANK's new global loans offer relationship banks customised financing for SME loans. The terms are attractive as NRW.BANK uses favourable funding possibilities and passes these advantages on to the market in full. Banks and savings banks can pass the low-interest funds on to small and medium-sized companies with risk-oriented interest markups. The target group for global loans includes commercial companies that are mostly privately owned and whose consolidated sales do not exceed € 500 million as well as members of the liberal professions. The global loans may be used for various purposes, e.g. to finance medium and long-term investments, from inventories and stocks to machinery and equipment. These flexible loans are also available for short terms, which the promotion programmes had previously covered only insufficiently.

The application process is simple to reduce the efforts for the relationship banks and the borrowers to a minimum. Contracts for tranches up to € 500,000 may even be closed by phone.

NRW.BANK offers two types of global loan. The “Kleiner Mittelstand” global loan launched in December 2004 provides the North Rhine-Westphalian savings banks with low-interest loans of up to € 125,000 for small and medium-sized businesses. Larger loan amounts may be granted to companies generating sales of up to € 2 million. As the central development institution of the savings banks, NRW.BANK developed the “Kleiner Mittelstand” global loan in cooperation with KfW Bankengruppe and Deutscher Sparkassen- und Giroverband.

The “Mittelstand” global loan was launched in May 2005 and makes loans of between € 125,000 and € 5 million available to all bank groups. These flexible, low-interest loans are also refinanced with funds provided by KfW Bankengruppe.

NRW.BANK’s new KfW-funded global loans have been very well accepted; since the product launches in December 2004 and May 2005, these loans have financed 462 projects worth over € 52.4 million.

Syndicate loans reducing the burdens for the relationship banks

In the second half of the year, NRW.BANK added syndicate finance to its product range. In the context of syndicate loans, the Bank supports banks and savings banks in financing small and medium-sized businesses. Given that the risk of a syndicate loan is spread over the lenders, NRW.BANK thus helps reduce the pressure on relationship banks’ equity resources.

NRW.BANK underwrites loan amounts between € 2 and 15 million. The Bank acts as a minority partner with a maximum share of 49.9% for periods between three and ten years. The syndicate participation is by way of loans or guarantees, which are usually disclosed to the borrower. When granting a loan, NRW.BANK adopts the terms and conditions of the relationship bank. Its share in the collateral is equivalent to its share in the loan. NRW.BANK acts solely upon request from the relationship banks. In 2005, the Bank approved the first two applications with a volume of € 19 million.

Employee Equity Participation

The “Employee Equity Participation” project office was installed at NRW.BANK in 2001. Its task consisted in increasing the visibility of this financing instrument through information events, advisory and coordination services. In 2004, the then Ministry of Labour and Economics of the State of North Rhine-Westphalia entrusted the Bank with a 2-year follow-up project on employee equity participation, in the context of which the instrument was refined.

Acquiring a share in their company's capital can increase employees' motivation and cost-awareness. Employee equity participation can also help to ease the mid-market's (equity) financing problems. The project ended with effect from December 31, 2005. The State of North Rhine-Westphalia and NRW.BANK are currently examining whether the project will be continued.

Transfer of State Programmes Has Started

In April 2004, the then Cabinet of North Rhine-Westphalia unanimously decided to build NRW.BANK into the federal state's central development and promotion platform. This objective was confirmed by the new North Rhine-Westphalian government in the coalition agreement of July 2005. For this purpose, major state development programmes will be pooled at NRW.BANK. As a first step, the state development funds of the Technology and Innovation Programme NRW (TIP) were transferred to the Bank in early July 2005. The aim of the programme is to develop dynamic, fast-growing technologies and innovations for North Rhine-Westphalia. TIP funds are mainly used to cover expenses for R&D, studies, investments in product and process innovations, technological infrastructures and technology initiatives in commercial and infrastructure projects. This means that NRW.BANK now administers a central instrument of North Rhine-Westphalia's technology policy.

Strengthening Equity

One of NRW.BANK's objectives is to strengthen the North Rhine-Westphalian equity investment market and fill any existing gaps. Demand for equity capital has grown substantially in recent years, especially from small and medium-sized businesses as well as young growth companies. The Bank therefore expanded its range of equity financing solutions in the fiscal year. These include the NRW.BANK.SME Fund and the new NRW.BANK.Venture Fund and NRW.BANK.Seed Fund. These equity products are designed to provide exactly the right form of financing for the different phases of a company's lifecycle.

Growth for the Mid-market

The € 75 million NRW.BANK.SME Fund is targeted at small and medium-sized growth companies in North Rhine-Westphalia. The Bank makes equity investments between € 1 and 7 million, which may be used, for instance, to make inroads into new markets, to expand the sales organisation, to expand production or to fund successions. The capital is made available in the form of direct minority investments or mezzanine financing solutions, which means that the companies remain largely independent. In 2005, the SME Fund invested in Bacher GmbH & Co. KG, a chain of health product stores, in Ennepetal-based PAKI Logistics GmbH and in Schnöring GmbH, Schalksmühle, a metal processing company.

To complement the SME Fund, NRW.BANK also develops and implements innovative customised equity solutions for the North Rhine-Westphalian mid-market.

Financing for Young Companies

Launched in 2005, the NRW.BANK.Venture Fund is a new financing solution for young, innovative companies. The Fund invests up to € 40 million in new technologies in different sectors such as information and communications, life science, optics and materials. The capital is made available in the form of equity investments or mezzanine solutions, with amounts ranging from € 0.5 to € 1.5 million, depending on the funding round. The maximum investment after several funding rounds is € 3 million. NRW.BANK exclusively makes minority investments in companies that have already completed a first venture capital round. In 2005, the Venture Fund invested in AplaGen GmbH, a young biotech company from Baesweiler.

Strengthening Business Start-ups

Throughout Germany, the number of new business start-ups in the technology sector has declined strongly. One of the reasons is the growing lack of capital in the smaller segments. NRW.BANK's € 30 million Seed Fund supports the foundation of technology-oriented companies in North Rhine-Westphalia. The Seed Fund contributes up to 50% to regional seed funds; the maximum investment in a company is € 500,000. The capital is made available on a long-term basis. Overall, NRW.BANK can support up to 120 start-ups in the coming years.

Outlook

NRW.BANK will continue to complement, expand and improve the range of development products especially for start-ups as well as small and medium-sized companies in close cooperation with the State of North Rhine-Westphalia. In the course of 2006, for instance, the Bank plans to launch a Graduate Start-up Fund, which will provide equity-strengthening subordinated loans for off-campus start-ups in the so-called Ziel-2 areas.

With a view to strengthening North Rhine-Westphalia as a place for innovation, the range of innovation promotion instruments will be expanded and restructured with an increasing focus on repayable loans. Apart from the broad-based loan programmes, NRW.BANK is currently developing solutions to special problems such as releases from liability and guarantees for film and TV productions as well as back-to-back guarantees in the foreign trade sector.

Moreover, the Bank and the North Rhine-Westphalian Ministry of Economics, SMEs and Energy will review the possibility of transferring additional economic development programmes to NRW.BANK. The portion of the TIP programme that is co-funded from infrastructure funds will be transferred in 2007. Up to that date, that part of the programme will continue to be handled by the project sponsor, Forschungszentrum Jülich.

NRW.BANK has also created a new solution for the provision of venture capital. With effect from January 1, 2006, the Bank took over the activities of WIN Wagniskapital für Innovationen NRW to strengthen its range of advisory services for early-phase financing. Formerly a wholly-owned subsidiary of Börse Düsseldorf AG, WIN introduces young companies in need of capital to venture capital providers and business angels. WIN also advises companies on drafting business plans and strategies. Going forward, WIN is to be built into the central platform that brings together business angels and young companies in North Rhine-Westphalia.



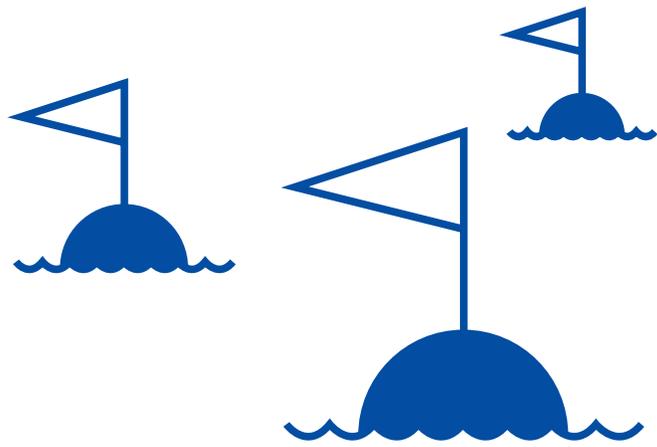
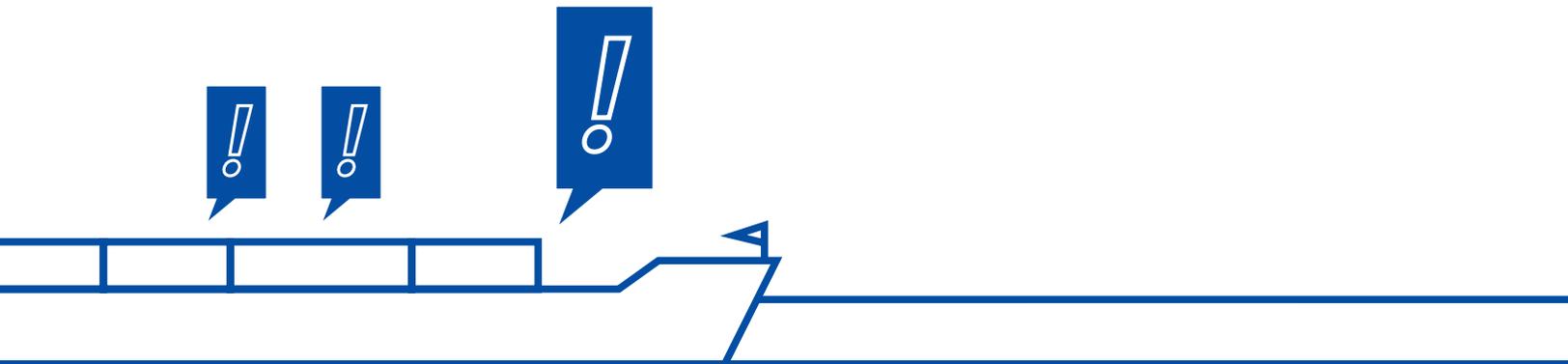
Münster

May 30 to June 12, 2006, Stadthafen



For the Love of the City and Nature

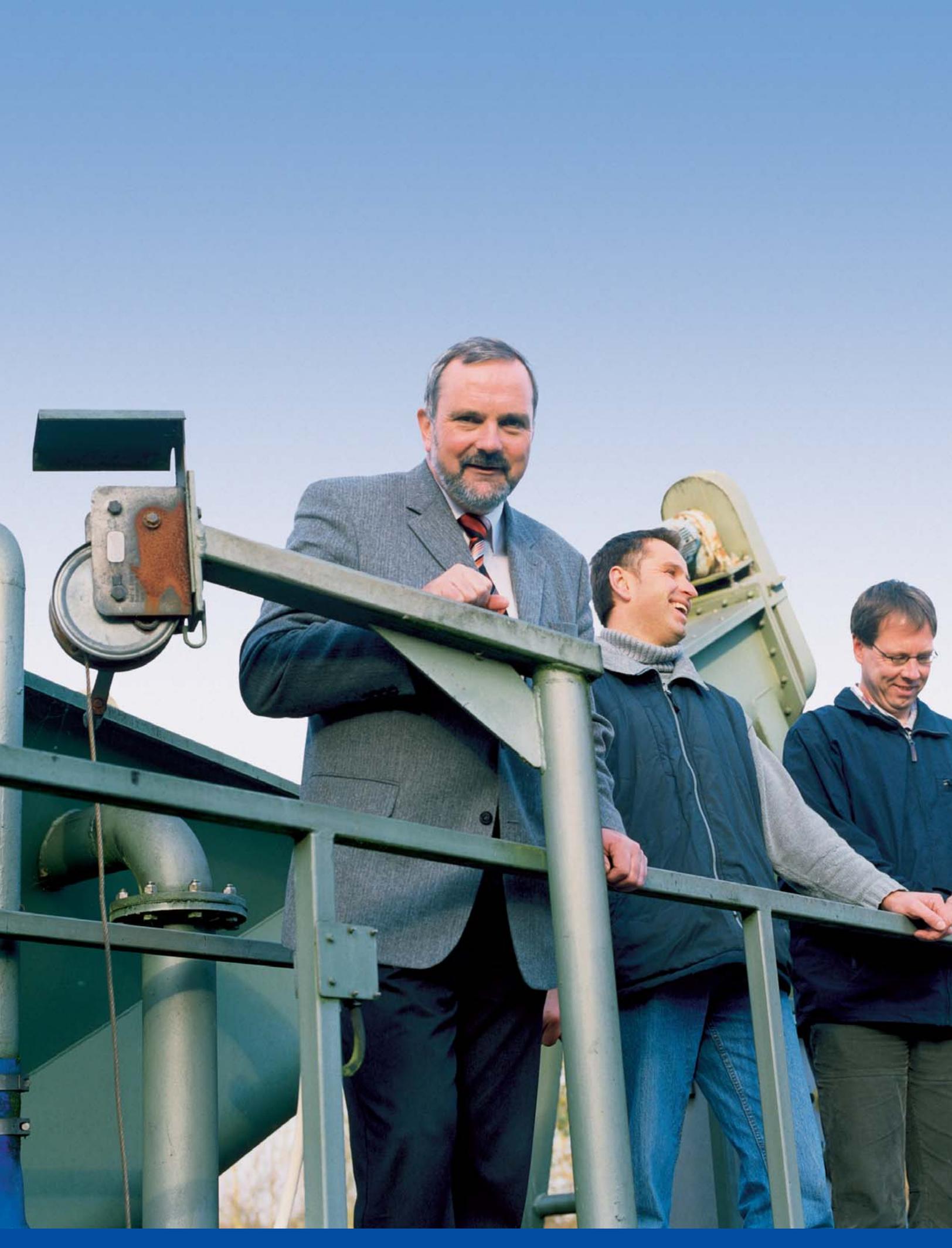
The people of Münster like to call their city the “gem of Westphalia”, because they feel at home and at ease in their city. The university and its large student body give Münster a young flair and have made the city well known for environmental awareness and progressive thinking. Economic success and sustainability go hand in hand in the Münsterland region. This is also evident in the community of Saerbeck, which has recently modernised and extended its sewage works to ensure it is ready for the future. This investment was supported by NRW.BANK.



Clean Water. For the Community of Saerbeck, it's an Investment in Progress and Nature.

After it has been treated, the water leaves the sewage works in almost perfect quality.







To the people of Saerbeck, the extension of their sewage works means a major boost for their village. Following the extension, the water of up to 8,000 people can be treated here, with a maximum contamination of 1 mg of phosphate per litre.

Previous page (from left): Mayor Wilfried Roos, Sewage Master Martin Berkemeier and Guido Attermeier, the Head of the Building Administration Office.

Clear Water for a Clear Future

To secure growth in the long term, you need the right infrastructure. This is why the community of Saerbeck in the Münsterland region decided to modernise and extend its sewage works – thus making a sustainable investment in the future.

The day when Saerbeck received NRW.BANK's funding approval for the modernisation and extension of its sewage works was a special day for Mayor Wilfried Roos. The approval was positive not only because the money was urgently needed but also because it was a clear proof of the community's growth – and its prospering economy.

Back in 1975, Saerbeck was still the smallest independent community in North Rhine-Westphalia. When it was decided, that same year, to reorganise the municipalities and communities, it was made a condition for the village to increase its population (3,900 at the time) to avoid being incorporated into a larger municipality. Another challenge was the budget deficit which the village had posted for years and which required regular restructuring aid from the North Rhine-Westphalian government.

Mayor Roos and his predecessors used these funds to fuel population growth and encourage new companies to set up shop in Saerbeck. This way they managed to pull the community out of the red. "Our budget has been balanced for several years now," says Mayor Roos. "7,000 people live in Saerbeck today. And some 600 new jobs have been created in the past ten years alone." The extension of the Saerbeck sewage works came in response to this growth.

The investment volume for the modernisation of the sewage works built in 1988 amounted to almost € 1.4 million; half of this amount comes from NRW.BANK's infrastructure and municipal finance programme. "Initiative Wasserwirtschaft Kommunal" was the name of the promotion programme with the help of which NRW.BANK and the North Rhine-Westphalian Environment Ministry ensure that the communities fulfil their infrastructure requirements. The other half of the funds was raised in the capital market.

The funds injected by NRW.BANK not only allow Saerbeck to increase the capacity of its sewage works but also to meet the more stringent purification requirements that will be imposed by the federal state with effect from January 1, 2007. From this date onwards, the phosphate content per 1 litre of water must not exceed 1 millilitre. The present limit is 2 millilitres. To meet



After the modernisation and extension, the Saerbeck sewage works is ready for the future.

the new requirements, Saerbeck has purchased a new strainer rack and a new thickening machine for the sewage sludge. "A second aeration tank and a new final sedimentation tank support the biological purification process," explains Sewage Master Martin Berkemeier. He and Mayor Roos are convinced that these investments will enable the sewage works to meet the new requirements. "If nothing unexpected happens, the extension and modernisation will be completed in May 2006," they say.

This consistent modernisation policy was implemented against the background of a wise old saying that is still true today: "Being cheap is expensive." What that means for Saerbeck? "Old buildings cause much higher costs. Investments in new, modern buildings will pay off automatically," explains Wilfried Roos. This is why the community has not chosen any provisional, makeshift solutions, because, as Mayor Roos puts it, "We want sustainability in all aspects."



Infrastructure and Municipal Finance

NRW.BANK supports the North Rhine-Westphalian communities and municipal institutions in the implementation of infrastructure measures. Due to the tight budget situation, the public sector's funding requirements are currently especially high. Lending expertise in combination with long-standing experience in promotion and funding is therefore becoming increasingly important in this sector. NRW.BANK's comprehensive portfolio of promotion and funding products makes the Bank a reliable and competent partner to the public sector. These products include business-related infrastructure programmes as well as environmental, urban development, educational and social initiatives.

Budget Situation of Local Authorities

In 2005, the local authorities generated higher revenues from trade tax and their share in value added tax. At the same time, their social benefit expenditure increased, not least due to the introduction of the Hartz IV labour market reforms. In response to this, the local authorities further reduced their capital expenditure and avoided new debt. It was remarkable that the state-wide accounts show no net capex borrowing in the first half of 2005. By contrast, short-term lendings raised by the local authorities reached a new record level, which means that the structural budget problems of the local authorities remained unsolved in 2005.

Increase in funding commitments

While local authorities' spending propensity remained moderate in 2005, numerous investment initiatives could no longer be postponed. This was also reflected in NRW.BANK's infrastructure promotion activities. The trend towards smaller investment volumes and a rising number of applications continued. As a result, the commitment volume declined by 5% to € 374.1 million, while the number of commitments rose by 10% to 750.

Transfer of State Programmes Has Started

In April 2004, the then Cabinet of North Rhine-Westphalia unanimously decided to build NRW.BANK into the federal state's central development and promotion platform. This objective was confirmed by the new North Rhine-Westphalian government in the coalition agreement of July 2005. For this purpose, major state development programmes will be pooled at NRW.BANK. In July 2005, the state development funds of the Technology and Innovation Programme NRW (TIP) were transferred to the Bank. The aim of the programme is to develop dynamic, fast-growing technologies and innovations for North Rhine-Westphalia. TIP funds are mainly used to cover expenses for R&D, studies, investments in product and process innovations, technological infrastructures and technology initiatives in commercial and infrastructure projects.

In September 2005, the Bank signed agreements for the transfer of another five programmes with the North Rhine-Westphalian Ministry of the Environment and Nature Preservation, Agriculture and Con-

sumer Protection (MUNLV). Since January 2006, NRW.BANK has supported the Ministry in the implementation of the following programmes with a combined volume of approx. € 80 million:

- Ecological project for integrated environmental engineering (“Ökoprofit”)
- Ökologieprogramm Emscher-Lippe (ÖPEL) (Emscher-Lippe Ecology Programme)
- Promotion of measures aimed at the nature-based development of second-tier inshore waters
- Promotion of hydraulic engineering measures including dams
- Promotion of hydraulic engineering measures in the context of the improvement of the agricultural structure and coastal protection

Increase in RWP and INTERREG Subsidy Volumes

The INTERREG III A Programme promotes cross-border cooperation in Europe, while the Regional Economic Development Programme (RWP) supports infrastructure initiatives in certain regions. Since summer 2005, the RWP has also strengthened the cooperation between companies and economy-related institutions with a view to improving the competitiveness of small and mid-sized companies. Funding is now also available for innovative measures such as cooperation networks and cluster management.

In 2005, the commitment volume under both programmes rose by 21% to € 151.7 million. The number of commitments was up by an impressive 32% on the previous year to 283.

Reorganisation of KfW Infrastructure Funding

The Infrastructure Programme of KfW Bankengruppe (KfW) was marked by several major changes in the fiscal year. The “Wachstumsimpulse” special fund, which was used to grant interest rate subsidies, was closed in 2004. Accordingly, business was moderate for the Infrastructure Programme in 2005.

KfW reorganised this programme with effect from August 1, 2005. The new “Kom-munal Investieren” (municipal investment) programme is targeted at municipal companies that invest in municipal infrastructure, while the “Sozial Investieren” (social investment) programme is designed for non-profit applicants who invest in social infrastructure. In addition, KfW offers municipal governments and their companies the KfW Municipal Loan as a direct credit. In the context of this reorganisation, KfW also introduced a risk-oriented interest rate system for all KfW infrastructure programmes.

Successful Water Management Initiative

Launched in 1996, the “Ecological and Sustainable Water Management NRW” Programme promoted relevant water management activities with low-interest loans. The programme was largely funded with funds from the KfW Infrastructure Programme and the KfW Municipal Loan. Sewage tax funds were used to fund the reduced interest rates. The excellent result of the previous year was once again exceeded in 2005, when NRW.BANK made 423 commitments

(2004: 386) for municipal projects with a promotion volume in excess of € 161.9 million (2004: € 152.1 million). The programme expired on December 31, 2005. NRW.BANK is assisting the MUNLV in devising a new promotion programme.

Cooperation with Landwirtschaftliche Rentenbank expanded

NRW.BANK continued to expand its cooperation with Landwirtschaftliche Rentenbank, adding the "Spatial Infrastructure Initiatives" Programme to its portfolio. This programme promotes a number of infrastructure initiatives for municipal governments with populations of less than 50,000. These include, for instance, public sports facilities, hiking tracks, day nurseries, medical advice centres and fire protection measures.

Strengthening Municipal Finances

Under the Reorganisation Act of March 2004, NRW.BANK was given the remit to finance the regional and local governments directly and immediately. NRW.BANK advises local authorities, structures their financings and provides them with suitable financial products for interest rate and cash management. In the context of its infrastructure financing activities, NRW.BANK structures and finances public private partnerships (PPP) with relevance for North Rhine-Westphalia and participates in structured credits for infrastructure projects. The range of products for the public sector is rounded off by equity products.

Continued Growth in Municipal Finance

NRW.BANK's new business (incl. interest rate adjustments) in 2005 amounted to roughly € 2.0 billion. As a result, net commitments increased by 10% to € 12.9 billion (2004: € 11.7 billion). The Bank complemented the traditional range of financing products such as short-term lendings, loans and note loans with derivative standard instruments for interest rate hedging. As lenders sought to lock in the attractive interest rates, there was particularly strong demand for financings with long fixed-interest periods (up to 40 years) – also for future maturity dates.

NRW.BANK's new "WM Global Loan" is designed to support those cities in North Rhine-Westphalia in which the Soccer World Cup matches will be held. A credit line of approx. € 45 million is available to the cities of Dortmund, Gelsenkirchen and Cologne for infrastructure initiatives.

Financing of PPP projects

In times of tight public sector budgets, the involvement of non-public partners is gaining in importance for the local authorities in North Rhine-Westphalia. Accordingly, NRW.BANK assists private bidders in the financing of their bids. As a precondition, the building investments must be funded through forfeiting. Moreover, the local authorities must renounce their right to object against their payment obligations. Under this model, NRW.BANK financed the private construction and restoration of a school project in Bedburg.

Outlook

In December 2005, NRW.BANK launched the "Ideas Contest" to identify innovative projects for the renewal of the communities in North Rhine-Westphalia. Innovations that make a contribution to the economic, ecological, social or cultural development of North Rhine-Westphalia and create a sustainable benefit for its citizens can win prizes in four categories. The Contest will run until the end of April 2006.

