

# Financial Report 2016

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# Financial Report 2016 of NRW.BANK

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This is an unofficial translation of the Finanzbericht 2016 (German Financial Report 2016) and is provided for convenience purposes only. In the event of any ambiguity, the German text will prevail.

# The Promotional Business of NRW.BANK

## 1 Overview

As the promotional bank and main promotional platform of North Rhine-Westphalia, NRW.BANK supports its owner and guarantor, the State of North-Rhine Westphalia, in the fulfilment of its public duties and in the efficient implementation of promotional programmes in North Rhine-Westphalia with a view to minimising the impact of these activities on the state budget. NRW.BANK offers the full range of promotional banking instruments and additionally acts in cases where banking expertise is instrumental in the promotional process.

The chargeless facilitating of monetary and non-monetary resources for the promotional business – referred to as “Förderleistung” – is an integral element of the Bank’s promotional strategy. Interest waivers are a central component of NRW.BANK’s “Förderleistung”. On the one hand, it reduces a borrower’s interest expenses by subsidising the interest rate for the final borrower, resulting in a below-market interest rate. On the other hand, NRW.BANK refrains from putting its equity capital in alternative investments yielding higher interest and, hence, income by using this capital to finance promotional loans granted at interest rates that are lower than the market rate. Other components of the “Förderleistung” include risk assumptions as well as free services and benefits in kind, e.g. advisory services for customers and support services for multipliers and house banks. Especially, the supply of the “Förderleistung” enables NRW.BANK to make available attractive promotional products to the respective target groups.

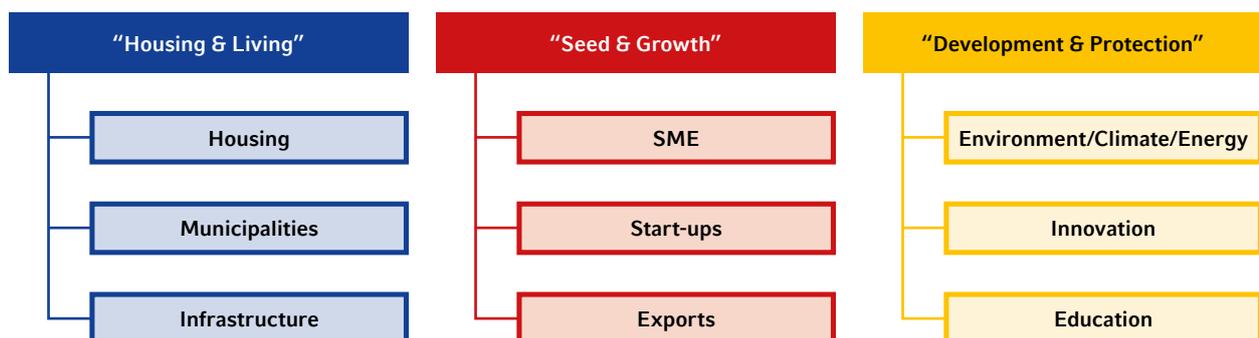
NRW.BANK takes into account the existing offers by the Federal Institutes in the arrangement of its promotion and supports the sizable use of Federal and EU

promotional funds in the State of North Rhine-Westphalia. The Bank serves as a conduit for the federal promotional programmes of KfW Bankengruppe and Landwirtschaftliche Rentenbank in its capacity as the central institution of the North Rhine-Westphalian savings banks. To refinance its promotional activities, NRW.BANK also uses funds made available to it by KfW Bankengruppe, Landwirtschaftliche Rentenbank, the European Investment Bank as well as the Council of Europe Development Bank (CEB).

NRW.BANK’s promotional offerings and their further development are driven by the promotional policy principles adopted by the Board of Guarantors as well as by NRW.BANK’s promotional strategy, which is based thereon. In developing the contents of its promotional offerings, NRW.BANK takes current developments into account. In response to the challenges resulting from the growing number of refugees, for instance, the Bank has launched separate promotional programmes catering the specific needs of the State of North Rhine-Westphalia and, most importantly, its municipalities in mastering the respective tasks. In 2016, NRW.BANK added new offerings for innovative companies as well as for start-ups in the digital world to its range of promotional products. Another new programme provides specific support to homeowners’ associations wishing to finance modernisation projects.

In terms of contents, NRW.BANK’s promotional offerings are divided into three different promotional fields. They denote the target areas in which NRW.BANK’s promotional activities are to take effect. The individual promotional fields comprise specific promotional themes, which are elaborated in NRW.BANK’s promotional strategy. The different promotional products

## Promotional offerings of NRW.BANK



of NRW.BANK put the specific promotional themes into concrete terms. Each promotional product is therefore assigned to a single promotional theme. In FY 2016 NRW.BANK distinguished between the following promotional fields: "Seed & Growth", "Development & Protection" and "Housing & Living", each of which comprises three promotional themes.

In 2016, NRW.BANK's new promotional business continued the successful trend of the previous years: New promotional business stayed at a high level and the Bank committed promotional funds in a total amount of € 11.2 billion (2015: € 9.7 billion) with on-lending accounting for roughly 17%. The table below breaks down the total net new commitments by promotional fields and promotional themes:

### Net volume of new commitments

	Dec. 31, 2016	Dec. 31, 2015	Changes
	€ millions	€ millions	€ millions
<b>Promotional field "Housing &amp; Living"</b>	<b>6,792</b>	<b>5,148</b>	<b>1,644</b>
– Housing	2,090	1,641	448
– Municipalities	3,605	2,846	760
– Infrastructure	1,097	661	436
<b>Promotional field "Seed &amp; Growth"</b>	<b>3,028</b>	<b>3,344</b>	<b>-316</b>
– SME	2,550	2,700	-150
– Start-ups	412	583	-171
– Exports	66	62	4
<b>Promotional field "Development &amp; Protection"</b>	<b>1,341</b>	<b>1,185</b>	<b>156</b>
– Environment/Climate/Energy	1,219	1,037	182
– Innovation	12	4	8
– Education	110	144	-34
<b>Total net volume of new commitments</b>	<b>11,161</b>	<b>9,677</b>	<b>1,484</b>

### 2 Promotional field "Housing & Living"

The activities of NRW.BANK in this promotional field were designed to improve housing and living standards as well as urban environment. Key elements needed to reach these goals include the promotion of (social) housing to ensure high-quality and affordable living. A functioning community additionally relies on comprehensive public services provided by solidly funded municipalities as well as an appropriate infrastructure that meets actual requirements. Coordinating these tasks across its three promotional themes of "Housing", "Municipalities" and "Infrastructure", NRW.BANK contributed to the forward-looking development of the cities and communities in North Rhine-Westphalia and their neighbourhoods.

### Promotional theme "Housing"

Social housing promotional programmes had special importance in the context of the promotional theme "Housing". The relevant promotional loans of NRW.BANK are applied for with the local governments and disbursed directly to the recipients. The promotional activities reflect the State of North Rhine-Westphalia's housing promotional programme (Wohnraumförderprogramm, WoFP) as well as the respective development guidelines. The available programme volume for 2016 was increased significantly compared to the previous year and totalled € 1.1 billion.

NRW.BANK's social housing promotional programmes are designed to support, in particular, the creation of affordable, high-quality housing for households that are unable to obtain adequate housing in the market. In this context, the programme for the promotion of rent-con-

trolled and occupancy-controlled housing construction and the support in the acquisition and construction of owner-occupied housing for this target group plays an important role. In the field of social housing promotion, NRW.BANK additionally promotes the removal of barriers in owner-occupied and rented residential buildings and encourages investors to create and provide housing for refugees. To create additional incentives for investors in social housing promotion also in 2016, the Bank continued to offer the publicly funded debt relief scheme under which a pro-rated part of the principal repayment is waived subject to certain conditions.

In contrast to the other promotional fields and promotional themes, about half of the net volume of new commitments of the "Housing" promotional theme related to (housing) programmes of KfW Bankengruppe, which are passed on by NRW.BANK in its capacity as the central institution of the North Rhine-Westphalian savings banks.

#### **Promotional theme "Municipalities"**

The municipal loans and liquidity loans granted to the North Rhine-Westphalian municipalities were the main volume driver in this theme. These offerings provide local and regional governments with a funding source for financing requirements. At approx. € 2.9 billion, these offerings account for most of the promotional funds granted in this promotional theme. In addition, NRW.BANK offers the North Rhine-Westphalian municipalities, their enterprises and municipal cooperatives low-interest and long-term investment loans and makes available low-interest funding in the form of global loans to encourage banks and savings banks to extend loans to these target groups. NRW.BANK offers the North Rhine-Westphalian municipalities interest-free long-term loans to assist them in providing accommodation for refugees.

In addition to financial offerings, the North Rhine-Westphalian municipalities benefit from extensive advisory services regarding NRW.BANK's promotional offerings as well as economic and financial issues. The latter services comprise both financial management support for municipalities and advice on projects, e.g. for the development and implementation of municipal action plans or public private partnership projects.

#### **Promotional theme "Infrastructure"**

A well-functioning infrastructure is an essential prerequisite for the economic growth of individual regions and the State of North Rhine-Westphalia as a whole. Financing offerings for the maintenance and expansion of the general infrastructure were assigned to the promotional theme "Infrastructure" until late 2016.

The capital expenditure needed to maintain and expand North Rhine-Westphalia's infrastructure requires not only public funds but also private capital. NRW.BANK therefore offers favourable terms and conditions to encourage corporate investment in social and public infrastructure projects. The Bank additionally supports infrastructure projects by way of customised corporate and project loans in the context of syndicates with other banks. In some areas, especially municipal promotion, NRW.BANK also acts as a direct financing partner to the applicants. These broad-based promotional offerings are complemented by a number of special programmes with especially attractive terms for selected objectives and investment projects, respectively, to provide stimulation in certain infrastructure sub-segments. Examples include special offerings for the promotion of broadband expansion in North Rhine-Westphalia, for the maintenance and refurbishment of buildings listed as public monuments or for the promotion of sports facilities. With a view to the ageing society, NRW.BANK additionally offers low-interest loans to support investments in care and nursing homes and the construction of new care and nursing homes.

NRW.BANK supports the public sector's efforts in this area by promoting and supporting private investment as well as by conducting economic feasibility studies comparing different forms of funding and realisation.

#### **3 Promotional field "Seed & Growth"**

The various promotional offerings in this promotional field primarily aimed to improve the capital structure and financing situation of small and medium-sized enterprises. NRW.BANK used a wide range of financing instruments for the promotion of SMEs such as low-interest promotional loans, risk assumption through participation in syndicate loans or liability releases for on-lending house banks as well as equity strengthening solutions. The various promotional solutions in this pro-

motional field allowed NRW.BANK to cover the entire lifecycle of a company – from seed finance to the supply of capital in general and in phases of growth to support restructuring exercises.

#### **Promotional theme “SME”**

Two promotional programmes of NRW.BANK providing standardised, low-interest promotional loans for working capital and capital expenditure of small and medium-sized enterprises were the main instruments under this promotional theme. They accounted for the biggest portion of the net volume of new commitments in this promotional theme. Just like all promotional programmes for commercial enterprises, these two programmes of NRW.BANK also offer liability releases for the on-lending banks. The latter are tied to certain minimum loan amounts and – with the exception of one programme – regularly amount to 50%. In addition, NRW.BANK’s low-interest global loans offer banks and savings banks favourable refinancing loans to fund their own SME lending activity. NRW.BANK also joins syndicates extending loans for small and mid-sized companies. Established SMEs are offered mezzanine capital or equity investments to strengthen their equity capital. In addition, NRW.BANK supports the provision of equity for restructuring efforts via a separate fund by acting as a co-investor for capital investment companies.

Advisory services are available to SMEs both with regard to the full range of NRW.BANK’s promotional products and regarding the support offered by other institutions. NRW.BANK additionally supports small and medium-sized enterprises in change processes by way of individual advice for the optimisation of their financing structures using public funds.

#### **Promotional theme “Start-ups”**

The highest-volume programme in this promotional theme offers interest-subsidised loans for start-up and consolidation financing, some of which can be combined with liability releases for the on-lending house bank. Micro start-ups with credit requirements of up to € 25,000 benefit from a separate NRW.BANK programme, under which not only low interest rates are offered but also no collateral is required. Applications for promotional funds under this programme are channelled through the STARTERCENTERS in North Rhine-Westphalia.

The special needs of start-up projects in innovative sectors are met by NRW.BANK through a fund-of-funds initiative for seed financings. To stimulate seed investments, this initiative acts as a fund investor providing regional seed funds in North Rhine-Westphalia with capital. Another element providing target-oriented support for innovative start-ups is NRW.BANK’s specialist advisory centre for technology-oriented up-and coming business founders from universities and research institutions as well as new innovative start-ups. In addition, NRW.BANK’s advisory, support and mediation activities effectively support potential investments by business angels, i.e. high net worth individuals with a proven entrepreneurial background, in innovative start-ups.

#### **Promotional theme “Exports”**

Promotional instruments under this promotional theme include low-interest loans for foreign investments as well as back-up guarantees granted by NRW.BANK to banks underwriting export guarantees for small and medium-sized enterprises. These financing solutions are complemented by advice on the use of public promotional and development funds in international projects.

#### **4 Promotional field “Development & Protection”**

In the “Development & Protection” field, NRW.BANK helped secure the future of North Rhine-Westphalia by promoting innovation and activities in the educational sector. In addition, the Bank specifically supported investments in the protection of resources, thus making an active contribution to achieving Germany’s green energy policy targets.

In 2016, the situation in this promotional field, which is primarily characterised by special programmes, continued to be adversely affected by the energy policy conditions as well as by the reduced attractiveness of the special programmes resulting from the low interest rates.

#### **Promotional theme “Environment/Climate/Energy”**

NRW.BANK’s programmes in this promotional field were primarily designed to effectively complement programmes offered at the federal level. Accordingly, the promotional programmes of KfW Bankengruppe channelled through NRW.BANK accounted for more than one third of the reported net volume of new commitments.

Energy savings and improved energy efficiency are key objectives of Germany's "Energiewende", i.e. the move towards a renewable energy scheme. Against this background, NRW.BANK has launched special promotional programmes for commercial enterprises offering particularly favourable conditions for investments in energy savings and energy efficiency in companies. Special promotional offerings are also made to private home owners for investments in private buildings. To qualify for funds under these programmes, applicants must fulfil certain minimum requirements in terms of energy savings/efficiency. More than one fifth of the dwellings in North Rhine-Westphalia are owned by homeowners' associations. To allow the latter to take advantage of promotional funds, especially to finance energy-efficient refurbishments, NRW.BANK launched a special promotional programme in 2016. Besides favourable terms and conditions, the latter also offers a 50% liability release for the on-lending house bank and is designed to meet the specific requirements of homeowners' associations.

Enterprises may also receive low-interest financing for research and development projects falling under the "Masterplan Elektromobilität Nordrhein-Westfalen" (North Rhine-Westphalia's Electromobility Masterplan) or for investments in new combined-heat-and-power (CHP) plants or the conversion or expansion of existing CHP units.

NRW.BANK supports investments in the energy infrastructure by way of both low-interest promotional programme loans and customised company and project financings within the framework of syndicates with other banks. The Bank thus promotes investments in power generation plants, the construction of energy storage capacities and the construction and maintenance of networks. Special promotional solutions for flood management and other selected water management measures as well as for investments in the resource-efficient disposal of waste water primarily serve to advance environmental protection in the context of infrastructure promotion.

#### **Promotional theme "Innovation"**

A promotional programme offering especially attractive conditions was available under the promotional theme "Innovation". It was meant to support small and medium-sized companies' investments in adding new, technologically advanced products to their product ranges or in the adoption of high-tech production processes. A lack of available collateral often makes it difficult for fast-growing and/or innovative SMEs to raise loans. 2016 saw NRW.BANK launch a new complementary promotional programme for this target group. Apart from favourable terms and conditions, this programme offers a 70% liability release for the on-lending house banks to meet their specific requirements. NRW.BANK additionally acts as co-investor in venture capital financings to support young innovative enterprises.

Companies in the creative sector are characterised by special promotional requirements. Against this background, NRW.BANK has launched a specific promotional programme for this target group which provides low-interest, collateral-free advance finance for orders received or project work. Applications for this programme may be submitted directly to NRW.BANK. In addition, NRW.BANK acts as co-investor in a special fund which makes available seed and venture capital to capital investment companies in the creative sector. Since spring 2016, start-ups and newly established companies in the digital sector have additionally benefited from effective support in the form of convertible bonds or equity investments which are granted in addition to investments by business angels.

#### **Promotional theme "Education"**

NRW.BANK offers municipal school operators and municipal school associations in North Rhine-Westphalia long-term loans at highly attractive terms with maturities of up to 30 years for the construction and refurbishing of school buildings. Moreover, NRW.BANK uses social housing promotional funds to support the construction of student dorms.

# Report on Public Corporate Governance in the Year 2016

## 1 General Information

NRW.BANK is the promotional bank for North Rhine-Westphalia. As the central development platform NRW.BANK supports its owner, the State of North Rhine Westphalia, in meeting its public, especially structural, economic, social and housing policy tasks and in the efficient implementation of development and promotional programmes in North Rhine-Westphalia with a view to minimising the impact of these activities on the state budget. In this context, NRW.BANK is committed to responsible and transparent action vis-à-vis the public, the guarantor as well as investors, customers and employees.

Since 2006, NRW.BANK has reported annually on the corporate governance efforts undertaken by NRW.BANK on the basis of its own Public Corporate Governance Code (PCGK), which reflects the specific requirements of the Bank. Since its amendment in 2014, it has been based on the Code of the State of North Rhine-Westphalia but also takes into account the specific public mission and the particularities of a competition-neutral public-law promotional bank, which is almost budget independent. Besides legal and statutory provisions, it also includes recommendations and suggestions that go beyond the legal and statutory requirements.

For the fiscal year, the Managing Board and the Supervisory Board declare that the Bank has largely complied with the recommendations of the Code. In accordance with Section 29 Para. 8 of NRW.BANK's Statutes as well as Clause 1.3.2 and 1.4 of the Public Corporate Governance Code, necessary deviations from these recommendations are disclosed and explained in the following Declaration of Conformity.

## 2 Guarantor and Board of Guarantors

The State of North Rhine-Westphalia is the guarantor of NRW.BANK. The State has assumed permanent institutional and guarantor liability for NRW.BANK and has issued the Bank with an explicit funding guarantee.

The State of North Rhine-Westphalia exercises its rights in line with its legal powers at the Board of Guarantors, where it exercises its voting right. The voting right is exercised unanimously by the "voting agent", i.e. a member of the Board of Guarantors appointed by the guarantor.

The Board of Guarantors is composed of three members who accede to their position by virtue of holding public office; according to the Act on and Statutes of NRW.BANK, these are the Minister for Economics, the Minister for Finance and the Minister for Housing. In addition, there are another two members appointed by the guarantor, with one of them acting as the above-mentioned voting agent.

The Board of Guarantors held two physical meetings in the fiscal year, at which it discussed, among other things, the overall strategy presented by the Managing Board of NRW.BANK and adopted the principles of the business, promotional and risk policy contained therein at the recommendation of the Supervisory Board.

Based on a resolution adopted by the North Rhine-Westphalian government, the Board of Guarantors additionally decided to modify the benchmarks of the housing promotional programme for the 2016 and 2017 promotional years in accordance with Section 6 Para. 1 of the Law on the Promotion and Use of Housing (WFNG). The adjustment of the multi-year benchmark decision adopted in 2013 for the years 2014 to 2017 was made in response to the increased demand for housing promotional programmes.

Based on a Europe-wide invitation to tender for the external audit of NRW.BANK's financial statements for the fiscal years 2016 to 2019 published in 2015, the Board of Guarantors for the first time commissioned Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft to carry out the audit of the financial statements for the period ended December 31, 2016 at the recommendation of the Supervisory Board.

In the reporting year, the Board of Guarantors decided to renew the existing directors' and officers' liability insurance policy (D&O insurance) for the members of the Managing Board, the Supervisory Board and the Board of Guarantors for 2017. The agreed deductible amounts to 10% of each damage but of no more than 1.5 times the fixed annual remuneration.

Increasing requirements in the banking environment and constant amendments of the regulatory conditions make continuous further training indispensable for the members of the Board of Guarantors. In continuation

of the further training concept of NRW.BANK's body members, NRW.BANK arranged seminars and made available a budget for mandate holders in the fiscal year. After consultation with the Public Corporate Governance Adviser of NRW.BANK, this budget may also be used for further training events not arranged by the Bank.

### 3 Managing Board

The Managing Board is responsible for independently managing NRW.BANK according to commercial principles and in the interest of the Bank on a non-competitive and non-profit-driven basis, taking the public benefit into account. In doing so, the Managing Board observes, among other things, all relevant legal provisions, the Statutes and the Public Corporate Governance Code of NRW.BANK, the directives adopted by the Supervisory Board as well as the rules of procedure for the Managing Board.

Until the end of October 2016, the Managing Board of NRW.BANK was composed of three members, one of whom was appointed Chairman. With effect from October 31, 2016, the Chairman of the Managing Board, Mr Klaus Neuhaus, retired and resigned from the Managing Board. At the recommendation of the Executive and Nomination Committee, Mr Eckhard Forst was appointed new Managing Board Chairman of NRW.BANK and in addition Ms Gabriela Pantring was appointed new member of the Managing Board by the Supervisory Board in the second quarter of 2016. Michael Stölting and Dietrich Suhlrie continue to serve as members of the Managing Board.

In accordance with regulatory requirements, the expansion of the Managing Board led to an amendment of the powers and responsibilities. At the same time, the rules of procedure for the Managing Board were amended and adopted by the Supervisory Board with effect from November 18, 2016. The organisational structure of NRW.BANK as well as the powers and responsibilities of the Managing Board members take the organisational separation of front office and back office functions in the meaning of the Minimum Requirements for Risk Management (MaRisk) into account.

When filling management positions at NRW.BANK, the Managing Board aims for diversity and an appropriate

consideration of both genders. As at December 31, 2016, 31.7% of the management positions at the second to fifth level of the Bank were held by women, while 68.3% were held by men (previous year: 30.7% women vs. 69.3% men). In accordance with the objectives of the State Equal Opportunities Act (LGG), 50% of all newly appointed managers were women in the fiscal year.

The Managing Board defines the business, promotional and risk strategy to put the strategic positioning of NRW.BANK defined in the principles of the business, promotional and risk policy into more concrete terms, discusses it with the Supervisory Board and its committees, adopts it and ensures that it is put into practice. The overall strategy is geared to the sustainable fulfilment of the public development mission.

The Managing Board ensures well-functioning, appropriate risk management and controlling in accordance with the regulatory standards. Internal Audit plays a key role in the risk management system of NRW.BANK.