NRW.BANK will expand its range of infrastructure and municipal finance products and services in cooperation with the North Rhine-Westphalian government. The Bank also plans to launch self-funded programmes. The range of municipal finance solutions will be geared more effectively to the special requirements of local authorities and be complemented by a finance management solution.

In cases where the constellation of an infrastructure project does not allow the use of a traditional promotion programme – e.g. in pilot projects – NRW.BANK will develop structured finance solutions. The Bank expects to see particularly strong demand for public private partnership models. NRW.BANK aims to develop core competencies in specific segments of infrastructure finance.



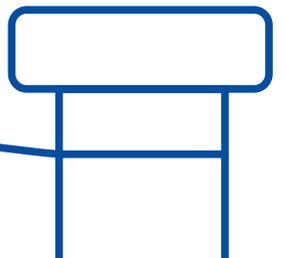
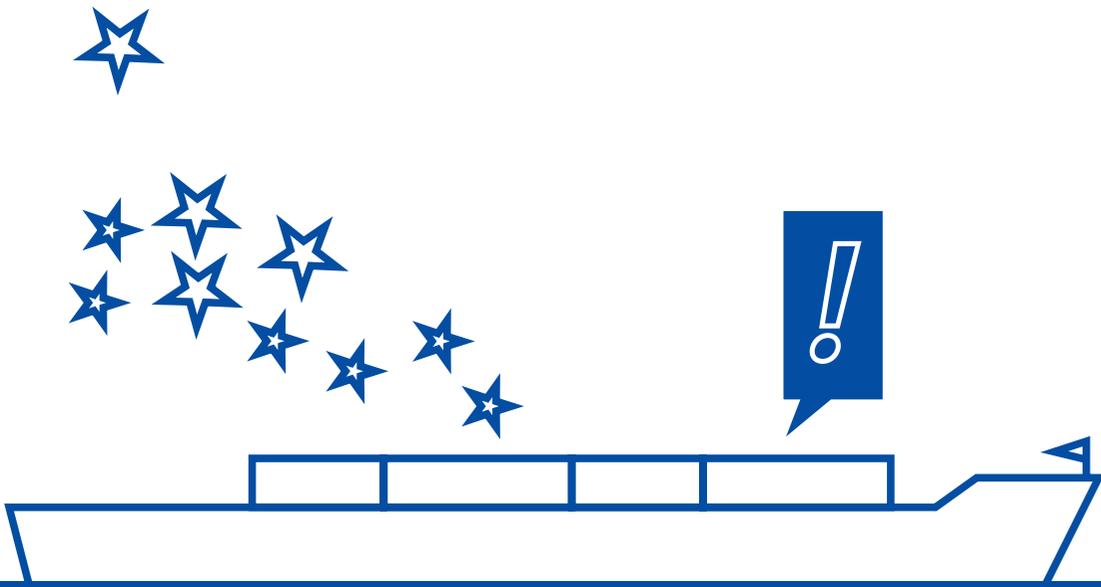
Duisburg

July 20 to 26, 2006, Innenhafen



One City for All

Duisburg is the No. 1 steel-making city in Europe and a successful logistics centre. And it's a pleasant place to live, as the city keeps a close eye on its people and their needs. When the old "Innenhafen" port was converted into a new neighbourhood with flats, offices and shops, the city fathers thought of all generations. Together with Stadtparkasse Duisburg's "Altenheimstiftung" (a foundation for old people's homes), NRW.BANK invested € 9 million in the construction of a nursing home – so that the elderly, too, can benefit from the youthful vibrancy of their city.



Understanding and Patience. In Duisburg, They Take Their Time for the Really Important Things.

Bingo, singing, keep-fit
exercises – that's what the
evenings at the old people's
centre in Duisburg's
Philosophenweg look like.







Listen, listen, listen – Head Nurse Ines Stork and Administrative Director Dagmar Preiß agree with each other: “What counts, are our residents and the care we give them.”

According to Dagmar Preiß, attention and understanding take top priority when caring for the elderly, especially those with dementia. “While they gradually lose their bearings and their memory, their feelings remain intact.”

Proud to Be Independent

The old people’s home in Duisburg’s Philosophenweg is a place where the drive and enterprise of the residents are very much appreciated and encouraged. The construction of the home was a pilot project in the successful redevelopment of the disused “Innenhafen” port.

Thursday afternoon, teatime. The residents of the old people’s home in Duisburg’s “Innenhafen” port are busy laying the tables. Those who are unable to help, sit down and chat. The old people who live here love to get together and talk with each other.

Many of them have furnished their small apartments, all of which have private bathrooms, with their own furniture and pictures. In Wiltrud Rühl’s apartment, photos of her trips to Greece adorn the walls. At 66, the former personal secretary is the youngest resident of the home – and the first to have her own Internet connection. “I had three strokes. After that I sat in a wheelchair for six months,” she says to explain why she lives here. As she has no family, Wiltrud Rühl moved into the old people’s centre. Now she can walk without assistance again – all she needs is a stick or rollator walking aid. “I go for a dockside stroll almost every day,” she says proudly.

The management of the home also takes pride in this success, which is a sign of the good care. “When Mrs Rühl moved in, we were quite concerned that she would not recover. Now she misses hardly any of the events we organise,” Head Nurse Ines Stork explains. The staff are doing everything they can to encourage the residents to engage in a variety of activities – from the weekly bingo sessions to the choir to moderate keep-fit exercises.

Already when designing the building, the project sponsor, Stadtparkasse Duisburg’s “Altenheimstiftung” (a foundation for old people’s homes), attached great importance to creating a pleasant atmosphere. All rooms of the home, which is located between the canals and the refurbished warehouses, are bright and friendly. The € 9 million for the construction of the home was raised by the Foundation together with NRW.BANK. The Bank extends low-cost loans through Wohnungsbau-förderungsanstalt NRW (Wfa), e.g. for the construction of rental housing and nursing homes.

“When the old people’s home opened its doors, it was one of the first new buildings that were completed in Duisburg’s “Innenhafen” port,” says Berend Virgils, member of the Foundation’s Managing Board. “It was an important pilot project in the context of the comprehensive recultivation of the entire site.” Now that all the buildings have been completed, there’s trendy bars and restaurants next to elegant office buildings and modern sculptures created by contemporary artists. Berend Virgils emphasises that it is very important to the Foundation that an organisation which rightfully enjoys a good reputation takes care of the home’s residents – this is why the German workers’ welfare association was chosen to operate the facility.

Wiltrud Rühl’s words make it perfectly clear that the care and service provided is of excellent quality. “I will spend the autumn of my life here,” she says before she leaves to join her choir. “This thought lets me sleep peacefully at night.”



Wiltrud Rühl is “happy all round” at the old people’s home in Duisburg’s “Innenhafen” port. In addition to the many activities that are offered here on a daily basis, she goes for regular walks in the surroundings, takes photos and is often visited by her friends and relatives.



Social Housing Promotion

Through its Wohnungsbauförderungsanstalt (Wfa) division, NRW.BANK extends low-interest loans for the construction and acquisition of owner-occupied homes, the construction of rental housing and public homes as well as for investments in the existing housing stock. The aim of the Bank's housing promotion activities is to supply low-income and large families, in particular, with appropriate housing. In addition, Wfa monitors the North Rhine-Westphalian housing markets and publishes regular updates on their development. This makes Wfa an important instrument in North Rhine-Westphalia's housing policy.

Continued Demand for Social Housing Promotion

Wfa's commitment volume in 2005 totalled € 892.5 million (2004: € 1,012.2 million; – 12.6%). Of this amount, some € 828.9 million (2004: € 991.2 million; – 16.4%) was spent on the construction and acquisition of 13,707 flats, which again exceeded the programme threshold set by the North Rhine-Westphalian Construction and Transport Ministry. An amount of approx. € 63.7 million (2004: € 29.9 million; + 112.7%) was committed for investments in the existing housing stock. Wfa's funding efforts will trigger total investments of roughly € 2.2 billion.

Another Good Result in Rental Housing Construction

Last year's excellent result in rental housing construction once again increased in 2005, as Wfa granted promotion loans in an amount of € 374.1 million (+ 12.5%) for 5,210 units (+ 10.9%). This gratifying result shows that the new promotion scheme, which was improved for investors in 2002, has been very well accepted. Also, investors expect demand for affordable homes to remain high.

Demand for Owner-occupied Housing Back to Normal

In 2005, Wfa supported the construction and acquisition of 7,719 (2004: 10,407) owner-occupied homes. At € 434.9 million, the commitment volume was down 31.5% on the previous year. The decline is primarily attributable to the fact that demand has returned to normal after investments had been brought forward to the previous years due to the public discussion about the abolition of the subsidy for owner-occupied housing as well as to the eventual 50% cut in the subsidy with effect from 2005.

Of the above amount, € 332.2 million was used towards the construction and first-time acquisition of 5,301 homes, while an amount of € 102.2 million was used to support the purchase of 2,418 existing homes. This shows that social housing promotion in North Rhine-Westphalia is making an important contribution to supplying low-income households with homes of their own.

Favourable Development for Investments in the Existing Housing Stock

Wfa granted € 63.7 million (2004: € 29.9 million) for investments in the existing housing stock, of which € 15.4 million was spent on the extension and expansion of 231 rental flats. An amount of € 48.3 million was invested in the modernisation of 1,800 units. This means that investments in the existing housing stock more than doubled over the previous year. Nevertheless, demand for the promotion of such investments in the social housing sector is relatively weak – despite the changed demographic environment and the generous amount of € 175 million budgeted for this purpose.

Reuse of Disused Land

For three years, the State of North Rhine-Westphalia has promoted the recultivation of former commercial, industrial or military sites with a view to reducing land consumption. In 2005, Wfa granted funds in an amount of € 4.5 million, which will be used to finance the construction of 569 rental flats on disused land. In addition, the Construction and Finance Ministry created a possibility for promoting the demolition of flats that no longer live up to market requirements.

Promotion of Housing and Care Projects for the Elderly

Innovative promotion products ensuring an adequate supply of housing for elderly and handicapped people as well as people in need of care were included in the Promotion Directive already back in 2004. An interdisciplinary Advisory Commission led by the Construction and Transport Ministry deliberated on the project entries and proposed model projects for promotion. Wfa was also represented in the Commission, which finished its work at the end of 2005 when the model phase ended and the regular promotion started.

The State of North Rhine-Westphalia mainly promotes construction projects that allow elderly or handicapped people to live independently in their own homes as well as projects enabling different generations to live together. Care and nursing services are organised individually or on an out-patient basis. In 2005, the Construction and Transport Ministry also created a promotion product for people with dementia. Overall, Wfa funded 68 group apartments. A total of € 21.8 million was granted for the construction and modernisation of 70 and 529 places in homes, respectively.

Increase in State Housing Assets

Promotion funds of approx. € 950 million were paid out by Wfa in 2005; this amount also includes funds committed in the prior years. Wfa received € 1.0 billion in repayments and appropriated budget funds. As of year-end 2005, Wfa managed just under 390,000 loan accounts in a total amount of € 24.4 billion.

The loan volume including payment obligations was down € 103 million on the year 2004. State housing assets increased by just under 1% to € 18.2 billion, while total assets increased by a moderate € 19 million to € 21.9 billion.

Monitoring the Housing Markets

Addressing the effects of the demographic change on the housing markets will be one of the major challenges in the years and decades ahead. While structural changes are having an effect on the North Rhine-Westphalian housing markets, these vary considerably from region to region. The housing market analyses produced in the context of Wfa's market monitoring activities make an important contribution to a more objective debate. For more than ten years, Wfa has published reports on the subsidised rent-controlled housing market and the free market. In this context, regional analyses are gaining in importance due to the disparate developments and trends in the individual regions. Accordingly, the annual Housing Market Report contains nation-wide as well as regional results.

With a view to examining the growing regional integration of the housing markets, 20 communities in the eastern Ruhr area joined in a trial project led by Wfa in 2003. The first joint Regional Housing Market Report was published in autumn 2005, with input provided by many actors in the regional housing market.

At the same time, Wfa supports the housing market monitoring activities of some 30 communities both technically and organisationally. In the context of the Communal Housing Market Monitoring Initiative (IK KomWoB), the communities regularly form plenums or working groups to exchange current housing information and experience. This way, Wfa helps to strengthen the communities' housing expertise.

Competent Advice

Building on its comprehensive experience in housing promotion, Wfa advises and supports the Construction and Transport Ministry in developing and designing promotion tasks and processes.

On its website, Wfa provides a host of services for potential home builders seeking information on promotion possibilities. The "interactive consultant", for instance, gives users an initial indication of the promotion funds they are likely to receive for their owner-occupied housing construction projects. The website also offers electronic application forms that may be completed online and printed out.

Wfa offers regular seminars and workshops for bank employees and municipal employees responsible for granting housing promotion funds and provides them with comprehensive advice.

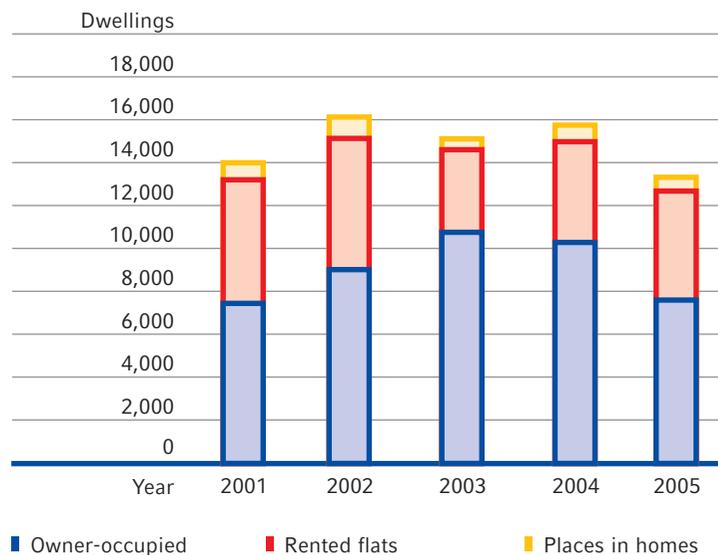
Outlook

With a budgeted amount of € 940 million, Wfa will continue the housing promotion programme at a high level in 2006. Of this amount, € 560 million is earmarked for the construction and acquisition of owner-occupied housing and € 280 million for the construction of rented flats and public homes. An amount of € 100 million will be used to fund investments in the existing housing stock.

The North Rhine-Westphalian Construction and Transport Ministry amended the Promotion Directive in 2006; in this context, the income limits for initial and ongoing eligibility were raised. Some programmes are no longer restricted to conurbations.

Both rented flats and owner-occupied homes will increasingly be made barrier-free in the coming years. It is also planned to adjust and modernise existing places in old people's and nursing homes accordingly. Going forward, NRW.BANK will also promote housing measures within the context of urban redevelopment programmes aimed at rehabilitating social housing estates dating from the 1960s and 1970s.

Social housing promotion since 2000





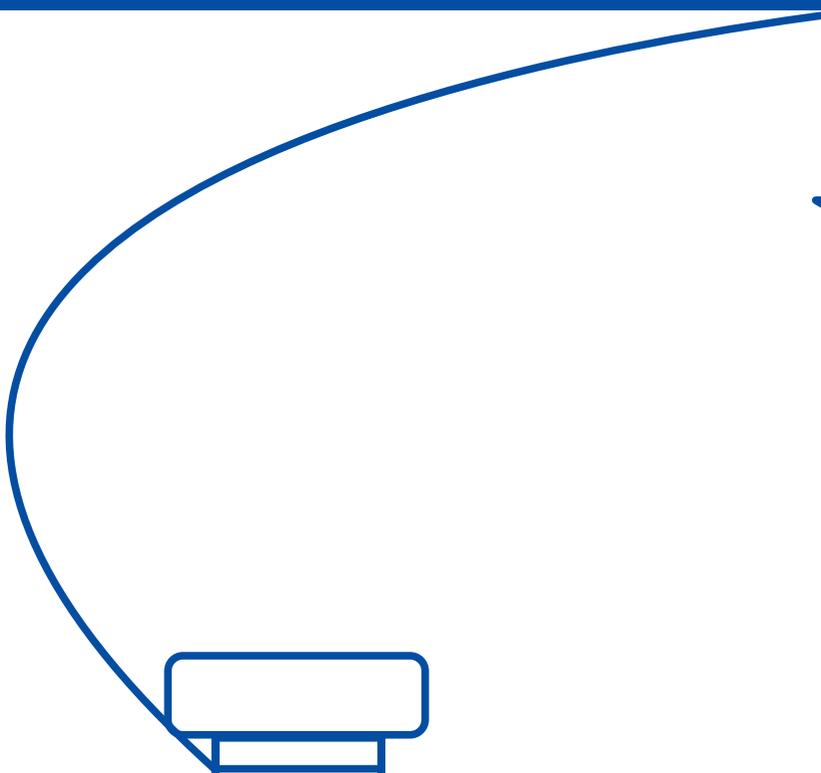
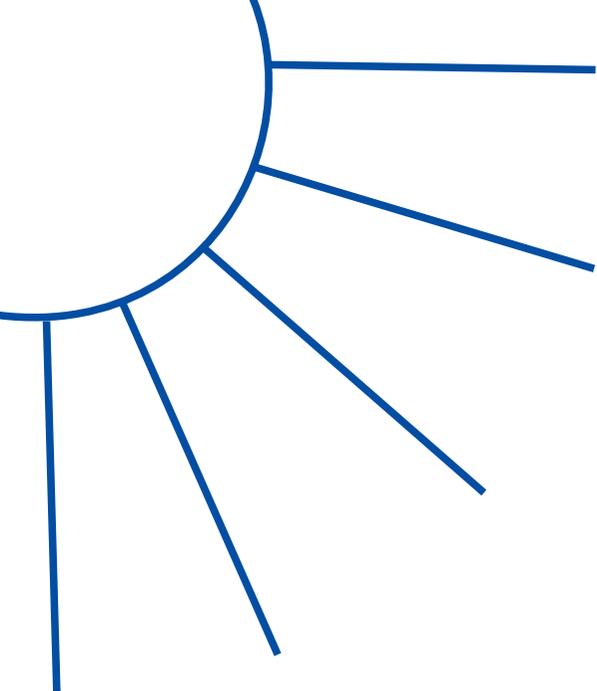
Cologne

August 22 to September 4, 2006, Am Leystapel



It's All in the Mix!

Kölsch beer, Carnival and the Cathedral, but also media, art and commerce – the Rhineland has a tradition of cherishing the old and embracing the new. The people of Cologne take pride in the history of their city and enjoy the unusual. It is therefore not surprising that even the farmers in the region spice up old traditions with new ideas. Max Josef Kallen from Stürzelberg, for instance, has used funds provided by NRW.BANK to transform his farm into a modern production business.



A Good Climate for New Ideas. A Farmer in the Rhineland Is Reaping the Fruit of His Labour.



Gone are the days of grain growing. Max Josef Kallen is going for strawberries, potatoes and asparagus – and has his hands full. His son Johannes will take over the farm in the next generation, thus continuing the family tradition.





The relocation of the business from the village to the district of Stürzelberg has made all processes easier.



New Ideas out of Tradition

Farmer Max Josef Kallen has switched from traditional agricultural products to garden produce – and found a profitable niche.

“I believe that farming is a very honourable profession,” says Max Josef Kallen. “A farmer is someone who works his land and produces food with his hands.” These are clear words from a man who takes pride in being a farmer and continuing a long-standing tradition. Kallen increasingly sees himself as a modern entrepreneur – a “farming entrepreneur”. Despite the great responsibility he would never exchange his job for another. This close association has its reasons: “We have been farmers for over 300 years,” he explains. There has never been an exception in his family. Max Josef Kallen is 46 years old. He married his wife 22 years ago, and “in 1990, we took over the farm in Stürzelberg from her parents”. Since then, they have modernised the farm and purchased

additional land. “Today, we have 170 hectares.” This growth required a major rethinking. Instead of keeping cattle and growing grain, the Kallens gradually switched to cultivating produce that normally tends to grow in gardens such as strawberries, potatoes and asparagus. The number of staff and temporary workers has grown in line with the size of the farm. “Especially over the past ten years, we have become a company with a large payroll. We currently have four permanent employees and eight part-time workers,” explains Max Josef Kallen. During the strawberry and asparagus season, the farm hires an additional 80 to 100 seasonal workers.

Stürzelberg is located on the left side of the Rhine, about half way between Cologne and Düsseldorf, in a rural area that is characterised by fields and pastures. “The sandy soil on the Rhine is ideal to give our asparagus its mild flavour and our strawberries their fruity taste,” enthuses the farmer, according to whom you need to be really good at what you do if you want to survive in the hotly contested agricultural market. In the long term, there are two ways of surviving – “expansion and specialisation”, he says.



It was exactly for this approach that, three years ago, his farm received a loan from a special fund launched by Landwirtschaftliche Rentenbank. Under the regular Promotion Directive, his application for funding would not have been approved. A solution was found jointly by his relationship bank, Sparkasse Neuss and NRW.BANK. The funds from the special fund channelled through NRW.BANK are used to support model cases which are especially innovative and exemplary. This way, Germany's largest state development bank supports innovations in the agricultural, forestry, gardening and fishing sectors while at the same time making the farming sector in rural areas competitive for the future.

Kallen used the funds for the construction of a new production building and for introducing modern working conditions such as washing equipment, a truck loading ramp, a refrigeration plant and heat recovery from the refrigeration plant. The main objective of the project is to supply consumers with fresh, high-quality produce. "Johannes, our son, is 19 years old and wants to take over the farm one day. He will then repay the rest of the loan. Therefore I want to leave him a farm that is healthy and sound."

Kallen admits that he is sometimes concerned that the revenues will no longer cover the constantly rising costs. But he responds to such concern with the coolness that is so typical of the people of the Rhineland. "I have always loved to be a farmer and I won't let nothing disturb this love of my work." Moreover, he expects the technologies of the future to open up new opportunities for the German agricultural sector. "Bio gas, grain-derived fuels, rapeseed oil instead of diesel – these renewable energies offer many new possibilities. Not least because some of them are competitive without being subsidised already today." It is impossible to ignore the optimism in Max Josef Kallen's voice, when he says: "For the past 300 years, all my ancestors managed to hand over a healthy farm to the next generation. So why shouldn't I be able to do the same?"

The new production building houses not only the farm shop for direct sales to consumers but also the washing equipment and a modern refrigeration plant. It also accommodates the sorting, weighing and packaging equipment.

Individual Promotion

Supporting and promoting the people in Germany's most heavily populated federal state is a major task of NRW.BANK. Developing their potential is of great importance for the economic future of North Rhine-Westphalia.

NRW.BANK's new Individual Promotion unit pools all promotion activities for private individuals. Recipients of these mostly low-volume funding products are households and persons who meet certain social criteria as well as small self-employed businesses, housing companies and public companies. Individual Promotion currently comprises housing programmes of KfW-Bankengruppe (KfW) and offerings of Landwirtschaftliche Rentenbank. NRW.BANK administers both as the central institution of the savings banks in North Rhine-Westphalia and Brandenburg.

Housing Sector Remains Strong

The Individual Promotion unit mainly processes housing promotion products of KfW. Notwithstanding the moderate construction activity in 2005, NRW.BANK granted low-interest loans in a total amount of € 1.2 billion, of which € 760.5 million (2004: € 697.8 million) was extended to private individuals for the acquisition of owner-occupied housing. Private individu-

als, private and public housing companies and other real estate investors received € 372.6 million for the repair and modernisation of existing housing stock. Substantial funds were granted for the reduction of CO₂ emissions and the use of renewable energies. Accordingly, there was strong demand for promotion funds for solar systems, which were introduced by KfW in 2005. In this context, promotion funds in an amount of € 41 million have been granted since the beginning of the year.

For Better Farming and Agriculture

Since the beginning of 2004, NRW.BANK has handled the special loan programmes of Landwirtschaftliche Rentenbank for investments in agriculture and rural areas. The volume committed under these programmes declined by a moderate 4% to € 47.5 million. These loans are used to promote, among other things, projects designed to improve the production and working conditions in agricultural businesses. Another objective is to improve the economic structures as well as the living and employment conditions in rural areas. In July 2005, NRW.BANK also began to promote investments in environmental protection and sustainability.