As in 2014, the evaluation of the Managing Board carried out in the fiscal year by the Supervisory Board in accordance with Section 25d Para. 11 No. 3 and 4 KWG was supported by an external consulting firm. The Managing Board – in its former composition – was evaluated with regard to the knowledge, skills and experience of its individual members and the body as a whole as well as with regard to its structure, size, composition and performance. The evaluation was based on a concept for the years 2016 to 2018 adopted by the Supervisory Board in the fiscal year and confirmed the good results of the previous year. According to this evaluation, the members of the Managing Board are able and sufficiently experienced to effectively and efficiently conduct the Bank's business activities. The cooperation between the Managing Board members, with the Bank's other bodies and its employees is characterised by trust, openness and a sense of responsibility.

The members of the Managing Board are committed to the interest of the Bank and fulfil their tasks in virtue of their office in an independent, unbiased and selfless manner. No member of the Managing Board pursued personal interests when making decisions. No conflicts of interest occurred during the fiscal year.

Secondary activities on Supervisory Boards or comparable controlling bodies of enterprises are performed only after they have been approved by the Supervisory Board. The respective approvals of the Supervisory Board for the existing mandates have been obtained. The remuneration received has been disclosed to the Bank and is shown in the Annual Report.

Similar to the Supervisory Board and the Board of Guarantors, the existing D&O insurance for the members of the Managing Board has been renewed. The agreed deductible amounts to 10% of each damage but of no more than 1.5 times the fixed annual remuneration.

The Managing Board is committed to ongoing and regular further training, especially in the field of regulatory amendments and requirements in the banking environment; Board members undertake appropriate further training measures at their own initiative.

#### 4 Supervisory Board

The Supervisory Board of NRW.BANK oversees the management activities of the Managing Board of NRW.BANK, also with respect to regulatory requirements.

The Supervisory Board has 15 members; in accordance with the Act on NRW.BANK and the Statutes, it is composed of members who accede to their position by virtue of holding public office, namely the Minister for Economics, the Minister for Finance and the Minister for Housing, plus seven other members appointed by the guarantor as well as five members who represent the workforce. The members who accede to their position by virtue of holding public office are authorised to invite an additional permanent representative to the meetings and/or to be represented by the latter.

The Supervisory Board forms committees from among its members, which advise and support it in order to ensure an efficient division of labour. Based on the respective rules of procedure, preliminary discussions are held in the committees with a focus on the respective issues. The chairpersons of the respective committees inform the full Supervisory Board about the discussions and their results. Irrespective of the above, the documents used for discussion at the committee meetings

are available to the Supervisory Board members that are not committee members for information purposes upon request.

The Executive and Nomination Committee prepares the meetings of the Supervisory Board and the Board of Guarantors. It supports the filling of Managing Board and Supervisory Board positions as well as the evaluation of the Managing Board and the Supervisory Board to be carried out at least once a year. It furthermore decides on the budget for the Bank's corporate citizenship activities.

The Remuneration Committee is, in particular, responsible for supervising the appropriateness of the remuneration systems for the Managing Board and the employees of NRW.BANK.

The Risk Committee helps the Supervisory Board monitor the Bank's risk situation.

The Audit Committee supervises the accounting process, the effectiveness of the risk management system and the performance of audits. The Audit Committee is also responsible for reviewing the independence of the auditors and approving permissible non-audit services.

The Promotional Committee addresses various aspects of the promotional policy and the promotional business.

In addition to the regular meetings, extraordinary meetings of the Executive and Nomination Committee and the Supervisory Board were required in the fiscal year, especially in view of the new appointments to the Managing Board of NRW.BANK.

The number and the duration of the meetings held by the Supervisory Board and the committees in the fiscal year were in line with the Bank's requirements. No member of the Supervisory Board attended less than half of the meetings.

In accordance with MaRisk rules, the business, promotional and risk strategy was discussed with the Supervisory Board after having previously been discussed by the Promotional Committee and the Risk Committee. The Supervisory Board submitted a resolution proposal

to the Board of Guarantors regarding the principles of the business, promotional and risk strategy which define the framework of the strategic activity.

The Supervisory Board is also responsible for the appointment and dismissal of the members of the Managing Board. The individual and joint requirements to be met by the Managing Board are taken into account in connection with the first-time and repeated appointment of Managing Board members. The required continuity and long-term planning horizon play a key role in all decisions and recommendations. To this end, the Chairman of the Supervisory Board closely cooperates with the other top guarantor representatives as well as the Managing Board. In connection with the refilling of management positions, the Bank moreover ensures that a certain number of employees at the second management level have the special skills required for a potential assumption of top management functions.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and chairs its meetings. He liaises with the Managing Board of NRW.BANK, notably the Chairman of the Managing Board – also outside the meetings – during regular talks. Where necessitated by urgent events, the Chairman of the Supervisory Board informs the members of the Supervisory Board and convenes an extraordinary meeting if required.

The self-evaluation of the Supervisory Board carried out in the fiscal year – in analogy to the evaluation of the Managing Board and based on the concept adopted for the years 2016 to 2018 – confirmed the good result of the previous year. The overall performance was rated positively. All in all, the Supervisory Board considers itself able to fulfil its tasks. The Supervisory Board also addressed the adopted recommendations resulting from the evaluation in the previous years. It welcomes the measures that have been initiated to implement such recommendations and supports new measures that have been recommended, most of which are of a formal and processual nature.

No business or personal relations that give rise to a material and no temporary conflict of interest exist between the members of the Supervisory Board and NRW.BANK. No relevant conflicts of interest were disclosed to the Supervisory Board in the fiscal year. No member of the Supervisory Board pursued personal interests when making decisions. The members of the Supervisory Board ensured that they had enough time to fulfil their mandates. The limits for the number of permissible mandates on supervisory bodies were met by the members.

Similar to the Managing Board and the Board of Guarantors, the existing D&O insurance for the members of the Supervisory Board has been renewed. The agreed deductible amounts to 10% of each damage but of no more than 1.5 times the fixed annual remuneration.

The members of the Supervisory Board undergo regular training in order to ensure that they have the expert knowledge required under statutory regulations as well as under the Bank's own governance principles. In continuation of the further training concept for the members of NRW.BANK's bodies, NRW.BANK arranged seminars also for members of the Supervisory Board and made available a qualification budget for mandate holders. After consultation with the Public Corporate Governance Adviser of NRW.BANK, this budget may also be used for further training events not arranged by the Bank. In 2016, NRW.BANK arranged seminars on "Regulatory law in promotional banks" and "Verständigung II Agreements" for members of the Supervisory Board.

### **5 Cooperation between the Managing Board and the Supervisory Board**

The Managing Board and the Supervisory Board cooperate closely to the benefit of the Bank. The cooperation between the Supervisory Board as the controlling body and the Managing Board as the managing body is characterised by an open and trusting dialogue in the interest of NRW.BANK and its guarantor, the State of North Rhine-Westphalia. The cooperation at the meetings

is complemented by an ongoing exchange, especially between the Chairmen of the Supervisory Board and the Managing Board but also between the Managing Board and the Chairmen of the individual committees.

Regular and comprehensive information of the Supervisory Board by the Managing Board plays a key role in this context. In addition to the regular meetings of the bodies, there is a permanent written exchange of information as well as the close personal exchange mentioned above between the Chairmen of the Managing Board and the Supervisory Board as well as the Chairmen of the committees. In particular all relevant issues and changes regarding the business development, planning, risk situation, risk management, compliance and economic environment are communicated in a regular and timely manner. The Supervisory Board is moreover immediately informed of important events, especially those which could significantly influence the situation of the Bank, its liquidity or profitability, its liable equity or the liability of the guarantor.

## **6 Transparency**

Creating transparency towards the public, its owner, the supervisory body, investors, customers and employees is of particular importance to NRW.BANK. Transparent and open communication forms the basis for trusting cooperation and sustainable corporate governance with the aim to promote the State of North Rhine-Westphalia.

The Annual Report and the Disclosure Report as well as the financial calendar are published on the website of NRW.BANK. In the context of its investor relations activities, the Bank regularly reports the latest corporate news with a focus on the capital market. Press releases and further publications supplement the comprehensive range of information offered by the Bank.

The Report on Public Corporate Governance as well as the Declaration of Conformity are published both as part of the Financial Report and as a separate document on the website of NRW.BANK.

## **7 Accounting**

The annual financial statements and the management report of NRW.BANK are prepared by the Managing Board and audited by the auditor in accordance with the provisions of the German Commercial Code (HGB) and the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV). The Audit Committee as well as the Supervisory Board discuss the results of the audit with the auditor. The Board of Guarantors resolves on the approval of the annual financial statements, formulates a profit appropriation proposal and appoints an auditor. At the recommendation of the Audit Committee and the proposal of the Supervisory Board and in consultation with the North Rhine-Westphalian Court of Audit, the Board of Guarantors appointed Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, as auditors of NRW.BANK's financial statements for the period ended December 31, 2016.

## **8 Governmental Control**

Government control over NRW.BANK is exercised by the Ministry of the Interior of the State of North Rhine-Westphalia, with respect to social housing promotion in cooperation with the Ministry responsible for Housing. The purpose of this control is to ensure the lawfulness of the activities of NRW.BANK. As of November 4, 2014, the European Central Bank (ECB) has exercised direct control over NRW.BANK. In this context, the ECB continues to be supported by the Federal Financial Supervisory Authority and Deutsche Bundesbank.

## **9 Remuneration Report**

NRW.BANK reports on the key elements of the remuneration systems for its executive and controlling bodies and its employees. This report is in keeping with the requirements of the Bank's internal Public Corporate Governance Code, the North Rhine-Westphalian Transparency Act, the Management Remuneration Act and the Remuneration Ordinance for Institutions (InstitutsVergV) of December 16, 2013 in conjunction with Article 450 of Regulation (EU) No. 575/2013.

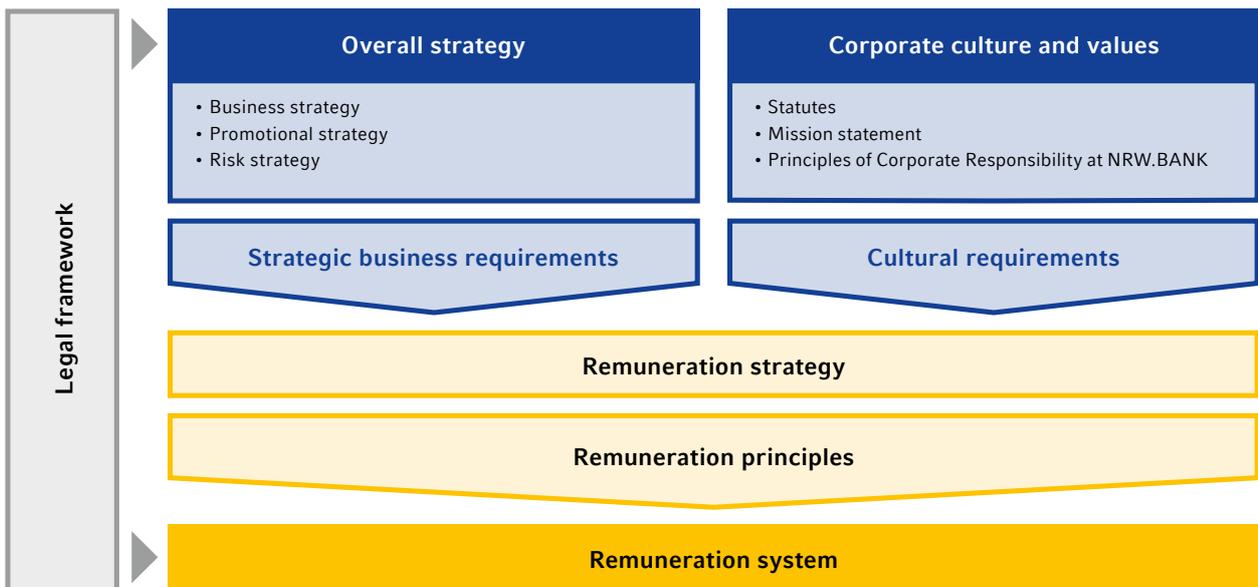
**9.1 Remuneration of the Members of the Supervisory Board**

The concept of a remuneration structure which is not dependent on the business performance primarily reflects the underlying idea according to which the generation of profits is not the primary business objective. The remuneration of the Supervisory Board and its committees consists of a work remuneration that is unrelated to the meetings held and an additional meeting-related fee. As specified by the Board of Guarantors, the work remuneration and the meeting attendance fee are identical within the Supervisory Board and its committees. No distinction is made between a member, the vice chairperson or the chairperson. Besides this remuneration, travel expenses incurred by mandate holders are adequately refunded. The payment of value added tax depends on the respective tax status of the individual members. Besides the remuneration paid to the members of the Supervisory Board, the members of the Board of Guarantors, the Advisory Board for Housing Promotion, the Advisory Board of NRW.BANK and the Parliamentary Advisory Board also receive individual remuneration on the basis of the resolution passed by the Board of Guarantors. The respective remuneration complies with the principles above, but the absolute amount varies based on the

different tasks and specific responsibilities. An itemised disclosure of the remuneration received by the individual members of the Supervisory Board, the Board of Guarantors and the Advisory Boards can be found in the notes to the Financial Report (page 95 et seq.).

**9.2 Remuneration Strategy and Control**

The State of North Rhine-Westphalia is the sole owner of NRW.BANK. Every year, the Bank’s Board of Guarantors adopts the principles of the business, promotional and risk policy within the meaning of Section 10 No. 9 of its Statutes, which form the basis of NRW.BANK’s strategic positioning as the promotional bank for North Rhine-Westphalia. These principles and the business, promotional and risk strategy derived from them constitute the overall strategy, which also complies with the regulatory requirements of MaRisk. The remuneration strategy is derived from the overall strategy. Additional requirements result from the Statutes of NRW.BANK, its corporate culture and values. To meet these requirements, the remuneration strategy formulates the remuneration principles of NRW.BANK and defines measures for their implementation. The remuneration strategy thus defines the basis for implementation in NRW.BANK’s remuneration system.



The above sources result in the following principles for NRW.BANK's remuneration strategy, which serve to secure the Bank's sustainable performance:

■ **Target-oriented incentives implementing the strategy**

The remuneration system creates structures that support the implementation of the targets and objectives defined in the overall strategy. Incentives that help achieve the targets are supported, while disincentives that are opposed to the targets are prevented.

■ **Risk orientation**

The remuneration system supports NRW.BANK's consistent conservative risk policy and does not encourage undesirable risk-taking.

■ **Resource efficiency**

Being the central promotional platform, NRW.BANK's main task consists in designing the promotional products efficiently and with a minimum impact on the state budget. In the context of its conservative investment strategy, NRW.BANK generates surpluses which are mainly used for the promotional business and to secure the Bank's performance. The remuneration system considers these principles of a cautiously operating public-law promotional bank. At the same time, NRW.BANK is subject to all banking-specific requirements and requires employees with the corresponding qualifications.

■ **Long-term motivation**

NRW.BANK pursues a long-term, sustainable business model and is a future-oriented public-law employer acting in a socially responsible manner. The Bank aims to strengthen the ties with its employees as well as to support their health, their ability to work and their motivation. NRW.BANK is particularly committed to a responsible human resources policy and fair dealings with each other. The motto "internal promotion is preferable to external hiring" underlines the Bank's sustainable and respectful human resources policy. The remuneration system supports this human resources policy, which is aimed at trusting, long-lasting cooperation and creates incentives for the necessary long-term motivation of the workforce.

These strategic requirements derived from the overall strategy form the framework for NRW.BANK's remuneration strategy, taking the corporate culture and values into account. This results in the following remuneration principles:

- Via a consistent top-down process and a reverse bottom-up process, the remuneration system – linked to the appraisal system – of NRW.BANK ensures the alignment with the overall strategy and supports its implementation.
- All elements of NRW.BANK's remuneration system must meet the requirements of the conservative remuneration policy of a competition-neutral promotional bank whose primary objective is not the generation of profits.
- Fixed remuneration geared to the respective requirements forms the basis of NRW.BANK's remuneration system to secure the livelihood of its employees. Variable remuneration components create target oriented incentives to meet the individual requirements without supporting the taking of disproportionately high risks.
- The disbursement of variable remuneration components is linked to the performance of the Bank and the degree to which targets and objectives are achieved and/or tasks fulfilled by the departments and the individual employees. The fulfilment of qualitative requirements plays an important role in this context.
- NRW.BANK's remuneration system comprises consistent and transparent remuneration rules.

These remuneration principles must be fulfilled by all components of NRW.BANK's remuneration system. Amendments to NRW.BANK's remuneration system and their implementation are agreed with an in-house "Remuneration Commission" at least once a year as well as on special occasions. This Commission is composed of the Heads of Internal Audit, Human Resources, Credit Management (back office) and Risk Control, Compliance as well as the "Remuneration Officer" as defined in Section 23 of the Remuneration Ordinance for Institutions (InstitutsVergV). The Heads of Finance and Legal as well as two representatives of the overall

Staff Council complement the Remuneration Commission as guests. The tasks and the composition function of the Remuneration Commission have been laid down in NRW.BANK's internal written instructions.

Based on the statement by the Remuneration Commission, the Managing Board decides on amendments to the remuneration system for the Bank's employees. No external advisory services were used in the definition of NRW.BANK's remuneration policy.

The Supervisory Board of NRW.BANK is the responsible main controlling body with regard to the remuneration systems. It decides on the contents and the appropriateness of the remuneration systems for the members of the Managing Board based on a review and recommendation by the Remuneration Committee, which, in turn, is supported by the Remuneration Officer. The same applies to the supervision of the appropriateness of the remuneration systems for the Bank's employees and to the assessment of the effects of the remuneration systems on the Bank's risk, capital and liquidity situation.

At two meetings in the fiscal year 2016, the Supervisory Board addressed remuneration-related issues. The Remuneration Committee as defined in Section 15 InstitutsVergV and Section 25d Para. 12 KWG held two meetings. As of December 31, 2016, this committee is composed of the following members:

- Minister Garrelt Duin (Chairman), Ministry of Economic Affairs, Energy and Industry of the State of North Rhine-Westphalia
- Minister Michael Groschek (Deputy Chairman), Ministry of Building, Housing, Urban Development and Transport of the State of North Rhine-Westphalia
- Minister Dr. Norbert Walter-Borjans (Deputy Chairman), Ministry of Finance of the State of North Rhine-Westphalia
- Director Frank Lill (representative of the employees of NRW.BANK)
- Director Thomas Stausberg (representative of the employees of NRW.BANK)

In accordance with Section 12 Para. 2 of the Statutes, three persons have been appointed permanent representatives and invited to take part in the meetings:

- Assistant Secretary Wulf Noll, Ministry of Economic Affairs, Energy and Industry of the State of North Rhine-Westphalia
- Assistant Secretary Annett Fischer, Ministry of Building, Housing, Urban Development and Transport of the State of North Rhine-Westphalia
- Assistant Secretary Gerhard Heilgenberg, Ministry of Finance of the State of North Rhine-Westphalia

In accordance with Section 20 Para. 1 Letter c) of the Statutes, another member was appointed by the Guarantor and invited to the meetings:

- Dr. Birgit Roos, Chairwoman of the Managing Board of Sparkasse Krefeld

### 9.3 General Conditions for Appropriate Remuneration

Ever since its inception, NRW.BANK has, in agreement with its guarantor, geared its remuneration systems and parameters towards its promotional tasks. Against the background of its promotion-oriented character, the Bank bases its remuneration structure exclusively on regionally and/or nationally used remuneration parameters and ensures that the amounts of its remuneration do not exceed the market level for comparable positions. This is examined applying external standards:

- The fixed salary for employees under collective agreements is based on the "Manteltarifvertrag für das private Bankgewerbe und die öffentlichen Banken" (basic collective agreement for private sector and public-sector banks). Two consecutive wage groups are allocated to each position under collective agreement. The lower group represents the entry into the position, while the upper group represents the final target position. In addition, individualised extra pay is possible for each position, which is capped at 1 € below the next higher group. This means that in individual cases, the fixed remuneration may be up to approx. 10% above the respective collective wage group.

- For positions not covered by collective agreements, remuneration comparisons of two consultancy firms, Willis Towers Watson, Frankfurt am Main, and hkp, Frankfurt am Main, are used to determine market indicators for NRW.BANK, which supply benchmarks for the remuneration possibilities. These benchmarks are based on the median of a peer group of German banks previously defined by the Managing Board. The market data obtained are adjusted for obvious extremes, checked against comparable positions within the Bank and reviewed for adequate differentiation from the next higher and lower reporting levels. Salary increases may be decided by the managers only within the limits of these benchmarks. Salaries exceeding these limits are decided by the Managing Board on a case-to-case basis. In accordance with NRW.BANK's Company Car Directive, business unit and department heads of the Bank may be granted a company car (also for private use in compliance with applicable tax regulations).

#### **9.4 Features and Success Factors for the Variable Remuneration**

In accordance with Section 18 Para. 2 InstitutsVergV, NRW.BANK has, on the basis of Regulation (EU) No. 604/2014 dated March 4, 2014, conducted a risk analysis of employees with material influence on the overall risk profile; as of June 10, 2016, the Bank has identified 75 "risk takers" – in addition to the Managing Board members and the 14 unit heads – based on their function and/or the amount of their remuneration. These persons are believed to have "material influence on the risk profile of the Bank", according to the definition under regulatory law. This group of persons includes three employees who have been identified as risk-takers only because of their employee representative function on the Supervisory Board and not because of the tasks they perform at NRW.BANK. The disclosure duties pursuant to Section 16 InstitutsVergV in conjunction with Art. 450 of Regulation (EU) No. 575/2013 exclusively relate to these persons, all of whom are not covered by collective agreements. The information provided below therefore focuses on the Managing

Board remuneration and on the remuneration systems for employees not covered by collective agreements, although large parts of the description also apply to employees covered by collective agreement. Pursuant to the Commission Delegated Regulation (EU) No. 604/2014 Article 3 Sentence 1 No. 2 of March 4, 2014 in conjunction with Article 3 Para. 1 No. 8 CRD IV, 13 external members and deputy members of the Supervisory Board of NRW.BANK have moreover been identified as risk takers.

The necessary connection between the strategic corporate objectives agreed with the owner and the remuneration system of NRW.BANK is ensured by a systematic planning and assessment process. A consistent top-down process ensures that the corporate objectives are communicated to employees at the down-stream levels. For this purpose, the individual requirements derived from the strategic corporate objectives are documented in writing in the context of a tasks and objectives planning process at the beginning of the year. The achievement of these objectives is reviewed in an annual feedback process and documented in a performance assessment. The short, medium and long-term objectives of the Bank are laid down in the "Objectives agreement and results assessment" between the Supervisory Board and the Managing Board, in which not only the quantitative objectives but also the material qualitative and content-related objectives of the Bank are agreed. The Managing Board uses the Bank's planning and assessment system to transfer the objectives agreed with the Supervisory Board to the business units. The business unit heads and all senior managers are responsible for transferring these strategic objectives to the employees in an adequate manner using the "PUR" (planning and feedback) appraisal system. Relevant changes occurring in the course of a year must be updated in this system. This way, it is ensured that the assessment-relevant and bonus-relevant planned objectives and tasks of all employees are adjusted in the event of strategy changes.