Education Finance Gaining in Importance

Education finance is a new task of NRW.BANK. In view of the planned introduction of tuition fees in North Rhine-Westphalia, the Bank developed a tuition fee loan on behalf of the North Rhine-Westphalian government. The legal provisions for the general conditions of this loan are to be defined by the end of March 2006. NRW.BANK will use a new distribution channel for this product. When the tuition fee becomes mandatory (scheduled for the 2006/2007 winter term), first-time students can apply for the loan through the administrations of the North Rhine-Westphalian universities; enrolled students may submit their applications from the start of the 2007 summer term.

Flexible Product Development

When it comes to solving special tasks, NRW.BANK provides the State of North Rhine-Westphalia with fast and flexible support. One such example is the special loan programme for agricultural businesses in the Münsterland region, which the Bank launched in December 2005. The heavy snowfalls at the end of November led to major power outages. Farmers suffering from liquidity bottlenecks as a result of the power cuts were eligible to apply for financial support under this programme.

Outlook

NRW.BANK plans to increasingly support the State of North Rhine-Westphalia, the federal government and the European Union in fulfilling social tasks. Apart from the tuition fee loan, this includes other education finance products, family and social promotion products, labour market and agricultural promotion products. In the context of these promotion activities, NRW.BANK will increasingly offer subsidies and loans of small amounts and continue to develop new products. A fully automated processing platform would allow these products to be handled efficiently.



Düsseldorf

May 15 to 17, 2006, Schlossufer

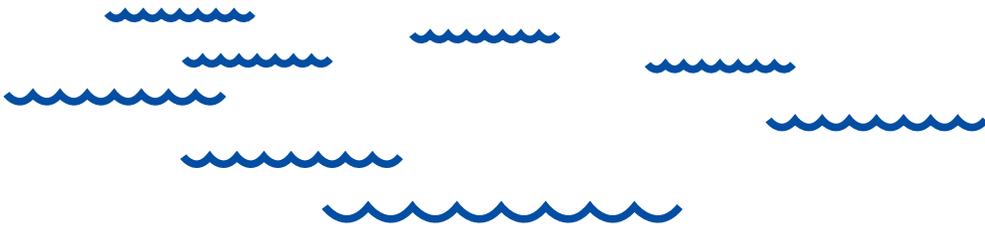
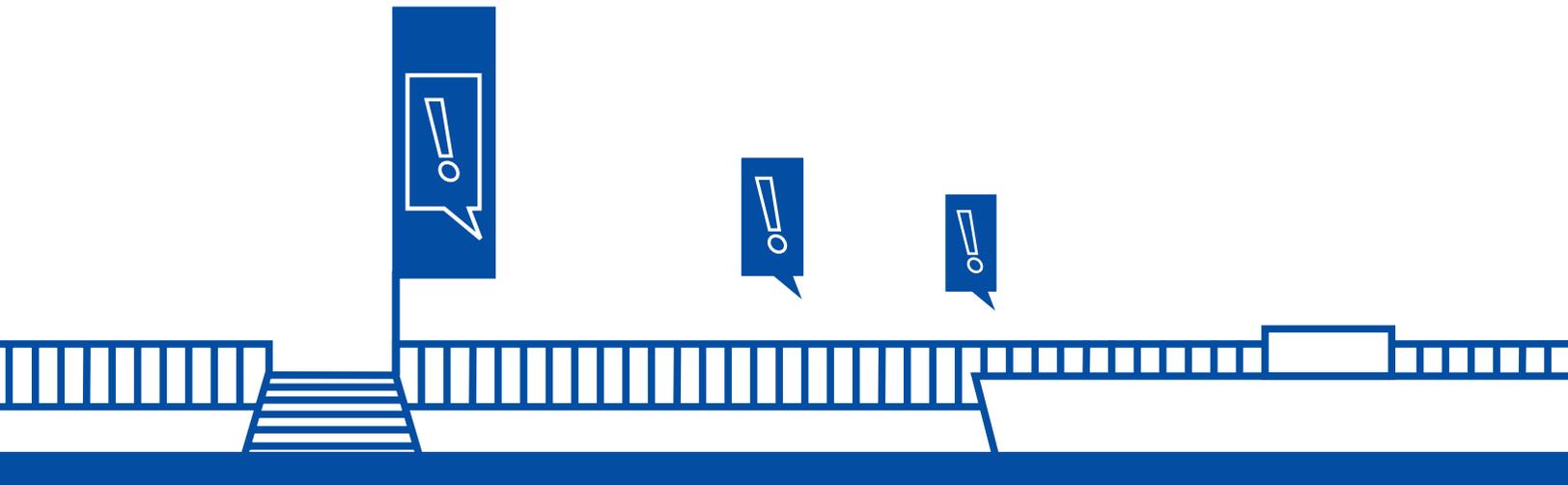
July 4 to 17, 2006, Schlossufer

September 6 to 12, 2006, Schlossufer



Diversity through creativity

The state parliament, the media centre, the TV tower – the panorama of Düsseldorf is as dynamic as the city itself. This is where decisions are made, innovations are developed and information is exchanged. A lot of what happens in Düsseldorf has consequences for the whole federal state. NRW.BANK is part of the creative atmosphere of North Rhine-Westphalia's capital. From its head offices in Düsseldorf and Münster, the Bank promotes ideas and innovations for the future of North Rhine-Westphalia.



Capital Markets

NRW.BANK's capital market activities developed positively in 2005. The Bank further expanded the programmes initiated in 2004 and greatly increased the funds raised, which are important for the generation of profits needed to offer reduced interest-rate grants and subsidies. Throughout the year, the NRW.BANK curve remained in the sub-Euribor zone across all maturities.

More International Issuing Activity

At € 23.5 billion, the volume of NRW.BANK's issues was up 16% on the previous year. Due to greater internationalisation, it was possible to improve the structure of the issues significantly. The equivalent amount of foreign currency issues rose from € 525 million in 2004 to € 2.3 billion in the past fiscal year. Apart from this, the Bank's activities were marked by a large number of premieres as NRW.BANK issued its first bonds in Canadian and New Zealand dollars, Japanese yens, the new Turkish lira, Norwegian crowns and Hong Kong dollars. The Bank also issued in the sterling and US dollar markets.

US Dollar Benchmark as a Milestone

In autumn 2005, NRW.BANK issued its first 5-year USD bond, thus gaining access to another liquid capital market in addition to its home market. Investors' interest was huge; the book was closed after only 24 hours with a volume that had been increased by € 250 million from the original amount to € 1.25 billion. All these activities are enabled by the € 20 billion NRW.BANK Debt Issuance Programme (DIP).

Rooted in the Home Market

With over € 20 billion, the euro capital market remains NRW.BANK's main funding source. Investors in this market showed strong demand for the products of the Bank's refined portfolio. Under the DIP, the Bank drew 60 tranches with a volume of approx. € 5.9 billion. The Bank's domestic issuance came to just under € 14.0 billion. The main emphasis was on registered bonds and note loans.

Euro Curve Clearly Extended

The Bank issued liabilities in all maturity ranges. A quarter of the issues had an original term of over 15 years. The longest term issued was 30 years. The 15-year euro benchmark bond issued in January 2005 met with strong interest from investors. This maturity further extended

NRW.BANK's yield curve in the capital market. The Bank's main activity in the short-term segment was the issue of the first Short Liquid Money Market Bond (SLIMBO). This issue had a volume of € 1.3 billion.

Global Commercial Paper Programme Strengthened

Investors' interest in the money market-related activities of NRW.BANK's Global Commercial Paper Programme (GCP) increased continuously in the course of the year. The Bank issued 163 commercial papers with a total volume of approx. € 7.4 billion. Most of these papers were denominated in EUR, USD and CHF. For the first time, the Bank also issued CP in Canadian and Australian dollars. With terms of up to twelve months, the Bank now covers the full range in this market segment.

Expansion of Investor Service

The Bank conducted intensive investor relations activities as part of its debt management efforts. In addition to serving the European home market, the Bank is systematically also developing the Asian market.

NRW.BANK held numerous face-to-face meetings with its investors. The Bank was a much sought-after participant in panel discussions and conferences, with the Euromoney German Conference in Berlin deserving special mention. These activities mainly helped to sharpen North Rhine-Westphalia's profile abroad.

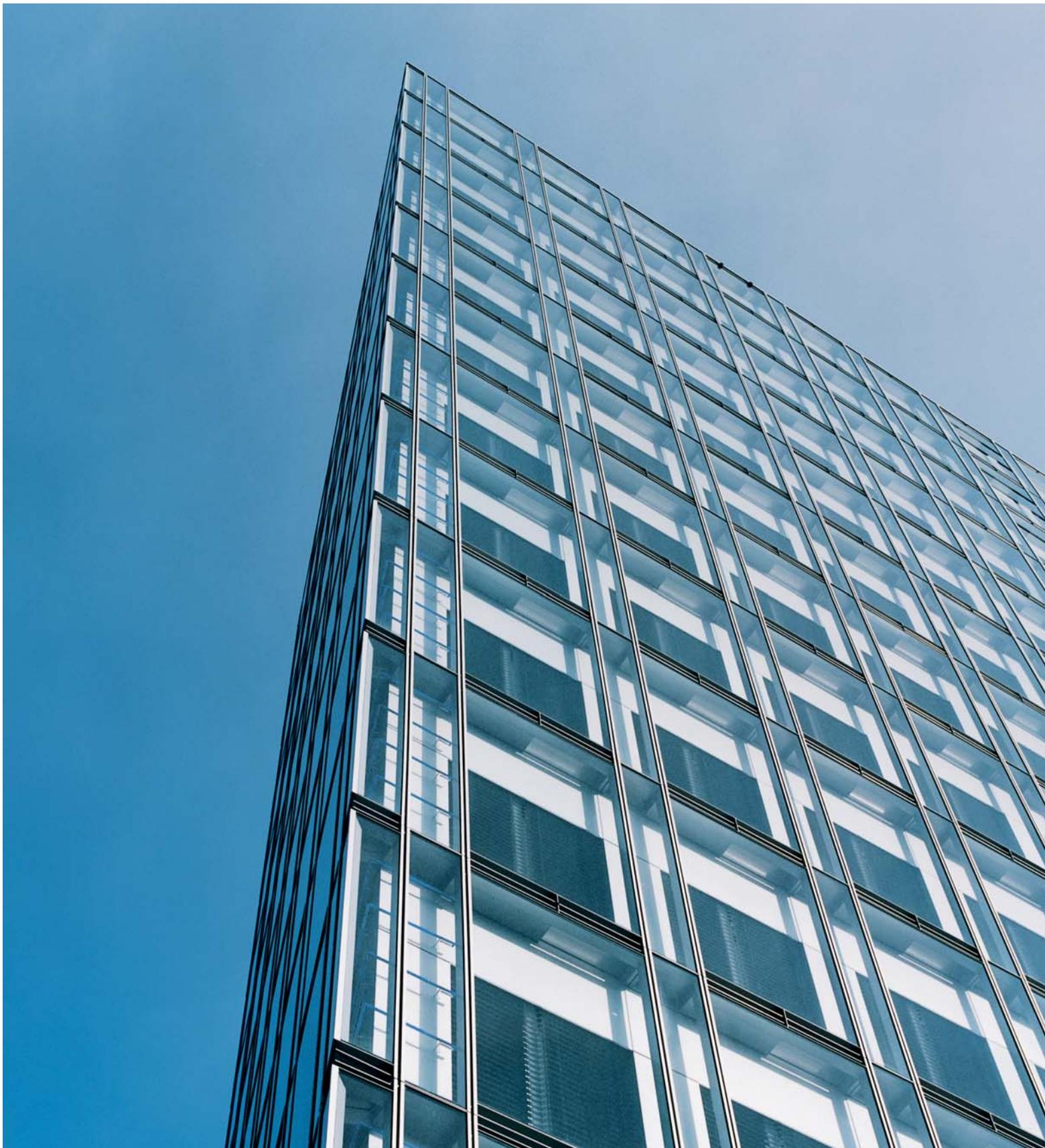
Outlook

NRW.BANK will continue to optimise its funding activities in 2006. The high funding volume of 2005 means that this year's funding requirements will be lower, i.e. at the lower end of the planned bandwidth of € 15 billion to 20 billion. As far as the relations with its investors are concerned, the Bank attaches top priority to continuity. This implies a dedicated service for the home market and the continued development of new markets. In 2006, the benchmark curve will be further extended in both the euro and the US dollar market. Under the recently launched Kangaroo Programme, NRW.BANK will also make issues in Australian dollars. In this context, the Bank will develop and refine its portfolio of structured products in line with investor demand. While moving forward with these new activities, NRW.BANK will remain a reliable partner to its investors.

NRW.BANK – On a Good Course







The new building at Kavalleriestraße 22 in Düsseldorf. NRW.BANK's employees moved into their new offices at the beginning of 2006.

Putting People First – Staff Report

NRW.BANK relies on its competent and dedicated employees to fill the motto “Promoting Ideas” with life. Bringing out the best in our employees is the main task of our human resources activities.

Encouraging Personal Responsibility

From vocational training to further training to customised seminars – NRW.BANK offers its employees a wide variety of possibilities for professional and personal qualification. This qualification is supported by employees’ own initiative and their will to deliver.

Promoting Exchange

The employees of NRW.BANK have a wide range of different qualifications and backgrounds. Exchanging and exploiting these qualifications is an important precondition for mastering the constantly changing tasks in the banking business. This way, the tasks and objectives of the Bank become more transparent, while horizons and flexibility are increased. NRW.BANK therefore provides dedicated support for employees who wish to develop their skills and embrace change.

Using Qualifications

Whenever employees have a similar qualification as external candidates, their development to senior positions has priority over new hirings. The Bank and its executives are committed to this core idea. For our human resources activities, this means providing employees with individualised support and advising executive staff competently.

Developing Young Talent

In 2005, the number of trainees increased to 30. The first office communication specialists in the field of banking successfully completed their exams and have been taken over as permanent employees by NRW.BANK. To complement their job at NRW.BANK, the first graduates have already begun their university studies, which are supported by NRW.BANK.



Securing Talent

NRW.BANK has introduced an instrument for identifying and developing potential. The Bank's young talent undergo a potential analysis and a special programme for junior managers. The participants are informed of their current status and refine their project and management skills in areas outside their existing competencies.

Combining Job and Family

In addition to places in day nurseries, NRW.BANK has offered its employees child care services for children under the age of three since October 2005. An internal survey had shown that there often is a lack of child care facilities for children of this age. In cooperation with Villa Luna, a private institution, NRW.BANK now offers high-quality child care for young parents in Düsseldorf. In 2006, the Bank will try to find a similar service for employees with children in Münster. This way, NRW.BANK allows its employees to start working again soon after the birth of a child.

Staff Numbers

In 2005, the Bank primarily hired new staff in its IT/Organisation/Internal Services, Advisory Services, Economic Development and Equity Investments units. Total staff numbers climbed 87 from the previous year to 1,035, 51% of whom are women and 49% men. 671 people are employed in Düsseldorf and 364 in Münster. The number of trainees rose to 30 in 2005.

Acknowledgement

In 2005, we continued to build NRW.BANK into the central development platform of the State of North Rhine-Westphalia. We would like to thank the employees of NRW.BANK in Düsseldorf and Münster for their strong commitment and successful work. Our thanks also go to the employee representatives who once again cooperated with management in good faith.

The Door to the Customer – Advisory Services

“Promoting Ideas” – this is how NRW.BANK describes its task. It all starts with effective, high-quality information and advice for the potential funding recipients.

Advisory Centres in the Rhineland and Westphalia

At NRW.BANK’s Advisory Centres in the Rhineland and in Westphalia, ten consultants advise commercial clients on all promotion and funding matters. In 2005, the main emphasis was on firmly positioning NRW.BANK in North Rhine-Westphalia’s promotion and funding scene and to increase its visibility. The Bank attended numerous events, e.g. the START exhibition in Essen and the “Mittelstandstag NRW” event in Düsseldorf, a dedicated event for small and medium-sized businesses. This strong presence reflects the successful work of the consultants. The latter educated and informed the relationship banks as well as multipliers also at numerous presentations, seminars, special consultation days, trade fairs and customer events. This way, they helped to expand the distribution of NRW.BANK, regional and federal government products. Their experience also helped to develop a number of new offerings.

International Advisory Centre

Established on April 1, 2005, the International Advisory Centre supports North Rhine-Westphalian companies wishing to invest outside Germany. The three international consultants provide information on international promotion funds and investment incentives in selected countries as well as on funding aids granted to the foreign trade sector by the State of North Rhine-Westphalia, the federal government and the European Union. In addition, they serve the savings banks and their customers in their capacity as the EU Advisory Centre for the North Rhine-Westphalian savings banks.

In 2005, the International Advisory Centre established a contact and cooperation network with development banks and economic development agencies in Eastern Europe. Cooperation accords have been concluded with the guarantee and development bank of Bohemia-Moravia (CMZBR), the Slovakian guarantee and development bank (SZRB) and with investment promotion agencies in Poland, the Czech Republic, Hungary and Slovakia. In September 2005, the Bank signed a cooperation agreement with MFB, the Hungarian Development Bank, under which the two banks will mutually support and advise each other to promote investments by small and medium-sized companies. EU accession candidates Romania, Bulgaria and Croatia have already been integrated into the network.



Advisory Centre for Public Sector Clients

The cities, communities and municipalities of North Rhine-Westphalia are a key target group of NRW.BANK. Since the end of 2004, the Advisory Centre for Public Sector Clients has provided this client group with competent advice.

At numerous individual meetings, events and seminars, the Centre's account managers informed the municipal representatives about NRW.BANK's products and services in the field of development programmes, municipal and infrastructure finance, public private partnerships and funding schemes making active use of municipal assets.

In 2005, the Centre's account managers were also involved in developing NRW.BANK offerings and project budgets for local authorities. These included, for instance, the "WM Global Loan", which provides those North Rhine-Westphalian cities hosting Soccer World Cup matches with a credit line of approx. € 45 million. The Municipal Finance Department developed a comprehensive range of finance management products and services in cooperation with the account managers. In this context, pilot projects will be launched in 2006 which are aimed at professional and cooperative municipal finance management.

Sales Controlling and Sales Support

In 2005, NRW.BANK built up the Sales Controlling and Sales Support units, which ensure that the Bank has effective and efficient sales processes in place. Sales Controlling provides an overview of the wide variety of advisory, support and sales activities offered by the Advisory Centres. The focus is on the promotion and funding products as well as on the sales partners, clients and multipliers of NRW.BANK. Sales Controlling is currently developing an information and reporting system that takes both quantitative and qualitative aspects into account. On this basis, NRW.BANK controls and manages the operational sales activities of the Advisory Centres. It also develops, reviews and updates the sales strategy on an ongoing basis.

Shared Strengths – Internal Services

Functioning banking operations, smooth internal processes and compliance with legal requirements – all this is essential for a strong development bank. NRW.BANK's Internal Services ensure that these requirements are fulfilled at all times.

Finance/Controlling/Bank Taxation

The Finance/Controlling/Bank Taxation (FCB) unit performs all accounting and regulatory functions of NRW.BANK. In the fiscal year, the project work focused on preparing NRW.BANK for the status of a trading book institution, which the Bank acquired in July 2005. FCB also began to prepare the gradual migration of the accounting-specific IT systems to SAP. In financial and operational accounting, the SAP standard has already been introduced. FCB also managed the Basle II and IAS/IFRS projects, the latter of which has been completed successfully. In the context of the overall bank management system, which was expanded in 2005, the unit monitored and managed the defined key figures. All results from these projects were included in the revised corporate strategy that was adopted in November 2005.

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 based on an economic capital concept, the Risk Controlling unit allocates and monitors risk limits by units and risk types.

The main risk positions, especially in the field of market price risks and default risks, are quantified and analysed on an ongoing 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 2005, NRW.BANK pushed ahead the preparations for the new Basle II regulations and the minimum requirements for risk management (MaRisk). The integration of the liquidity and interest rate risks into the overall bank level is proceeding according to plan. The consultation and implementation process is being supported internally and externally by the MaRisk working group, which is led by the Risk Controlling unit, in cooperation with the Credit Management and Internal Audit units. Ongoing improvement of the rating processes allowed for further refinement of the risk class approach used to monitor



NRW.BANK's overall exposure. Several units of the Bank cooperated in the IAS/IFRS project aimed at devising and implementing a fair value appraisal of all relevant portfolios managed by NRW.BANK.

Credit Management

Credit Management is an independent back office unit. In this capacity, Credit Management fulfils comprehensive functions in the lending process as well as credit risk management functions. The unit's core competencies include assessing the default risks through a market-independent vote, including relevant country and sector risks. This also comprises ongoing action-oriented risk monitoring including intensive monitoring and the processing of non-performing loans. The unit also takes decisions on credit commitments in accordance with defined competencies.

Credit Management is involved in defining the credit risk strategy, coordinates the risk provisions and helps optimise the risk classification processes and the credit processes.

In 2005, Credit Management primarily supported the front office units in the development of new promotion products. The unit's analysis capacities were needed for the investment funds as well as for the underwriting of shares in loans for small and medium-sized companies.

Internal Audit

Internal Audit primarily audits all operational and business processes of NRW.BANK. This is done on the basis of the MaRisk issued by the Federal Financial Supervisory Authority (BaFin). In 2005, the unit again completed an ambitious audit programme. The focus was on the development loan business, the processes of the capital market business, risk management and the continued development of the IT architecture. Building on its interdisciplinary expertise and its independent status, Internal Audit supported key projects of the Bank and commented on various banking-related matters.



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. As an integral management tool of the Managing Board, the unit ensures a shared understanding of the law, mitigates legal risks and enforces the Bank's claims. The unit is also responsible for the Compliance Office and for money laundering prevention. In the past fiscal year, the unit advised the Bank on the Promotion Directive and on the transfer of state development programmes to NRW.BANK. Another focus was on legal advice and the documentation of foreign currency issues.

Business Support

The Business Support unit supports the capital market business as well as Economic Development, Infrastructure Development and Individual Promotion. It consists of the Capital Markets Back Office and of the Promotion Business Back Office.

The Capital Markets Back Office settles all capital market transactions, i.e. mainly money market and derivative transactions, bearer bonds, borrower's notes and registered securities. The unit is also in charge of managing and updating securities and customer master data. After taking over new securities and treasury tasks, the unit has optimised work processes and refined user and settlement systems. Among other things, the Euroclear and BNP Paribas custody services have been connected with the Bank. The settlement of NRW.BANK's foreign currency cash flows has been relocated to Citibank New York (for USD), Citibank Tokyo (for JPY) and Citibank London (various currencies including CHF and GBP).

The Promotion Business Back Office manages all of NRW.BANK's loan accounts (assets and liabilities, except Wfa), updates the customer master data and manages the funds used for the promotion business. It also acts as the payment office for the "INTERREG" NRW-EU programmes and the "Ziel 2 NRW" programme. The Promotion Business Back Office is involved in the development, set-up and implementation of new promotion products and the modification of existing programmes. In 2005, the Back Office therefore also had to settle

legal and programme-related aspects of the transfer of state development programmes to NRW.BANK; all this was done in close cooperation with the responsible units and ministries.

Information Technology, Organisation and Internal Services

In 2005, the Information Technology, Organisation and Internal Services (IOI) unit primarily focused on preparing NRW.BANK's organisational structures, processes and IT systems for the transfer of the state development programmes. For this purpose, the Bank established an electronic interface with the management system of the state budget funds. Moreover, the FGCenter settlement software was implemented at additional relationship banks and is now used throughout North Rhine-Westphalia for processing promotion programmes between the relationship banks and NRW.BANK.

Almost one million files were outsourced to an external service provider, which led to a substantial reduction in warehouse rental costs and personnel expenses. In addition, an electronic file was established, which means that many processes will be paperless starting 2006. Employees who used to work in the archives have been trained as scan operators. They now enter the incoming mail directly in the electronic archives. Further savings in a million euro amount were achieved by IOI through the re-tendering of services and supplier changes as well as through the insourcing of services previously outsourced.

The Bank made another step towards a modern and independent systems architecture by replacing the first externally managed accounting systems. As the IAS/IFRS project was completed at the end of 2005, the Bank established its first annual accounts to IFRS principles. The Basle II project also made significant progress, so that the Bank fully complies with the legal requirements that are currently known. In mid-2005, IOI additionally laid the technical foundation for the newly acquired status as a trading book institution.

The new head office in Düsseldorf's Kavalieriestraße was completed and the Bank moved into the new building at the beginning of 2006.

In Münster, NRW.BANK launched an architecture contest for the renovation and reconstruction of the building complex. At the suggestion of the Managing Board, the Supervisory Board ultimately chose the draft entered by architect Ulrich Engel from Hamburg. The reconstruction activities will start in 2006.