In accordance with Section 19 Para. 3 No. 3 InstitutsVergV, the amount of the provisions for the variable remuneration to be paid out in April for the previous

reporting year is defined by the Managing Board on the basis of a ratio system that reflects the sustainable total performance of NRW.BANK. This quantitative assessment is complemented by the targets agreed between the Supervisory Board and the Managing Board as well as by a qualitative assessment of the overall risk situation, which also takes into account the effects of the payout of the variable remuneration on the risk and capital ratios. The variable remuneration components are paid out only after the responsible bodies have dealt with the annual financial statement. The income statement (to HGB) of the past reporting year forms the basis which justifies the creation of appropriate variable remuneration for the members of the Managing Board and all employees of the Bank.

Since 2011, NRW.BANK has used a key performance ratio system including an assessment matrix to ensure that the total amount of the variable remuneration is in line with the performance. When measuring the total performance, such ratios are used which reflect the goal of sustainable performance of a promotional bank while considering the risks taken as well as the capital and liquidity costs (total performance ratio: GEK I-III). The actual economic performance achieved is to be used as a benchmark. The income statement shows a result for the year that reflects all realised gains and losses as well as all discernible anticipated losses (imparity principle). Accordingly, a result in the HGB income statement is always conservative, includes all risk allowances and provisions that are necessary for loss-free valuation (individual allowances, general allowances, provisions) and may thus serve as the basis for the measurement of the total performance in the meaning of the InstitutsVergV. As the net income to HGB may additionally include reserves for future special risks arising from the banking business, these allowance reserves in the income statement must first be neutralised to calculate the economic performance, as they are not based on any specific discernible risks and thus distort the actual result for the period. The

opposite applies when reserves are released. In addition, the promotional and development funds, which are booked in the commercial balance sheet of NRW.BANK, must be neutralised. These also act as a burden on the bottom line but are at the same time an important performance feature of a promotional bank (in contrast to a commercial bank). This means that changes in reserves occurring in the course of a year, promotional and development funds spent as well as extraordinary one-time effects outside the regular banking business must be taken into account as adjustment items. The result is a total performance ratio of the Bank which includes all income and expenses of the period including income and expenses from the risks that have actually materialised or are anticipated in the respective period (GEK I).

In the context of an ex-ante risk adjustment, the resulting performance ratio is then extended

- through the consideration of standard risk costs for anticipated risks (GEK II) as well as
- through the consideration of adequate interest on the economic capital to cover unexpected default, market, liquidity and operational risks (GEK III).

The ratios thus determined are the total performance ratios of NRW.BANK in the meaning of the InstitutsVergV.

According to Section 10 Para. 2 InstitutsVergV, the variable remuneration received by executives shall be based on a multi-year assessment period. NRW.BANK applies this requirement to all employees, as it makes more sense for a promotional bank that operates sustainably to assess the remuneration-relevant performance on the basis of a multi-year period instead of the result for an individual year. When weighting the individual annual results, the current assessment period should have the highest relevance, which subsides over time. A weighted three-year average is thus calculated as follows:

- past reporting year 3/6
- previous reporting year 2/6
- prior to previous reporting year 1/6

The Interpretation Guide to the Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems for Section 7 InstitutsVergV stipulates that "In the case of a negative overall performance of the institution, the determination of the total amount of the variable remuneration is generally not permissible". NRW.BANK defines negative overall performance as follows: When all three total performance ratios are negative, no volume or only a very low volume is made available. If the withdrawal from the reserve has increased compared to the previous years, it is possible to make available a bonus volume of no more than 25% of the sum total of the base rates for the variable remuneration only on the basis of a detailed qualitative analysis of the reasons for the losses incurred in conjunction with a positive outlook. Regardless of all performance ratios, the total performance of the Bank is defined as negative if the 340f reserves are used up entirely, which means that no variable remuneration is fixed for the fiscal year.

The identification of the relevant performance and sustainability ratios and their translation into a reasonable, requirements-oriented system for the variable remuneration were the task of Risk Control and Finance in consultation with Human Resources. This was agreed with the Remuneration Commission, which fully supports the procedures.

The total available volume is allocated to the Bank's business units based on a decision by the full Managing Board, which takes into account the achievement of the qualitative and strategic objectives as well as base rates for the variable remuneration. As a general rule, the available volume is not broken down further to sub pools of the business units. Within the department pools, the relative share of each individual is calculated on the

basis of their fixed salary and the assessment of the achievement of objectives and their personal performance-relevant behaviour in the context of the annual planning and assessment process described above. This pool model ensures that the maximum volume defined by the Managing Board for the variable remuneration is not exceeded.

As part of the implementation of the InstitutsVergV, the Bank has put a cap for the variable remuneration at 40% of the total remuneration (i.e. max. two thirds of the fixed remuneration). This cap may be raised (to no more than 40.71% in the years 2015 to 2017) in individual cases only if variable remuneration components are deferred in accordance with Section 20 InstitutsVergV (see below). As in the three previous years, the average variable remuneration of the employees not covered by collective agreements amounted to 21% of the total annual salary in 2016. Given NRW.BANK's function as the promotional bank of North Rhine-Westphalia, there is an appropriate relation between the fixed salary and the variable remuneration. The amount of the variable remuneration rules out a significant dependence of employees on this payment. Nevertheless, the individual amounts are high enough to provide the required effective incentives as defined in the bank strategy.

Neither the members of the Managing Board nor the employees of NRW.BANK are legally entitled to variable remuneration. Guaranteed entitlements are generally ruled out under NRW.BANK's rules and regulations; individual exceptions were permitted only in exceptional cases and only in the first year of employment.

## 9.5 Deferral and Payment Conditions

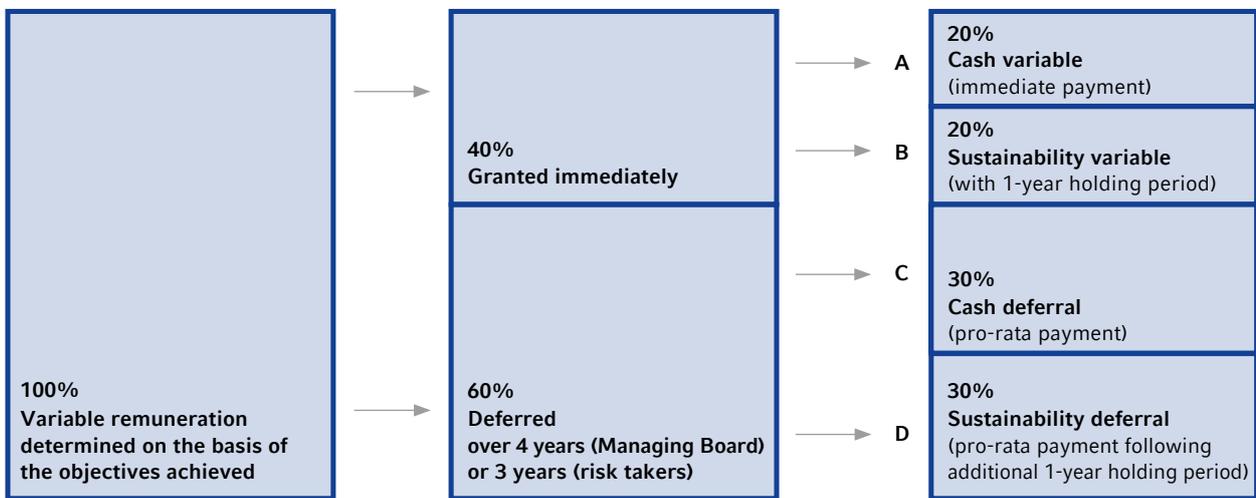
NRW.BANK has,

- for all members of the Managing Board and the risk takers of the 2nd reporting level (business unit heads) as well as for all other risk takers receiving variable remuneration of 50,000 € or more,

■ defined a deferral period of four years for Managing Board members and of three years for all other risk takers within the meaning of Section 20 Para. 1 and 2 InstitutsVergV for 60% of the variable remuneration (see C +D in chart below); pursuant to Section 20 Para. 5 InstitutsVergV in conjunction with Section 19 Para. 2 InstitutsVergV, these deferred amounts are subject to a differentiated malus rule, which may lead to a reduction or complete

cancellation of the variable remuneration within the deferral period,

■ with an additional one-year period for assessing the sustainable value increase of the Bank having been fixed for 50% each of the directly granted variable remuneration and the deferred variable remuneration within the meaning of Section 20 Para. 4 InstitutsVergV (see B +D in chart below).



The malus reservation relates to individual misbehaviour, serious mistakes resulting in considerable losses (caused by individuals or groups of employees) as well as to Bank-wide performance ratios. Individual misbehaviour (including undutiful and unethical behaviour) has been linked to labour law definitions and differentiated by degrees of severity. Serious mistakes are divided into mistakes falling under operational risks and mistakes resulting from the lending business, equity investments and price losses. As soon as differentiated threshold values are exceeded, an investigation by Risk Control and other independent control units is triggered. A Bank-wide malus is applied – also in defined steps – when the reserves established for anticipated losses are fully used up and/or as soon as regulatory capital is consumed; as a strict side condition, compliance with a minimum solvability coefficient (Pillar I) and a minimum

buffer for higher future requirements (Pillar II) is assumed. The Managing Board decides on the extent of the malus application based on a recommendation by a “malus commission”, which is composed of the heads of internal control units and the Remuneration Officer.

The requirements for payment of the variable remuneration components that are subject to the sustainability arrangement are considered to be met when the net asset value of NRW.BANK as of December 31 of a year is not lower than at the beginning of that year. The basis is formed by the “adjusted basic net asset value at the beginning of the year”, which is composed of balance sheet equity plus free allowance reserves adjusted for owner-initiated capital changes. It is compared with the “net asset value at the end of the year”, which is also adjusted for defined adjustment items. If the net asset

value at the end of the year is below the adjusted basic net asset value at the beginning of the year, the variable remuneration components that are subject to the sustainability arrangement are discounted at pre-defined steps (5 to 100%), depending on the amount by which the year-end net asset value is below the net asset value at the beginning of the year.

#### **9.6 Composition of the Managing Board Remuneration**

The remuneration of the Managing Board is regularly reviewed for appropriateness. For this purpose, NRW.BANK participates in an annual comparison of Managing Board salaries performed by an external remuneration consulting firm. This comparison covers the market data of Germany's top 30 banks, with the data of the banks directly participating in the remuneration comparison complemented by additional information taken from the annual and remuneration reports. Based on the total remuneration received by the Managing Board members of this peer group, the remuneration received by the Managing Board of NRW.BANK is clearly below the median. Compared to other large promotional banks the Managing Board remuneration of NRW.BANK is at a medium level.

In accordance with the InstitutsVergV, the actual variable remuneration of the Managing Board – similar to the variable remuneration of the risk takers – for the past reporting year is defined on the basis of the Bank's total performance ratios, a qualitative overall risk assessment and the achievement of the complementary objectives agreed with the Supervisory Board and limited by a cap for variable payments defined by the Bank.

The objectives agreed with the Supervisory Board reflect the special demands made on a promotional bank and take into account that the generation of profits is not the main business purpose. In accordance with the corporate policy, which is geared to the sustainable development of the North Rhine-Westphalian economy, the local municipalities and the people in the state, the agreed objectives are divided into superordinate objectives to be achieved over a long to medium term and objectives to be achieved within one year. Both the long/medium-term objectives and the short-term objec-

tives are derived from the bank strategy. They reflect the "principles of the business, promotional and risk policy" adopted by the Board of Guarantors and the regulatory requirements.

In the past reporting year, the variable payments for the previous year were, in accordance with Section 20 InstitutsVergV, again subject to the Bank's sustainable total performance. Payment of these amounts will be deferred over a period of five years (deferral and sustainability component).

The partial amounts of the variable remuneration for the reporting years 2012 to 2015 that are subject to the sustainability and malus arrangement reserve and due in April 2017 will be paid out following the respective review and decision by the Bank's responsible bodies in the first quarter of 2017. For a detailed presentation of the remuneration received by the individual Managing Board members, refer to page 92 in the notes.

In the event of an inability to work caused by an accident or illness, all four Managing Board members are entitled to their fixed annual salary for an indefinite period but no longer than up to the end of their employment. Thereafter, a benefit for invalidity will be paid depending on the individual pension commitment for the respective member. The members of Managing Board are not entitled to pension if the Bank terminates the employment relationship for reasons attributable to the Managing Board members.

In case of a premature resignation without serious cause, Mr Forst and Ms Pantring will receive no more than the remuneration for the remaining term of their contracts. The total amount of the payments including potential fringe benefits is capped at an amount equivalent to the remuneration for a maximum of two years.

If the contract of Mr Forst is not renewed and this is not his fault and he is still able to work, he may apply for early retirement benefits after having reached the age of 62, whose payment will end once he receives his statutory pension but no later than after having reached the age of 66 plus two months.

After the end of the employment relationship, Mr Stölting and Mr Suhlrie will receive a life-long pension, in analogy to the pension granted in the event of invalidity.

The members of the Managing Board are entitled to pension benefits as they reach the age of retirement or in case of invalidity. In the event of their death their dependants are also entitled to benefits. All commitments are contractually unforfeitable or unforfeitable by law because of the number of years served.

Mr Forst, Mr Suhlrie and Ms Pantring benefit from a contribution-linked pension commitment. In the context of this pension commitment, personal pension accounts with a starting component have been set up for them, into which annual pension components are paid. The pension component is calculated at an individual contribution rate on the basis of 69% of the fixed annual salary.

Each pension account carries an individual interest rate. At the time the insured event occurs, the pension capital built-up in the account – in the event of invalidity, plus additional components, if applicable – is actuarially converted into a pension.

Mr Stölting benefits from a pension commitment pursuant to the German Civil Servant's Pension Act (Beamtenversorgungsgesetz) as amended from time to time. Depending on the number of pensionable service years, the maximum pension entitlement is 71.75% of the pensionable salary reachable at the age of 65. The pensionable salary is 69% of the fixed annual salary. The amount of the pension in the event of invalidity depends on the entitlement achieved as well as on the addition-

ally agreed attributable period credited at the time the insured event occurs. In the case of Mr Stölting, the pension from the statutory pension insurance and the pension from additional pension insurance will be counted towards the pension no earlier than from the time they are granted.

After the death of a Managing Board member, their dependants receive a reduced pension. Widows receive up to 60% of the pension. The children of the Managing Board members are entitled to 20% of the pension if they are orphans and to 12% of the pension if they have lost one parent.

While the pension benefits paid out to Mr Forst, Mr Suhlrie and Ms Pantring will be increased by 2.0% p. a., the pension paid to Mr Stölting will be adjusted in accordance with the linear changes applicable to pensions paid by the state of North Rhine-Westphalia. As Mr Stölting benefits from commitments that are similar to those for civil servants, he is exempted from statutory pension insurance but will receive benefits as defined in the North Rhine-Westphalian "Beihilfeverordnung" in the event of illness. Ms Pantring will receive benefits in the event of illness on the same basis.

The expenses for the pensions of the Managing Board members and the present values of the obligations are shown in the notes on page 94.

## 9.7 Disclosure Pursuant to Art. 450 of Regulation (EU) Nr. 575/2013 No. 1 g et seq.

### 9.7.1 Quantitative Information Regarding the Managing Board Remuneration

#### Composition of the Remuneration for the Year 2016 of All Active Members of the Managing Board

Non-performance-linked remuneration		Performance-linked variable remuneration committed in 2016	Total remuneration	Remuneration for mandates <sup>2)</sup>	Number of risk takers
Fixed remuneration	Other benefits <sup>1)</sup>				
€ 1,611,174	€ 100,153	€ 404,000	€ 2,115,327	€ 75,907	5

<sup>1)</sup> Non-monetary benefits in money's worth (primarily company car for private use).

<sup>2)</sup> Remuneration received in 2016 for mandates / shown incl. VAT, pro-rated recognition for new entries / departures in the course of the year.

Both the fixed remuneration and the variable remuneration are paid in cash. There is no compensation in the form of shares or similar instruments. Only the other benefits comprise remuneration components in the form of non-monetary benefits (primarily company cars for private use).

#### Complementary Information Regarding the Variable Remuneration for Managing Board Activity

	Amount	Number of risk takers
Variable remuneration for the year 2015, committed in 2016	€ 404,000	3
– thereof paid out in 2016	€ 80,800	3
– thereof committed in 2016 but not paid out because of sustainability arrangement	€ 80,800	3
– thereof deferred	€ 242,400	3
Deferred variable amounts from the years 2011 – 2014	€ 800,300	4
– thereof vested and paid out in 2016	€ 320,600	4
– thereof vested in 2016 but not paid out because of sustainability arrangement	€ 151,500	4
– thereof not yet vested in 2016	€ 328,200	4
– thereof reduced in 2016	€ –	0

#### Information Regarding Other Remuneration Benefits

	Amount	Number of risk takers
Hiring bonuses paid or guaranteed payments made in 2016	€ –	0
Severance payments made in 2016	€ –	0
– thereof single highest amount	€ –	0
Persons whose remuneration in 2016 exceeded € 1.0 million	€ –	0

For a breakdown of the payments to the Managing Board members by names, please refer to page 93 of the notes.

## 9.7.2 Quantitative Information Regarding the Remuneration of the Risk Takers

### Composition of the Remuneration for the Year 2016 of All Active Risk Takers

	Non-performance-linked remuneration		Performance-linked variable remuneration committed in 2016	Total remuneration	Remuneration for mandates	Number of risk takers <sup>1)</sup>
	Fixed remuneration	Other benefits <sup>2)</sup>				
Programme-based Promotion	€ 2,412,070	€ 180,071	€ 721,735	€ 3,313,876	€ 22,094	20
Other Promotion/ Liquidity Management	€ 3,280,027	€ 49,262	€ 1,387,780	€ 4,717,069	€ 0	28
Staff/Services	€ 4,980,142	€ 314,747	€ 1,523,760	€ 6,818,649	€ 0	38
<b>Total result</b>	<b>€ 10,672,239</b>	<b>€ 544,080</b>	<b>€ 3,633,275</b>	<b>€ 14,849,594</b>	<b>€ 22,094</b>	<b>86</b>

<sup>1)</sup> Employees who were identified as risk takers in 2016, incl. new entries / departures in the course of the year (excl. Managing Board), assignment to the segment as at Dec. 31, 2016 or as at the last day of the assignment

<sup>2)</sup> Benefits in money's worth, mainly for company cars

Both the fixed remuneration and the variable remuneration are paid in cash. There is no compensation in the form of shares or similar instruments. Only the other benefits comprise remuneration components in the form of non-monetary benefits (primarily company cars for private use).

### Complementary Information Regarding the Variable Remuneration

	Amount <sup>1)</sup>	Number of risk takers
Variable remuneration for the year 2015, committed in 2016	€ 3,829,255	91
– thereof paid out in 2016	€ 2,395,931	91
– thereof committed in 2016 but not paid out because of sustainability arrangement	€ 358,331	32
– thereof deferred	€ 1,074,993	32
Deferred variable amounts from the years 2011 – 2014	€ 1,712,714	33
– thereof vested and paid out in 2016	€ 569,141	33
– thereof vested in 2016 but not paid out because of sustainability arrangement	€ 327,031	32
– thereof not yet vested in 2016	€ 816,542	31
– thereof reduced in 2016	€ –	0

<sup>1)</sup> Including variable remuneration and deferred amounts for risk takers who have resigned or retired from the organisation

## Information Regarding Other Remuneration Benefits

	Amount	Number of risk takers
Hiring bonuses paid or guaranteed payments made in 2016	€ –	0
Severance payments made in 2016	€ –	0
– thereof single highest amount	€ –	0
Persons whose remuneration in 2016 exceeded € 1.0 million	€ –	0

### 9.7.3 Quantitative Information Regarding the Remuneration of the Risk Takers on the Supervisory Board

#### Composition of the Remuneration for the Year 2016 for Persons Identified as Risk Takers on Account of Their Membership of the Supervisory Board

	Non-performance-linked remuneration	Performance-linked variable remuneration	Total remuneration	Number of risk takers
Members of the Supervisory Board pursuant to Section 12 Para. 1 Letters a – d, Para. 2 of the Statutes	€ 256,000	€ –	€ 256,000	13
Members of the Supervisory Board pursuant to Section 12 Para. 1 Letter e of the Statutes (staff representatives)	€ 97,300	€ –	€ 97,300	5

Where staff representatives have been identified as risk takers, the remuneration they receive for this activity is shown in the tables under point 9.7.2. For a breakdown of the remuneration by names, please refer to the Notes, page 96.

# Declaration of Conformity

The Managing Board and the Supervisory Board of NRW.BANK jointly declare that the Bank essentially complied with the recommendations of the Public Corporate Governance Code of NRW.BANK in 2016. Necessary deviations from the recommendations are made transparent and justified below in accordance with Clauses 1.3.5 and 1.4 of the Code.

## Diversity in the Composition of the Supervisory Board

Taking into account the permanent representatives, women and men accounted for 27.8% and 72.2%, respectively, of the Supervisory Board members as of December 31, 2016. This means that their respective shares remained unchanged from the previous year and that the 40% minimum recommendation for both genders stipulated in Clause 4.5.1 was not met.

In 2015, the Supervisory Board adopted a strategy to promote the representation of the underrepresented gender on the Supervisory Board in order to comply with this recommendation. Against this background, the Supervisory Board pays special attention to considering the underrepresented gender when making proposals to the guarantor regarding the appointment of members to the Supervisory Board. Where equally qualified men and women are identified, the Supervisory Board clearly recommends giving preference to women until the target is reached. In addition, the Supervisory Board asks NRW.BANK's staff council to consider the PCGK target when exercising its right to propose members who are to be elected to the Supervisory Board by the workforce.

Nevertheless, the accomplishment of this target depends on the intervals at which new members are to be elected and continues to be jeopardised by the fact that certain members of the Supervisory Board automatically accede to their positions by virtue of holding public offices outside NRW.BANK's sphere of influence while the appointment of other members is dependent on the composition of the elected employee representative body.

## Submission of Resolution Proposals to the Supervisory Board

Contrary to Clause 5.1.5, documents required for decisions were, in exceptional cases, submitted to the members of the Supervisory Board less than 14 days prior to the meeting. This was due, for instance, to current developments or the close timing of the committee and Supervisory Board meetings. Due to the availability of the Managing Board for answering questions, the preparation of the Supervisory Board meetings by the Executive and Nomination Committee and the possibility for extensive consultations at the meetings, it is nevertheless ensured that all issues are addressed in sufficient detail.

The Managing Board and the Supervisory Board of NRW.BANK remain committed to the Public Corporate Governance Code and intend to comply with its recommendations also in future unless transparent and justified exceptions appear sensible and necessary.

NRW.BANK  
March 2017

The Managing Board  
The Supervisory Board

# Report of the Supervisory Board

In accordance with the tasks imposed on it by law, the Statutes and the Public Corporate Governance Code, the Bank's Supervisory Board held five meetings in the fiscal year 2016. Another 23 meetings were held by the Committees composed of the members of the Supervisory Board, which break down into eight meetings – including three extraordinary meetings – and two written votes held by the Executive and Nomination Committee, two meetings held by the Remuneration Committee, four meetings held by the Risk Committee, four meetings held by the Promotional Committee and two meetings held by the Audit Committee. In addition, one joint extraordinary meeting was held by the Risk Committee and the Audit Committee.

The Supervisory Board monitored the proper conduct of the business and obtained regular reports on the latest business developments and the risk situation. It discussed and approved all transactions requiring its approval in accordance with legal or statutory provisions and addressed important matters of business policy in detail. At the recommendation of the Executive and Nomination Committee, the Supervisory Board additionally appointed a new Chairman of the Managing Board as well as a new Managing Board member. As a result, the Managing Board is now composed of four members.

In accordance with regulatory requirements and the provisions in the Statutes, the Supervisory Board addressed the business, promotional and risk strategy for the years 2017 to 2020, which had previously been discussed by the Promotional Committee and the Risk Committee.

The principles of the business, promotional and risk policies were submitted for approval to the Board of Guarantors, which is the competent body under the Bank's Statutes.

At its meeting on December 9, 2016, the Board of Guarantors approved the proposed strategy.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft carried out the audit of the financial statements for 2016 and the management report and issued an unqualified audit opinion.

The Supervisory Board and the Audit Committee formed from among its members discussed in detail the financial statements of NRW.BANK and the report of the external auditors on the results of their audits. Following the final result of the audit, they raised no objections.

At its meeting on March 22, 2017, the Supervisory Board approved the financial statements and the management report established by the Managing Board and proposed that the Board of Guarantors approve the financial statements for the year 2016. As in the previous years, no consolidated financial statements were prepared, as the Bank is not obliged to do so under commercial law.

Düsseldorf/Münster, March 2017



Garrelt Duin  
Chairman of the Supervisory Board

# Management Report

## of NRW.BANK for the Fiscal Year 2016

### 1 Fundamental Information about NRW.BANK as the Promotional Bank of North Rhine-Westphalia

NRW.BANK is the promotional bank of North Rhine-Westphalia (NRW). It has the public mission to support its sole owner and guarantor, the State of North Rhine-Westphalia, in the completion of its structural and economic policy tasks. NRW.BANK conducts its activities in accordance with commercial principles, taking into account the public welfare on a non-competitive, non-profit-oriented basis. For its promotional business, NRW.BANK uses the full range of promotional banking instruments and additionally acts in cases where banking expertise is instrumental in the promotional process.

#### 1.1 Business Model

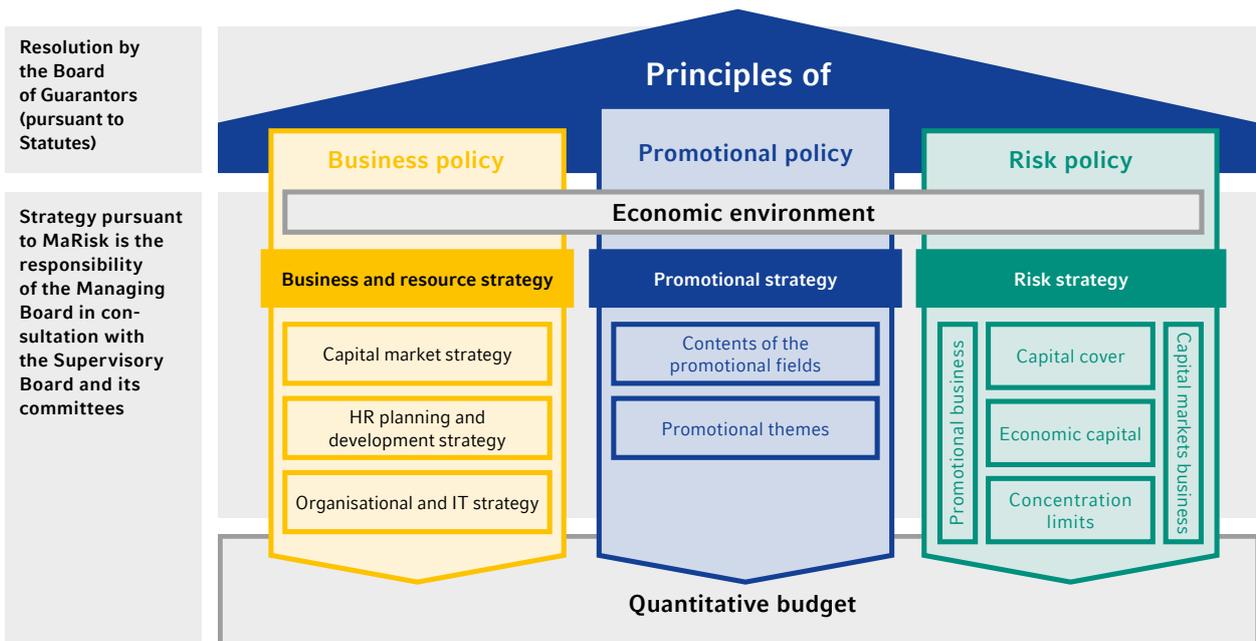
The business model of NRW.BANK supports the sustained fulfilment of its public promotional mission and is that of a largely budget-independent promotional bank. According to the "Act on NRW.BANK", it is a legally independent promotional bank engaging in competition-neutral structural and promotional business which permanently benefits from institutional and guarantor liability as well as from an explicit funding guarantee from its guarantor. To complete its mission, NRW.BANK uses the resulting possibilities for funding

in the international capital market, where the Bank has established itself as a reliable market participant. NRW.BANK generates its own income within the parameters of its conservative investment strategy. This income is used to finance the promotional business, to secure the long-term viability of the Bank, also with regard to the creation of its own, non-interest-bearing provisions and reserves, and to finance the banking operations. The use of own resources, e.g. to reduce the interest rates on promotional loans, is a key aspect of NRW.BANK's business model. Its promotional instruments primarily include promotional loans, equity finance as well as advisory services. NRW.BANK takes into account the existing offers by the Federal Government, the North Rhine-Westphalian government and the European Union in the arrangement of its promotion.

#### 1.2 Objectives and Strategies

The Bank's activities are geared towards sustainability. For details, refer to the "Principles of Corporate Responsibility at NRW.BANK".

The Managing Board of NRW.BANK liaises closely and constantly with the Bank's executive bodies and ensures the appropriate degree of transparency in implementing and refining its tasks and strategy.



The overall bank strategy is composed of the principles adopted by the Board of Guarantors according to the Statutes and of the actual strategy being in the responsibility of the Managing Board pursuant to the Minimum Requirements on Risk Management (MaRisk). The principles of the business, promotional and risk policy define the framework of strategic action. The business, promotional and risk strategy puts the strategic positioning of the Bank which is defined in the principles into more concrete terms and leads to a multi-year quantitative budget.

Heart of the overall bank strategy is the promotional strategy reflecting the special importance of the promotional business. The business strategy defines the capital market strategy as well as its sub-strategies, i.e. treasury strategy, funding strategy and investment/trading strategy, as well as resource-related aspects such as human resources and IT. The risk strategy addresses the risk-relevant aspects of the strategy and is closely linked with the promotional and business strategies.

The overall bank strategy is geared to NRW.BANK's public mission to support the State of North Rhine-Westphalia and its local and regional governments in completing their tasks. Material business activities as defined in the Minimum Requirements on Risk Management (MaRisk) are the promotional business and the capital market business.

NRW.BANK's promotional business remains qualitative and theme-oriented. Up to the end of 2016, NRW.BANK distinguished between three promotional fields: "Seed & Growth", "Development & Protection" as well as "Housing & Living". Since the beginning of 2017, the promotional services are provided in the three promotional fields "Economy", "Housing" as well as "Infrastructure/Municipalities", which are divided into promotional themes. Objectives and measures defined for each of these promotional themes are put into practice using specific promotional products.

The key objectives and measures of the promotional strategy include support for the necessary adjustments and expansion of the infrastructure, the promotion of corporate investments and innovations as well as social

housing promotion. These are complemented by support in the transition to green energy and digitalisation, urban redevelopment as well as assistance to North Rhine-Westphalia's municipalities in completing their tasks, e.g. the maintenance, expansion and modernisation of the educational infrastructure. In this context, NRW.BANK remains committed to constantly refining its promotional products and processes with a view to increasing the efficiency of its promotional activities.

The promotional strategy is implemented in the "Programme-based Promotion" segment and the "Other Promotion/Liquidity Management" segment. The Programme-based Promotion segment comprises the business units Promotion Programmes, Housing Promotion, Promotion Programme Advisory Services & Customer Service as well as Corporate Finance & Infrastructure Finance. The Other Promotion/Liquidity Management segment consists of the business unit Capital Markets including direct loans offered to municipalities.

### 1.3 Internal Management System

For its internal management, NRW.BANK generally uses controlling concepts and methods which have proven their worth and are commonly used in the banking sector. NRW.BANK's objectives are primarily geared to providing its guarantor, the State of North Rhine-Westphalia, with long-term support in performing its structural and economic tasks.

Due to NRW.BANK's public mission as the promotional bank of North Rhine-Westphalia, promotion is the primary business objective.

The preservation of the Bank's net asset value has been designated as a key condition for the Bank's internal management. NRW.BANK defines the net asset value as the equity capital shown in the balance sheet with all its components plus allowance reserves.

Reflecting the public promotional mission, the net volume of new commitments represents a key performance indicator used for controlling purposes. Other banking performance indicators include operating income, administrative expenses, total assets and the business volume as well as economic capital in the context of the risk-bearing capacity calculation. For all

key performance indicators, there are defined budget values which are regularly subjected to plan/actual comparisons as well as scenario and forecast analyses in order to provide appropriate control stimuli.

Net volume of new commitments comprises the commitments for promotional funds made in the current fiscal year. Operating income comprises net interest income and net commission income as well as net income from trading operations and the other operating result. Administrative expenses comprise personnel expenses as well as operating expenditure. The business volume comprises total assets, contingent liabilities, other commitments as well as administered funds.

Being subject to the Capital Requirements Regulation (CRR), NRW.BANK is obliged to disclose its return on investment, which is calculated as the quotient of net profit and total assets, in accordance with Section 26a Para. 1 Sentence 4 KWG (German Banking Act). As of December 31, 2016, NRW.BANK's return on investment was 0%; this ratio does not play a decisive role for NRW.BANK as due to its status as a promotional bank profit generation is not the key objective of NRW.BANK. Any income generated is used for promotional purposes, the maintenance of the bank operations and the creation of allowance reserves.

Bank-wide limits are defined for economic capital as determined in the context of the calculation of the risk-bearing capacity.

## 2 Report on Economic Position

### 2.1 Economic Climate

#### 2.1.1 The German Economy

At 1.9% (not adjusted for the number of working days), growth in Germany's gross domestic product (GDP) continued to improve moderately in 2016 (2015: 1.7%, 2014: 1.6%). This growth was again driven by private and government consumption as well as by housing

construction spending, while capital spending and foreign trade provided no stimulation for growth.

The positive trend in private consumption and housing construction spending was primarily supported by the continued good labour market situation. The number of people in employment again increased by a strong 1.0% to 43.4 million, with the number of employees subject to social insurance contributions rising particularly significantly. The unemployment rate declined notably from 6.2% (seasonally adjusted) at the beginning of the year to 6.0% at the end of 2016. In spite of the favourable labour market situation, collective wage agreements were moderate. Due to low inflation, however, real incomes rose sharply. As a result, private consumption increased by 2.0% in 2016, i.e. at a similar rate as in 2015. Government consumption was expanded notably because of the sharp rise in the number of asylum seekers that lasted into spring. In spite of the expenses for the reception, supply, integration and accommodation of refugees, the government generated surpluses, as government revenues rose strongly, while the increase in social benefits was low on balance and the government's interest expenses continued to decline. On balance, government budgets were expansionary, with government surpluses declining moderately.

By contrast, corporate capital spending fell short of expectations in 2016, mainly due to the high degree of geopolitical and economic uncertainty. The export industry and the manufacturing sector, both closely linked to investment activity as experience has shown, failed to provide any stimulation for a pick-up in capital spending in 2016. While capacity utilisation in the manufacturing sector increased, it was hardly higher than the long-term average; this means that there is only relatively little need for capacity growth. This is also reflected in commercial construction, which – in contrast to private housing and public construction – contracted again.

Due to continued weak growth in the world economy, but mostly because of the shift in economic growth to the more domestically oriented emerging countries (e.g. China, India) and the declining momentum in the international division of labour, growth in world trade continued to weaken in 2016, also in comparison with global GDP. Add to this the structural adjustments, e.g. in China, away from investment and export-oriented growth towards consumption and domestically-oriented growth. Moreover, protectionist tendencies are on the increase across the globe. This may affect open economies such as Germany (export share in GDP: 47%) particularly strongly. While export growth slowed down sharply in 2016 compared to 2015, import growth declined at a much slower pace due to the strong domestic economy. Due to the larger volume of exports, however, the current account surplus did not decline in relation to GDP.

With the oil price dropping sharply between mid-2015 and early 2016, consumer price inflation also declined strongly and temporarily even fell into negative territory. Energy prices and, consequently, consumer prices have since picked up again. On an annual average, prices increased by only 0.5% compared to the previous year. Although GDP growth exceeded potential growth and capacity was even slightly overutilised, core inflation (excl. the more strongly fluctuating energy and food prices) stood at 1.2%, which was in line with the long-term average. Wages and salaries as well as unit wage costs exerted only little pressure on consumer prices.

### **2.1.2 The North Rhine-Westphalian Economy**

Accounting for 21.7% of the German population, 21.3% of nominal GDP and 21.3% of the people in employment, North Rhine-Westphalia is Germany's most important federal state by far.

From 2000 to 2008, the year of the global financial and economic crisis, North Rhine-Westphalia's GDP grew by 1.3% p.a., which was largely in sync with the Germany-wide average (1.4%); since then, however,

North Rhine-Westphalia's growth has lagged behind (2008–2016: 0.4% p.a. vs. 0.9% p.a.). 2015 saw NRW's GDP stagnate, while the German economy as a whole expanded by 1.7%. The weaker growth in Germany's largest federal state is attributable to the manufacturing sector, while the services sector is essentially growing in sync with the Germany-wide average. North Rhine-Westphalia's industrial structure is dominated by "mature" industries (basic chemicals, metal production and processing). These industries are partly characterised by massive global imbalances with overcapacities and price erosion as well as by high energy requirements (e.g. steel and aluminium industry). Moreover, growth in these industries often falls short of the Germany-wide average. By contrast, sectors such as the manufacture of motor vehicles and parts are under-represented in North Rhine-Westphalia.

2016 saw North Rhine-Westphalia catch up significantly, however. In the first half of 2016, real GDP was up by 2.1% on the previous year (Germany as whole: 2.3%). Growth was supported by the services sector, especially transport, forwarding and logistics as well as other economic services (e.g. recruiting services, tourism, organisation of trade fairs and exhibitions) but also by information and communications, which more than offset the declines in the manufacturing sector.

The positive trend in the North Rhine-Westphalian labour market remains intact. Since the beginning of 2014, demand for labour, which is expressed in the number of job vacancies, has even picked up more strongly than in Germany as a whole. Unemployment continued to decline in 2016, and the number of people subject to social insurance contributions increased largely in sync with the Germany-wide average. While the unemployment rate declined to 7.6% (seasonally adjusted), it still exceeded the national average (6.0%) at the end of 2016. This and the growing gap between the demand for labour and actual employment suggest a significant mismatch between available skill sets and the qualifications being sought by employers.

The positive employment trend is also reflected in private consumption and the retail sector, where real sales picked up much more strongly than the national average in 2016. The same applies to the wholesale sector, whose momentum was notably lower, however. The construction sector even provided strong stimulation. Due to the growing demand for dwellings in many regions of the country, order intake and output in the housing construction sector are rising sharply, with the estimated demand for new housing still exceeding the number of completions by far. There is a lack of affordable housing, in particular. Against this background, the volume of approved social housing promotional loans again increased sharply as in the previous year.

### 2.1.3 Financial Markets

In 2016, the financial markets were again influenced by continued weak growth in the world economy, under-utilisation of global production capacity and very low, partially declining consumer prices. The European Central Bank (ECB) loosened its expansionary monetary policy even further; in March 2016, the main refinancing rate was lowered by five basis points (bp) to 0% and the deposit facility by ten bp to -0.4%, the bond purchase programme was increased by € 20 billion to € 80 billion per month and corporate bonds were included in the programme. Moreover, additional long-term refinancing operations were made available to the banks on the condition that they increase their lendings. In December 2016, the ECB additionally extended the term of the purchase programme until December 2017, with the volume to be reduced by € 20 billion per month starting April 2017. Furthermore, the link of the asset purchases to the deposit facility of -0.4% was removed. While the ECB continued to loosen its monetary policy, the Federal Reserve Bank (Fed), which last increased its fed funds rate a year ago, again raised its key interest rate by another 25 bp to a range of 0.5% to 0.75%.

The trend towards declining long-term interest rates, which has been observed since the 1990s, accelerated. The volume of government bonds with negative yields increased notably in the course of 2016 not only in Germany but also in the USA, Japan and the UK. Yields on corporate bonds also dropped to historic lows. The same applies to interest rates on corporate and consumer loans.

Low interest rates and a permanently fragile macroeconomic environment may entail risks to financial market stability. This may be the case when the profitability of banks and insurance companies declines, as this reduces the financial sector's resistance to real economic and financial risks and/or may lead to long-term interest rate promises not being kept. Moreover, unusually low risk premiums may result in a general tendency to underestimate risks and to acquire assets and liabilities offering a higher return but also entailing high risks. Persistently low interest rates may also pose risks to the financial system in the form of sharply increasing asset prices (shares, real estate) which exceed a fundamentally justifiable level by far.

The continued decline in interest rates and the flatter yield curve mean that the structurally weak profitability of the German banking sector remains under pressure. According to the Bundesbank's 2016 Financial Stability Review, the banking sector expanded the maturity transformation in 2016 in order to stabilise its net interest income, which has led to growing liquidity and interest rate risks.

Against this background, microprudential (related to individual institutions) and macroprudential (related to the financial system as a whole) supervision was intensified (e.g. introduction of the structural liquidity ratio, net stable funding ratio). The stress tests conducted by the European Banking Authority (EBA) show that the participating banks essentially meet the regulatory core

capital requirements, even under adverse macroeconomic conditions.

Moreover, credit default risks in Germany have declined due to the positive economic trend (and the low interest rates). No exaggerations or speculative bubbles can (as yet) be identified in the securities and real estate markets although prices have risen sharply in some cases. There are no signs of a strong increase in mortgage loans accompanied by laxer lending standards. Right on the contrary, credit requirements have become slightly stricter.

Generally speaking, the stability of the German and the global financial system has increased further.

## 2.2 Course of Business

2016 was a good fiscal year for NRW.BANK.

A net volume of new commitments of € 11.2 billion (2015: € 9.7 billion) shows that NRW.BANK's new promotional business continued the positive trend of the previous years and exceeded the Bank's projections.

The Bank's standardised credit programmes, which are extended in accordance with the house bank principle (NRW.BANK.Universalkredit, NRW.BANK.Mittelstandskredit and NRW.BANK.Gründungskredit), remained in high demand, with the volume of new commitments for the NRW.BANK.Universalkredit growing particularly strongly.

Compared to the previous year, demand for funds under the housing promotional programme picked up notably, as private investors and housing construction companies stepped up their investments in the construction and modernisation of social housing. This growth was largely driven by the publicly funded debt relief scheme under which a pro-rated part of the principal repayment is waived subject to certain conditions.

Contrary to original expectations, many North Rhine-Westphalian municipalities raised longer-term loans in 2016 in view of the low interest rates, which made a significant contribution to the increased net volume of new commitments.

NRW.BANK supports the accommodation and integration of refugees through the NRW.BANK.Flüchtlingsunterkünfte and NRW/EU.Mikrodarlehen programmes as well as within the framework of rental housing promotion. Against the background of the refugee situation, the demand of North Rhine-Westphalian municipalities for low-interest loans for investments in refugee accommodation picked up.

As of December 31, 2016, total assets amounted to € 142.1 billion (2015: € 141.2 billion). The business volume stood at € 162.0 billion (2015: € 160.5 billion). These figures were in line with expectations.

Thanks to its good creditworthiness and active investor service NRW.BANK was able to issue its bonds at favourable conditions, thus further strengthening its long-term funding base.

The increase in operating income to € 680.4 million in 2016 (2015: € 574.2 million) is mainly attributable to the statutory amendment to the determination of the average discount rate for old age pension obligations. The reduced interest expenses resulting from the higher discount rate led to an increase in the other operating result compared to the previous year.

NRW.BANK generated an operating result before risk provisions/valuation adjustments in the amount of € 465.2 million (2015: € 363.8 million) and was able to further increase its regulatory equity capital and risk-bearing capacity by establishing allowance reserves as in the previous years.

The table below shows NRW.BANK's results of operations from January 1 to December 31, 2016 broken down by segments:

	Programme-based Promotion		Other Promotion/ Liquidity Management		Staff/Services		NRW.BANK Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Net interest income	284.7	214.5	248.9	280.6	95.2	95.2	628.8	590.3
Net commission income	16.6	18.5	95.0	91.4	-2.4	-0.4	109.2	109.5
Net income from trading operations	0.0	0.0	1.5	3.5	0.0	0.0	1.5	3.5
Other operating result	6.8	8.0	-13.8	2.0	-52.1	-139.1	-59.1	-129.1
Administrative expenses	-83.4	-81.3	-34.0	-30.4	-97.8	-98.7	-215.2	-210.4
- Personnel expenses	-41.4	-41.9	-6.8	-6.9	-77.3	-74.1	-125.5	-122.9
- Operating expenditure	-42.0	-39.4	-27.2	-23.5	-20.5	-24.6	-89.7	-87.5
<b>Operating result before risk provisions/ revaluation adjustments</b>	<b>224.7</b>	<b>159.7</b>	<b>297.6</b>	<b>347.1</b>	<b>-57.1</b>	<b>-143.0</b>	<b>465.2</b>	<b>363.8</b>
Risk provisions/ revaluation adjustments	-55.9	-62.8	-64.8	-28.5	-325.0	-249.0	-445.7	-340.3
thereof: allocation to fund for general banking risks	-50.0	0.0	0.0	0.0	0.0	-50.0	-50.0	-50.0
Taxes on income and revenues	-1.4	-0.9	0.2	-0.4	-6.3	-8.4	-7.5	-9.7
<b>Net income/ loss for the year</b>	<b>167.4</b>	<b>96.0</b>	<b>233.0</b>	<b>318.2</b>	<b>-388.4</b>	<b>-400.4</b>	<b>12.0</b>	<b>13.8</b>
<b>Active Employees (number)</b>	<b>542</b>	<b>541</b>	<b>50</b>	<b>49</b>	<b>746</b>	<b>719</b>	<b>1,338</b>	<b>1,309</b>

The Programme-based Promotion segment comprises the business units Housing Promotion, Promotion Programmes, Promotion Programme Advisory Services & Customer Service as well as Corporate Finance & Infrastructure Finance, excluding the Strategic Equity Investments held as part of the public mission.