Corporate Steering

The Corporate Steering unit was established at the beginning of 2006. It comprises the Office of the Managing Board, Communications, Strategic Investments and Company Development. In addition to its work on the Bank's controlling bodies, the Office of the Managing Board prepared NRW.BANK's new statutes and the Public Corporate Governance Code in the past fiscal year. The task of Internal and External Communications was to position NRW.BANK as the central development platform of the State of North Rhine-Westphalia. A major element of these activities was the Ideas Contest, which was devised

and continues to be implemented by the Marketing Department. Communications also continued the Bank's advertising campaign, built www.nrwbank.de into a promotion portal and published the new NRW.BANK.pulsar customer magazine. The main task of the Strategic Investments Department was to manage the investments held as part of the Bank's public mission in a value-driven manner. The new Company Development Department will be built up in the first half of 2006. It will be in charge of strategic planning and development, central project owner coordination, market monitoring, promotion and sales controlling, rating agency support and the implementation of strategic projects. These four departments will allow the Corporate Steering unit to play a key role in the future development and management of NRW.BANK.



A Visionary Bank Committed to Sustainability

NRW.BANK is committed to the principle of sustainability, which is laid down in the Bank's statutory mission (Sec. 3, para. 1 of the Reorganisation Act). To ensure that the Bank's new Düsseldorf head office also lives up to this commitment, the building has been equipped with state-of-the-art technology and fitted to the highest ecological standards.

The glass double shell facade plays an important role within this intelligent technology concept, as it greatly reduces the heat loss of the building. Together with other measures, this ensures that the building complies with the low-energy standard. Moreover, plants have been planted on the roof and a rainwater recovery system has been installed. When planning the new building, NRW.BANK also took account of the surroundings – the renaturation of the Düssel will result in a natural stream again.

NRW.BANK promotes environmental protection efforts by offering various promotion products for commercial, municipal and private projects. The Bank finances municipal special-purpose associations and supports their ecological activities, e.g. in the area of water protection. In the context of the "Ecological and Sustainable Water Management NRW" programme, NRW.BANK funded projects in 2005 which helped to avoid or reduce the waste water of municipal and commercial operators. The federal programmes of KfW Banken-

gruppe additionally support projects for the prevention or reduction of waste, noise and air pollution as well as energy-saving measures and solutions for the remediation of contaminated sites.

NRW.BANK fulfils its social responsibility in many fields. The Bank makes donations to social, cultural and scientific projects and thus helps to make North Rhine-Westphalia a place worth living. To reconcile the often conflicting demands of job and family, the Bank offers its employees flexible working hour schemes and child care support. These efforts are part of NRW.BANK's objective to offer men and women equal opportunities and are overseen by the Bank's Equal Opportunities Officer.

NRW.BANK understands sustainability as an ongoing process. Accordingly, the Bank will continue to gear its banking operations and its promotion programmes to ecological criteria. In this context, NRW.BANK sees itself as a stimulant and catalyst of ideas for resource-efficient economic development.





Responsibility and Transparency – Public Corporate Governance

Responsible and transparent corporate governance is playing an increasingly important role. Since 2002, listed joint stock companies have been obliged to report on their compliance with the German Corporate Governance Code once per year. However, good corporate governance should be embraced by all companies irrespective of their legal status or shareholder structure. Accordingly, this topic has gained in importance also for public sector companies in Germany, where it is generally referred to as public corporate governance.

The Managing Board of NRW.BANK has instigated the drafting of an individual set of regulations entitled “Public Corporate Governance Code of NRW.BANK”. This move has been welcomed by the Supervisory Board and the Guarantors’ Meeting, which have developed and adopted the Code together with the Managing Board, making NRW.BANK one of the first public sector companies in Germany to have such a set of regulations. This will make NRW.BANK’s actions more transparent and comprehensible to the capital market and the general public.

The Public Corporate Governance Code of NRW.BANK is based on the German Corporate Governance Code. Additionally, it takes into account specific aspects resulting from the Bank’s legal status of a bank under public law.

The Code refers to the legal framework that is defined by the law and by the statutes of NRW.BANK and complements it with generally accepted standards. In public sector companies, the Managing Board and the members of other bodies have a special responsibility for performing their office independently, impartially and to the benefit of the public. Accordingly, the Code of NRW.BANK contains management ethics – based on the Honorary Code of the German Bundesbank – as well as rules regarding the disclosure of the Managing Board’s compensation.

The Public Corporate Governance Code of NRW.BANK came into force on January 1, 2006 and is available for inspection on the Bank’s website. NRW.BANK does not regard the Code as a rigid set of rules and regulations but will adapt it to future developments. The Bank will provide regular reports on its public corporate governance efforts going forward.





Christa Thoben, Minister of Economics, SMEs and Energy of the State of North Rhine-Westphalia, Chairwoman of the Supervisory Board of NRW.BANK.

Report of the Supervisory Board

In compliance with its statutory tasks, the Supervisory Board held four ordinary meetings in fiscal 2005. The Committees composed of the members of the Supervisory Board held 14 meetings, i.e. five meetings of the Executive Committee, one meeting of the Audit Committee, five meetings of the Risk Committee (two of which were non-physical meetings with decisions taken on the basis of circulated files) and three meetings of the Building Committee.

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 and the Risk Committee put the risk policy for the years from 2005 to 2008 into more concrete terms and discussed the business and risk policy for the years from 2006 to 2009 and submitted them to the Guarantors' Meeting, which is the responsible body according to the Bank's statutes, for approval. The Guarantors' Meeting approved the proposed policies at its meeting on December 8, 2005.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft carried out the audit of the financial statements for 2005 and the statement of financial condition 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 report of the external auditors on the results of their audits. Following the final result of the audit, they raised no objections.

The Supervisory Board approved the financial statements and the statements of financial condition established by the Managing Board at its meeting on March 31, 2006 and proposes that the Guarantors' Meeting approve the financial statements for the year 2005. Unlike the previous year, no consolidated financial statements were established, as WestLB AG is no longer included in the consolidated entity, which means that NRW.BANK is no longer obliged to prepare consolidated financial statements.

At the initiative of the Managing Board, an internal Public Corporate Governance Code was developed for NRW.BANK in the past fiscal year and, after due deliberation by the Bank's responsible bodies, was put into force by the Guarantors' Meeting on



January 1, 2006. The Code is an advanced set of rules and regulations for responsible corporate governance. The Code is based on accepted standards for listed joint stock companies and takes into account special aspects resulting from NRW.BANK's role as a development bank and a bank under public law. The Code will thus help the Bank fulfil its public mission in a consistent and transparent manner. It will make NRW.BANK's corporate governance and corporate culture comprehensible to the capital market and the public.

The Code is published on NRW.BANK's website. Going forward, NRW.BANK will report on its public corporate governance efforts in its Annual Reports.

On June 1, 2005, it was the turn of Landesdirektor Molsberger to take over the chairmanship of the Guarantors' Meeting, the Supervisory Board and the Executive Committee from former State Minister Harald Schartau. With the approval of all guarantors, he transferred the chairmanship to me at the beginning of 2006. The Supervisory Board would like to thank both gentlemen for their work as Chairmen.

The May 2005 parliamentary elections in North Rhine-Westphalia and the resulting change of government entailed a number of new appointments to NRW.BANK's controlling bodies.

The Supervisory Board of NRW.BANK would like to thank the members who resigned for their constructive contributions to building NRW.BANK into the central development platform of the State of North Rhine-Westphalia.

Düsseldorf/Münster, March 31, 2006

Christa Thoben
Chairwoman of the Supervisory Board



Annual Accounts





Management Report

of NRW.BANK at December 31, 2005

A Central Development Platform for the State of North Rhine-Westphalia

NRW.BANK is the infrastructure and economic development bank of the State of North Rhine-Westphalia. As a partner of banks and savings banks, exercising no influence on competition, it applies the full range of lending tools to support economic development.

In 2005, NRW.BANK significantly strengthened its role as the state's central development platform. It launched a Product Campaign for small and medium-sized enterprises, and also began the process of transferring state development programmes to the Bank.

The 2005 Product Campaign

NRW.BANK's goal is to custom-tailor development products and financial products to businesses, municipalities and individuals in North Rhine-Westphalia. The 2005 Product Campaign was a new milestone in this direction.

The emphasis was on **promotion of start-ups and SMEs**, with three core aims:

■ A wider range of possible loan amounts

NRW.BANK offers new global loans, under which relationship banks can refinance a broad range of loan tranches at low cost, from small to large, for small to medium-sized businesses. The new SME loan, which uses NRW.BANK funds to help reduce interest rates still further on KfW business loans, furnishes capital of between € 25,000 and € 5 million.

■ Credit risk relief for relationship banks

The new syndicated financing arrangement enables NRW.BANK to assume a minority partner's share of SME loans extended by relationship banks for amounts between € 2 million and € 15 million, helping spread the risk.

■ Increasing businesses' equity ratios

The equity investment products offered through three funds – NRW.BANK.Mittelstandsfonds, NRW.BANK.Venture Fonds and the new NRW.BANK.Seed Fonds – have expanded NRW.BANK's range of equity solutions for the various phases in a business's life cycle.

The priority in **social housing promotion** was the new promotion products for senior-friendly housing and combined nursing and residential care facilities. Here NRW.BANK advised the North Rhine-Westphalian State Ministry of Construction and Transportation on matters of fund design and finance.

In **infrastructure and municipal finance**, NRW.BANK not only provided its classic promotion products, but introduced a new product specifically to support venues in North Rhine-Westphalia for the 2006 Football World Cup. The World Cup Global Loan will provide low-cost funds for infrastructure projects in the cities of Dortmund, Gelsenkirchen and Cologne.

In its new line of business in **individual promotion**, in 2005 NRW.BANK accepted a mandate from the state to design and implement a tuition fee loan programme in

North Rhine-Westphalia. The purpose of the loan programme is to make sure it is still possible for any student to pursue university-level studies in North Rhine-Westphalia, irrespective of his or her economic situation. NRW.BANK will offer the tuition fee loan product as soon as the state's Educational Assistance and University Tax Act (Studienbeitrags- und Hochschulabgabengesetz, StBAG) is adopted.

Direct Financing of Promotion Programmes

NRW.BANK carries out most of its promotion duties by providing low-interest loans, grants and guarantees, and by assuming risks. The main emphasis is on extending low-interest loans. But to an increasing extent, NRW.BANK will also be setting up its own direct financing for development programmes. As an addition to its promotion product, the Bank will improve loan terms by drawing on its own income to reduce interest (as a "promotion dividend") so that it can offer lower-interest loans for beneficiaries in North Rhine-Westphalia. This interest reduction is equivalent in effect to a subsidy. Here NRW.BANK makes use of a development bank's refinancing advantages for the good of beneficiaries in the state.

Transfer of State Promotion Programmes

In April 2004, the state's Council of Ministers voted unanimously to expand NRW.BANK as a central development platform. In July 2005, the new state government reaffirmed its commitment to that goal in the new coalition agreement. The changes are intended to strengthen the state's promotion capabilities and make promotion options more transparent. In July 2005, the State of North Rhine-West-

phalia transferred the NRW Technology and Innovation Programme to NRW.BANK, as the first of 20 planned promotion programmes. Five environmental programmes were transferred after the year ended. In carrying out the transferred programmes and promotion projects, NRW.BANK assumes responsibility not only for processing the banking aspects of the operation, but for approving applications under the terms of public law. The legal basis here is the master agreement signed in December 2004 between the State of North Rhine-Westphalia and NRW.BANK for the transfer of certain missions from the state to the Bank.

Transparent, Responsible Management

As a development bank under public law, NRW.BANK has an obligation to provide responsible, transparent management of its business. For that reason, at the suggestion of the Managing Board, during the year the Supervisory Board and the Guarantors' Meeting adopted the NRW.BANK Public Corporate Governance Code. The NRW.BANK Code is based on the German Corporate Governance Code and the Deutsche Bundesbank Code of Honour. It addresses the unusual characteristics that result from the legal form of a development bank as a public-law institution. The Code took effect on January 1, 2006. NRW.BANK will report regularly on its principal elements.

Changes in the Managing Board and Organisational Structure

Effective December 31, 2005, Managing Board Chairman Dr. Bernd Lühje retired, as had been planned and provided in his contract. The Supervisory Board appointed Dr. Ulrich Schröder as his successor.

Along with Dr. Lühje and Ernst Gerlach, Dr. Schröder has been a member of the Managing Board since the Bank was established in August 2002. Effective January 1, 2006, Klaus Neuhaus was appointed to the Board. As the Managing Board member for back-office operations, he particularly bears the responsibility for risk management in relation to credit, market and operating risks. In association with the changes in the Managing Board, NRW.BANK's organisational structure was also revised at the beginning of 2006.

- Board Chairman Dr. Schröder will be in charge of the new Corporate Steering unit. This unit combines all functions that directly support the Managing Board and serve NRW.BANK's strategic and communications purposes – Managing Board Staff, Corporate Development, Communications, and Strategic Equity Investments. As of April 2006, NRW.BANK will have offices in Brussels and Berlin. These are intended to strengthen the Bank's presence at the hubs of European and German government, and to improve North Rhine-Westphalia's access to promotion funds. The Capital Markets unit will be broader-based, and include not only Funding and Treasury but all investment activities. The Chairman of the Managing Board will also be in charge of the Internal Auditing and Advisory Services units (the latter pools the Bank's sales activities).

- Promotion Activities will be under Ernst Gerlach. This area includes the Economic Development, Housing Development, Individual Promotion and Equity Finance units. Also under his charge, all products for municipalities have been combined in the restructured Municipal and Infrastructure Finance unit.
- The back-office units – Credit Management, Risk Control, Business Support and Finance – will be under the charge of Klaus Neuhaus. Legal/Compliance/Money-Laundering Prevention, Human Resources, and IT/Organisation/Internal Services will also be among his responsibilities. Thus the organisational structure complies with the minimum separation-of-function requirements for risk management.

The management report complies with the requirements of German Accounting Standard (DRS) 15.

Economic Climate

Economic Development in Germany

The German economy remained sluggish in 2005. According to preliminary figures from the Federal Statistical Office, the German gross domestic product (GDP) rose 0.9% after adjustment for prices, compared

to 1.6% in 2004. But after adjustments to allow for the greater number of business days in 2004, both years had the same GDP growth rate of 1.1%. The appreciable revival in the second half of 2005, especially in industrial production, was a promising sign.

Economic growth in 2005 again relied on foreign trade, which was buoyed by strong real exports (+ 6.2%). Real imports grew more moderately (+ 5.0%). Foreign trade contributed 0.7 percentage points in all to the growth figure. By comparison, domestic demand provided little impetus for economic growth (+ 0.2 percentage points). Here private consumer spending stagnated, while state expenditures for consumption actually decreased. There was a noticeable drop in construction spending, which was not compensated by the rise in equipment spending, so that fixed asset spending shrank as a whole. In such a setting, conditions in the labour market remained poor. Unemployment averaged 11.7% for the year in 2005 (2004: 10.5%). Most of the change in unemployment resulted from the pooling of government programmes for unemployment benefit and social welfare. Rising stock indexes implied a fundamental improvement in the mood of the financial markets. Even the European Central Bank's increases in key lending rates at year's end had no substantial impact on the rising market.

Economic Development in North Rhine-Westphalia

According to preliminary data from the State Office for Data Processing and Statistics, real gross domestic product in North Rhine-Westphalia was up 0.5%. Thus the economic performance of Germany's most populous state lagged behind that of the nation as a whole (+ 0.9%). The sectors that were mainly responsible for this lacklustre performance were mining and quarrying, construction, hospitality, and education. By contrast, the manufacturing sector performed well, with a real gain of 2.7%. Economic performance was also good in transportation and telecommunications and in finance, leasing and corporate services.

Business at NRW.BANK

Major Events and Key Figures

NRW.BANK had a successful 2005. Operating income before risk provisions and revaluation adjustments stabilised at the previous year's level, rising € 5.8 million, to € 210.6 million. After allocations to allowance reserves, operating income after risk provisions and revaluation adjustments improved to € 159.0 million.

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

	Development*		Wfa		Municipal Finance/ Capital Markets		Equity Investments		Other		NRW.BANK Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net interest income	40.0	45.8	181.1	178.8	104.4	114.4	12.0	7.5	6.3	4.9	343.8	351.4
Net commission income	6.7	7.5	4.8	5.1	3.6	2.3	0.0	0.0	-1.4	-2.4	13.7	12.5
Net income from trading operations	0.0	0.0	0.0	0.0	-2.0	0.0	0.0	0.0	0.0	0.0	-2.0	0.0
Other operating income/expense	-0.4	-0.3	1.5	3.7	0.0	0.0	0.0	0.5	15.9	0.1	17.0	4.0
Administrative expenses	-17.9	-21.2	-48.4	-54.0	-23.6	-24.8	-3.8	-2.2	-68.2	-60.9	-161.9	-163.1
- Personnel expenses	-8.7	-10.6	-30.4	-33.1	-4.0	-3.9	-1.3	-1.3	-47.1	-40.6	-91.5	-89.5
- Operating expenditure	-9.2	-10.6	-18.0	-20.9	-19.6	-20.9	-2.5	-0.9	-21.1	-20.3	-70.4	-73.6
Operating income before risk provisions/ revaluation adjustments	28.4	31.8	139.0	133.6	82.4	91.9	8.2	5.8	-47.4	-58.3	210.6	204.8
Risk provisions/ revaluation adjustments	-2.5	-2.6	-62.0	-75.7	22.2	17.1	-0.9	-1.0	-8.4	-78.8	-51.6	-141.0
Operating income after risk provisions/ revaluation adjustments	25.9	29.2	77.0	57.9	104.6	109.0	7.3	4.8	-55.8	-137.1	159.0	63.8
Expense for WestLB AG	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-2.3	-310.5	-2.3	-310.5
Extraordinary expense	-2.9	0.0	-32.0	-3.2	-1.3	0.0	-0.4	0.0	-27.3	0.0	-63.9	-3.2
Net income for the year before taxes and promotion dividend	23.0	29.2	45.0	54.7	103.3	109.0	6.9	4.8	-85.4	-447.6	92.8	-249.9
Taxes on income and revenues	0.0	0.0	0.0	0.0	0.0	0.0	-6.2	-4.8	-0.8	-1.1	-7.0	-5.9
Promotion dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.0	0.0	-1.0	0.0
Net income/loss for the year after taxes and promotion dividend	23.0	29.2	45.0	54.7	103.3	109.0	0.7	0.0	-87.2	-448.7	84.8	-255.8
Employees (number)	147	120	338	337	26	23	16	15	508	453	1,035	948

* Economic Development, Infrastructure Finance, and Individual Promotion

As of the reporting date, NRW.BANK's total assets came to € 128.1 billion. Here changing the reporting method for Wfa business to a gross basis, with values carried over pursuant to Sections 252 ff. of the German Commercial Code, had a significant effect. The result is that the special reserves pertaining to the Wohnungsbauförderungsanstalt is now funded at € 18,366.9 million instead of the previous year's € 3,016.6 million. This change will provide a clearer picture of the development

business managed by NRW.BANK. It has no implications for the Bank's net income for the year. If the gross reporting approach for Wfa business is also applied to the equivalent values from 2004, total assets were up 2.1%, and accordingly, real growth in business volume was 2.3%.

Liabilities covered by the explicit funding guarantee came to € 108.5 billion as of December 31, 2005.

NRW.BANK Credit Volume	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2004	Change	
		adjusted Wfa reporting		from adjusted Wfa reporting	
	€ millions	€ millions	€ millions	€ millions	in %
Due from banks	31,758.6	35,387.3	35,381.9	- 3,628.7	- 10.3
Due from customers	49,284.3	47,564.0	30,707.2	1,720.3	3.6
Contingent liabilities	1,806.9	1,263.7	1,263.7	543.2	43.0
Irrevocable loan commitments	2,322.3	2,498.5	2,498.5	- 176.2	- 7.1
Credit volume narrowly defined	85,172.1	86,713.5	69,851.3	- 1,541.4	- 1.8
Deposits with central banks	75.3	120.7	120.7	- 45.4	- 37.6
Bonds and other interest-bearing securities	41,110.4	36,406.1	36,406.1	4,704.3	12.9
Equity investments	2,388.4	2,377.1	2,377.1	11.3	0.5
Other assets	531.9	514.4	514.4	17.5	3.4
Credit volume broadly defined	129,278.1	126,131.8	109,269.6	3,146.3	2.5

In comparison to the receivables from last year reported on a gross basis, total loans (credit volume) in the strict sense were up slightly in fiscal 2005, by 1.8%, to € 85.2 billion. An increased acquisition of bonds

and other interest-bearing securities brought about an increase in credit volume in the broader sense, which grew by a total of 2.5% to € 129.3 billion.

Economic Development

NRW.BANK's Economic Development unit conducts state and federal development programmes in the form of grants, Euro-loans and "trustee" loans in which the Bank itself does not assume the lending risk. Assistance goes to new business founders and commercial operations. In support operations under programmes from the State of North Rhine-Westphalia, Economic Development works with all banking groups; for federal programmes of the KfW banking group, it works together with the savings banks in North Rhine-Westphalia and Brandenburg.

The Economic Development unit's development funds are always allocated with no impact on competition, using the "relationship bank" method. In these operations, NRW.BANK takes on the credit risk from the pass-through bank. The exposure in regard to the relationship 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 the ongoing reluctance of small and medium-sized businesses in North Rhine-Westphalia to make capital investments during 2005. The loan portfolio in support for new businesses and small and medium-sized enterprises came to € 6.4 billion at year's end, almost 18% below the 2004 value of € 7.8 billion. The main factor behind this decrease in the portfolio was high unscheduled repayments of principal that could not be compensated with new business. Companies are taking advantage of today's low interest rates, and many have replaced their former higher interest-rate promotion loans with relation-

ship bank loans at lower interest rates.

To improve the delivery of credit to new business founders and small and medium-sized enterprises, NRW.BANK expanded its range of products significantly in 2005. The NRW.BANK."Mittelstand" Global Loan for small and medium-sized businesses, refinanced by the KfW banking group, covers maturity bands that were only inadequately covered under traditional promotion programmes. In addition to that loan, since December 1, 2005 NRW.BANK has also offered the NRW.BANK.Mittelstandskredit, an especially low-interest promotion loan programme for new businesses and small and medium-sized enterprises in North Rhine-Westphalia. This promotion programme, likewise refinanced by the KfW banking group, makes it possible to cover the capital needs of small and medium-sized enterprises and new business founders for practically any financing occasion. The reduced interest rates for the NRW.BANK.Mittelstandskredit are subsidised out of NRW.BANK's own funds, with the aim of providing additional investment incentives and thus contributing to greater growth and employment in North Rhine-Westphalia. Additionally, since mid-2005 NRW.BANK has been a syndicated partner in selected financing operations for small and medium-sized businesses, so as to mitigate the credit risk for banks and savings banks and thus give them greater lending leeway.

Infrastructure Finance

The Infrastructure Finance unit combines all of 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 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 promotion programmes for the state and for the KfW banking group. New business, with new loans approved for a total of € 374.1 million, was below the previous year's level. But the number of projects assisted was up 10%, to 750. The comparative increase in the number of approvals resulted largely from grant programmes. As of the reporting date, loan portfolios came to € 4.1 billion (2004: € 4.0 billion).

Additionally, the Infrastructure Finance unit participated in a number of existing project funding and structured-funding operations to fill out the Bank's portfolio and to generate income for the development business without influencing competition.

Individual Promotion

At present, the Individual Promotion unit focuses on supporting development in the housing industry, by taking advantage of programmes from the KfW banking group, and in agriculture, through programmes from the Landwirtschaftliche Rentenbank. New business was up slightly against the prior year, by 1.3%, to € 1,230.4 million. The principal factor behind this improvement was the assignment of the KfW programme to promote home ownership. In 2005 this programme accounted for 62% of new business.

New programmes for upgrades and energy savings more than compensate for previous programmes. Demand for the three new programmes was vigorous,

totalling € 217.4 million. As of December 31, 2005, the portfolio in the Individual Promotion segment was up 17.4% against the end of the previous year, from € 6.2 billion to € 7.3 billion. This sharp increase in the portfolio yielded interest income far above projections for the unit, forming the basis for € 7.3 million in operating income after risk provisions.

Equity Investments

NRW.BANK's equity products are another cornerstone of support for founding a new business and for small and medium-sized enterprises in the state. The Bank's Equity Investments unit offers these products tailored to the various phases of a firm's development. In cooperation with the State of North Rhine-Westphalia, the Bank set up two funds, NRW.BANK.Mittelstandsfonds with funding of € 75 million, and NRW.BANK.Venture Fonds, with funding of € 40 million. NRW.BANK.Mittelstandsfonds received a 49% default guarantee from the state, and offers equity investment capital for growth companies in North Rhine-Westphalia. NRW.BANK.Venture Fonds will provide equity investment capital to young, innovative businesses in the state. It will focus on the sectors of life science, information and communication technology, interdisciplinary technologies and new materials. In fiscal 2005, the Bank also worked with the state to develop the concept for an NRW.BANK.Seed Fonds – a seed fund, as the name suggests – that would offer financing for early rounds in a company's development. Further implementation will follow during 2006. Plans also call for expanding business at the Neuss-based medium-sized capital investment company in which NRW.BANK is the majority shareholder.

In 2005 the Equity Investments unit also handled NRW.BANK's commitments undertaken on behalf of the public sector. As before, the portfolio volume is still largely shaped by the remaining interests held in WestLB AG.

On April 28, 2005, for regulatory reasons the State of North Rhine-Westphalia furnished a valuation guarantee to NRW.BANK for the carrying value of the Bank's equity interest in WestLB AG as of December 31, 2004. This guarantee also indemnifies NRW.BANK against 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 (Nachtrags-haushaltsgesetz) of March 1, 2005.

In all, NRW.BANK's equity investment portfolio was worth € 2,388.4 million at year's end.

Wohnungsbauförderungsanstalt (Wfa)

Social housing promotion was once again a pillar of strength for the troubled North Rhine-Westphalian construction industry. This is the mission of the Wohnungsbauförderungsanstalt (Wfa) unit, as the central financing instrument for housing policy in the State of North Rhine-Westphalia. Through the Wfa, NRW.BANK extends and administers long-term development loans to assist housing built with public funding. The target group includes private owner-occupants within certain income limits, housing-industry investors in public rental housing construction, and homeowners and investors who want to update their residential properties.

Social housing promotion was provided for a total of 15,738 units of housing in 2005, more than meeting the programme's targets. At € 892.5 million, funds approved were down from the exceptionally strong figures of previous years (2004: € 1,021.2 million).

Approved promotion funding spurred total follow-up investment of some € 2.2 billion. In this way, the Wfa unit supported the construction and purchase of 13,707 new residential units, and investment projects for 2,031 units of existing housing.

As in 2004, rental housing construction benefited significantly from public funding. A total of € 374.1 million (+ 12.5%) was approved for 5,210 units (+ 10.9%). The promotion volume for places in residential facilities and other development support came to € 19.8 million for 778 units.

Once again in 2005, most promotion, at roughly € 435 million, went for owner-occupied residential properties. A total of € 332.2 million was provided for new construction or first-time purchases of 5,301 owner-occupied homes in all. A total of € 102.2 million in promotion funds was provided for purchases of 2,418 existing units of housing. Thus support was provided for a total of 7,719 units of owner-occupied housing, a decline of 25.8% against the prior year. In addition to a return of loan approval figures to normal levels after the anticipatory effects from prior years, the homeowner's deduction from taxes was cut

in half in 2005. Both of these factors lowered the promotion figures against the two previous years. The cut in the tax deduction dealt an especially sharp blow to lower-income households – precisely the clientele served by the Wfa.

The Wfa's programme for investments in existing housing approved € 63.7 million during the year, more than twice as much as the year before. Owners of large rental housing portfolios in particular have been updating their properties so that they can offer high-quality units that comply with demand.

Wfa loans are restricted geographically to investment in housing construction in the State of North Rhine-Westphalia. The Wfa's lending is normally of subordinate priority and is mortgage-backed. Development loans of € 953.2 million were disbursed during the year. The disbursement rate was thus down 16.6% from the previous year, which as already mentioned above was dominated by effects in anticipation of the cut in the homeowner's deduction. The remaining disbursement obligations were down € 0.1 billion, to € 1.5 billion.

Public-Sector Financing/Capital Markets

In public-sector financing, NRW.BANK offers municipal governments not only municipal loans, but short-term cash facilities to bridge liquidity shortfalls. In fiscal 2005, new business in long-term lending came to € 2.0 billion, bringing the portfolio to € 12.9 billion at December 31, 2005. The portfolio of short-term credit facilities came

to € 989.7 million as of year's end. In both long-term and short-term lendings, municipal loans accounted for well above two-thirds of new business in North Rhine-Westphalia.

Less and less federal and state funding is available for development efforts. Besides developing new funding and development tools, NRW.BANK generates additional resources through its own optimised refinancing.

When it was first established, NRW.BANK refinanced itself primarily by issuing public-sector Pfandbriefe. After the Bank was reorganised as the development bank of the State of North Rhine-Westphalia, holding an explicit guarantee from its guarantors and enjoying an associated regulatory risk weighting of 0%, this type of financing was discontinued; other capital market tools have been employed since that time. Today, NRW.BANK's Global Commercial Paper (GCP) Programme covers the full range of maturities, with tranches between one and twelve months. It issued some € 7.4 billion under this programme. In 523 individual transactions, NRW.BANK raised € 23.5 billion on the capital markets during the year, a gain of 16% against the prior year. Funds were raised in the capital market in a variety of currencies and under a variety of structures. Just under 10% of the funds were raised outside the euro market. By launching a U.S. dollar benchmark programme, NRW.BANK was able to gain access to yet another world capital market. Under its euro benchmark programme, the Bank issued its first bond with a 15-year maturity. In all, by now it has issued bonds that mature in 2007, 2009

and 2020. At the beginning of the year under review, NRW.BANK issued its first SLIMBO (Short Liquid Money Market Bond), a € 1.3 billion issue with a two-year maturity. NRW.BANK was the second issuer in this segment, and the first development bank.

Under its Debt Issuance Programme (DIP), the Bank issued bonds for a total of € 5.9 billion (2004: € 4.7 billion). While issues of bearer bonds and notes still gained slightly, issues of registered bonds and notes and borrower's note loans receded substantially. Sales of these instruments contributed only about 45% (2004: 60%) of the Bank's refinancing during the year under review.

A Summary of Current Ratings (as of December 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 ¹⁾	C- ²⁾	–*

* not offered by Standard & Poor's

As they do every year, the Fitch Ratings, Moody's and Standard & Poor's rating agencies reviewed NRW.BANK's credit standing. They reaffirmed the Bank's ratings, with outlook stable. Earlier, in June 2005, Fitch Ratings had upgraded NRW.BANK's individual rating from C/D to C because of the Bank's improved risk profile.

Other

"Other" units refers to the back-office and administrative units. This is also where results are reported that do not fall within the various units' individual areas of responsibility, such as equity management. "Other" also includes the consolidation resulting from internal cost offsets among the various units.

Revenues

Statement of Income

	2005	2004	Change	
	€ millions	€ millions	€ millions	%
Net interest income	343.8	351.4	- 7.6	- 2.2
Net commission income	13.7	12.5	1.2	9.6
Net income/expense from trading operations	- 2.0	0.0	- 2.0	-
Other operating income, net	17.0	4.0	13.0	> 100.0
Administrative expenses	- 161.9	- 163.1	1.2	- 0.7
- Personnel expenses	- 91.5	- 89.5	- 2.0	2.2
- Operating expenditure	- 70.4	- 73.6	3.2	- 4.3
Operating income before risk provisions/ revaluation adjustments	210.6	204.8	5.8	2.8
Risk provisions/revaluation adjustments	- 51.6	- 141.0	89.4	- 63.4
Operating income after risk provisions/ revaluation adjustments	159.0	63.8	95.2	> 100.0
Expenses for WestLB AG	- 2.3	- 310.5	308.2	- 99.3
Extraordinary income/expense	- 63.9	- 3.2	- 60.7	> 100.0
Net income for the year before taxes and promotion dividend	92.8	- 249.9	342.7	> 100.0
Taxes on income and revenues	- 7.0	- 5.9	- 1.1	18.6
Promotion dividend	- 1.0	0.0	- 1.0	-
Net income for the year after taxes and promotion dividend	84.8	- 255.8	340.6	> 100.0
Changes to reserves	- 2.2	310.5	- 312.7	> 100.0
Allocation to capital of Wohnungsbauförderungsanstalt NRW	- 45.0	- 54.7	9.7	- 17.7
Profit for the year	37.6	0.0	37.6	-

Net Interest Income

Despite a slight decrease of € 7.6 million against the prior year to € 343.8 million, interest income remains the Bank's primary source of revenue. The Bank's development units (including the Wfa) made a substantial contribution to net interest income, € 221.1 million. The year's declining margins had

an adverse effect on business. The Capital Markets unit generated net interest income of € 104.4 million. Expenses from the early termination of interest-rate derivatives used for hedging are still allocated to the item for risk provisions and revaluation adjustments.

Additionally, net interest income includes income from equity investments in non-affiliated and affiliated companies, for a total of € 13.0 million, and income of € 6.0 million from profit transfer agreements.

Net Commission Income

Net commission income grew to € 13.7 million in 2005 (2004: € 12.5 million). The principal reasons for the increase were higher commission income from infrastructure loans and credit default swaps, and lower commission expenses thanks to the integration of the securities back office.

Net Income/ Expense from Trading Operations

In the second half of 2005, the bank maintained trading portfolios of futures and options on futures for the first time. The net expense from trading operations for the year under review was € – 2.0 million.

Other Operating Income/Expense

The net balance of other operating income and expenses improved by € 13.0 million for 2005, to € 17.0 million. Most of this change resulted from a supplementary one-time payment of € 20.1 million from WestLB AG for benefits that NRW.BANK will have to pay to WestLB AG employees in future years. But this income was countered by a new allocation of € 8.0 million to provisions for WestLB AG employee benefits, which was charged against earnings. Since Westdeutsche Landesbank Giro-

zentrale was split up in 2002, NRW.BANK has provided such benefits to employees of WestLB AG who were employed by Westdeutsche Landesbank Girozentrale prior to January 1, 1999, in compliance with Article 1 Section 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. As a public-sector bank, NRW.BANK is obligated to provide benefits payments under the parent-subsidiary model.

Administrative Expenses

Administrative expenses showed two contrary trends during the year, which together resulted in lower expenses overall. While staff additions and higher collective-bargaining wages increased personnel expenses € 2.0 million, the operating expenditure decreased by a total of € 3.2 million.

The development business expanded further in 2005, and services that had formerly been outsourced were integrated into the Bank. These changes increased the number of active employees by 87, to 1,035 (2004: 948). The figure includes twelve new trainees who had been hired since the previous year. But despite the increase in personnel, social security contributions and expenses for pensions and other employee benefits were down. It should be emphasised that during the year, the rules for computing provisions for pensions, early retirement payments and other benefits were changed.

In the past, provisions for pensions and early retirement payments were computed by the entry age normal method under Section 6 a of the Income Tax Act, using a discount rate of 6%. During the year the discount rate was reduced to 5.5%, and underlying assumptions about future salary and pension trends were made for the first time. A cost trend for health care benefits was included for the first time in computing the provision for employee benefits. The resulting exceptional allocation to provisions is recognised as an extraordinary expense.

The operating expenditure was down € 3.2 million against the previous year, to € 70.4 million. The change derives primarily from lower expenditures for the Wfa.

The cost-income ratio (CIR) for 2005 was down to 40.2% (2004: 41.9%). This figure does not take account of the additional allocations to provisions for pensions, employee benefits and early retirement obligations caused by the changes in computation rules and recognised as extraordinary expenses.

Risk Provisions/Revaluation Adjustments

	2005	2004	Change
	€ millions	€ millions	€ millions
Lending business*	- 81.9	- 119.5	37.6
Securities	30.3	29.5	0.8
Equity investments (not incl. WestLB AG)	0.0	- 1.0	1.0
Fund for general banking risks	0.0	- 50.0	50.0
Subtotal	- 51.6	- 141.0	89.4
Expense for WestLB AG	- 2.3	- 310.5	308.2
Total	- 53.9	- 451.5	397.6

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

NRW.BANK's risk provisions and revaluation adjustments improved € 63.4%, from € - 141.0 million to € - 51.6 million. Because of the extraordinary allocations to pension and benefit provisions as a result of the change in computation rules, no additional

allocation was made to the fund for general banking risks, and the allocation to allowance reserves under Section 340 f of the German Commercial Code was reduced.

The master 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. Expenses of € – 2.3 million were incurred for the stock taken over in 2005 and stock to be taken over in future years.

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

Operating Income and Net Income

Operating income for the year, after risk provisions and revaluation adjustments, came to € 159.0 million, an improvement of € 95.2 million for NRW.BANK against the previous year.

Effective with the 2004 investment period, the Bank has been included in the listing of banking institutions exempt from income tax under Section 5 (1) No. 2 of the German Corporate Income Tax Act and Section 3 No. 2 of the Local Business Tax Act. The remaining income taxes of € – 7.0 million are owed on income from equity investments in trading partnerships that are held on behalf of the public, but do not fall under the income tax exemption.

A loan subsidised by a promotion dividend was approved for the first time in December 2005. For this purpose, NRW.BANK set aside a provision of € 1.0 million for promotion dividends.

The net income for 2005, after taxes and promotion dividends, came to € 84.8 million. Pursuant to Section 17 of the German Housing Promotion Act (WBFVG) in conjunction with Section 27 of NRW.BANK's articles and bylaws, € 45.0 million is being allocated to capital of Wohnungsbau-förderungsanstalt NRW. Thus distributable net income of € 37.6 million remains, after withdrawals of € 1.8 million from capital reserves and an allocation of € 4.0 million to reserves stipulated in the articles and bylaws.

Volume

The total assets of NRW.BANK grew € 17.8 billion in all in fiscal 2005, to € 128.1 billion. A major influence here was the conversion of the presentation of Wfa business to a gross reporting basis. The effect of this change alone expanded the balance sheet items involved by € 15.2 billion.

If the gross reporting method for Wfa business is also applied to the equivalent values from the prior year, total assets were up 2.1%.

Because of the ongoing expansion of liquid government bond holdings in the portfolio, bonds and other interest-bearing securities grew € 4.7 billion in 2005, to € 41.1 billion. At the same time, the portfolio of borrower's note loans and savings bank certificates was pared back, causing receivables from banks to decrease by € 3.6 billion, to € 31.8 billion.

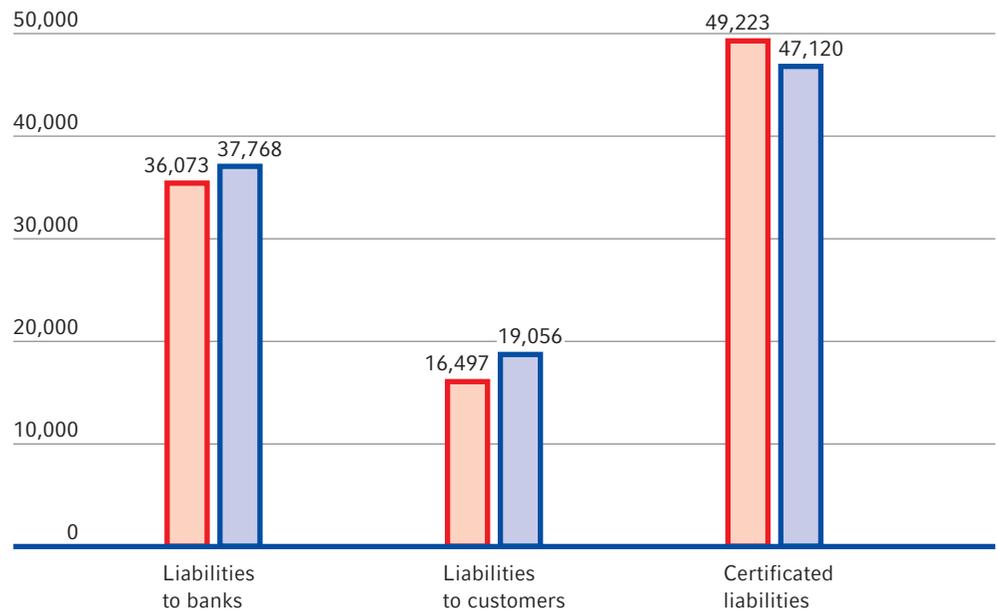
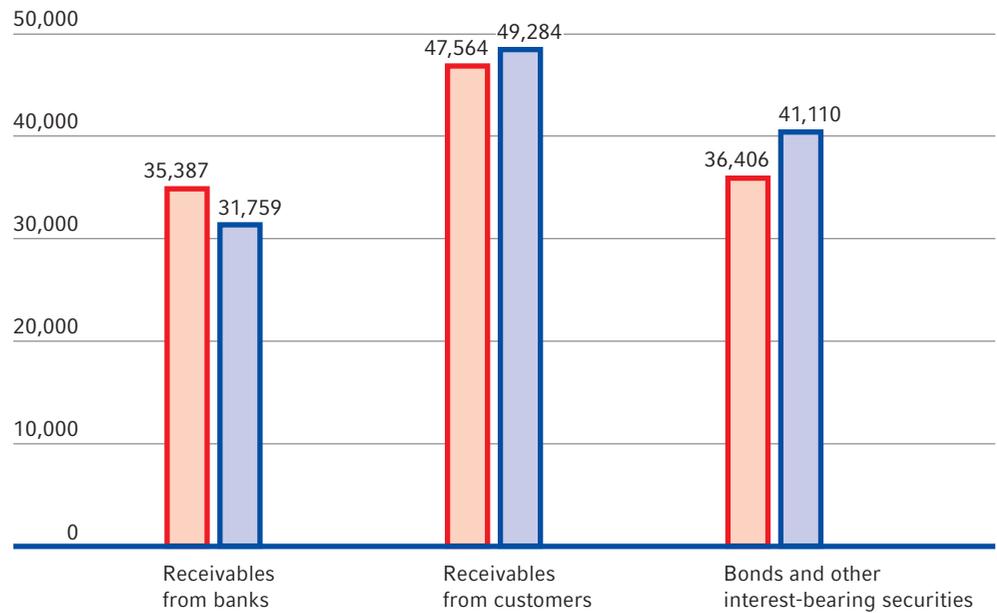
The book values of NRW.BANK's equity interests in non-affiliated and affiliated companies grew a total of € 11.3 million in all, to € 2,388.4 million. NRW.BANK has acquired an equity interest in AplaGen GmbH that was transferred to NRW.BANK. Venture Fonds after the year ended. The Bank's direct equity interest in Reformhaus Bacher was transferred to NRW.BANK. Mittelstandsfonds in fiscal 2005. The capitalisation of NRW.BANK.Mittelstandsfonds increased equity interests in affiliated companies by € 7.3 million against the prior year.

Because lending business in the "trustee" promotion segment is receding in importance, the pertinent assets and corresponding liabilities decreased € 77.6 million, to € 2,520.5 million.

At the reporting date, NRW.BANK showed intangible assets of € 27.1 million. The increase of € 3.9 million resulted primarily from the purchase of software produced by third parties for the "BASEL II" and "IAS/IFRS Reporting" projects. In 2005, the acquisition of another portion of the building at the Münster site played a major role in the increase of € 8.6 million in property, plant and equipment to € 22.0 million.

The decline of € 1,731.5 million in deferred asset items, to € 396.6 million, is entirely the consequence of the change in reporting Wfa business.

Development of Selected Balance Sheet Items € millions (adjusted Wfa reporting)



■ Dec. 31, 2004 ■ Dec. 31, 2005

The principal contributor toward growth on the equity and liabilities side was the increase in liabilities to customers (€ + 2.6 billion) and to banks (€ + 1.7 billion) as a consequence of the heavier issues of non-negotiable instruments. These contrasted with a decrease in certificated liabilities (€ – 2.1 billion) due to the declining issue volume of bearer instruments.

Provisions gained € 121.6 million to reach € 968.8 million as of the reporting date. A total of € 90.6 million was allocated to provisions for pensions and other benefits for NRW.BANK employees during 2005, with a net impact on profits. This figure includes an amount of € 63.9 million that results from a change in the rules for computing pension and benefits provisions and from the reduction of the discount rate to 5.5%.

Subordinated liabilities came to € 405.0 million, the same as the year before.

By contrast, declining profit participation rights caused profit participation capital to decrease € 115.0 million, to € 135.8 million.

New performance guarantees and credit default swaps for € 543.2 million were entered into during 2005, causing contingent liabilities to rise from € 1.3 billion to € 1.8 billion against the end of 2004.

The decline of € 176.2 million in irrevocable loan commitments, to € 2.3 billion, is primarily the result of the sharp decline in new business at the Wfa.

Equity Capital

The on-balance-sheet equity capital of NRW.BANK as of December 31, 2005 came to € 19,341.7 million, a gain of € + 15,645.9 million against the prior year.

Subscribed capital was increased € 141.7 million from company funds in December 2005, to € 675.0 million. The increase of € 15,462.6 million in capital reserves was primarily the consequence of the change in reporting Wfa business. Beginning with the 2005 financial statements, all equity capital of the Wfa, at € 18,366.9 million, is reported at par as special reserves pertaining total Wohnungsbauförderungsanstalt. Additional special reserves of € 255.8 million were funded out of state funds.

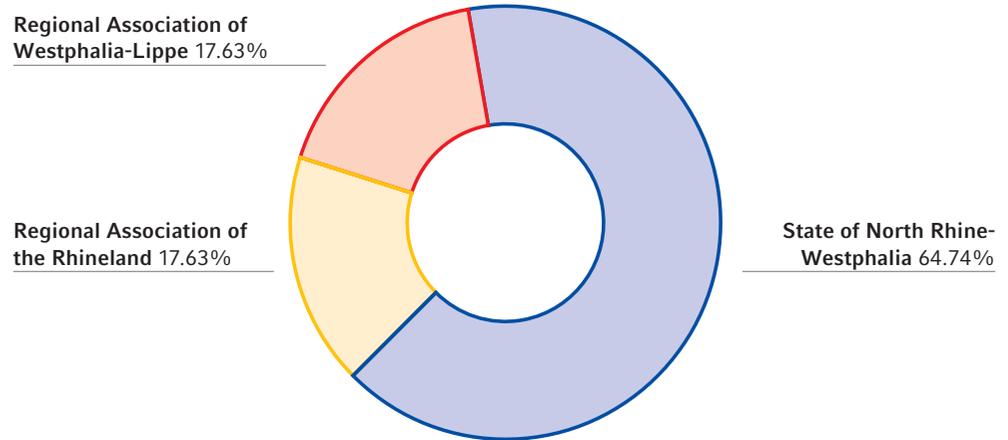
In 2005, € 4.0 million was added to reserves specified in the articles and bylaws.

Net distributable income of € 37.6 million remains.

The guarantors participating in NRW.BANK's subscribed capital of € 675.0 million are as follows:

The State of North Rhine-Westphalia holds 64.74%, and the Regional Associations of Westphalia-Lippe and of the Rhineland hold 17.63% each.

Guarantors of NRW.BANK



Prior to the adoption of the balance sheet, because of the absence of exceptional effects owing to the valuation guarantee from the State of North Rhine-Westphalia

for the carrying value of the Bank's interest in WestLB AG, liable capital in accordance with the German Banking Act (KWG) was € 3,491 million.

Capital Ratios

	Dec. 31, 2005	Dec. 31, 2004
	%	%
Principle I ratio	25.3	10.4
Core capital ratio	22.2	10.4

Risk Report

Even as a development bank, NRW.BANK is still subject to all regulatory standards for risk management, which includes both risk management and risk monitoring as core components.

The transfer of the state's development programmes in 2005 and the expansion of the Bank's own promotion products strengthen NRW.BANK's function as a central development platform for the state. As its product portfolio continually expands, 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 "relationship bank" method, have helped the Bank to develop a portfolio most of whose credit risks have good to very good ratings. The Bank also assumes market price risks as necessary.