The Other Promotion/Liquidity Management segment consists of Capital Markets including municipal direct loans.

The Staff/Services segment comprises the Service and Staff business units such as IT/Organisation/Internal Services, Risk Control and Finance as well as the strategic equity investments.

## 2.3 Net Assets, Financial Position and Results of Operations

### 2.3.1 Results of Operations

#### Net Interest Income

NRW.BANK's net interest income improved moderately to € 628.8 million in the fiscal year (2015: € 590.3 million), primarily thanks to more favourable funding. As of fiscal 2016, interest effects from provisions not related to the banking business (mainly provisions for pensions and provisions for additional benefits) are no longer recognised in net interest income but in other operating income. The prior year figures were adjusted accordingly.

### Net Commission Income

At € 109.2 million, net commission income was more or less on a par with the previous year (2015: € 109.5 million). The stable net commission income is mainly attributable to income from surrogate loan transactions, where NRW.BANK mostly acts as hedge provider (seller).

Net commission income includes a positive effect in the amount of € 24.1 million (2015: € 29.4 million) resulting from the changed accounting practice for structured collateralised debt obligations (CDO) introduced as of December 31, 2013. The changes had an adverse effect on the bottom line in fiscal 2013, which will be offset by positive effects from the systematic release of the deferred item on the liabilities side in the following years.

### Net Income from Trading Operations

NRW.BANK's trading book contains short-term trading transactions with interest rate products. In the fiscal year 2016, net income from trading operations amounted to € 1.5 million (2015: € 3.5 million).

### Other Operating Result

The change in the operating result from € -129.1 million to € -59.1 million was primarily influenced by the commercial law adjustment of the valuation of old age pension obligations. The statutory extension of the period for the determination of the average discount rate from seven to ten years resulted in a higher average discount rate and, consequently, led to substantially lower interest expenses in 2016. The interest rate effects relating to provisions for pensions, provisions for additional benefits and other personnel provisions totalled € -69.9 million (2015: € -153.5 million).

The imposition of the bank levy, which was fixed at € -16.7 million p.a. (2015: € -4.0 million) for NRW.BANK by the Financial Market Stabilisation Authority (FMSA) according to European regulations, had an adverse effect. Of this amount, € 2.5 million (2015: € 1.2 million) was posted in the form of a fully secured payment obligation. The corresponding cash security was recognised under the balance sheet item "Other assets".

### Administrative Expenses

At € -215.2 million (2015: € -210.4 million), NRW.BANK's administrative expenses were slightly higher than in the previous year as had been expected.

Personnel expenses rose to € -125.5 million in 2016 (2015: € -122.9 million) mainly because of an increased headcount, which is attributable to growing regulatory requirements, and of collective pay rises.

Operating expenses rose by 2.2 million to € -89.7 million (2015: € -87.5 million). The increase was mainly due to higher charges from projects and extraordinary measures relating to new statutory and regulatory requirements including the stress test by the European Banking Authority.

### Risk Provisions/Revaluation Adjustments

Risk provisions/revaluation adjustments amounted to € -445.7 million in the fiscal year 2016 (2015: € -340.3 million).

NRW.BANK again used its good operating result to strengthen its risk-bearing capacity in accordance with its strategy. An amount of € 456.9 million (2015: € 305.7 million) was allocated to allowance reserves. As in the previous year, € 50.0 million of this amount related to the fund for general banking risks. The increased allocation mostly resulted from the valuation of old age pension obligations.

In the lending and equity investment business, a positive result of € 21.3 million (2015: € 22.2 million) was recorded again primarily because of the net release of individual allowances in the Housing Promotion business unit and income from exposures that had been written off.

Net expenses of € -10.1 million (2015: € -56.8 million) related to the results of sales and revaluations in the securities and derivatives business.

### Net Income

NRW.BANK posted net income of € 12.0 million (2015: € 13.8 million) which will be paid out towards federal interest expenses pursuant to Section 14 of the Act on NRW.BANK (NRW.BANK G).

### Segment Results

Net interest income in the Programme-based Promotion segment comprises the results of the promotional business units and increased to € 284.7 million (2015: € 214.5 million).

At € 235.2 million (2015: € 172.1 million) the Housing Promotion business unit made the biggest contribution to the segment's result. In this context, it should be noted that the early repayment of internal long-term funding liabilities had a strong adverse effect on the prior year result. Adjusted for this effect, net interest income decreased primarily because of the continued decline in the receivables portfolio. In view of the long phase of low interest rates, many borrowers took advantage of their contractual right to repay their loans in full or in part at any time without having to pay a prepayment penalty.

While net interest income in the other promotional business units was more or less on a par with the previous year, the reduction in interest rates on promotional products was much lower due to the low interest rates. No promotional loans with negative interest rates were granted.

Net commission income declined to € 16.6 million (2015: € 18.5 million) primarily because of the expiry of the subsidised grants business.

The segment's risk provisions/revaluation adjustments amounted to € -55.9 million (2015: € -62.8 million). At € 22.3 million, the lending and equity investment business again posted positive net income (2015: € 20.0 million). Individual allowances were no longer required, especially in the Housing Promotion business unit, and were therefore released. In addition, income was received on exposures that had been written off.

In 2016 NRW.BANK allocated a total amount of € 78.2 million (2015: € 82.8 million) to allowance reserves for the promotional business units.

While net interest income in the Other Promotion/Liquidity Management segment declined by € 31.7 million to € 248.9 million (2015: € 280.6 million), the prior year figure includes an extraordinary effect from the internal

cash position. Adjusted for this effect, net interest income improved, primarily because of more favourable funding conditions.

Net commission income increased by € 3.6 million to € 95.0 million (2015: € 91.4 million) due to higher income from surrogate loan transactions. This figure includes an income contribution in the amount of € 24.1 million (2015: € 29.4 million), which is attributable to the changed accounting practice introduced in 2013 for the portfolio of collateralised debt obligations maturing in 2017 and the resulting release of a deferred item on the liabilities side.

Risk provisions/revaluation adjustments in this segment changed by € -36.3 million to € -64.8 million (2015: € -28.5 million).

The withdrawal and the termination of own issues resulted in net losses on securities sales of € -177.6 million (2015: € -249.6 million). As in the previous years, NRW.BANK withdrew and repaid certain outstanding securities at the request and the initiative of the final investors. Reasons for investors to return the securities include, for instance, maturity extensions, the exchange for coupons at the current market interest rate and the optimisation of existing lines. In the long term, this will improve the Bank's funding base and strengthen its profitability, as the Bank may make new issues at current conditions.

By contrast, the management of the overall portfolio resulted in net gains of € 148.9 million (2015: € 224.3 million) from securities and derivatives (hedges).

As a result of an out-of-court settlement, NRW.BANK received a special payment of € 18.7 million in 2016 (2015: € 65.2 million) relating to a structured exposure that had already been derecognised in full in the previous years.

The prior year result includes the write-downs on the Heta bonds in the amount of € 96.3 million, which were offset by the simultaneous release of the allowance reserves established in the past and thus had a neutral effect on the bottom line.

As at October 13, 2016, the Heta bonds held by NRW.BANK were exchanged for a zerobond of Kärntner Ausgleichsfonds (KAF) guaranteed by the Republic of Austria. The present value of the zerobond amounted to approx. 90% of the nominal value of the original Heta bonds. NRW.BANK treats the lower carrying amount of the Heta bonds, which had been written down to 65% in the previous year, as the cost of the KAF zerobond.

In 2016, NRW.BANK established allowance reserves as defined in Section 340f HGB in the amount of € -54.8 million (2015: € -68.4 million) for credit risks in the Other Promotion/Liquidity Management segment based on statistical assumptions.

At € 95.2 million, net interest income in the Staff/Services segment was on a par with the previous year (2015: € 95.2 million) and essentially comprises profit contributions from strategic investments and income from the investment of pension provisions.

The improved other operating result in the amount of € -52.1 million (2015: € -139.1 million) is primarily attributable to lower interest expenses resulting from the higher discount rate for the valuation of old age pension obligations.

Risk provisions/revaluation adjustments in the Staff/Services segment in the amount of € -325.0 million (2015: € -249.0 million) related to allocations to the allowance reserves for general banking risks.

### 2.3.2 Financial Position

Being the state's promotional bank and benefiting from institutional liability, guarantor liability and an explicit funding guarantee from its guarantor, NRW.BANK shares the same excellent rating with the State of North Rhine-Westphalia.

As every year, rating agencies Fitch Ratings, Moody's, Standard & Poor's as well as Dagong Europe reviewed NRW.BANK's creditworthiness and confirmed its good ratings with a stable outlook.

### List of current ratings

	Fitch Ratings	Moody's	Standard & Poor's	Dagong Europe
Long-term rating	AAA	Aa1	AA-	AA+
Short-term rating	F1+	P-1	A-1+	A-1
Outlook	stable	stable	stable	stable

The Other Promotion/Liquidity Management segment is responsible for the funding of NRW.BANK. The Bank continued to experience strong demand for its debt in the fiscal year. NRW.BANK catered to investors' need for state-guaranteed, liquid bonds and again consolidated its market presence with further benchmark issues. In 2016, the Bank issued a € 1 billion euro benchmark bond and two USD benchmark bonds in the total amount of \$ 2.0 billion (equivalent to approx. € 1.8 billion) (2015: € 1.8 billion). This was due to very high demand from investors as well as to the funding advantage over the euro. The issues were subscribed by a broad investor base. NRW.BANK also issued

another Greenbond in 2016. The € 500 million 10-year bond met with very high demand. The net funding volume totalled € 10.3 billion (2015: € 8.8 billion), with the euro and the US dollar being the most important currencies (65% EUR vs. 34% USD).

The funding transactions with domestic investors are dominated by bearer bonds, promissory loans and registered bonds.

NRW.BANK also used its international funding programmes for its funding operations. These programmes essentially include the Debt Issuance Programme for

medium-term to long-term maturities as well as the Global Commercial Paper (GCP) Programme for maturities of up to twelve months. The GCP Programme was a particularly favourable source of funding for NRW.BANK throughout the fiscal year.

As in the previous year, the funds raised from other promotional banks such as KfW Bankengruppe and the European Investment Bank totalled € 1.6 billion.

As of December 31, 2016, the liquidity ratio as defined in the German Liquidity Regulation was 2.8 (2015: 3.1) and thus well above the regulatory required minimum

of 1.0, which was met at all times throughout the year. As of December 31, 2016, the Liquidity Coverage Ratio to be determined in accordance with the Europe-wide applicable Capital Requirements Regulation (CRR) stood at 1.38 and thus far above the minimum of 0.7 required as of January 1, 2016.

### 2.3.3 Net Assets

As of December 31, 2016, NRW.BANK's total assets amounted to € 142.1 billion (2015: € 141.2 billion).

The two tables below show the condensed balance sheet.

## Assets

	Dec. 31, 2016	Dec. 31, 2015
	€ billions	€ billions
Receivables from banks	35.8	33.4
Receivables from customers	59.7	60.3
Bonds and other interest-bearing securities	38.6	39.4
Investments in non-affiliated and affiliated companies	2.5	2.5
Other assets	5.5	5.6
<b>Total assets</b>	<b>142.1</b>	<b>141.2</b>

Receivables from banks increased by € 2.4 billion to € 35.8 billion (2015: € 33.4 billion). The portfolio of promotional loans extended according to the house bank principle rose to € 29.6 billion (2015: € 28.7 billion) and reflects the continued high demand for the Bank's standardised credit programmes such as the flexible NRW.BANK.Universalkredit, in particular. Under the house bank procedure, customers file an application for promotional funds with the house bank, which passes it on to NRW.BANK. NRW.BANK then makes the funds available to the customer through their house bank.

The portfolio of registered instruments and note loans increased to € 4.4 billion (2015: € 3.0 billion).

Totalling € 59.7 billion, receivables from customers were slightly lower than in the previous year (2015: € 60.3 billion). At € 17.9 billion, social housing promotional loans were down by € 0.9 billion on the previous year (2015: € 18.8 billion), primarily due to unscheduled repayments. In the securities business, the portfolio of registered instruments remained unchanged at € 8.3 billion. The portfolio of note loans declined to € 10.4 billion (2015: € 11.0 billion).

Bonds and other interest-bearing securities declined by a total of € 0.8 billion to € 38.6 billion (2015: € 39.4 billion).

At € 2.5 billion, the book values of NRW.BANK's equity investments in non-affiliated and affiliated companies remained at the previous year's level (2015: € 2.5 billion).

## Liabilities

	Dec. 31, 2016	Dec. 31, 2015
	€ billions	€ billions
Liabilities to banks	39.1	38.4
Liabilities to customers	16.4	17.8
Certificated liabilities	60.5	58.7
Provisions	2.3	2.3
Subordinated liabilities	1.9	2.1
Fund for general banking risks	0.8	0.8
Equity capital	18.0	18.0
Other liabilities	3.1	3.1
<b>Total liabilities</b>	<b>142.1</b>	<b>141.2</b>
Contingent liabilities	15.5	16.0
Other commitments	4.4	3.2
Administered funds	0.0	0.1
<b>Business volume</b>	<b>162.0</b>	<b>160.5</b>

Liabilities to banks increased by a total of € 0.7 billion to € 39.1 billion (2015: € 38.4 billion). Of this amount, € 21.9 billion (2015: € 22.1 billion) related to promotional loans, most of which are funded through KfW Bankengruppe, which are paid out on the assets side primarily according to the house bank principle. The largely programme-driven lending business is also funded to a lesser degree through Landwirtschaftliche Rentenbank, the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB).

Liabilities to customers decreased by 1.4 billion to € 16.4 billion (2015: € 17.8 billion). This item primarily comprises registered instruments and note loans. At € 14.9 billion, the portfolio of registered instruments was down by € 1.3 billion (2015: € 16.2 billion) and the portfolio of note loans of € 0.7 billion was down by € 0.2 billion on the previous year 2015: € 0.9 billion).

At € 60.5 billion, certificated liabilities were slightly higher than in the previous year (2015: € 58.7 billion).

Equity capital as defined in the German Commercial Code (HGB) remained unchanged at € 18.0 billion.

The table below shows the risk positions and capital ratios under the CRR as of December 31, 2016:

### Risk exposure amounts and capital ratios

	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
Risk weighted exposure amounts (standardised approach)	41,795.2	40,975.0
Risk exposure amount for position and foreign exchange risks	6.4	32.2
Operational risk (basic indicator approach)	1,091.6	1,134.6
Risk exposure amount for credit valuation adjustment	1,151.0	1,029.8
<b>Total risk weighted assets</b>	<b>44,044.2</b>	<b>43,171.6</b>
Common Equity Tier 1 capital	18,393.9	18,384.6
CET1 capital ratio	41.76%	42.58%
Own funds	20,023.9	20,063.1
Total capital ratio	45.46%	46.47%

The regulatory capital requirements were complied with at all times in the fiscal year 2016. The CET1 capital ratio reflects the Bank's high capitalisation, which mainly serves to fund the promotional loans and is therefore indispensable for the promotional business.

In the context of the "Supervisory Review and Evaluation Process" (SREP), the ECB stipulates minimum capital ratios for the banks it supervises. Equity capital and core capital ratios in excess of 40% mean that NRW.BANK's capitalisation exceeds the requirements by far.

### 3 Report on Post-Balance Sheet Date Events

No events of special importance occurred after the end of the fiscal year.

### 4 Report on Expected Developments

#### 4.1 General Information

This Report of Expected Developments contains forward-looking statements relating to the overall economic environment as well as to NRW.BANK's business, net assets, financial position and earnings position. Such statements are based on expectations and assumptions derived from information available at the time of preparation. As such they involve risks and uncertainties beyond the control of NRW.BANK including, in particular, the development of the general economic environment and the situation in the financial markets. This

means that the actual events occurring in the future may deviate from these statements, expectations and assumptions.

### 4.2 Development of the Economic Environment

#### 4.2.1 The German Economy

The upturn in the German economy, which has been ongoing since the end of the global financial and economic crisis, will continue in 2017 and have a similar structure as in the previous years. The domestic economy will remain the main growth driver, although the impulses provided by the labour market as well as by private and government consumption will subside. While this will be cushioned by the slightly stronger increase in exports and capital spending, it will not be offset entirely. Utilisation of production potential will pick up nevertheless, leading to a moderate increase in core inflation (also due to higher wage agreements) and consumer prices.

As a result of immigration, especially of unskilled people, demographic change, the high level of employment already reached and the growing gap between sought-after and available skill sets in the labour market, employment growth has slowed down in the meantime and will be more moderate in 2017 than in the past years. With labour availability continuing to shrink, wages will increase in the medium term, and the wage agreements

already signed suggest that real incomes will again pick up sharply in 2017, although this pick-up will be cushioned in real terms as consumer prices will advance more strongly. While this means that private consumption will remain the main growth driver, it will lose some momentum. The same applies to the government's additional spending on refugees, which will reflect the declining number of asylum seekers.

In view of the continued attractiveness of the conurbations and the already piled up demand for housing as well as the high influx of immigrants in the past, housing construction will again grow notably in 2017, with social housing construction maintaining the high level of the previous year. Although the number of building completions is increasingly strongly, the high demand for affordable housing in the core cities cannot be satisfied at present. Order intake in the housing construction sector is growing dynamically and the backlog of orders continues to rise. The extremely high capacity utilisation may have a dampening effect, however. The public construction sector is also likely to provide strong stimulation in 2017, as substantially more public funding is available for construction projects in the infrastructure segment as a result of the improved cash situation and additional funds for the promotion of municipal investments.

Government revenues will increase at a lower rate than in 2016 due to the somewhat slower employment growth and the less dynamic corporate and investment income. On balance, the government surplus will thus decline in 2017, while fiscal policy will remain slightly expansionary. As a result of the government surpluses and the growing GDP, the debt ratio will probably drop to 66% (2016: 68.1%) in 2017 and thus come much closer to the Maastricht criterion of 60%.

Capital spending is expected to make, albeit moderate, contributions to growth. The utilisation of production potential is on the increase, and exports are also likely to have positive effects. In any case, economic growth in the USA will pick up, the moderate upturn in the eurozone will continue, and the outlook for the emerging countries is also slightly better because of the recovery in commodity prices. Add to this the still high competitiveness of the German economy, which will be supported by the ongoing depreciation of the euro.

There are considerable risks, however, especially with regard to the development of the world economy: It is true that uncertainty in the financial markets resulting from Britain's surprising Brexit vote was only of a temporary nature and the effects on the real economy have been limited so far. Also, the election of the US President has not yet had any adverse impact on the world economy and the financial markets; right on the contrary, there has rather been optimism with regard to a potential debt-financed US fiscal policy. Even the failure of the constitutional referendum in Italy and the difficult situation of the large Italian banks have not resulted in a shock wave. The geopolitical uncertainty in Europe, the risk of a return of the crisis in the eurozone, an unexpected disruption of the transformation in China and the numerous geopolitical tensions mean, however, that the risks to the global financial markets and their consequences, also for Germany's real economy, are quite considerable.

On balance, however, the current state of affairs suggests that the stable upswing in Germany will continue. NRW.BANK expects real GDP (not adjusted for the number of working days) to grow by 1.4% in 2017. This is based on a somewhat slower rate of expansion in the course of the year, which is primarily attributable to the employment trend and less expansionary private and government consumption. But the main reason for the lower growth rate is a calendar effect, as there will be fewer working days in 2017, which will reduce GDP growth by 0.3 percentage points. Adjusted for this effect, the growth rate would reach 1.7%. On balance, macroeconomic capacities will increasingly be over-utilised. As a result, core inflation will start to go up gradually, while wages and the anticipated depreciation of the euro could also put inflation under pressure. In addition, consumer prices will also pick up a bit more strongly (2017: 1.7% vs. 2016: 0.5%) because of the higher oil prices, although the ECB's inflation target of close to 2% will not be reached in the eurozone for the time being.

#### **4.2.2 The North Rhine-Westphalian Economy**

Just like in 2016, the North Rhine-Westphalian economy is expected to be supported primarily by private consumption also in 2017. The number of people in employment will continue to rise, and incomes are also likely to have positive effects. At the same time, how-

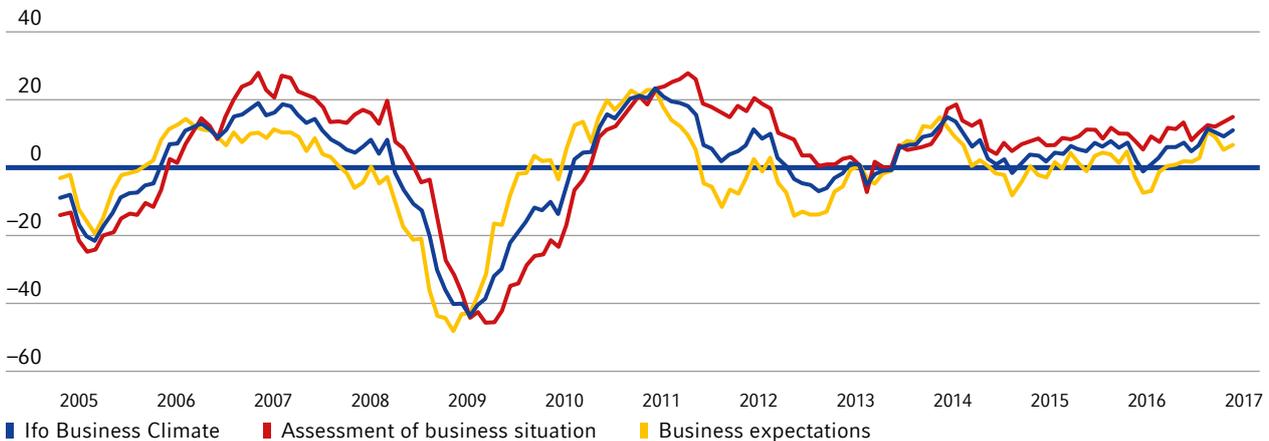
ever, the number of accepted asylum seekers in North Rhine Westphalia will probably increase more strongly than in the other federal states. Their integration into the labour market will be a particular challenge for North Rhine-Westphalia, which is suffering from high structural unemployment anyway.

Besides private consumption, government and capital spending will also stimulate growth. While the expenses for the accommodation and supply of foreign refugee seekers will be reduced because of the declining number of asylum seekers, the expenses for their integration are likely to increase. In general, investments in the maintenance and expansion of the infrastructure and the provision of affordable housing will rise sharply in the medium to long term. This also includes the expansion and/or modernisation of day nurseries, schools, universities, clinics, bridges, railways and roads as well as the information and communication networks. Spending on additional teachers and internal security will increase as well.