Organisation of Risk Management

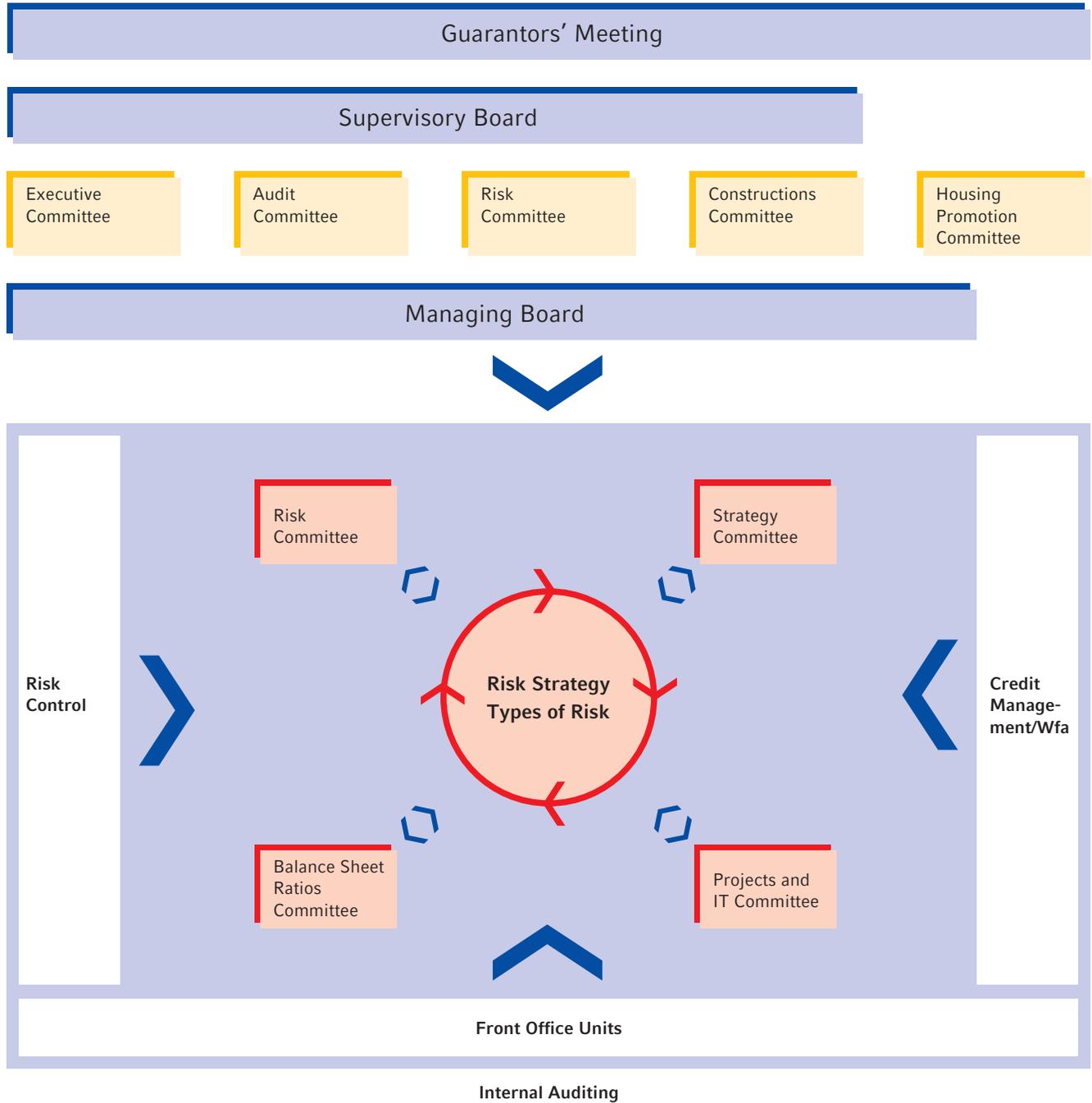
The Managing Board bears the overall responsibility for risk management at NRW.BANK. The Bank's risk management involves four committees that meet with the participation of the Managing Board:

- The Risk Committee addresses issues of both fundamental strategic risk and concrete risk.
- The Strategy Committee discusses 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.

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

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

Organisation of Risk Management



In keeping with the minimum requirements for banks' trading and lending activities, the units that oversee risks (Risk Control and Credit Management, or, as applicable, the Wfa), up to and including the level of the Managing Board, are functionally and organisationally 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 attuned to risk content and regulatory requirements. Credit management and the Wfa, as back-office units, are responsible for assessing counterparty default risk.

Internal Auditing, as an independent office within the company, monitors operating

and business processes and the internal controlling system, including the units that monitor risk.

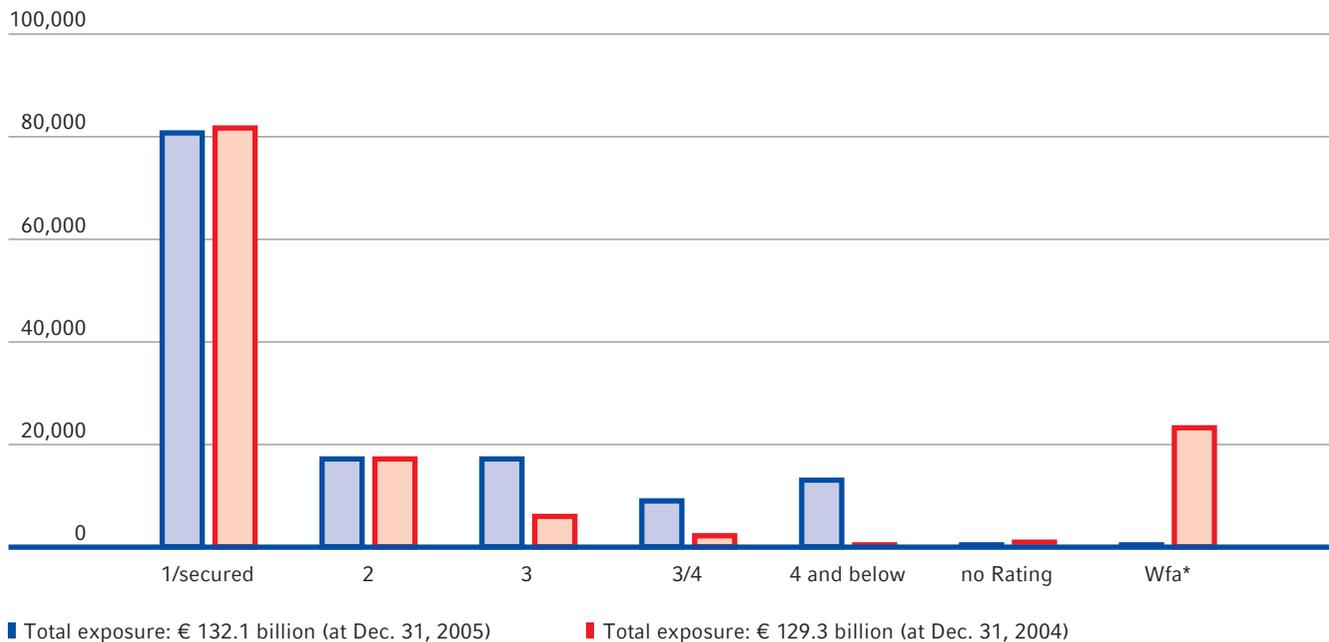
The risk report complies with the requirements of German Accounting Standard (DRS) 5–10.

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 "relationship bank" method. Accordingly, the portfolio has a first-rate risk structure.

Total Exposure by Rating Class € millions



* In 2005, the Wfa's own system of rating classes for its loan portfolios was brought into line with NRW.BANK's uniform rating system.

NRW.BANK's total exposure in 2005 was € 132.1 billion (2004: € 129.3 billion).

Eighty-five percent of the portfolio comprises debtors that are internally rated as very good (1) to satisfactory (3), or loans that are secured under the Public-Sector Pfandbrief Act (ÖPG). In particular, the change in Wfa exposure ratings to match those for the rest of the Bank, combined with the elimination of institutional liability and guarantor liability on the part of the savings banks and Landesbanks, caused a change in the rating structure against the previous year, primarily affecting rating classes 3 to 4. The Wfa portfolio is secured not only by the Wfa's own assets, but also under the provisions of Sections 19 and 21 of the German Housing Promotion Act (Wohnungsbauförderungsgesetz).

In keeping with its mission as a development bank, NRW.BANK operates largely in Germany (82.3% of its total exposure; 2004: 85.8%). The present foreign exposure results primarily from Treasury operations, and concentrates entirely on countries with investment-grade ratings. Euro-zone countries (including Germany) account for € 126.0 billion (95.4%; 2004: 96.9%) of all exposures. As of December 31, 2005, € 6.1 billion, or 4.6% of all exposures, entailed a transfer risk (2004: € 4.0 billion and 3.1%). For that reason, country risks are of secondary importance at NRW.BANK.

NRW.BANK enters into its derivative transactions on securities markets or with selected market partners with impeccable credit standing.

The reported counterparty default risk is reduced by using netting methods and by obtaining collateral.

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. Over the course of the year, particularly because of the inclusion of the Wfa exposure, it was possible to assign almost all NRW.BANK exposures to rating classes.

In addition to the rating classes, account is taken of other structural features, such as sectors and remaining terms for the entire exposure. The Managing Board is informed of these as part of the monthly risk reporting process.

NRW.BANK applies adequate control mechanisms to safeguard the good rating quality of its portfolio. These centre on the Bank's risk strategy, in association with an economic capital concept. Here limits are set at the portfolio level on the basis of a Credit VaR for a holding period of one year and a 99.0% confidence level. The computations are put through extensive scenario and stress analyses. The economic capital for counterparty default risks (not including the Wfa) was € 172.8 million as of the reporting date.

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 by observing individual structural characteristics.

Risk Provisions

Risk provisioning in the lending business for 2005 was € 81.9 million, of which € 61.9 million was for the Wfa (2004: € 119.5 million, of which the Wfa accounted for € 75.7 million).

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

Loan exposures that attract attention but do not offer cause for risk provisioning so far are watched closely. If further steps are needed, the exposures are transferred for processing as troubled loan exposures. Total troubled loan exposures, at € 578.5 million (2004: € 536.1 million) were counterbalanced as of the reporting date by individual allowances and comparable provisions totalling € 327.6 million, including € 304.9 million for the Wfa (2004: € 290.5 million, including € 270.4 million for the Wfa).

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, 2005, the total carrying value of equity investments in non-affiliated and affiliated companies was € 2,388.4 million (2004: € 2,377.1 million).

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, a second opinion, independent from the Equity Investments unit, is prepared on all relevant matters by the Credit Management unit to ensure compliance with minimum requirements for lending operations.

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, 2005: € 20.4 million). For internal management purposes, economic capital for the equity investment risk is included in the counterparty default risk.

Because of the option agreement with the Regional Associations of the Rhineland and Westphalia-Lippe, which remains in force, it is still possible that these associations may exercise their options to hold interests in WestLB AG directly, 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, for NRW.BANK Mittelstandsfonds, the counterparty default risk is reduced 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 Landesentwicklungsgesell-

schaft 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. Interest rate positions without matching funds are also taken for trading purposes.

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.

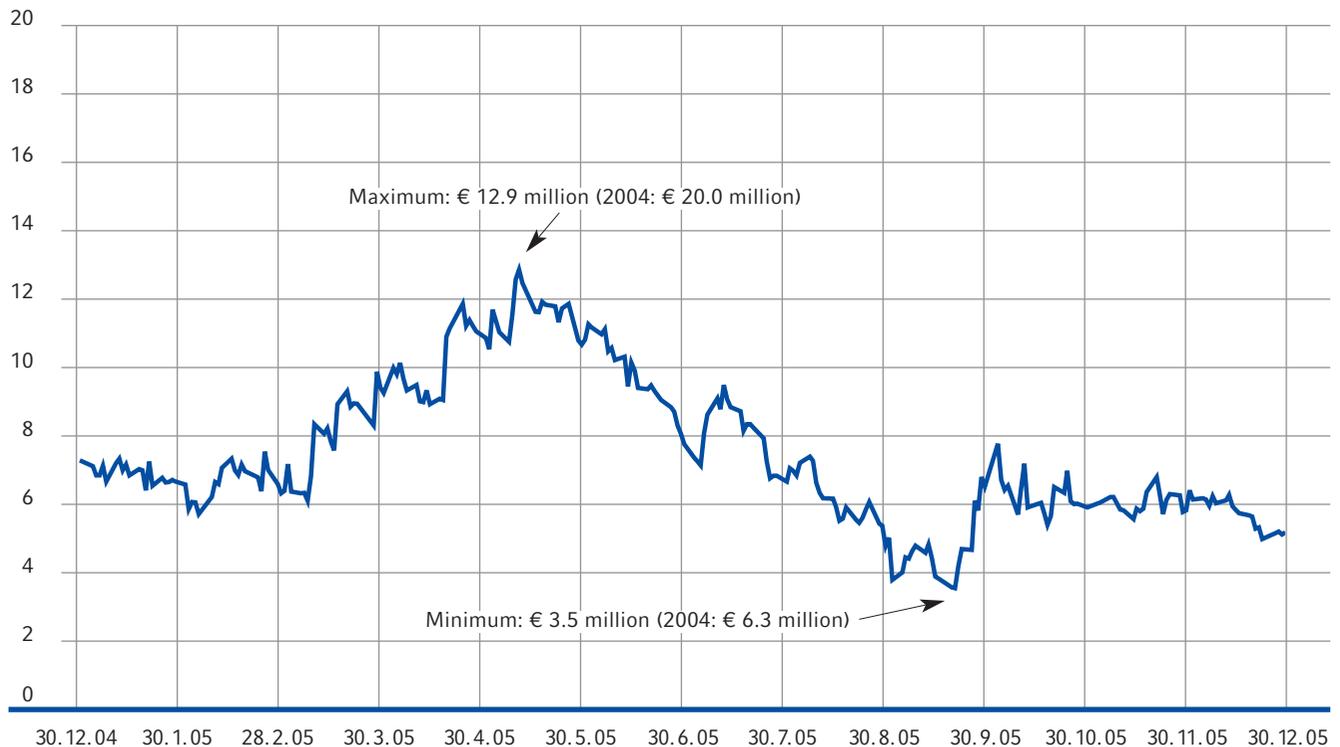
The bank controls and monitors all market price risks by way of a value-at-risk approach, using the Monte Carlo method. Value at risk (VaR) is calculated for day-to-day management at a 95.0% confidence level for a one-day holding period.

The value-at-risk approach takes account of all relevant risk factors, such as interest rates, foreign exchange rates and implicit volatilities. In addition to linear influences, the model also includes nonlinear influences of risk factors on portfolio value. These

nonlinear effects are particularly significant for derivatives. The historical observation period for determining statistical parameters is set at 50 days. Heavier weighting of events from the recent past shortens the response time of VaR figures when the market changes, thus supporting prompt management action. The quality of VaR figures as projections is checked by daily back testing. These tests have confirmed the validity of the risk model.

Evolution of NRW.BANK's Value at Risk in 2005 € millions

Average: € 7.6 million (2004: € 13.6 million)



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

As part of day-to-day risk reporting, the Managing Board is informed of risk trends, how closely operations approach the established limits, and any unusual events. Additionally, the monthly reports particularly analyse the results of the stress and scenario computations. These measures showed that risk remained acceptable for the Bank in 2005, even in extraordinary market situations.

For strategic management of economic capital, the Bank assumes a uniform 99% confidence level; specifically for market price risks, the holding period is set at 10 days. The economic capital for market price risks was € 23.9 million as of the reporting date.

Liquidity Risk

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

and the associated refinancing terms, NRW.BANK views its liquidity risk in the strict sense (risk of insolvency), the refinancing risk, and also the impact of market liquidity risk, as minor.

Liquidity risk is managed centrally by the Capital Markets unit. This unit is responsible for seeing that the Bank is solvent at all times, and additionally is to minimise refinancing risks (meaning higher costs for procuring medium-term and long-term funds). This capability is ensured by diversification of investor groups, regions and products.

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

Strict accessory conditions for management include compliance both with Principle II and with the regulatory minimum reserve requirements. Both accessory conditions were obeyed at all times in fiscal 2005. The liquidity ratio as of the reporting date was 4.0 (2004: 1.82), well above the regulatory required minimum of 1.0. The exceptionally high liquidity ratio at the end of 2005 was based primarily on a large volume of highly liquid listed securities that are no longer tied up in the guarantee fund because the Bank no longer engages in Pfandbrief activities.

Operational Risks

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

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

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

A risk event database serves for the ongoing capture of losses and events that imply a potential risk. It forms the basis for a structured analysis of risk trends. During the year under review, further details were added to the existing concept for monitoring risk trends, adding suitable risk indicators. These changes will be implemented gradually across all units of NRW.BANK.

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

Emergency planning is in place for emergencies and catastrophic events. The Bank has appropriate insurance coverage.

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

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 € 26.1 million as of December 31, 2005.

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 external premises of its corporate strategy on the basis of a rolling multi-year projection procedure, and derives conclusions for the Bank's strategic positioning. The Strategy Committee analyses the evolution of the major key performance indicators, and develops recommendations for achieving their goals.

Overall Risk Assessment

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

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.

The Managing Board maintains a ratio appropriate to the risk strategy between the limit for economic capital and capital cover, which is determined by methods that are standard practice in the market with due allowance for the equity components required by banking regulations and reported in the balance sheet. This approach

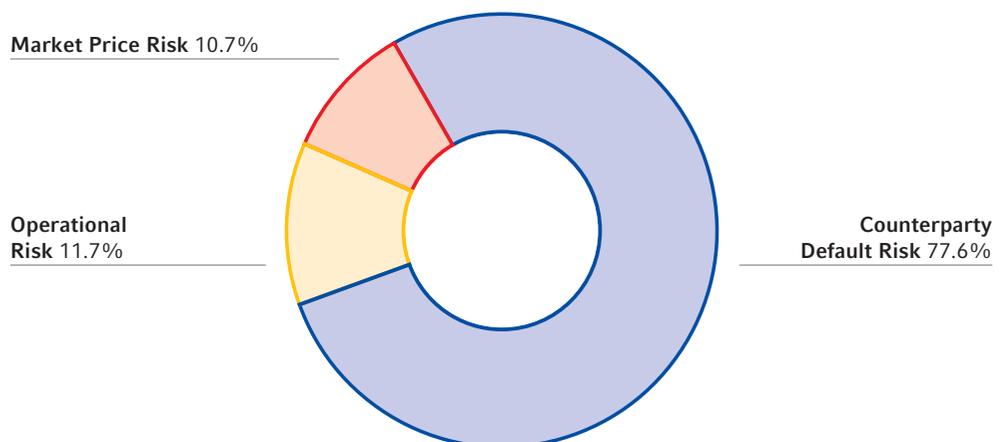
ensures that risk assumption is always consistent with the Bank's strategy and capitalisation, and that the Bank's business is always viable in light of risk exposure.

The economic capital for counterparty default risks and market price risks is determined by the value-at-risk method described above; operations are monitored regularly as to how closely they approach the established limits. For all operations, the economic capital limit for operational risks is managed on the basis of the Basle recommendations. All limits were complied with consistently in fiscal 2005.

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 € 222.8 million.

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

Economic Capital by Type of Risk, 2005



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.

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.

Report of Anticipated Developments

Evolution of NRW.BANK Business Strategy

At their meeting on December 8, 2005, the guarantors of NRW.BANK adopted the 2006–2009 strategic business plan and the associated risk strategy. The new strategy is essentially a continuation of the previous year's strategy in the four areas of promotion of start-ups and SMEs, municipal and infrastructure finance, social housing promotion and individual promotion. A new addition in individual promotion is the area of education finance, with the tuition fee loan product.

The strategic core objective will still be to expand NRW.BANK as the central infrastructure and development platform for the State of North Rhine-Westphalia. For this purpose, additional development programmes will gradually be transferred from the State to the Bank. The Product Campaign begun in 2005 will continue.

NRW.BANK will be making more extensive use of its own funds in this connection. For example, additional high-volume state promotion programmes will be set up to accompany the NRW.BANK.Mittelstandskredit programme launched in December 2005.

Given the above basis, the Bank expects moderate growth in 2006. It expects that total assets will grow about 2.5% this year, and that profitability will expand steadily over the next few years. At the same time, NRW.BANK will work on optimising its cost structure and reducing the cost-income ratio. Staff will be expanded only slightly as needed in order for the Bank to perform its duties.

In promotion of start-ups and SMEs, the Bank's strategy calls for a further expansion of the portfolio of promotion products. Promotion activities will particularly be strengthened in founding new businesses, support for innovation, promotion of the film and media industries, and promotion of foreign trade. In Equity Financing, the Bank's goal is still to expand the equity investment capital market in North Rhine-Westphalia, and to close up gaps in supply. Joining the NRW.BANK.Mittelstandsfonds and NRW.BANK.Venture Fonds funds, the new NRW.BANK.Seed Fonds will enable the Bank to offer equity capital products for core phases of business development. The seed fund will be expanded regionally in 2006. The activities of WIN Wagniskapital für Innovationen NRW GmbH, which was taken over as of January 2006, round out the range of consulting services for early phases of financing.

In social housing promotion, in 2006 the state of North Rhine-Westphalia will provide € 940 million for new construction and purchases of owner-occupied housing, new construction of rental housing and residential facilities, and projects to support investment in existing housing. The group of potential clients will expand once the income limits are raised. Additionally, certain programmes will no longer be limited to metropolitan centres. New support products will help counteract the problems of demographic change. For example, existing housing can be remodelled to be barrier-free under the new programme for investment in existing housing. Residences for seniors and spaces in nursing and residential facilities can be remodelled and updated under this same programme. Another innovation: urban renewal projects in the housing industry can receive support for work done on existing high-density public-funded housing from the 1960s and 1970s.

In municipal and infrastructure finance, NRW.BANK will cooperate with the state to expand the range of promotion options. It will also set up programmes that it will fund on its own. The initiative for ecological and sustainable water management in North Rhine-Westphalia expired at the end of 2005; now NRW.BANK is assisting the North Rhine-Westphalian State Ministry of the Environment and Nature Preservation, Agriculture and Consumer Protection in developing a new promotion programme with similar objectives.

Municipal lending portfolios will be expanded further. Here the Bank plans to add finance management to its services, and thus to focus the product range more sharply on municipal needs. In structured lending, NRW.BANK will offer complex solutions. In particular, the Bank expects strong demand for public private partnership arrangements. The objective is to build up core expertise in specific segments as part of the financing of infrastructure projects.

In the new individual promotion area, in 2006 NRW.BANK offered the tuition fee loan, its first product in the area of education finance. The money is paid directly to institutions of higher learning, and helps improve the financial base for teaching and research in North Rhine-Westphalia.

The Bank will optimise its refinancing activities further. Thanks to the forward-looking refinancing from the past year, refinancing needs in 2006 will be at the lower end of the scale, between about € 15 billion and € 20 billion. NRW.BANK will carry out about one-third of total issues as benchmark issues. The Bank's objective is to constantly adapt the refinancing curve and to expand its range of products and currencies further. Here it has set a priority on sharpening its profile among major international investors. In its development business, the Bank will apply the advantages resulting from its liability tools and the explicit guarantee entirely without influencing competition. NRW.BANK has the same rating as the state of North Rhine-Westphalia.

At the Düsseldorf office, in spring 2006 NRW.BANK will move into its new location at Kavalleriestraße 22. Thus, for the first time, by far the largest portion of the staff will be accommodated in a single building.

In Münster, NRW.BANK will create modern office space at its historic Friedrichstraße location. The part of the building at Friedrichstraße 1, which is a protected historical site, will be updated. The adjacent part of the building, at Warendorfer Straße 10, will be demolished and replaced with a five-storey new structure. This plan offers an architecturally outstanding marriage between NRW.BANK's identity as an open, forward-looking development bank, and its roots at its historic site in Münster. Construction work will begin in 2006.

During 2006 NRW.BANK will continue to expand its position as the largest state development bank and the central development platform in North Rhine-Westphalia, in the interest of all promotion beneficiaries in the state.

The Managing Board of NRW.BANK
March 2006

Balance Sheet

of NRW.BANK as at December 31, 2005

Assets

see Notes No.

31. 12. 2004

	€	€	€	€ thousands
Cash				
a) cash on hand		22,627.95		(8)
b) balances with central banks		75,349,108.36		(120,660)
including:				
with Deutsche Bundesbank	75,349,108.36 €			
			75,371,736.31	120,668
Receivables from banks	1, 10, 21, 25			
a) payable on demand		1,893,830,611.82		(2,070,277)
b) other		29,864,775,355.52		(33,311,672)
			31,758,605,967.34	35,381,949
Receivables from customers	2, 3, 10, 21, 25			
thereof:				
secured by mortgages	20,705,453,449.96 €			
loans to public authorities and entities under public law	27,355,068,432.91 €			
			49,284,262,725.63	30,707,223
Bonds and other interest-bearing securities	4, 8, 10, 11, 21, 23, 25			
a) bonds and notes				
aa) of public institutions		29,896,552,472.87		(27,643,373)
thereof:				
eligible as collateral for Deutsche Bundesbank advances	27,275,654,370.18 €			
ab) of other issuers		11,019,937,757.12		(8,683,274)
thereof:				
eligible as collateral for Deutsche Bundesbank advances	10,049,248,881.23 €	40,916,490,229.99		(36,326,647)
b) bonds issued by the Bank		193,911,731.07		(79,421)
principal amount	184,906,420.30 €		41,110,401,961.06	36,406,068
			122,228,642,390.34	102,615,908
		To be carried forward:		

Liabilities

see Notes No.

31. 12. 2004

	€	€	€	€ thousands
Liabilities to banks	12, 21, 24			
a) payable on demand		175,214,139.43		(65,952)
b) with agreed maturity or period of notice		<u>37,592,678,207.17</u>		(36,006,948)
			37,767,892,346.60	36,072,900
Liabilities to customers	13, 21			
a) other liabilities				
aa) payable on demand		183,462,808.91		(210,504)
ab) with agreed maturity or period of notice		<u>18,872,583,528.92</u>		(16,286,770)
			19,056,046,337.83	(16,497,274)
				16,497,274
Certificated liabilities	14, 21, 25			
a) bonds and notes issued by the Bank		32,388,191,336.72		(42,175,051)
b) other certificated liabilities		14,732,280,832.76		(7,047,692)
thereof:				
money market instruments		1,135,573,378.04 €		
			47,120,472,169.48	49,222,743
Trust liabilities	15			
thereof:				
trust loans		2,520,518,483.58 €		
			2,520,518,483.58	2,598,085
Other liabilities	16, 21			
			154,075,436.73	27,694
Deferred items	17, 21			
			559,666,296.16	564,710
Provisions	18			
a) for pensions and similar obligations		727,071,882.95		(617,112)
b) tax reserve		7,380.00		(7)
c) for promotion dividend		1,018,026.87		
d) other		<u>240,700,706.19</u>		(230,045)
			968,797,996.01	847,164
Subordinated liabilities	19			
thereof:				
due in less than two years		— €		
			405,000,000.00	405,000
			108,552,469,066.39	106,235,570
		To be carried forward:		

Balance Sheet

of NRW.BANK as at December 31, 2005

Assets

see Notes No.		31. 12. 2004	
		€	€ thousands
		€	€ thousands
		To be carried forward:	122,228,642,390.34
			102,615,908
Equity investments in non-affiliated companies	5, 8		
		2,316,555,478.41	2,312,709
thereof:			
equity investments in banks	2,256,635,751.95 €		
Equity investments in affiliated companies	5, 8		
		71,816,195.82	64,366
Trust assets	6		
		2,520,518,483.58	2,598,085
thereof:			
trust loans	2,520,518,483.58 €		
Intangible assets		27,057,038.03	23,149
Tangible fixed assets	8	21,967,332.13	13,400
Other assets	7	531,857,561.81	514,354
Deferred items	9, 21	396,561,361.48	2,125,217
Total assets	21	128,114,975,841.60	110,267,188

Liabilities

see Notes No.

31. 12. 2004

	€	€	€	€ thousands
		To be carried forward:	108,552,469,066.39	106,235,570
Capital with participation rights	19		135,755,218.97	250,796
thereof:				
due in less than two years		124,755,218.97 €		
Fund for general banking risks			85,000,000.00	85,000
Equity capital	20			
a) subscribed capital		675,000,000.00		(533,332)
b) capital reserves		18,622,760,556.24		(3,160,090)
thereof:				
special reserves pertaining to the Wohnungsbauförderungsanstalt		18,366,926,611.78 €		
c) reserves from retained earnings				
ca) reserves required by NRW.BANK's statutes		6,400,000.00		(2,400)
d) profit for the year		37,591,000.00		(-)
			19,341,751,556.24	3,695,822
Total liabilities	21		128,114,975,841.60	110,267,188
Contingent liabilities	22			
liabilities from guarantees and indemnity agreements			1,806,933,140.87	1,263,707
Other commitments	22			
irrevocable credit commitments			2,322,318,245.72	2,498,495
Administered funds			182,019,815.79	218,244

Profit and Loss Account

of NRW.BANK for the Period January 1 – December 31, 2005

see Notes No.		1.1.–31.12.2004	
	€	€	€ thousands
Interest income from			
a) lending and money market transactions	2,972,578,140.31		(3,125,874)
b) interest-bearing securities and book-entry securities	1,578,589,038.86		(1,474,391)
	4,551,167,179.17		(4,600,265)
Interest expenses	4,226,377,675.81		(4,264,154)
		324,789,503.36	336,111
Income from			
a) equity investments in non-affiliated companies	2,498,553.28		(2,504)
b) equity investments in affiliated companies	10,522,054.18		(10,280)
		13,020,607.46	12,784
Income from profit pooling, profit transfer and partial profit transfer agreements		6,017,085.49	2,553
Commission income	26	22,152,998.80	(19,119)
Commission expenses		8,452,394.03	(6,641)
		13,700,604.77	12,478
Net expenses from trading operations		1,972,851.46	–
Other operating income	27	27,287,273.91	19,645
General administrative expenses			
a) personnel expenses			
aa) wages and salaries	67,101,255.58		(63,144)
ab) social security contributions and expenses for pensions and other employee benefits	24,393,461.01		(26,391)
thereof:	91,494,716.59		(89,535)
for pensions 15,880,226.96 €			(17,244)
b) other administrative expenses	67,500,845.88		(71,644)
		158,995,562.47	161,179
Depreciation and value adjustments on intangible and tangible fixed assets		2,944,547.99	1,932
Other operating expenses	27	10,281,168.10	15,630
		210,620,944.97	204,830
	To be carried forward:		

see Notes No.

1.1.–31.12.2004

	€	€	€	€ thousands
			210,620,944.97	204,830
		To be carried forward:		
Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions			132,966,013.65	248,231
thereof:				
transfer to fund for general banking risks –.— €				(50,000)
Write-downs and value adjustments on investments, shares in affiliated companies and securities treated as tangible fixed assets			–.—	202,779
Income from revaluation of equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets			79,113,846.18	–
Expenses from the assumption of losses			5,732.16	449
Result from normal operations			156,763,045.34	– 246,629
Extraordinary expenses	29	63,893,448.78		(3,240)
Extraordinary result			– 63,893,448.78	– 3,240
Taxes on income and revenues		7,018,723.33		(5,929)
Other taxes not shown under other operating expenses		30,898.88		(21)
			7,049,622.21	5,950
Allocation to provisions for promotion dividend			1,018,065.14	–
Net profit			84,801,909.21	– 255,819
Allocation to capital of Wohnungsbauförderungsanstalt NRW			45,010,909.21	54,702
Withdrawals from capital reserves			1,800,000.00	310,521
Allocation of net income to reserves from retained earnings				
a) reserves required by NRW.BANK's statutes			4,000,000.00	–
			4,000,000.00	–
Profit for the year			37,591,000.00	–

Notes

of NRW.BANK at December 31, 2005

Preparation of NRW.BANK's Annual Accounts

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

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

In previous years, the assets and liabilities of the Wfa have been carried at the amount of the assets originally contributed, with transactions between the Bank and the Wfa eliminated.

The net assets brought into the predecessor institution of NRW.BANK as part of the transfer of the Wfa in its entirety effective January 1, 1992 amounted to € 3,016.6 million. Since then, this amount has been reported within capital reserves as the special reserves pertaining to the Wohnungsbauförderungsanstalt.

In the present annual accounts, assets and liabilities have been recognised at amortised cost pursuant to §§ 252 et seq. of the German Commercial Code (HGB). The special reserves pertaining to the Wohnungsbauförderungsanstalt amounted to € 18,366.9 million as of December 31, 2005. The profit for 2005 was not influenced by this change in presentation.

The income and expenses of the Wfa were taken from the Wfa's annual accounts and included directly in NRW.BANK's statement of income under the relevant items, chiefly interest income and expenses, general administrative expenses and expenditure on risk provisions. The Wfa's profit for the year was allocated to the state housing construction funds as mandated by law.

The Wfa's assets must be managed separately from the other assets of NRW.BANK. In addition to their function as liable capital within the meaning of the German Banking Act (KWG), these assets must be used for the sole purpose of financing the activities of the Wfa.

The recognition of the assets and liabilities attributable to the Wohnungsbauförderungsanstalt was therefore changed compared to the previous year. This change in presentation leads to a clear depiction of the promotion business volume managed by NRW.BANK. The previous year's figures were retained unchanged.

For purposes of better comparability, we adjusted the items of the prior year's accounts in the following table in line with the aforementioned changes and compared these to the same items as of December 31, 2005:

	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2004
		Adjusted annual accounts	Prepared annual accounts
	€ millions	€ millions	€ millions
Asset-side of the balance sheet			
Claims on banks	31,758.6	35,387.3	35,381.9
Claims on customers	49,284.3	47,564.0	30,707.2
Deferred items	396.6	443.3	2,125.2
Total assets	128,115.0	125,447.5	110,267.2
Liabilities-side of the balance sheet			
Provisions	968.8	849.4	847.2
Equity	19,341.7	18,873.9	3,695.8
Total liabilities	128,115.0	125,447.5	110,267.2

After final consolidation of WestLB AG in the previous year, the remaining subsidiaries in the NRW.BANK Group are not of material importance either individually or collectively. Consolidated financial statements are no longer prepared.

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.

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

Discernible risks in the lending business were adequately covered by individual value adjustments and provisions. A global provision was formed in accordance with

tax valuation methods for latent risks from 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 carrying value of € 5,827,944,662.60, an aggregate market value of € 5,765,460,471.73 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 recognised.

Equity investments in affiliated and non-affiliated companies are carried at cost,

taking into account existing collateral; where a loss of value is expected to be permanent, they are written down to the lower fair value.

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

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

To fulfil NRW.BANK’s governmental development and promotion responsibilities, what is known as a “promotion dividend” was used in the case of certain loans for the first time in fiscal 2005. The promotion dividend comprises funds that NRW.BANK contributes to promotion programmes from its own income to improve lending terms. The total interest subsidy made available as part of the promotion dividend is set aside at the nominal value at the time when the loan is extended. In fiscal 2005, a provision for promotion dividends was set up for the “NRW.BANK.Mittelstandskredit” programme for the first time in the amount of € 1.0 million. To provide for transparency in presentation, the accounting forms for the balance sheet and statement of income were expanded accordingly to include the “provisions for promotion dividend” and “addition to provisions for promotion dividend” items.

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

In the year under review, the valuation method for provisions for pensions, additional benefits and early retirement obligations was changed. In the past, provisions for pensions were calculated using the German entry age normal method ("Teilwertverfahren") in accordance with § 6 a of the German Income Tax Act (EstG) at an interest rate of 6%. During fiscal year 2005, the interest rate was lowered to 5.5%, and a new calculation method was applied for the first time that is based on the provisions for defined benefit obligations in IAS 19, which is closer to reality than the method prescribed by tax regulations, in which future salary and pension developments were taken into account. The new "2005 G Mortality Tables" prepared by Prof. Dr. Heubeck were fully applied to the calculations.

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

An annual cost increase of 3% for health care benefits was included in the measurement of provisions for additional benefits for the first time. The interest rate of 5.5% remained unchanged.

The changes implemented address the current developments in long-term capital market interest rates and are oriented in the medium term to internationally accepted

accounting standards. The total additions of € 90.6 million are broken down into € 26.7 million that would have resulted from the continued application of the valuation rules used to date and € 63.9 million attributable to the new measurement methods. This amount was not recognised in personnel expenses, but rather in extraordinary expenses.

There were several changes in equity capital in 2005. Initially, the subscribed capital from the bank's own funds was increased by € 141.7 million, whereby the capital reserves were reduced accordingly. The remaining amount of € 1.8 million was deducted from the capital reserves to date and allocated to the profit for the year. The special reserves made available by the state of North Rhine-Westphalia are reported in the capital reserves in the total amount of € 255.8 million, € 34.9 million of which is from the transfer of the special reserves of the state of North Rhine-Westphalia from reserve risk provisions pursuant to § 340 f of the German Commercial Code (HGB) already transferred at the time of formation of NRW.BANK. The accounting presentation was therefore adjusted to reflect this. The conversion of the Wfa's accounting to gross figures resulted in the entire equity capital of the Wfa being recognised for the first time as special reserves pertaining to the Wfa totalling € 18,366.9 million in capital reserves.

Foreign currency amounts have been translated in accordance with § 340 h 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, 2005.

Balance Sheet

Claims on Banks (1)

Breakdown by Maturity	Dec. 31, 2005	Dec. 31, 2004
	€ millions	€ millions
Payable on demand	1,893.8	2,070.3
With residual maturities of		
– up to 3 months	3,796.5	3,545.5
– between 3 months and 1 year	2,805.3	3,085.9
– between 1 and 5 years	11,229.3	15,006.9
– more than 5 years	12,033.7	11,673.3
Total claims on banks	31,758.6	35,381.9

As in the previous year, claims on banks include no claims on affiliated companies. The claims on other companies in which equity investments are held totalled € 2,022.4 million (2004: € 3,470.0 million).

Claims on Customers (2)

Breakdown by Maturity	Dec. 31, 2005	Dec. 31, 2004
	€ millions	€ millions
With residual maturities of		
– up to 3 months	2,176.9	1,756.7
– between 3 months and 1 year	2,485.2	2,623.2
– between 1 and 5 years	9,286.0	9,162.6
– more than 5 years	35,336.2	17,164.7
Total claims on customers	49,284.3	30,707.2
including:		
– claims with indefinite maturities	25.0	47.5

As in the previous year, claims on customers include no claims on affiliated companies. The claims on other companies in which equity investments are held totalled € 114.7 million (2004: € 42.5 million).

Claims Secured by Mortgages (3)

Breakdown by Maturity	Dec. 31, 2005	Dec. 31, 2004
	€ millions	€ millions
Claims on customers with residual maturities of		
– up to 3 months	163.0	129.3
– between 3 months and 1 year	371.3	292.5
– between 1 and 5 years	1,870.0	1,178.9
– more than 5 years	18,301.2	3,417.8
Total claims secured by mortgages	20,705.5	5,018.5

Bonds and Other Interest-Bearing Securities (4)

Marketability	Dec. 31, 2005	Dec. 31, 2004
	€ millions	€ millions
Bonds and other interest-bearing securities		
– listed on a stock exchange	39,411.4	34,741.6
– not listed on a stock exchange	1,699.0	1,664.5
Total bonds and other interest-bearing securities	41,110.4	36,406.1
including:		
amounts that will become due by December 31 of the following fiscal year	3,392.9	2,732.2

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

Of the total bonds and other interest-bearing securities, € 1,613.9 million (2004: € 234.8 million) is held as part of the liquidity reserve and € 39,496.5 million (2004: € 36,171.3 million) is held in the investment portfolio.

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

NRW.BANK holds € 2,316.6 million (2004: € 2,312.7 million) in equity investments in non-affiliated companies and € 71.8 million (2004: € 64.4 million) in equity investments in affiliated companies. Of this amount, € 2,203.6 million (2004: € 2,200.0 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 11 a 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 § 340 a (4) No. 2 of the German Commercial Code (HGB)):

WestLB AG

InvestitionsBank des Landes Brandenburg (ILB)

LEG Landesentwicklungsgesellschaft NRW GmbH

Trust Assets (6)

Breakdown by Asset Type	Dec. 31, 2005	Dec. 31, 2004
	€ millions	€ millions
Claims on banks	183.3	180.9
Claims on customers	2,337.2	2,417.2
Total trust assets	2,520.5	2,598.1

Other Assets (7)

The total figure of € 531.9 million (2004: € 514.4 million) contains, among other things, € 500.6 million (2004: € 462.7 million) in claims on WestLB AG for reimbursement of pension obligations, as well as € 13.3 million (2004: € 10.9 million) in claims from profit and loss pooling agreements with companies in which equity investments are held.

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, 2005				Dec. 31, 2005	
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Bonds and other interest-bearing securities forming part of fixed assets	35,430.1				38,698.0	0.0
Equity investments in non-affiliated companies	3,869.0				2,316.6	0.6
Equity investments in affiliated companies	64.5				71.8	0.0
Intangible assets	24.4	5.1	0.0	2.4	27.1	1.2
Land and buildings	11.3	8.6	0.0	0.3	19.6	0.2
Office equipment	3.8	1.8	0.2	3.0	2.4	1.4
		Net change pursuant to § 34 (3) Sentence 2 RechKredV: 1,722.8 € million				

€ 18.4 million of the amount shown under land and buildings represents land and buildings used for business purposes (2004: € 10.8 million).

Deferred Items (9)

Breakdown of Deferred Items	Dec. 31, 2005	Dec. 31, 2004
	€ millions	€ millions
Discounts from underwriting business	151.2	193.7
Discounts from liabilities	145.6	173.1
Pre-paid swap fees	0.0	1,681.8
Pre-payment from discount of promotion activities (Wfa)	83.1	73.1
Other	16.7	3.5
Total deferred items	396.6	2,125.2

Subordinated Assets (10)

Subordinated assets are included in:

Breakdown of Subordinated Assets	Dec. 31, 2005	Dec. 31, 2004
	€ millions	€ millions
Claims on banks	0.8	0.8
Claims on customers	5.0	0.0
Bonds and other interest-bearing securities	20.3	20.3
Total subordinated assets	26.1	21.1

Pledged Assets (11)

Of the assets reported, NRW.BANK pledged € 4,310.2 million (2004: € 5,308.5 million) under repurchase agreements.

Liabilities to Banks (12)

Breakdown by Maturity	Dec. 31, 2005	Dec. 31, 2004
	€ millions	€ millions
Payable on demand	175.2	66.0
With residual maturities of		
– up to 3 months	11,117.6	12,752.4
– between 3 months and 1 year	1,305.5	1,331.8
– between 1 and 5 years	8,783.2	8,650.7
– more than 5 years	16,386.4	13,272.0
Total liabilities to banks	37,767.9	36,072.9

As in the previous year, liabilities to banks include no liabilities to affiliated companies. The liabilities to other companies in which equity investments are held totalled € 4,533.8 million (2004: € 5,153.7 million).

Liabilities to Customers (13)

Breakdown by Maturity	Dec. 31, 2005	Dec. 31, 2004
	€ millions	€ millions
Payable on demand	183.5	210.5
With residual maturities of		
– up to 3 months	559.4	631.0
– between 3 months and 1 year	382.1	631.9
– between 1 and 5 years	3,490.4	3,493.6
– more than 5 years	14,440.6	11,530.3
Total liabilities to customers	19,056.0	16,497.3

Certificated Liabilities (14)

Breakdown of Certificated Liabilities	Dec. 31, 2005		Dec. 31, 2004	
	€ millions	€ millions	€ millions	€ millions
Notes issued	32,388.2		42,175.0	
– mortgage bonds	59.4		109.4	
– municipal bonds	25,529.7		35,741.6	
– other bonds	6,799.1		6,324.0	
Money market instruments	1,135.6		1,614.7	
– up to 3 months	732.8		1,545.6	
– between 3 months and 1 year	402.8		69.1	
Other certificated liabilities	13,596.7		5,433.0	
– up to 3 months	152.5		53.8	
– between 3 months and 1 year	0.0		55.2	
– between 1 and 5 years	10,833.6		5,121.0	
– more than 5 years	2,610.6		203.0	
Total certificated liabilities	47,120.5		49,222.7	

Of the € 32,388.2 million in notes issued (2004: € 42,175.0 million), € 10,544.5 million (2004: € 13,917.3 million) is due in the following year.

Trust Liabilities (15)

Breakdown of Trust Liabilities	Dec. 31, 2005	Dec. 31, 2004
	€ millions	€ millions
Liabilities to banks	94.8	109.6
Liabilities to customers	1,666.5	1,688.5
Other liabilities	759.2	800.0
Total trust liabilities	2,520.5	2,598.1

Other Liabilities (16)

Other liabilities totalling € 154.1 million (2004: € 27.7 million) include € 115.0 million (2004: € 0.0 million) in matured participation certificates and € 22.1 million (2004: € 22.0 million) in interest to be paid on existing profit participation rights and subordinated liabilities once the annual accounts are approved.

Deferred Items (17)

Breakdown of Deferred Items	Dec. 31, 2005	Dec. 31, 2004
	€ millions	€ millions
Premiums from underwriting business	81.3	100.5
From refinancing of a Wfa loan recognised in equity	25.2	42.5
Swap fees received in advance	448.7	416.1
Other	4.5	5.6
Total deferred items	559.7	564.7

Provisions (18)

The provision for pensions includes € 500.6 million (2004: € 462.7 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.

NRW.BANK's provision for additional benefits stands at € 164.6 million (2004: € 157.5 million). This amount includes € 148.3 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 € 16.3 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 (19)

The following subordinated liabilities exceed 10% of the total subordinated liabilities of € 405.0 million (2004: € 405.0 million):

Currency	Nominal Amount	Interest Rate	Term
	€ millions	%	
EUR	50.0	2.5	2004–2014
EUR	50.0	2.5	2004–2034
EUR	50.0	4.8	2004–2019
EUR	50.0	2.2	2004–2024
EUR	50.0	2.2	2004–2024

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

The amount of subordinated liabilities was unchanged during fiscal 2005 (2004: € 305.0 million was accounted for by new issues and € 249.6 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 expenses of € 14.1 million (2004: € 8.1 million) were incurred for subordinated liabilities.

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

In fiscal 2005, € 115.0 million in profit participation rights fell due, and no new profit participation rights were issued. This brings total profit participation rights to € 135.8 million (2004: € 250.8 million).

Capital and Reserves (20)

At December 31, 2005, NRW.BANK had subscribed capital of € 675.0 million (2004: € 533.3 million). The reserves totalled € 18,629.1 million (2004: € 3,162.5 million).

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

Equity Capital of NRW.BANK	Subscribed Capital	Capital Reserves	Reserves from Retained Earnings	Profit for the Year	Total	
		Special Reserves – Wfa	Reserves Pursuant to the Articles and Bylaws	Other Reserves from Retained Earnings		
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
As of Dec. 31, 2004	533.3	143.5	3,016.6	2.4	0.0	3,695.8
Capital increase from corporate funds	141.7	- 141.7				0.0
Special reserves I (state of NRW)		34.9				34.9
Special reserves II (state of NRW)		220.9				220.9
Conversion of Wfa's accounting to gross figures			15,350.3			15,350.3
Transfer from capital reserves in statement of income		- 1.8				- 1.8
Addition to reserves purs. to articles and bylaws in statement of income				4.0		4.0
Profit for the year					37.6	37.6
As of Dec. 31, 2005	675.0	255.8	18,366.9	6.4	0.0	19,341.7

Once the annual accounts are approved, the capital of NRW.BANK required for regulatory purposes under § 10 of the German Banking Act (KWG) will total € 3,509.2 million (2004: € 3,400.2 million). It should be noted that the special reserves pertaining to the Wohnungsbauförderungsanstalt are included unchanged at the same amount approved by the BAKred (Federal Banking Supervisory Board) in 1992.

Foreign Currency Assets/Foreign Currency Liabilities (21)

At year-end, NRW.BANK had foreign currency assets valued at € 2,640.9 million (2004: € 1,016.9 million) and foreign currency liabilities valued at € 3,803.0 million (2004: € 1,436.0 million).

Contingent Liabilities and Other Commitments (22)

The contingent liabilities of € 1,806.9 million (2004: € 1,263.7 million) stem from the lending business and from guarantees.

Of the € 2,322.3 million in irrevocable credit commitments (2004: € 2,498.5 million), € 1,501.3 million (2004: € 1,622.4 million) was for commitments made in connection with the Wohnungsbauförderungsanstalt.

Assets used as Collateral (23)

Bonds and notes totalling € 8,403.5 million (2004: € 5,279.6 million) were pledged to the European Central Bank as collateral for loans. In addition, securities with a nominal value of € 50.0 million (2004: € 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 € 329.5 million were pledged as collateral for overnight loans.

Collateral for Own Liabilities (24)

Collateral put up for loans raised included registered Pfandbriefe in the amount of € 7.5 million and registered public-sector bonds and notes totalling € 191.3 million.