On the input side of GDP, negative effects from the manufacturing industry have affected North Rhine-Westphalia's growth since the global financial and economic crisis. Experience has shown that exports, industrial output and spending on plant and equipment are closely interrelated. A gradual economic recovery is on the cards for both the industrial countries and the emerging markets; this may also benefit North Rhine-Westphalia's manufacturing sector, characterised as it is by a high share of industries producing intermediate goods (input materials).

According to the NRW.BANK.ifo Business Climate, the business expectations, which are important for the future economic trend and dropped sharply in early 2016, have improved significantly on balance. The assessment of the current business situation also remains at a respectable level in a long-term comparison. Industrial capacity utilisation meanwhile slightly exceeds the 2002–2015 average, which also suggests that capital spending will pick up gradually.

Trade and Industry in North Rhine-Westphalia Ifo Business Survey, January 2017, Balances, seasonally adjusted



\* Manufacturing, construction, wholesaling and retailing.

Source: Ifo Business Survey

For more detailed information, see [www.nrwbank.de/ifo](http://www.nrwbank.de/ifo).

### 4.2.3 Financial Markets

Monetary policy on both sides of the Atlantic is pointing in different directions and things will stay this way in

2017. While the ECB's decisions of late 2016 mean that additional liquidity is being made available, its US counterpart raised the fed funds rate moderately by another 25 bp and proposed three more interest rate hikes (instead of two) for 2017 in its projections. The

US labour market is almost fully utilised and the (short-term) growth outlook has become somewhat brighter. The (more moderate) recovery in the eurozone is also continuing. While capacity utilisation remains on the increase, there are still considerable output gaps. According to the ECB, its HCPI inflation target of "close to but below 2%" will not be reached until 2019, which is why the central bank will continue its expansionary policy also in 2017. While experience shows that capital market yields cannot isolate themselves from the US trend in the long term, the ECB has announced that it would increase the volume or expand the duration of its asset purchase programme should economic risks arise, e.g. as a result of rising interest rates. Accordingly, interest rates in the eurozone are expected to stay at a low level also in 2017. This means that the low interest rate environment and the high regulatory costs will continue to have an adverse impact on the profitability of small and medium-sized banks, in particular, although the situation should ease moderately as a result of somewhat higher interest rates and a slightly steeper yield curve.

#### 4.3 Development of the Bank

By developing and marketing efficient promotional products, NRW.BANK will continue to support the economic and structural development of North Rhine-Westphalia; in keeping with its mission, the Bank will, in particular, remain a strong partner to the North Rhine-Westphalian municipalities, which will continue to benefit from target-oriented financing, promotional and consulting services.

In the projected economic environment, the net volume of new commitments should stay at a high level but show somewhat lower momentum.

In this context, the new promotional programme "NRW.BANK.Gute Schule 2020" deserves special mention. Under this four-year programme, annual amounts of € 500 million will be made available to the North Rhine-Westphalian schools. The loans have a total maturity of 20 years, with no repayment due in the first

year. The federal state will subsequently make all repayments for the municipalities. The promotional funds may be used for investments in general, including the restoration and modernisation of municipal schools (including their sports facilities) as well as measures aimed at improving the digital infrastructure and equipment of schools.

NRW.BANK expects total assets and the business volume to increase moderately in 2017 in line with the business trend.

Operating income is expected to decline sharply in 2017.

This decline will mainly be due to a lower average discount rate for pension provisions. The statutory amendment of the valuation of pension provisions in 2016 temporarily had a positive effect on the Bank's result.

The newly launched "NRW.BANK.Gute Schule 2020" programme will be heavily subsidised in order to push down the interest costs for the municipalities, thereby also weighing on the the Bank's bottom line.

Moreover, the Programme-based Promotion segment will generate lower interest income due to the continued decline in the receivables portfolio of the Housing Promotion business unit, which is attributable to high unscheduled repayments by borrowers.

The EU bank levy imposed by the Financial Market Stabilisation Authority (FMSA) for the Single Resolution Board (SRB) should have more or less the same size as in the previous year.

NRW.BANK assumes that administrative expenses will again be adversely affected by statutory and regulatory requirements and pick up moderately in 2017. This will be reflected in personnel expenses as a result of the planned headcount increase as well as in operating expenses resulting from projects, (special) charges and extraordinary measures externally induced in this context.

Planning uncertainty arises from potential further requirements in the regulatory environment. The amount of the necessary investments in information technology and personnel still cannot be exactly quantified; an additional significant burden in a million euro amount cannot be ruled out, however. Ongoing measures aimed at identifying and leveraging potential for efficiency increases will have a dampening effect on costs.

NRW.BANK therefore expects its operating income before risk provisions/revaluation adjustments in 2017 to be much lower than in the past fiscal year.

In 2017, risk provisions/revaluation adjustments should again be influenced by the allocation of general allowance reserves.

While ongoing allocations to allowance reserves will further strengthen the risk-bearing capacity, they will probably be notably lower than in 2016.

Upon request by the state government, the interest amounts to be paid by the state due to the utilisation of loans from the federal government for the promotion of housing construction and modernisation (subsidies pursuant to Article 104 a, Para. 4 of the German Constitution in the version effective until August 31, 2006) which become due in the year following the respective fiscal year must be paid directly to the federal government from the net income for the year of NRW.BANK. The potentially remaining net income for the year will be allocated to the reserves. Further profit distributions are not permitted under NRW.BANK's Statutes.

NRW.BANK expects the Bank-wide limits for economic capital to be met also in 2017.

## 5 Risk and Opportunity Report

Due to its specialised business model as a promotional bank, NRW.BANK does not engage in all lines of banking business. The Bank takes on risks only within clearly delineated bounds. As a state promotional bank, NRW.BANK is nevertheless subject to all regulatory risk management requirements.

NRW.BANK uses a comprehensive set of risk monitoring and management tools to manage the risks to which it is exposed. The Bank has implemented a framework of guidelines, organisational structures and processes which ensure that risks are identified, measured, aggregated and managed in accordance with the Bank's risk-bearing capacity.

### 5.1 Organisation of Risk Management

The Managing Board of NRW.BANK is responsible for the risk management system. This includes, in particular, the proper organisation of risk management, the risk strategy, the risk-bearing capacity concept as well as risk monitoring. In the context of the general reporting process, the Managing Board is regularly informed about the Bank-wide risk situation.

Since November 1, 2016, the Managing Board of NRW.BANK has been composed of four members again, with Gabriela Pantring, former Board member of ILB Investitionsbank des Landes Brandenburg, having assumed the role of Chief Risk Officer (CRO).

The Supervisory Board monitors the Managing Board's conduct of the Bank's affairs. The Risk Committee, a committee of the Supervisory Board, regularly addresses the Bank's risk situation. The committee receives reports on the risk profile for the various risk categories on a quarterly basis minimum.

The Board of Guarantors decides, among other things, on the principles of the business, promotional and risk policies and on the release of liability of the members of the Supervisory Board and the Managing Board.

The Asset Liability Committee (ALCO) is responsible for the Bank's asset/liability management. This includes, in

particular, responsibility for the Bank-wide allocation of financial resources to the Bank's operating units as well as Bank-wide risk management. The ALCO's tasks include market risk and liquidity risk management, Bank-wide risk management, profit management as well as balance sheet structure management.

There is one Credit Committee each for the promotional business and the capital market business. They prepare credit decisions to be made by the Managing Board and take their own credit decisions based on predefined levels of competence. In addition, they address issues of a general nature relating to credit risks as well as current macroeconomic and political developments and their potential effects on individual exposures.

The management circle, which is composed of the Managing Board and all business unit Heads, addresses issues of strategic relevance. The main focus is on the further development of the overall Bank strategy and

on assessing its consistency with the principles of the business, promotional and risk policies and the overall components of the promotional policy objectives of the federal state.

In accordance with the MaRisk requirements, risk monitoring and risk reporting are managed independently of the front-office business units. While the front-office business units are responsible for managing risks within the defined limits, Risk Control is in charge of risk monitoring, especially compliance with the limits defined by the Managing Board. Functional separation between the business units is ensured up to Board level.

The Bank has entrusted the Head of Risk Control with the risk control function as defined by the MaRisk. He participates in all important management decisions relating to the risk policy, especially through his involvement in the ALCO and other committees.

**Organisational Structure of Bank Steering**



The Risk Control business unit performs all tasks of the risk control function. These primarily include the development of the risk strategy, the determination of the risk-bearing capacity (incl. Bank-wide stress tests), the monitoring of limits, risk reporting, the daily valuation of trades, the management of the rating procedures, responsibility for compliance and money laundering prevention as well as the coordination of the processes for the launch of new products.

The Credit Management business unit performs the traditional back-office functions together with other business units, especially voting, loan processing and ongoing monitoring in the promotional and capital market business as well as the preparation of the watchlist (for high-risk exposures). In addition, the Credit Management business unit is responsible for coordinating the meetings of the Credit Committee.

The effectiveness and appropriateness of the risk management structures and processes are subject to regular reviews by Internal Audit, which acts as an independent body on behalf of the Managing Board.

On balance, NRW.BANK's risk management instruments and processes again proved their worth in the past fiscal year.

## 5.2 Risk Policy and Strategy

Being a promotional bank, NRW.BANK has a focused business model whose risks are strictly limited. According to its risk strategy, the promotional business takes precedence over the capital market business when it comes to the allocation of risk capital. Avoiding defaults takes precedence over profit generation in all capital market activities undertaken to support the promotional business. New business with a sub-investment grade rating is permitted only in the promotional business.

Together with the promotional and business strategy, the risk strategy is part of the overall strategy of NRW.BANK. It builds on the promotional and business strategies and aims to ensure balanced risk manage-

ment within NRW.BANK. It puts the risk policy principles adopted by the Board of Guarantors into more concrete terms by way of adequate limits as part of the operational controlling process. It covers a planning period of four years.

The Managing Board of NRW.BANK defines the strategy and submits it to the responsible bodies. The Risk Committee consults on the risk strategy, which is finally discussed at the year-end meetings of the Supervisory Board and the Board of Guarantors.

## 5.3 Risk Inventory

Effective risk management and monitoring hinge on the precise identification and assessment of risks. In the context of Group-wide risk inventory taking, NRW.BANK systematically examines whether the overall risk profile fully reflects all risks which may potentially influence the net worth, earnings or liquidity position. This is done at a Bank-wide level on an annual basis and whenever required on special occasions. On this basis, risks are classified as material or non-material, respectively.

The material risks identified are the credit and the market risk as well as the liquidity, operational and pension risk. The three latter risk types contribute less to the Bank-wide risk and therefore rank behind the credit and the market risk.

Complemental to the risk inventory, new products to be added to the product portfolio of NRW.BANK are subjected to a cross-divisional process for the introduction of new products. This ensures that the risks of new products are identified, measured and limited.

## 5.4 Risk-bearing Capacity

Economic capital is the relevant risk management parameter of NRW.BANK across all risk types and business units. It forms the basis on which risks are comprised into a Bank-wide figure using a consistent methodology.

The going concern perspective is taken for the direct management of the risk-bearing capacity. It is based on

the German Commercial Code (HGB) in accordance with the Bank's accounting policy. The focus is on avoiding losses in the balance sheet in order to protect creditors and owners. Accordingly, those risks that could adversely affect a balance sheet under HGB are considered in economic capital.

Risk-bearing capacity is additionally analysed from a gone concern perspective. Against the background of the liability instruments "institutional liability", "guarantor liability" and "explicit funding guarantee" granted to NRW.BANK by the guarantor to perform its promotional tasks, this is merely a fictitious analysis, though.

Under both perspectives, the risk-mitigating effects of the above liability instruments are not taken into consideration.

The risk-bearing capacity concept has been defined in accordance with regulatory requirements (especially with the BaFin publication "Aufsichtliche Beurteilung bankinterner Risikotragfähigkeitskonzepte" [supervisory assessment of banks' internal risk-bearing capacity concepts]). It reflects the risks identified as material according to the risk inventory as well as the business and cost risk.

NRW.BANK uses a value-at-risk (VaR) concept covering a risk horizon of one year to quantify the individual risks and aggregate them into an overall ratio. The choice of the confidence level depends on the perspective taken (99% under the going concern perspective; 99.96% in the gone concern perspective).

The credit risk is a Bank-wide key risk. Differences between the going concern and the gone concern perspective primarily result from the confidence level used in the Credit VaR model.

Under the going concern perspective, the market risk is determined on the basis of a "HGB-VaR". In this context, the market risks that may have an adverse impact on the income statement prepared according to HGB

are taken into account. By contrast, the gone concern perspective addresses the market risks on a mark-to-market basis.

The liquidity risk under the going concern perspective takes into account changes in NRW.BANK's funding spread that are relevant for the HGB income statement, as an increase in funding costs leads to higher expenses. Liquidity risks are not part of the gone concern perspective but are limited by the amount of the available liquid funds (liquidity buffer).

Economic capital for the operational risk is determined based on the Basle basic indicator approach. Differences between the going concern and the gone concern perspective result exclusively from scaling to the confidence level used.

The pension risk is determined by means of a scenario analysis, which takes into account changes in the statistical assumptions regarding invalidity and mortality which could lead to an increase in pension obligations. Differences between the going concern and the gone concern perspective result exclusively from different interest rates used to discount the cash flows. Interest rate risks relating to pension obligations are incorporated into the market risk.

For the business and cost risk, a general risk amount is determined on the basis of a simplified method. Differences between the going concern perspective and the gone concern perspective result from the scaling to the confidence level used.

More detailed information on the individual risk types and the methods used for their calculation is provided on the following pages of the risk and opportunity report.

Under the going concern perspective and the gone concern perspective, Bank-wide economic capital is determined by way of a simple addition of the economic capital of the risk types without taking diversification effects into account.

The table below shows the composition of economic capital from the going concern perspective.

### Bank-wide economic capital under the going concern perspective

	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
Credit risk	907	977
Market risk	112	70
Liquidity risk	11	11
Operational risk	35	35
Pension risk	60	60
Business and cost risk	50	50
<b>Total economic capital</b>	<b>1,175</b>	<b>1,202</b>

The wind-down of risk assets with poorer risk ratings led to an overall reduction in the credit risk. As of the reporting date, economic capital under the going concern perspective amounted to € 11,482 million (2015: € 10,653 million).

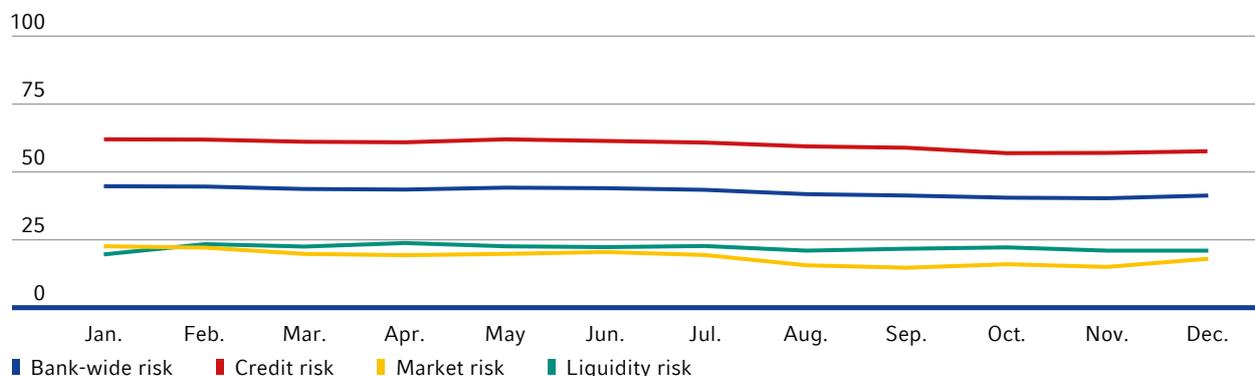
The economic capital is compared with the maximum capital cover that is available to cover risks. Just like the economic capital, the capital cover is calculated in accordance with the respective perspective taking into account regulatory and balance sheet equity components, adjusted for specific corrections. Under the going concern perspective, for instance, the capital components tied up in accordance with the Capital Requirements Regulation (CRR) are deducted, with the minimum capital ratio defined by the ECB in the context of the Supervisory Review and Evaluation Process (SREP) also taken into consideration. Under the going concern perspective, hidden charges and reserves, in particular from securities, are deducted if they are negative when balanced. Positive own credit risk effects are not accepted as mitigating factors on the liabilities side. As of the reporting date, the capital cover amounts to € 15.1 billion (2015: € 14.4 billion) under the going concern perspective and to € 20.2 billion (2015: € 18.5 billion) under the going concern perspective. These amounts include the allocations to allowance reserves made in the fiscal year, which strengthen

the capital cover in both perspectives. Other changes in the capital cover result from the new SREP minimum capital ratio defined by the ECB under the going concern perspective and from lower interest rates under the going concern perspective.

For the direct management of risks under the going concern perspective, a Bank-wide economic capital limit is defined, which is much lower than the available capital cover. In the complementary going concern perspective, the capital cover forms the limit for Bank-wide economic capital. Under both perspectives, the Bank-wide limit is allocated to the key business units. This ensures that sufficient risk capital is available to achieve the planned income and that the risks are limited at the same time. Utilisation of the limits is determined daily (for the individual risk types) and monthly (across all risk types) on the basis of the economic capital.

The chart below shows the limit utilisation for purposes of direct control under the going concern perspective for the credit, market and liquidity risk in the course of the year. Economic capital for the operational risk, the business and cost risk and the pension risk is determined once a year. I.e. it remains constant throughout the year and the Bank makes no distinction between limit and utilisation. Therefore, the mentioned risk types are not shown in the chart.

### Limit utilisation in the course of 2016 in %



The risk types and the overall bank risk stayed within the limits at all times. The Bank's risk-bearing capacity was intact at all times throughout the fiscal year.

In addition, the regulatory equity requirements under the CRR were met at all times. NRW.BANK has very comfortable capital ratios. For information on the regulatory equity requirements, the equity capital and the capital ratios, please refer to paragraph 2.3.3 Net Assets.

In order to minimise the uncertainties resulting from the statistical processes of the value-at-risk approach, NRW.BANK takes various measures to validate the data used as well as the risk results that are determined. In addition, regular stress tests are performed.

#### 5.5 Stress Tests

The risk management concept is complemented by Bank-wide stress and scenario analyses. The Bank takes an integrated approach which takes into account effects on the material risk types, the HGB income statement, the capital cover as well as the regulatory capital ratios.

The stress tests are performed at a Bank-wide level on a quarterly basis and due to single events occurring. Similar to the risk-bearing capacity concept, separate stress tests are performed under the going concern perspective and the gone concern perspective. Both historical and hypothetical scenarios are analysed.

Historical scenarios translate past crises to the current portfolio. Examples include a scenario reflecting the height of the financial crisis at the time of the Lehman bankruptcy in 2008.

Hypothetical scenarios are developed by the Bank on the basis of market analyses and expert estimates. For instance, a scenario entitled "Deterioration of the sovereign and financial institution crisis" assumes an increase in the risk factors that are relevant for the sovereign portfolio.

The stress scenarios examine the combined effects of a deterioration in exposures (increases in probabilities of default and loss given default) and of changes in market data (interest rates, credit spreads). Pension and operational risks are additionally taken into consideration.

In addition, inverse stress tests are performed on a regular basis. Inverse stress tests examine which events could potentially jeopardise the Bank's ability to survive.

Under the going concern perspective, the stress tests are dominated by changes in the field of credit risks. The assumed defaults of borrowers and rating migrations lead to a reduction in the capital cover and/or to an increase in the economic capital for credit risks.

Under the gone concern perspective, credit risks and market risks play an equally important role in the stress tests. Under this perspective, the capital cover reacts much more sensitively to changes in market data under stress.

The stress tests confirm the adequacy of the capital situation under the going concern perspective.

As in 2014, the European Banking Authority (EBA) and the European Central Bank (ECB) subjected European banks to a stress test. NRW.BANK successfully passed the EBA/ECB stress test in both scenarios again in 2016. Equity remained largely constant even under stress assumptions. On the basis of simulated rating downgrades and/or defaults, the sum total of the risk positions increased moderately. The CET1 capital ratio (baseline scenario: 39.4%; adverse scenario: 35.4%) stayed far above the existing regulatory minimums. Just like in 2014, NRW.BANK was one of the most resilient European banks also in the 2016 stress test.

## 5.6 Credit Risk

### 5.6.1 Definition

The credit risk describes the risk of a counterparty being partly or fully unable to meet their contractual obligations towards NRW.BANK. There is the risk of a loss or reduced profit resulting from the full or partial default of a counterparty. This comprises the credit risk from loans, issuers, counterparty, country risks, risks resulting from equity holdings and migration risks.

NRW.BANK defines the credit risk from loans as the risk of a contractual partner failing to meet its obligations to repay liquid funds (e.g. loans or money market transactions).

The issuer risk describes the risk of payment inability of an issuer (e.g. in the case of securities) or a reference counterparty (e.g. credit derivatives).

Counterparty risk means that the default of a contractual partner under a derivatives contract makes it impossible for the Bank to realise an unrealised gain from pending transactions (i.e. up to contractual maturity) if the market conditions have changed in the meantime or that the Bank will face increased replacement costs.

In NRW.BANK's view, a country risk exists where the Bank has an exposure to customers headquartered

outside Germany. This definition covers all aspects of the country risk (creditworthiness, transfer and economic risks).

The risk from equity holdings results from the risk of incurring losses from the provision of equity capital to enterprises. NRW.BANK's equity holdings comprise investments which are primarily held on behalf of the Federal State of North Rhine-Westphalia and were transferred to the Bank upon its inception as well as investments entered into as part of the Bank's mission as a promotional bank.

The migration risk shows potential value losses resulting from a deterioration in the creditworthiness of a debtor/counterparty. The migration risk partly overlaps with the credit spread risk, which forms part of the market risk.

### 5.6.2 Methods

Factors playing a key role in the calculation of the credit risk include the amount of the exposure, the probability of default and the loss given default of each debtor. These parameters form the basis for managing the risk at the level of each individual exposure and at a Bank-wide level.

- The amount of the exposure is the sum total of all relevant amounts that are subject to a risk of default. In the case of loans, this is the remaining capital plus binding payment obligations; in the case of securities, it is the higher of the amortised cost price and the nominal value. Credit equivalents are recognised to calculate counterparty risks from derivatives, taking netting and collateral pursuant to standardised framework agreements into account. In addition, credit derivatives are recognised at their nominal value; thereby the purchase of protection reduces the exposure of the respective reference counterparty, while the sale of protection increases it. The total exposure (the credit risk-related amount of the exposure) thus differs from the business volume.
- The probability of default is derived from the debtor's internal rating. For this purpose, NRW.BANK uses differentiated risk classification

methods. The portfolios of corporates, financials and real estate clients are classified using rating procedures meeting the requirements of the internal rating based (IRB) approach of the CRR. The ratings for exposures to foreign governments are determined on the basis of external agency ratings and structured internal plausibilisation. In view of the joint liability scheme and the fiscal equalisation scheme, uniform ratings are used in particular for savings banks and domestic municipalities, respectively. Simplified internal risk classification methods are used for smaller portfolios. Depending on the type of debtor, each rating is assigned a probability of default based on a 26-step scale, so that all debtors are included as risk-relevant in the calculation of the economic capital on a staggered basis.

- The loss given default (LGD) describes the portion of the exposure which would irrecoverably be lost in the case of insolvency proceedings after realisation of potential collateral. Differentiated LGDs are assigned to the exposures depending on the type of debtor. They are determined for housing promotional exposures based on an analysis of own historical data. For other asset classes, they are primarily determined on the basis of external data sources, as there is no statistically significant number of defaults in the Bank's portfolio.

NRW.BANK determines the economic capital for the credit risk on the basis of a credit value-at-risk. The risk horizon is one year, the confidence level is 99% under the going concern perspective and 99.96% under the gone concern perspective.

The credit value-at-risk is calculated according to the formula of the IRB approach under the CRR. Initially, there is only a methodological difference made between the treatment of defaulted and non-defaulted debtors. Through an additional maturities adjustment rating migrations that may lead to additional capital requirements are then also taken into account.

As the IRB approach is based on the assumption of an indefinitely granular portfolio, an additional concentra-

tion surcharge is determined on the basis of a simulation process and reflected in the economic capital. As a result, high exposures which either exist separately or are composed of different exposures within an economic grouping make a disproportionate contribution to the risk, which means that the surcharge takes concentrations into account.

In order to further limit concentrations – not only with regard to risks but also regarding income – single name concentration limits at Group level and cross-borrower concentration limits at country level are defined for the amount of the exposure.

Besides the economic capital (unexpected loss), standard risk costs (expected loss) are generally taken into account when defining the terms and conditions. This way, it is ensured that the expected losses are compensated by corresponding income.

In the context of the Bank-wide stress tests, various historical and hypothetical scenarios are analysed, which assume deteriorations in the rating quality that are differentiated by asset classes.

The above risk management methods allow NRW.BANK to appropriately monitor credit risks, to identify unbalanced portfolio developments and risk concentrations and to take any measures that may be required at an early stage.

### 5.6.3 Validation

The ratings and probabilities of default as well as the loss given defaults are validated at least once per year. For the social housing promotional portfolio, which is the biggest portfolio of NRW.BANK in terms of number of individual exposures, differentiated analyses are performed for individual segments such as investors and owner-occupiers.

In addition, the methodological assumptions that serve as the basis for the calculation of economic capital are also reviewed annually. For instance, the maturity adjustments implemented to reflect rating migrations are checked for plausibility.

The reviews serve to ensure that the risk calculation remains adequately conservative.

**5.6.4 Risk Assessment and Limitation**

NRW.BANK uses suitable limits and processes to ensure that the credit risk is limited. On the one hand, there are concentration limits which limit the exposures, especially at individual debtor level, Group level and at country level as well as sub-portfolio level. The respective limit utilisation is determined by the amount of the exposure, with new transactions being immediately counted against the limits. On the other hand, there is a Bank-wide and a business unit-specific limitation of the economic capital under the going concern perspective. The limits take into account both the Bank’s risk-bearing capacity and the budgets prepared by the individual business units as part of the strategy process.

Key elements used to monitor the credit risk:

- Event-related bad news process including immediate analysis and decision on individual measures (e. g. rating review, limit adjustments)
- Daily monitoring of single name, group, country and economic capital limits
- Daily monitoring of capital market investments in the context of an early warning system (e. g. changes in credit spreads and ratings)

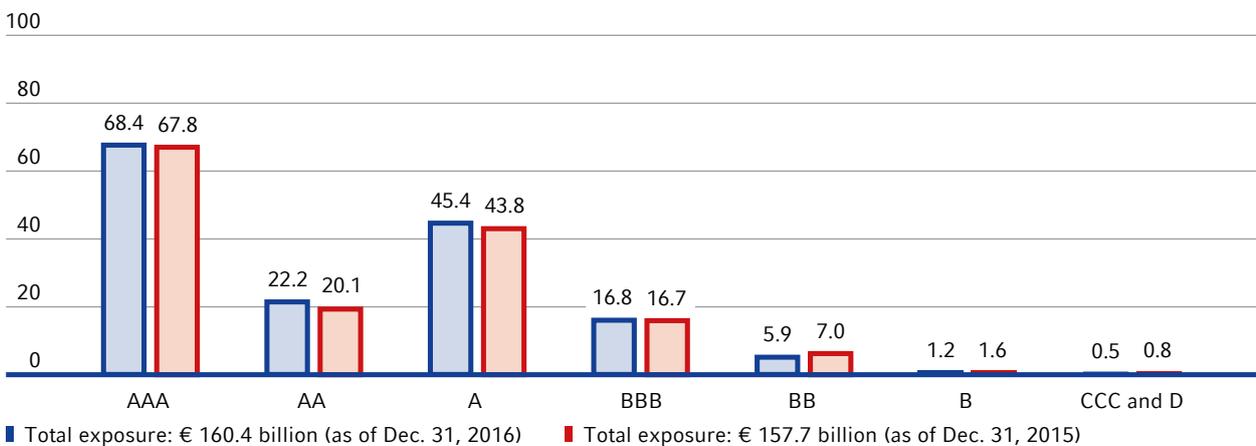
- At least annual monitoring of individual credit exposures
- Ongoing monitoring of the exposures on the watchlist, which contains intensive care and problem exposures

Where limits are exceeded, reasons must be given in each case; if these deviations are material – according to clearly defined criteria – they must be decided by the Managing Board and be submitted to the executive bodies for information.

The promotional funds extended by NRW.BANK are either secured or granted according to the house bank principle, which means that the respective portfolio is a low-risk portfolio. Sub-investment-grade exposures may be entered into only if this is required by the public promotional mission, e. g. in the promotion of small and medium enterprises and social housing promotion.

In addition, the Bank holds a portfolio of securities/ receivables and loans and engages in money market transactions. Derivative contracts are concluded with counterparties with good credit ratings on the basis of standard contracts. New business in this portfolio must always be of investment-grade quality (this corresponds to internal rating AAA to BBB).

**Total exposure by internal rating classes incl. derivatives, in € billions**



NRW.BANK's total exposure amounts to € 160.4 billion, which represents an increase by € 2.7 billion from the previous year's € 157.7 billion).

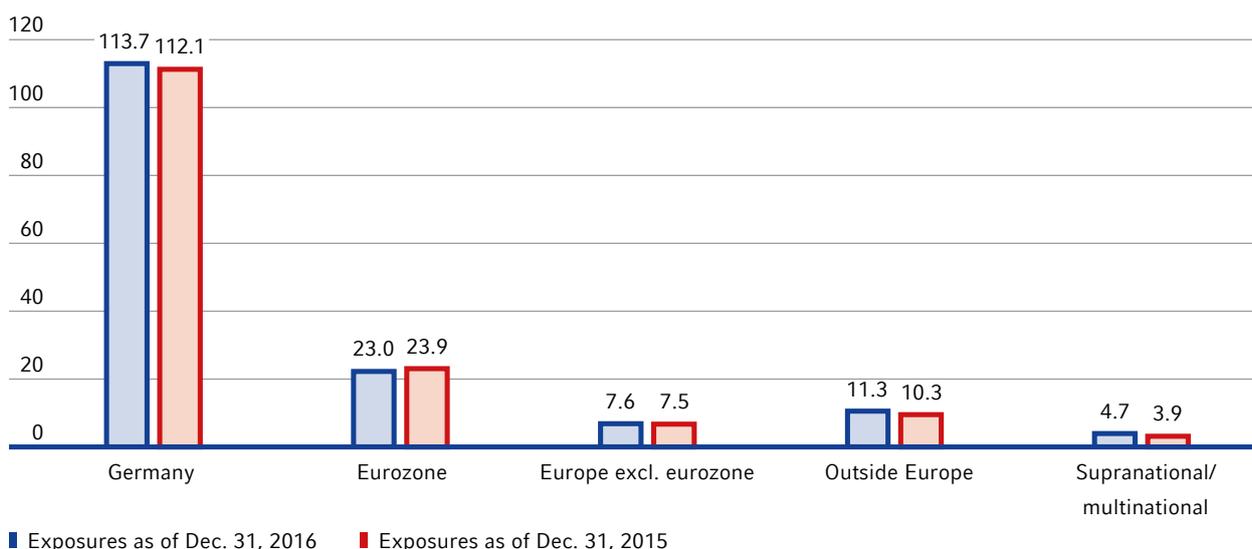
Due to the high proportion of government and domestic municipal loans, most of the ratings remain within the internal rating class AAA. 95.3% of the portfolio (2015: 94.1%) are investment grade exposures.

At € 113.7 billion (2015: € 112.1 billion) exposures in Germany account for the biggest portion of the portfolio (70.9% of the total exposure; 2015: 71.1%). Of this amount, € 77.3 billion (2015: € 79.4 billion) relates to North Rhine-Westphalia; this amount includes direct exposures to municipalities of € 16.9 billion (2015: € 16.9 billion). This concentration is the result of the public promotional mission, because of which the Bank has a special responsibility towards the municipalities and provides them with reliable funding.

As a largely independent promotional bank, NRW.BANK uses the income from its international exposures to fulfil its promotional mission. The international exposure totals € 46.7 billion (29.1% of the total exposure; 2015: € 45.6 billion) and is composed of exposures to European countries in the amount of € 30.7 billion (2015: € 31.4 billion) and of exposures to non-European countries as well as supranational and multinational organisations in the amount of € 16.0 billion (2015: € 14.2 billion). The international exposure is focused almost exclusively (98.8%, 2015: 97.8%) on investment-grade countries.

The European exposure comprises investments in the eurozone in the amount of € 23.0 billion (2015: € 23.9 billion) and investments outside the eurozone of € 7.6 billion (2015: € 7.5 billion). The non-European exposures focus on North America with € 7.2 billion (2015: € 6.7 billion), Australia/New Zealand with € 2.4 billion (2015: 2.1 billion) and Asia with € 1.5 billion (2015: € 1.2 billion). Supranational organisations and multinational exposures account for a total of € 4.7 billion (2015: € 3.9 billion).

#### Geographic breakdown of exposures incl. derivatives, in € billions



The sub-investment-grade country exposure is exclusively rated in the BB range and totals € 0.6 billion (2015: € 1.0 billion), of which € 0.5 billion (2015: € 0.7 billion) relates to Portugal. It exclusively results

from rating downgrades of investments already held in the portfolio. As a general rule, no new capital investments are made in these rating classes. The Bank has no exposure to any Greek entity. Furthermore, it has

significant exposures in countries with low investment-grade ratings (BBB), especially in Italy (€ 3.1 billion, 2015: € 3.4 billion) and Spain (€ 3.0 billion, 2015: € 4.1 billion). The exposures to these countries were further reduced in the course of the fiscal year. New burdens faced by the governments or a more pronounced economic slow-down could put the ratings under renewed pressure.

As a result of repayments, securitisation exposures decreased by a moderate € 90.0 million in the fiscal year. As of the balance sheet date, the securitisation exposures – mostly of investment-grade quality – amounted to 5.9 billion (2015: € 6.0 billion). A major portion of the portfolio (65.2%) additionally benefits from a comprehensive state guarantee (e. g. from the US Department of Education). NRW.BANK constantly monitors the credit risk associated with the underlying reference pools of securitisation exposures.

The equity investment business comprises strategic investments which are primarily held on behalf of the Federal State of North Rhine-Westphalia and were transferred to the Bank upon its inception as well as investments entered into as part of the Bank's promotional mission. The credit risks arising from the investments are largely based on strategic and operational risks, which are primarily analysed using the corporate data made available for investment controlling purposes. Controlling for these companies includes continuous monitoring of profits and losses and of conformity to projections. In the case of major equity holdings, the quarterly report also includes a review of risk-relevant developments. As such, risk management is a systematic and continuous process that enables rapid adaptation to changing conditions. At some of these investments, the Bank is represented through mandates on bodies such as advisory councils, supervisory boards or investment committees. Moreover, the investment contracts usually contain regulations which reserve a veto/approval right for NRW.BANK in specific cases.

For some equity investments, the credit risk is reduced due to a strong involvement of the public sector. In the

case of eight participation funds in the promotional business with a total exposure of € 157.2 million (2015: € 157.7 million) the credit risk is reduced by a guarantee from the Federal State of North Rhine-Westphalia which covers 49% of the respective fund's total investment.

The € 2.2 billion book value of the investment in Portigon AG, which is held on behalf of the Federal State of North Rhine-Westphalia, is secured by a guarantee from the federal state.

Equity investment exposures are included in economic capital management and reflected in the credit risk.

#### 5.6.5 Economic Capital

As of the reporting date, the economic capital set aside for credit risks amounts to € 0.9 billion (2015: € 1.0 billion) under the going concern perspective and to € 4.1 billion (2015: € 4.2 billion) under the gone concern perspective. Differences between the two perspectives are primarily attributable to the confidence level used. Under both perspectives, the reduction in risk assets with poorer ratings helped to reduce the risk.

#### 5.6.6 Risk Provisions

Defined criteria are used to determine whether risk provisions need to be established for credit claims. Where they are needed, the amount of the required individual allowances is determined in a timely manner in the course of the year. Thereby, existing collateral is taken into account. In evaluating collateral, the usual methods applied for the valuation of real estate are used for social housing promotional loans. The result is reduced by a discount calculated on the basis of historical data. By contrast, generalised individual allowances are established in social housing promotion as part of managing the Bank's exposure to non-performing loans in the owner-occupier segment (remaining capital of less than € 750 thousand). A general allowance is formed for latent credit risks. The amount of this allowance is based on historical averages for default rates and loss given defaults.

In the securities business, the risk provision is calculated on the basis of market information, mathematical models and individual creditworthiness estimates.

Equity investments of NRW.BANK are also regularly checked for the need to establish risk provisions. Where these are required, the book value is written down.

### **5.6.7 Opportunities**

In accordance with its business model and the risk strategy principles, NRW.BANK takes risks only within clearly defined limits. This means that unexpected opportunities arising from potential future developments or events which may lead to a positive deviation from forecasts or targets exist only to a very limited extent. The positive business trend anticipated in the context of the business model is incorporated into the annual strategic planning process.

Opportunities arise, for instance, from rating upgrades of the exposures, which means that less rating-related economic capital needs to be set aside for credit risks. This opens up further investment opportunities with additional income potential.

NRW.BANK determines anticipated losses on the basis of probabilities of default and loss given default and incorporates them in the planning and extrapolation for its result under HGB. There is a possibility that the actual defaults are lower than the anticipated losses. In these cases higher allocations to allowance reserves may be made – as in the previous years – which helps to strengthen the capital cover and the risk-bearing capacity.

## **5.7 Market Risk**

### **5.7.1 Definition**

The market risk refers to a potential loss resulting from unfavourable changes in market prices or price-influencing parameters. This definition covers interest rate, foreign exchange rate and option risks. The Bank does not take equity and commodity risks. As far as the interest rate risk is concerned, a distinction is made

between the general and the specific interest rate risk. It comprises both changes in general interest rates and changes in the credit spread of issuer classes and changes in the credit spread of individual issuers (residual risk).

### **5.7.2 Methods**

The Bank controls and monitors its market risk using a value-at-risk (VaR) methodology. VaR is calculated for daily management at a 95% confidence level for a one-day holding period and takes into account all risk factors relevant for the portfolio, such as interest rates, foreign exchange rates, implicit volatilities and credit spreads.

Under the going concern perspective, market risks are primarily measured on the basis of a VaR concept (net-interest-income approach, respectively). Under this approach, all market risks which may influence the HGB income statement are taken into account. In the investment portfolio, this may include interest or foreign exchange rate risks resulting from assets and liabilities with different fixed interest periods or currencies which still have to be hedged on a nominal value basis in the context of asset/liability management. For the trading portfolio and the liquidity reserve, all relevant risks types are additionally measured on a mark-to-market basis. Accordingly, temporary market value changes, e. g. from specific interest rate risks (credit spreads), are counted under the HGB perspective for the trading portfolio and the liquidity reserve. Due to the strategic objective of hedging most of the interest and rate and currency risks, the correspondingly conservative limitation as well as active management, only low market risks exist in the investment and trading portfolios under the going concern perspective. The HGB-VaR calculation is based on the sensitivity of the HGB income statement towards changes in market prices (“HGB sensitivities”). In contrast to a mark-to-market VaR concept, the focus is not on the mark-to-market sensitivities but on the sensitivity of the HGB result. The HGB-VaR is calculated for the current and for the next two fiscal years as well as generally for all future periods.

Under the gone concern perspective, the VaR is additionally examined on a mark-to-market VaR basis (economic value of equity). The (mark-to-market) sensitivities used to calculate the VaR take into account general and specific interest rate risks, exchange rate risks and volatility risks. Under this approach, the general interest rate risks from the largely equity-funded social housing promotional business as well as the specific interest rate risks (credit spreads) are considered in the investment portfolio.

The volatilities and correlations needed to determine the VaR figures are identical for both perspectives. The historical observation period is 250 days, with a greater weight placed on incidents in the more recent past.

Since June 2016, daily management has been based on a VaR with stressed correlations and volatilities (variance-covariance approach). In particular, the Lehman crisis of 2008 and the EU government finance crisis of 2011 are used as stress histories. This way, the Bank ensures that unfavourable market phases are also taken into consideration. In the investment book, the stressed VaR is monitored across all levels from the Bank as a whole down to individual sub-portfolios. In the trading book, the unstressed VaR is limited, as the consideration of current market data makes sense against the background of short-term management. The VaR for the trading book is calculated on the basis of a Monte Carlo simulation. Non-linear products are taken into account via new valuation.

Above and beyond this day-to-day management of the interest-bearing business, strategic interest rate risks from pension obligations (incl. benefit obligations), business policy decisions in the promotional programmes business and strategic investments are also considered. Strategic interest rate risks from pension obligations result from the Bank's strategic decisions regarding the capital investment of pension provisions in cases where the maturity of the investment does not exactly match the payment profile. There is a risk that the provisions and the interest income generated from the investment need to be complemented by other operating income

to meet all pension obligations. In addition, strategic interest rate risks include business policy-driven interest rate commitments in the promotional programme business as well as – on a small scale – from strategic investments if the term of the refinancing differs from the assumed term of the strategic investment.

The calculation of the VaR is supplemented with daily stress scenario computations. In this context, hypothetical scenarios are considered for interest rates, foreign exchange rates, implicit volatilities and credit spreads. In addition, the effects of changes in interest rates and credit spreads are examined for the identified historical scenarios. The standardised stress scenarios are supplemented if needed with individual, situational considerations tailored to the risk structure of the Bank's portfolio. Moreover, the analysis of the sensitivities and risk concentrations from the above risk factors is an integral element of daily market risk measurement.

### 5.7.3 Validation

Daily backtesting is used to check the quality of the VaR projection. In this context, the losses projected by the VaR model are compared with the changes in the result. The Bank performs clean backtesting without ageing, which means that only changes resulting from changes in the market data are taken into account. In accordance with the two perspectives, backtesting is performed for both HGB losses and mark-to-market losses.

If the regulatory traffic-light model for internal models (for the calculation of the equity capital needed to back market risks in the trading book) is applied to NRW.BANK's backtesting with a confidence level of 95% and 250 backtesting observations, the model is "in the green" for both perspectives (going concern and gone concern perspective). This means that the validity of the model is confirmed also by backtesting.

In addition, the parameters and assumptions of the model are regularly reviewed in the context of various daily, monthly and annual processes.

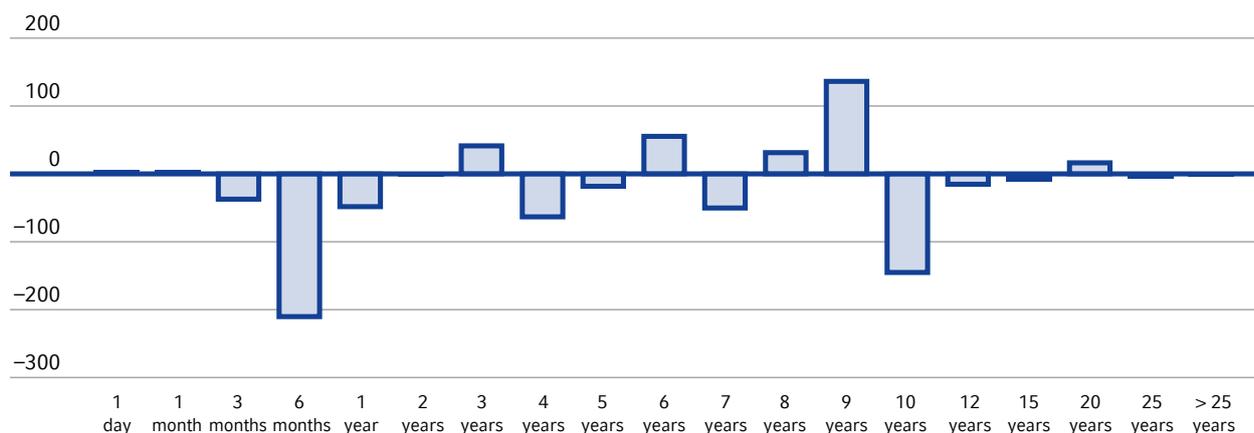
### 5.7.4 Risk Assessment and Limitation

The focus of the market risk under the gone concern perspective is on general and specific interest rate risks in the investment portfolio. The resulting market value fluctuations are not reflected in profit/loss under the HGB-oriented going concern perspective, provided there is no permanent impairment. As investments in the investment portfolio are made with the intention of being held to maturity permanently, the hedges used by the Bank relate to the nominal value at maturity. Accordingly, there are only minor fixed-interest-period and currency mismatches under the HGB-oriented going concern perspective, which are limited by the HGB-VaR for the risks of all future fiscal years as well

as for the current and the next two fiscal years. This is complemented by mark-to-market VaR limitation under the gone concern perspective. The Bank also has minor active positions in the trading portfolio. These are limited by a separate limit for the trading portfolio. Compliance with the limits is monitored on a daily basis; all limits were met at all times in the fiscal year.

Due to the hedges in place, there are no material fixed-interest-period mismatches at Bank-wide level under the HGB-oriented going concern perspective (the following graph shows sensitivities of max. € 140 thousand and min. € -214 thousand).

**HGB interest rate sensitivities (excl. strategic interest rate risks) under the going concern perspective (all periods) to a 1 bp interest rate hike in € thousands as of Dec. 31, 2016**



In addition, HGB interest rate sensitivities from strategic interest rate risks for pension obligations and strategic investments for the current and the next fiscal year as well as business policy-driven interest rate commitments in the promotional programme business in the amount of € 98 thousand were considered in the risk measurement as of December 31, 2016.

Currency risks also play only a minor role under the HGB-oriented going concern perspective. They are extensively hedged using derivatives, which means that

the HGB result is essentially exposed only to the currency risk on the interest margin generated.