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, 2005, the details of the cover were as follows:

Cover	Dec. 31, 2005	Dec. 31, 2004
	€ millions	€ millions
Mortgage bonds	275.6	389.3
Assets used for covering purposes		
– claims on banks	0.0	0.0
– claims on customers	1,165.9	1,339.5
Excess cover	890.3	950.2
Municipal bonds	40,418.0	62,554.0
Assets used for covering purposes		
– claims on banks	18,290.3	29,134.9
– claims on customers	22,920.2	23,191.5
– bonds and notes	12,697.2	20,123.4
Excess cover	13,489.7	9,895.8

Statement of Income

Services Rendered for Third Parties (26)

The net commission income includes € 7.6 million (2004: € 8.8 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 € 0.7 million (2004: € 0.9 million) in cash payments and payments from settlements involving the improper use of public housing and € 3.6 million (2004: € 10.4 million) in income from the write-back of other provisions.

Other operating expenses include € 9.0 million (2004: € 14.0 million) in additions to the provisions for additional benefits established for employees of WestLB AG.

Fee Paid to Auditor of the Annual Accounts (28)

In fiscal 2005, expenses of € 2.4 million were recognised in the statement of income, € 1.5 million of which accounted for fees for the auditing of the annual accounts.

Extraordinary Expenses (29)

The additions to provisions for pensions and additional benefits necessitated by the change in calculation method were added to extraordinary expenses in the amount of € 63.9 million. The corresponding information on provisions is included in the section on accounting and valuation principles.

Miscellaneous

Other Financial Obligations

NRW.BANK had annual long-term rental and leasing obligations of € 6.3 million with a remaining term of 15 years, € 1.6 million with a remaining term of 10 years, and € 0.4 million with a remaining term of 15 months.

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.

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

Deposit Insurance

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

Derivatives

The total nominal value of derivative transactions was € 135,538 million (2004: € 87,768 million) and was spread out over the following interest rate and currency-linked products:

Derivatives – Volumes

	Nominal Values		Positive	Negative
	Dec. 31, 2004	Dec. 31, 2005	Market Values	Market Values
	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2005	Dec. 31, 2005
	€ millions	€ millions	€ millions	€ millions
Interest rate risks				
Interest rate swaps	78,487	116,260	3,719	4,744
FRAs	–	–	–	–
Interest rate options				
– bought (long)	1,193	7,357	318	–
– written (short)	2,970	6,149	–	1,214
Caps, floors	25	80	1	–
Stock market contracts	560	385	–	3
Other interest rate forwards	1,082	1,083	–	97
Total interest rate risks	84,317	131,314	4,038	6,058
Currency risks				
Foreign exchange forwards, swaps	223	115	2	2
Currency swaps/Interest currency swaps	858	1,843	28	54
Foreign exchange options				
– bought (long)	–	–	–	–
– written (short)	–	–	–	–
Stock market contracts	–	17	–	–
Other currency forwards	–	–	–	–
Total currency risks	1,081	1,975	30	56
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)	1,355	734	–	–
– written (short)	1,015	1,515	13	–
Total credit derivatives	2,370	2,249	13	–
Total	87,768	135,538	4,081	6,114

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

The average nominal value of the derivatives and other forward transactions entered into by NRW.BANK for the period from January 1, 2005 to December 31, 2005 was € 117,949 million (2004: € 83,681 million).

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

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

The breakdown of derivative transactions by counterparty is as follows:

Derivatives – Breakdown by Counterparty

	Nominal values		Positive	Negative
	Dec. 31, 2004	Dec. 31, 2005	Market Values	Market Values
	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2005	Dec. 31, 2005
	€ millions	€ millions	€ millions	€ millions
OECD banks	83,136	122,591	3,722	5,736
Non-OECD banks	–	–	–	–
OECD public-sector entities	57	376	11	–
Other counterparties	4,575	12,571	348	378
Total	87,768	135,538	4,081	6,114

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

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

The interest rate contracts are spread across the entire spectrum of maturities, with approx. 43% (2004: 44%) 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, 2004	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Residual maturity						
– up to 3 months	7,106	14,835	143	56	–	–
– 3 months to 1 year	6,837	13,834	69	403	1	25
– 1 to 5 years	33,027	45,962	588	926	355	318
– more than 5 years	37,347	56,683	281	590	2,014	1,906
Total	84,317	131,314	1,081	1,975	2,370	2,249

The volume of credit derivatives where NRW.BANK is the beneficiary (protection buyer) amounted to € 734.2 million at December 31, 2005 (2004: € 1,355.4 million). Credit derivatives where NRW.BANK is the guarantor (protection seller) amounted to € 1,515 million at December 31, 2005 (2004: € 1,015.0 million) and were included under contingent liabilities.

Number of Employees

The average number of female staff employed by NRW.BANK in 2005 was 523 (2004: 478), and the average number of male staff, including the Managing Board, employed over the year was 537 (2004: 494). The total number of employees at the end of the year was 1,035 (2004: 948).

Remuneration

The total remuneration paid to the Chairman of the Managing Board was € 707,534.00 in 2005; that paid to other Managing Board members was € 1,202,934.60. The remuneration of the Supervisory Board totalled € 0.2 million (2004: € 0.2 million).

Loans

The members of the Managing Board and Supervisory Board of NRW.BANK received advances and loans totalling € 0.9 million (2004: € 0.9 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

Ernst Gerlach

Bremer Spielcasino GmbH & Co. KG
Casino Duisburg GmbH & Co. KG
Georgsmarienhütte GmbH
InvestitionsBank des Landes Brandenburg
LEG Landesentwicklungsgesellschaft NRW GmbH
Mannesmannröhren-Werke AG
Westdeutsche Lotterie GmbH & Co. OHG
Westdeutsche Spielbanken GmbH & Co. KG

Dr. Ulrich Schröder

InvestitionsBank des Landes Brandenburg
ProHealth AG
Börse Düsseldorf AG

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

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

Guarantors' Meeting

Chairman and Deputy Chairman

Harald Schartau, MdL

(Member of the State Assembly)
Chairman (until May 31, 2005)
Deputy Chairman (from June 1, 2005)
Minister of Economics and Labour of North Rhine-Westphalia
Düsseldorf (until June 24, 2005)

Udo Molsberger

Chairman
(June 1, 2005 to December 31, 2005)
Deputy Chairman (until May 31, 2005)
Deputy Chairman (from January 1, 2006)
Regional Director
of the Regional Association of the Rhineland
Cologne

Christa Thoben

Chairman (from January 1, 2006)
Deputy Chairman (until December 31, 2005)
Minister of
Economics, Small Business and Energy
of North Rhine-Westphalia
Düsseldorf (from June 24, 2005)

Jochen Dieckmann, MdL

Deputy Chairman (until June 24, 2005)
Finance Minister
of North Rhine-Westphalia
Düsseldorf (until June 24, 2005)

Dr. Helmut Linssen, MdL

Deputy Chairman (from June 24, 2005)
Finance Minister
of North Rhine-Westphalia
Düsseldorf (from June 24, 2005)

Wolfgang Schäfer
Deputy Chairman
Regional Director
of the Regional Association
of Westphalia-Lippe
Münster

**Members Appointed by the
Guarantors' Meeting**

Dr. Josef Fischer
(until August 18, 2005)
Under Secretary
Ministry of Economics and Labour
of North Rhine-Westphalia
Düsseldorf

Dr. Thomas Griese
(until June 30, 2005)
Under Secretary
Ministry of Environment and
Nature Conservation, Agriculture and
Consumer Protection
of North Rhine-Westphalia
Düsseldorf

Jörg Hennerkes
(until August 18, 2005)
Under Secretary
Ministry of Transport, Energy and State
Planning of North Rhine-Westphalia
Düsseldorf

Bernd Kiesow
(until March 31, 2005)
Senior Principal
Ministry of Finance
of North Rhine-Westphalia
Düsseldorf

Manfred Morgenstern
(until August 18, 2005)
Under Secretary
Ministry of Urban Development and
Housing, Culture and Sport
of North Rhine-Westphalia
Düsseldorf

Angelika Marienfeld
Under Secretary
Head of the State Chancellery
of North Rhine-Westphalia, Düsseldorf
(until August 18, 2005)
Ministry of Finance
of North Rhine-Westphalia, Düsseldorf
(from August 19, 2005)

Hans-Heinrich Grosse-Brockhoff
(from August 19, 2005)
Under Secretary
Head of the State Chancellery
of North Rhine-Westphalia
Düsseldorf

Dr. Jens Baganz
(from August 19, 2005)
Under Secretary
Ministry of Economics, Small Business
and Energy
of North Rhine-Westphalia
Düsseldorf

Günter Kozlowski
(from August 19, 2005)
Under Secretary
Ministry of Construction and Transport
of North Rhine-Westphalia
Düsseldorf

Dr. Alexander Schink
(from August 19, 2005)
Under Secretary
Ministry of Environment and
Nature Conservation, Agriculture and
Consumer Protection
of North Rhine-Westphalia
Düsseldorf

Dr. Michael Stückradt
(from August 19, 2005)
Under Secretary
Ministry of Innovation, Science, Research
and Technology
of North Rhine-Westphalia
Düsseldorf

Winfried Schittges, MdL

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

Andrea Ursula Asch, MdL

(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
Regional Assembly of Westphalia-Lippe
Warendorf

Dieter Gebhard

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

**Permanent Representatives of the
Chairman and Deputy Chairmen of the
Guarantors' Meeting****Maria Huesmann-Kaiser**

(until August 31, 2005)
Department Head
Ministry of Economics, Small Business
and Energy
of North Rhine-Westphalia
Düsseldorf

Dietmar Düring

(from September 1, 2005)
Senior Principal
Ministry of Economics, Small Business
and Energy
of North Rhine-Westphalia
Düsseldorf

Gerhard Heilgenberg

Senior Principal
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

Supervisory Board**Chairman and Deputy Chairman****Harald Schartau, MdL**

Chairman (until May 31, 2005)
Deputy Chairman (from June 1, 2005)
Minister of Economics and Labour
of North Rhine-Westphalia
Düsseldorf (until June 24, 2005)

Udo Molsberger

Chairman
(June 1, 2005 to December 31, 2005)
Deputy Chairman (until May 31, 2005)
Deputy Chairman (from January 1, 2006)
Regional Director
Regional Association of the Rhineland
Cologne

Christa Thoben

Chairman
(from January 1, 2006)
Deputy Chairman (until December 31, 2005)
Minister of Economics, Small Business
and Energy
of North Rhine-Westphalia
Düsseldorf (from June 24, 2005)

Jochen Dieckmann, MdL
Deputy Chairman
(until June 24, 2005)
Finance Minister
of North Rhine-Westphalia
Düsseldorf (until June 24, 2005)

Dr. Helmut Linssen, MdL
Deputy Chairman
(from June 24, 2005)
Finance Minister
of North Rhine-Westphalia
Düsseldorf (from June 24, 2005)

Wolfgang Schäfer
Deputy Chairman
Regional Director
Regional Association of Westphalia-Lippe
Münster

**Members Appointed by the
Guarantors' Meeting**

Volkmar Klein, MdL
(from August 24, 2005)
State Assembly of North Rhine-Westphalia
Member of the CDU Parliamentary Group
Düsseldorf

Hannelore Kraft, MdL
(from August 24, 2005)
Chairman of the SPD Parliamentary Group
of North Rhine-Westphalia
Düsseldorf

Prof. Dr. Andreas Pinkwart
(from August 24, 2005)
Minister of Innovation, Science, Research
and Technology
of North Rhine-Westphalia
Düsseldorf

Oliver Wittke
(from August 24, 2005)
Minister of Construction and Transport
of North Rhine-Westphalia
Düsseldorf

Walter Haas
(until August 23, 2005)
Chairman DGB District NRW
Düsseldorf

Dr. Helmut Linssen, MdL
(until June 24, 2005)
First Vice President of the State Assembly
of North Rhine-Westphalia
Düsseldorf

Edgar Moron, MdL
(until August 23, 2005)
Chairman of the SPD Parliamentary Group
of North Rhine-Westphalia
Düsseldorf

Dr. Michael Vesper, MdL
(until August 23, 2005)
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
Regional Assembly of the Rhineland
Mülheim an der Ruhr

Dr. Jürgen Rolle
(from January 28, 2005)
Chairman of the SPD Group
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
Regional Assembly of Westphalia-Lippe
Warendorf

Representatives of the Bank's Staff

Fred Eicke

Director
NRW.BANK
Düsseldorf

Hannelore Heger-Golletz

Associate Director
NRW.BANK
Münster

Franz-Georg Schröermeyer

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

Christiane Stascheit

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

Michael Tellmann

Representative
NRW.BANK
Düsseldorf

Permanent Representatives of the Chairman and Deputy Chairmen of the Supervisory Board

Maria Huesmann-Kaiser

(until August 31, 2005)
Department Head
Ministry of Economics, Small Business
and Energy
of North Rhine-Westphalia
Düsseldorf

Dietmar Düring

(from September 1, 2005)
Senior Principal
Ministry of Economics, Small Business
and Energy
of North Rhine-Westphalia
Düsseldorf

Gerhard Heilgenberg

Senior Principal
Ministry of Finance
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Harry Voigtsberger

Regional Councillor
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Cologne

Dr. Hans-Ulrich Predeick

Regional Councillor
Regional Association of Westphalia-Lippe
Münster

Managing Board

Dr. Ulrich Schröder (Chairman)

Ernst Gerlach
Klaus Neuhaus

Düsseldorf, March 8, 2006

NRW.BANK

The Managing Board
Dr. Schröder, Gerlach, Neuhaus

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the NRW.BANK Düsseldorf and Münster for the business year from January 1 to December 31, 2005. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination

of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Düsseldorf, March 10, 2006

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 (\rightarrow VaR). The potential future losses in a \rightarrow 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.

Business Angel

Lenders to young companies in the seed and start-up phase. Business angels not only invest capital in young companies but also support them with corporate know-how and business contacts, also in their own interests.

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 (\rightarrow 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

- **Liabe 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

Kangaroo Programme

Documentation under which AUD-denominated fixed-interest securities can be issued to Australian investors under Australian law.

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

“Minimum requirements for the trading activities of credit institutions”

These requirements defined the functional and organisational frameworks which financial institutions need to have in place. The MaH are now part of the newly published → MaRisk.

MaIR

“Minimum requirements for the internal audit function of credit institutions”

These rules governed the organisation and performance of banks’ internal audit functions. The MaIR are now part of the newly published → MaRisk.

MaK

Minimum requirements for the credit business of credit institutions

These requirements contained functional and organisational regulations for the conduct of the lending business. The MaK are now part of the newly published → MaRisk.

MaRisk

Minimum requirements for risk management

Qualitative set of regulations of the Banking Supervisory Authority, which puts the statutory requirements of Sec. 25a KWG in concrete terms in a comprehensive set of rules and regulations. Published by the Federal Financial Supervisory Authority (BaFin) on December 20, 2005, these regulations primarily have two objectives:

- Combine the previously applicable → MaH, → MaK and → MaIR in a single set of regulations, while at the same time giving banks greater latitude for their operations.

- Extension of qualitative requirements in the context of the revision of the international equity regulations (→ Basle II and the respective regulations at EU level – “Brussels new”). The MaRisk came into effect upon their publication, but certain parts will become applicable at a later date: The former MaH, MaK, MaIR regulations continue to apply under MaRisk. The new regulations resulting from Basle II and “Brussels new” will have to be applied from January 1, 2007.

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.

Microcredit

Microcredit 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).

NRW.BANK Curve

These are the funding rates of NRW.BANK across all maturities. The curve is comparable with the Euribor curve. Euribor is the abbreviation of Euro Interbank Offered Rate, which is the interest rate charged by banks for short-term lendings to other banks. Apart from short maturities, the Euribor curve also comprises longer maturities. Issuers of fixed-interest securities therefore take it as the reference value for the funding levels. If an issuer falls in the sub-Euribor zone, this means that they have improved their funding as compared to the reference level in both absolute and relative terms.

P

Portfolio

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

Promotion dividend

To make the promotion products more attractive, NRW.BANK uses its own revenues to improve the terms and conditions. These revenues are generated in the context of the Bank’s capital market activities.

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 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).

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

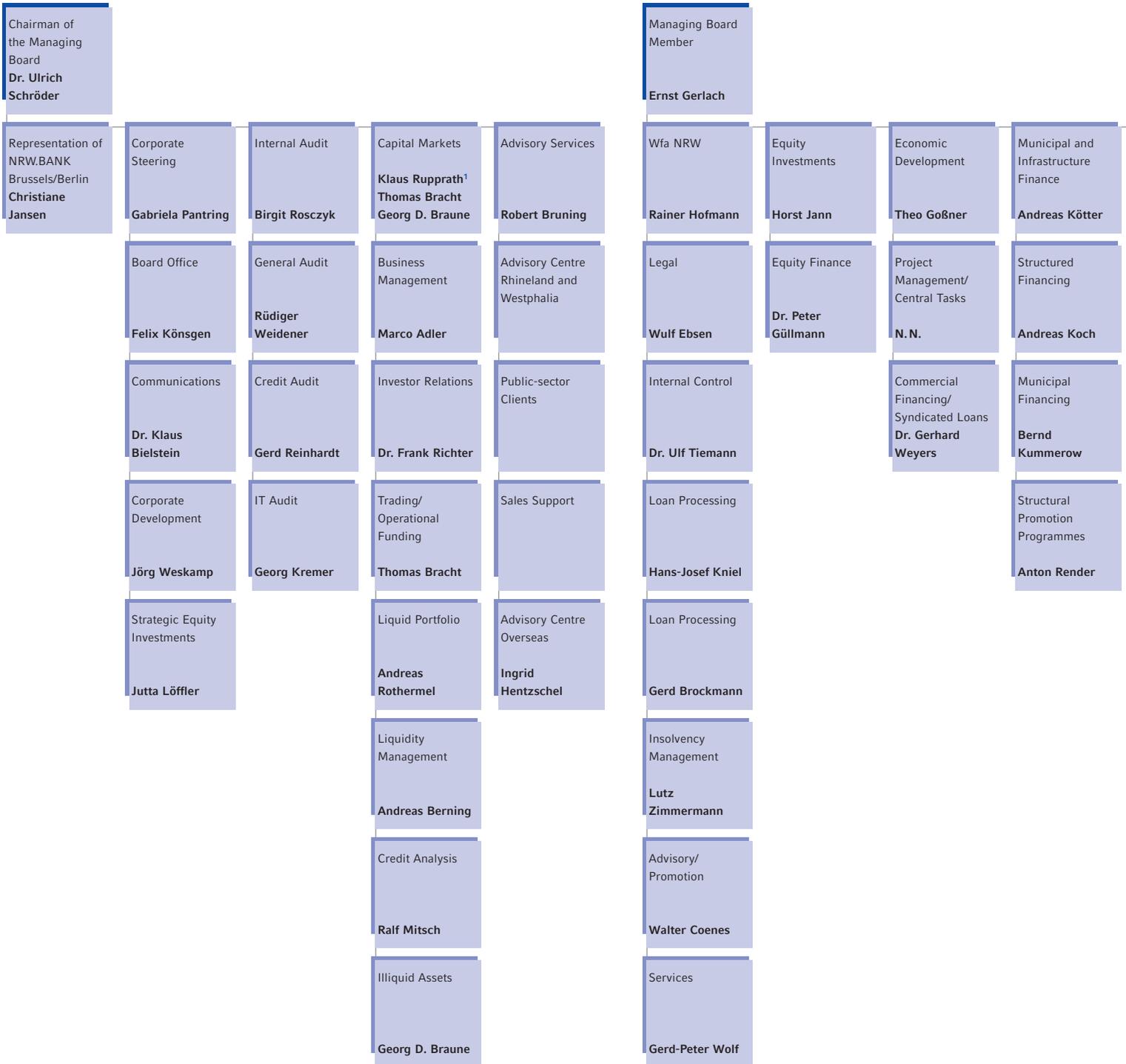
Also called: Solva 0

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

"Ziel 2" regions

Structurally weak regions in North Rhine-Westphalia, whose economic and social transformation is being funded between 2000 and 2006.

Organisation Chart of NRW.BANK



¹ Spokesperson of the unit

	Managing Board Member Klaus Neuhaus						
Individual Promotion Nikolaus Hammes	Legal, Compliance, Money Laundering Prevention Oliver Blaß	Finance Wolfgang Beimel	Human Resources Franz-Josef Frackowiak	Credit Management Margret Hirthammer	Risk Control Klaus Neuhaus²	Business Support Dr. Ortwin Schumacher	IT/Organisation/Internal Services Tobias Schmitt
Housing Sector Promotion Uwe Beckmann		Accounting Joachim Kiesau	Human Resources Management Achim Meierkamp	Credit Analysis Dr. Michael Kuhlbrodt	Master Guidelines	Back Office Capital Markets Gabriele Gühlke	IT Services Matthias Lersch
Business Unit Development Werner Kindsmüller		Financial Accounting Ute Kuschel	Basic Issues/ Job Assessment Petra Kalthoff	Credit Processing Hermann-Josef Funkel	Market Price Risk/ Risk Methods	Back Office Promotion Business N.N.	IT Non-Trading Klaus Eلسchenbroich
		Banking Supervision Dr. Rüdiger Krautheuser	Personnel Development/ Management Training Ralf Groß-Heitfeld	Real Estate Loans Rolf-Werner Huckenbeck	Counterparty Default Risks		IT Trading Dr. Jens Heinrich
		Tax Sybille Heberer-Wilhelm	Human Resources Administration Peter Schröder	Municipal and Syndicated Financing Hubert Venneker	Credit Portfolio/ Operational Risk		Organisation Dr. Jürgen Schulte
		Controlling Walter Wohlhage					Internal Services Ralf Welter

² acting

valid from April 1, 2006

Provisional, pending Staff Council approval

Promotion and Funding Products

	Start-ups/ Growth companies	SMEs	Agri- culture	Local Author- ities/Near- municipal companies	Housing/ Private
NRW Promotion Programmes					
Technology and Innovation Programme NRW		■		■	
Ziel-2 Graduate Start-up Fund	■				
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 ¹		■		■	
INTERREG III A and C				■	
Ökoprofit		■		■	
Promotion of Hydraulic Engineering Measures in the Context of the Improvement of the Agricultural Structure and Coastal Protection				■	
Promotion of Hydraulic Engineering Measures Including Dams				■	
Ökologieprogramm Emscher-Lippe (ÖPEL) (Emscher-Lippe Ecology Programme)				■	
Promotion of Measures Aimed at the Nature-based Development of Second-tier Inshore Waters				■	
Social Housing Promotion					
Construction and Purchase of Owner-occupied Housing					■
Home Ownership Assurance Aid					■
Construction and Extension of Rented Flats					■
Reuse of Disused Land and Measures Aimed at Improving Residential Environments					■
Promotion of Housing Cooperatives					■
Acquisition of Tenant Placement Rights					■
Construction of Rented Flats for Groups of Elderly People and Handicapped People					■
Adjustment and Modernisation of Existing Places in Old People's and Nursing Homes					■
Measures for People with Serious Disabilities					■
Places in Homes for People with Handicaps and Assisted Living Residences					■
Construction Measures to Reduce Barriers in the Existing Housing Stock					■
Housing Measures in the Context of Urban Redevelopment Programmes					■

¹ For applications received by NRW.BANK by December 31, 2005. A new programme is being prepared.

	Start-ups/ Growth companies	SMEs	Agriculture	Local Author- ities/Near municipal companies	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-Kommunal investieren ¹				■	
KfW-Wohneigentumsprogramm					■
KfW-Wohnraum modernisieren				■	■
KfW-Ökologisch bauen				■	■
KfW-Solarstrom erzeugen		■	■		■
LR-Dorferneuerung und ländliche Entwicklung		■	■	■	■
LR-Räumliche Strukturmaßnahmen				■	
LR-Landwirtschafts-/Junglandwirte- förderung			■		
LR-Tiergerechte Haltungsverfahren			■		
LR-Umweltschutz und Nachhaltigkeit			■		

	Start-ups/ Growth companies	SMEs	Agriculture	Local Authorities	Housing/ Private
NRW.BANK Equity Finance Products					
NRW.BANK.Seed Fonds	■				
NRW.BANK.Venture Fonds	■				
NRW.BANK.Mittelstandsfonds		■			
SME Finance		■			
Project Finance		■		■	
NRW.BANK Debt Finance Products					
NRW.BANK.Mittelstandskredit Loan	■	■			
NRW.BANK "Mittelstand" Global Loan	■	■			
Syndicate Finance		■			
Municipal Finance				■	
Structured Finance		■		■	
Public Private Partnership		■		■	

As at March 15, 2006

SME = Small and medium-sized enterprises

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

KfW = Reconstruction Loan Corporation

LR = Landwirtschaftliche Rentenbank

ERP = European Recovery Program

¹ As well as "Sozial Investieren" (social investment) for non-profit applicants who invest in social infrastructure.

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