Reflecting the low interest rate and exchange rate risks, the HGB-VaR for market risks (excl. strategic interest rate risks) for all future fiscal years amounted to € 3.7 million as of December 31, 2016 (2015: € 2.8 million). Since June 2016, daily management has been based on a VaR with stressed correlations and volatilities (variance-covariance approach).

**HGB-VaR (excl. strategic interest rate risks) going concern (all periods) in € millions**



The average (all periods) HGB-VaR for market risks in the fiscal year was € 2.4 million (2015: € 2.4 million) until June 17, 2016 and € 3.6 million from June 20, 2016. The minimum was € 1.9 million on June 13, 2016 and the maximum was € 6.4 million on July 11, 2016.

The allocation of the HGB-VaR to the risk types confirms the relatively low overall market risks taken, which, as described above, are largely closed by hedges and limited additionally.

The HGB-VaR for strategic interest rate risks amounted to € 1.3 million on December 31, 2016.

**HGB-VaR (excl. strategic interest rate risks) going concern (all periods)**

	March 31, 2016*	June 30, 2016	Sep. 30, 2016	Dec. 31, 2016
	€ millions	€ millions	€ millions	€ millions
Interest rate risk	0.5	3.1	1.9	3.2
Foreign exchange rate risk	2.4	3.1	2.3	1.8
Credit spread risk	0.1	0.3	0.4	0.0
Interest rate volatility risk	0.0	0.0	0.0	0.0
Diversification	-0.6	-2.2	-2.1	-1.3
<b>Total VaR</b>	<b>2.4</b>	<b>4.3</b>	<b>2.4</b>	<b>3.7</b>

\* Based on unstressed volatilities and correlations as of the reporting date

No material positions were held in the trading portfolio in the fiscal year. Accordingly, the maximum VaR in the fiscal year was € 0.3 million (2015: € 2.4 million).

**5.7.5 Economic Capital**

For the strategic management of economic capital, the Bank uses a confidence level of 99% under the going concern perspective and of 99.96% under the gone

concern perspective. A risk horizon of one year with a shorter holding period of 125 days (2015: 110 days) is considered under the gone concern perspective, which results from the differentiated analysis of different holding periods per asset and liquidity class. The latter reflects the possibility to take risk management measures, e.g. by reducing risk positions in the event of an unfavourable market trend. A holding period of one

year is used under the going concern perspective. The economic capital for market risks is determined from a stress VaR with stressed correlations and volatilities. This way, the Bank ensures that the calculation of economic capital also reflects unfavourable market phases. Accordingly, the economic capital remains relatively constant.

Under the going concern perspective, the economic capital for market risks including strategic interest rate risks amounted to € 112.4 million (2015: € 69.6 million). An amount of € 29.5 million (2015: € 11.3 million) related to strategic interest rate risks.

The economic capital for market risks under the going concern perspective primarily includes general interest rate risks from the social housing promotional loans. These are primarily funded with own equity funds. To comply with MaRisk, the own equity funds used to fund housing promotional loans may not be taken into account in the risk calculation. The MaRisk thus imply that housing promotional loans are funded fully mismatched with overnight deposits. This results in a high assumption based interest position. In addition, economic capital includes all mark-to-market strategic interest rate risks and all credit spread risks of the investment portfolio, although any resulting fluctuations in the market value are usually not recognised in profit/loss in NRW.BANK's HGB income statement. As of the reporting date, the economic capital set aside for market risk amounted to € 7.1 billion (2015: € 6.1 billion).

#### 5.7.6 KWG Interest Rate Shock

The potential effect of a sudden and unexpected interest rate change in the investment book defined by BaFin circular 11/2011 – currently +/-200 basis points – is dominated by the above-mentioned assumption based interest position of the housing promotional loans. As of December 31, 2016, the negative change in the present value of the Bank's investment book resulting from an assumed +200 bp interest rate shock amounted to 19.8% of the regulatory equity capital (2015: 18.0%). The marked increase is primarily attributable to greater interest rate sensitivities of the housing promotional loans resulting from the general decline in interest rates. The interest rate sensitivity of the housing promotional loans results from the fact that they are funded

with equity. When assessing the Bank's potential sensitivity to the postulated KWG interest rate shock, equity funds must be modelled as maturity mismatched refinancing funds payable on demand according to regulatory requirements.

Besides calculating the effects of the KWG interest rate shock on the present value, the Bank also calculates the effects of interest rate changes on the HGB result under the going concern perspective. In contrast to the above-described particularities of housing promotion under the mark-to-market perspective, interest rate risks under the going concern perspective are negligible. As the positions in the Bank's investment portfolio fall under the buy-and-hold strategy, this perspective is in accordance with the Bank's primary risk management approach.

#### 5.7.7 Opportunities

The aim of NRW.BANK's asset/liability management is to generate a fixed interest and commission margin with regard to the HGB income statement. This entails low market risks, which limit the respective opportunities in the investment portfolio. The biggest opportunities therefore lie in the development of the rates for future new business on the asset and the liability side and not in additional gains from mismatched interest and currency positions. In the trading portfolio, further opportunities are also ruled out due to the existing limit. This means that opportunities for generating additional HGB income from market risk positions play only a minor role. From a mark-to-market point of view, market price fluctuations lead to changes in unrealised profit and losses. In the investment portfolio, these are regarded as temporary value fluctuations – provided that they are not permanently impaired. Realised net gains in the investment portfolio exclusively result from portfolio-enhancing measures.

### 5.8 Liquidity Risk

#### 5.8.1 Definition

The liquidity risk includes, in particular:

- the risk of being unable to meet payment obligations at maturity (liquidity risk in the narrower sense),

- the risk of being unable to provide sufficient liquidity at the anticipated conditions (funding risk) when needed and
- the risk of being unable to unwind or liquidate transactions or to do so only at a loss because of insufficient market depth or market disruptions (market liquidity risk).

### 5.8.2 Methods

The liquidity risk is managed centrally at NRW.BANK to ensure liquidity across the entire Bank at all times.

The risk of insolvency and the funding risk are monitored daily on the basis of a liquidity gap analysis and its limitation. The liquidity gap analysis (in EUR and foreign currency) is prepared and analysed each day independently of trading units. It reflects the contractually agreed (deterministic) inflows and outflows of cash for each day until the final cash flow occurs (incl. interest cash flow and off balance sheet transactions).

For optional (stochastic) cash flows (e. g. termination rights or early redemption), conservative assumptions are made in such a way that negative effects are assumed for NRW.BANK. Moreover, no (fictitious) new business is reflected or modelled in the liquidity gap analysis; e.g. there is no prolongation of unsecured and secured funding.

The funding risk, as the income risk for the HGB result, is determined on the basis of the planned issuance volume of the next twelve months and the volatility of the own fund spread and limited in the context of the risk-bearing capacity in the going concern perspective. In addition, the funding base is diversified in terms of investor groups, regions and products, which helps to minimise the funding risk.

The market liquidity risk is of minor importance for NRW.BANK, as the investment portfolio only consists of positions held in accordance with the buy-and-hold strategy. Accordingly, temporary market liquidity fluctuations are not relevant for the HGB income state-

ment, as the focus is not on short-term profit generation by way of a sale. Sales of investments held in the investment portfolio serve to optimise the portfolio in the context of portfolio management and are not directly related to the generation of liquidity.

The market liquidity risk from securities held in the liquidity reserve and the trading portfolio is not material, as the securities holdings are relatively small.

An analysis of the market liquidity risk that goes beyond the analysis of the market risk is performed in the form of a regular analysis of the short-term liquidity to be generated from the securities portfolio. In addition, it is reflected in the liquidity risk limitation in the form of haircuts on the calculated liquidity potential.

### 5.8.3 Risk Assessment and Limitation

Because of the explicit funding guarantee extended by NRW.BANK's guarantor and its correspondingly good rating, the Bank can generate the required liquidity at short notice at any time. The Bank usually funds itself in the money and capital markets. NRW.BANK continues to benefit from a very favourable funding environment.

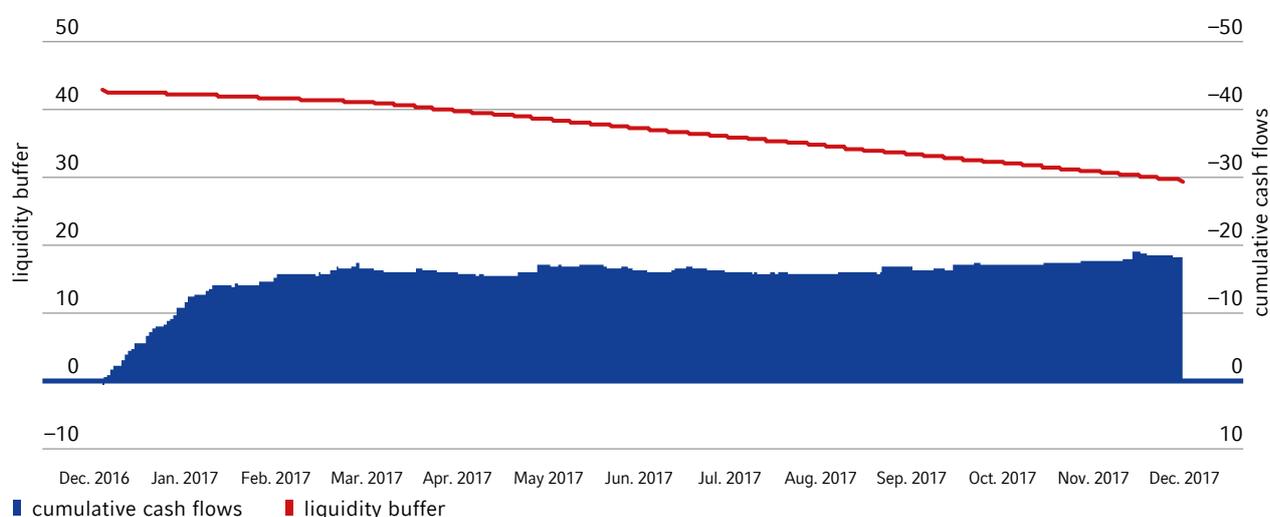
To ensure it is able to meet its payment obligations at all times, the Bank additionally holds a substantial portfolio of liquid ECB/repo-eligible securities. Regardless of the buy-and-hold strategy, the securities may be used in the repo market or for ECB open-market transactions with a view to generating liquidity. Sales of securities in the investment portfolio are therefore not required for this purpose.

To limit liquidity gaps, a limit system graded according to maturities is in place, which is based on the MaRisk requirements for assets to be held as liquidity buffer even in a stress scenario (up to one week: highly liquid securities that can be liquidated in private markets without significant losses at any time and that are ECB-eligible; up to one month: unencumbered ECB-eligible securities and unencumbered securities deposited with

the Bundesbank). The limit system also requires liquid securities for observation periods of more than one month. The liquidity buffer is thus an important element of the system for liquidity gap limitation. In addition, there are further funding possibilities of the money and capital markets, which are reflected in the limit system in a second step, with haircuts being applied.

Due to the above mentioned limit system, NRW.BANK's ability to meet its payment obligations is secured by the freely available portfolio of ECB-eligible receivables and the unused ECB line even without external capital market funding. Netted with cash inflows and outflows, there is a significant liquidity surplus for the 1-year period that is primary relevant for risk management.

### Liquidity gap analysis of NRW.BANK in € billions



The limit system ensures that liquidity gaps are at all times covered by the liquidity buffer, especially in the short-term segment.

Idiosyncratic, market-wide and combined stress tests are also performed in the context of liquidity management. These stress tests take into account crisis-specific effects on payments, the liquidity buffer maintained by the Bank as well as the limit utilisation. The following is simulated in the context of the stress tests:

- defaults of material borrowers,
- outflows under collateralisation agreements,
- reduced liquidity potential from ECB-eligible securities due to rating changes and
- reduction in the collateral value of ECB-eligible securities and credit receivables.

The results are analysed at least on a monthly basis. Even assuming these stress scenarios, NRW.BANK is able to meet its payment obligations at all times. In addition, the HGB result is subjected to stress tests in the form of rising costs from USD exchange rate hedges.

Liquidity risk management also incorporates compliance both with the German Liquidity Regulation and with the regulatory requirements regarding the minimum reserve. These conditions were met at all times in the fiscal year.

#### 5.8.4 Economic Capital

As of the reporting date, the economic capital for liquidity risks under the going concern perspective (income risks of the HGB result for the issuance volume planned for the next twelve months) was € 10.5 million (2015: € 10.5 million).

In addition, the parameters and assumptions of the model are reviewed regularly in the context of various daily, monthly and annual processes.

#### 5.8.5 Funding Structure

As a state-guaranteed promotional bank, NRW.BANK again saw strong demand for funding instruments in the past fiscal year. The Bank met investors' demand for state-guaranteed liquid bonds and strengthened its market presence through further benchmark issues. The issues were subscribed by a broad investor base.

The funding transactions with domestic investors are dominated by bearer bonds, promissory loans and registered bonds.

NRW.BANK also used its international funding programmes. These essentially comprise the Debt Issuance Programme, which covers medium and long-term maturities, and the Global Commercial Paper Programme, which covers maturities of up to twelve months. The GCP Programme constituted a particularly favourable source of funding for NRW.BANK throughout the fiscal year.

#### 5.8.6 Opportunities

NRW.BANK continues to attract strong demand from investors thanks to its status as a promotional bank and the funding guarantee granted by the Federal State of North Rhine-Westphalia. This is reflected in a favourable funding environment for the Bank – even in times of tight financial markets. But even in case of a further reduction in the Bank's own funding spread, there are no plans to increase the funding volume materially. Additional opportunities may arise, however, for the coverage of short-term liquidity, which may take place in different money market segments, depending on the financial markets.

### 5.9 Operational risk

#### 5.9.1 Definition

Operational risk comprises risks in systems or processes, specifically resulting from human or technical failure, external events or legal risks resulting from contractual agreements or applicable law.

#### 5.9.2 Methods

The framework for operational risk management at NRW.BANK incorporates both qualitative and quantitative aspects. Quantitative management of the economic capital is based on the basic indicator approach, while qualitative management is based on the MaRisk requirements.

By using a combination of decentralised and centralised risk management and risk monitoring, the Bank ensures that management can respond promptly as needed, and that the Managing Board can simultaneously take the necessary decisions based on the Bank's overall risk profile.

Since 2004, NRW.BANK has collected information on losses and loss-free risk events in a central risk event database and categorised them in accordance with the Basle event categories. The data collection serves as the basis for the assessment of operational risks at NRW.BANK. The results of the annual forward-looking self-assessments and the findings resulting from the monitoring of risk indicators are also included in the overall assessment of the risk situation.

Comprehensive, business-process-oriented emergency plans exist for particularly mission-critical events such as a major loss of staff, breakdown of a bank building or a computing centre. The contingency plans cover all areas and are designed to prevent high financial and reputational risks.

The Bank's insurance cover is reviewed regularly to ensure that it is appropriate.

NRW.BANK uses standardised contracts to minimise legal risks from transactions. Deviations from standardised contracts and individual transactions are approved by the Legal business unit. The Bank is currently not involved in any significant pending proceedings.

Operational risks are mitigated by, among other things, the instructions in the written orders as defined in the internal control system (ICS). These comprise all processes, methods and control measures ordered by the Managing Board which serve to ensure the proper and safe functioning of the operational processes. The ICS comprises general principles and requirements for working and behavioural practices, e.g. the four-eye principle, but also specific process-related instructions. In the event of material changes in the structural and operational organisation as well as in the IT systems, the business units involved in the downstream workflows as well as the Risk Control function, the Compliance function and Internal Audit analyse the effects on the control procedures and the intensity of control.

Human resources risks are initially managed in the context of regular human resources planning. HR-related measures are implemented in close consultation between the respective business units and the Human Resources business unit. As part of the observation of risk indicators, indicators, e. g. regarding staff turnover or further training, are monitored in order to respond to undesirable developments at an early stage.

Operational risks in NRW.BANK's IT environment are managed on the basis of the IT strategy. The written instructions include rules for the use, procurement and development of hardware and software, with the main emphasis on compliance with the necessary security standards and business continuity. Appropriate authorisation concepts and processes additionally have a

risk-mitigating effect. Contingency plans exist for the breakdown of all critical IT systems. In addition, extensive security measures are in place to protect the Bank against cyber risks, i.e. the unauthorised access to computers or network systems (e.g. hacking, data theft, virus attacks).

Risks that may result from the outsourcing of material business activities are mitigated by an established audit and monitoring process, which primarily consists of a detailed risk analysis as the basis for a possible outsourcing decision to limit outsourcing risks.

In addition, the Bank effectively mitigates risks related to (MaRisk and WpHG) compliance, money laundering and financing terrorism as well as potential risks arising from other criminal acts. Bank-wide security procedures, processes for the reporting of suspicions, regular hazard analyses as well as self-assessments serve to manage and limit the potential risks arising in conjunction with these topics.

### **5.9.3 Risk Assessment and Limitation**

In the context of the identification and assessment of risks, all losses and risk events are analysed for their causes (including the observation of early warning indicators). Regardless of the current amount of the risk or the risk potential, this is done to ensure that countermeasures can be taken at an early stage if similar events occur.

NRW.BANK performs self-assessments of all operational risks to which the Bank may be exposed. Risks are assessed separately for relevance (probability of occurrence) and frequency.

Neither the operational risk losses and loss-free risk events identified in 2016 nor the findings from the self-assessments and the observation of early warning indicators have revealed any risks that could jeopardise the existence of the Bank.

The economic capital for operational risks is determined annually in accordance with the basic indicator approach. As the economic capital allocated to cover potential losses thus remains constant throughout the year, no distinction is made between limit and utilisation.

#### 5.9.4 Economic Capital

With regard to the economic capital for operational risks derived from the regulatory basic indicator approach, differences between the going concern perspective and the gone concern perspective result exclusively from scaling to the respective confidence level. As of the reporting date, the economic capital set aside for operational risks amounted to € 35 million (2015: € 35 million) under the going concern perspective and to € 125 million (2015: € 120 million) under the gone concern perspective.

### 5.10 Pension risk

#### 5.10.1 Definition

Pension risk relates to the risk that there is a need to increase the pension provisions.

Pension obligations may increase primarily as a result of changes in the statistical assumptions regarding invalidity and mortality. This is considered as the pension risk in the calculation of economic capital. Strategic interest rate risks related to pension obligations are included in the market risk. In addition, risks resulting from a change in interest rates are considered in the capital cover.

#### 5.10.2 Methods

The calculation of the pension provisions requires the actuarial determination of cash flows reflecting future changes in payment obligations over time.

With regard to the period during which pensions are received, invalidity and death must be modelled in the cash flows. This is done on the basis of actuarial mortal-

ity tables (Heubeck 2005 G), which are generally accepted for Germany and approved by the tax authorities.

For the mortality tables, no historical changes covering sufficiently long periods are available from which the volatilities required for a VaR model can be derived. This is why the risk of changes in the statistical assumptions regarding invalidity and death is quantified using a scenario analysis in which the cash flows increase based on the assumption of a growing life expectancy. In addition, the probabilities of invalidity are modified as well. To quantify the risk, the scenario showing the strongest impact on the Bank is applied.

Differences between the going concern perspective and the gone concern perspective exclusively result from different interest rates used to discount the cash flows.

#### 5.10.3 Risk Assessment and Limitation

The pension risk comprises the obligations towards both NRW.BANK's own employees and the employees of Portigon AG employed under a dual contract.

Economic capital is determined once a year, i.e. it is constant throughout the year, the Bank makes thus no distinction between limit and utilisation.

#### 5.10.4 Economic Capital

The economic capital set aside for pension risks as of the reporting date amounted to € 60 million (2015: € 60 million) under the going concern perspective and to € 90 million (2015: € 110 million) under the gone concern perspective.

### 5.11 Business and Cost Risk

#### 5.11.1 Definition

Business risk describes the risk of changes in the economic environment (market and/or demand) or the legal (incl. tax) environment as a result of which income

may be reduced. Cost risk means that the planned personnel and operating expenses are exceeded or that unplanned costs become effective. A cost risk could arise, for instance, as a result of projects that are not foreseeable today, e. g. in the context of the national and European banking supervision or accounting.

The business and cost risk was classified as non-material in the risk inventory. This risk is nevertheless backed by economic capital to ensure comprehensive management of the risk-bearing capacity.

#### **5.11.2 Methods**

A general risk amount is defined on the basis of a simplified procedure for a one-year risk horizon, which is consistent with other risk types. For this purpose, the deviations from the projected balance of income and administrative expenses are determined for the fiscal years since the inception of the Bank. From the negative deviations, mean and standard deviations are determined, from which the economic capital at the chosen confidence level is derived.

#### **5.11.3 Risk Assessment and Limitation**

Developments from which business and cost risks may arise are analysed on a regular basis. This includes, in particular, a review of the internal and external premises on which the strategy of NRW.BANK is based. If required, adjustments are implemented in the context of the strategy process, for which the Managing Board is directly responsible.

Economic capital is calculated once a year. As this means that it is constant throughout the year, the Bank makes no distinction between limit and utilisation.

#### **5.11.4 Economic Capital**

As of the reporting date, the economic capital set aside for the business and cost risk amounted to € 50 million under the going concern perspective and to € 65 million under the gone concern perspective (differences result

from different interest rates used to discount the cash flows). No changes have occurred compared to the previous year.

#### **5.12 Reporting**

In accordance with the MaRisk provisions, the Risk Control business unit ensures market-independent and regular reporting to the Managing Board and the Risk Committee.

Daily reports are produced for the Managing Board both on Bank-wide level and for the capital market business. These include risk positions and trading results as well as all cases where limits for market risks and liquidity risks as well as counterparty and issuer limits are exceeded.

As a general standard, the monthly risk report covers the following topics: Bank-wide risk management, credit risks, market risks, liquidity risks, operational risks and profit performance. It forms the basis for the discussion of the risk situation in the ALCO and the Credit Committee for capital markets. Besides the standardised content, the report covers risk-relevant special topics as required. Every quarter, it covers the Bank-wide stress tests across all risk types.

The quarterly reports to the Risk Committee are based on the monthly reports that are relevant for the quarter; while the level of detail is reduced with a view to the recipients, all material aspects are addressed. In addition, extraordinary events which are material from a risk perspective immediately trigger an (ad-hoc) report.

### **6 Internal Control System Relevant for the Financial Reporting Process**

NRW.BANK's internal control system (ICS) is to ensure that the financial statements present a true and fair view of the net worth, financial and earnings position of the Bank in accordance with applicable legal provisions and standards. It primarily comprises regulations governing

the organisational and operational structure and makes a clear distinction between responsibilities as well as processes, procedures and measures to ensure the appropriateness and reliability of internal and external accounting.

The Managing Board of NRW.BANK is responsible for the creation and effective maintenance of an appropriate accounting-related internal control system. Responsibility for implementation rests with the Finance business unit in cooperation with the business units Business Support and Risk Control.

Accounting-related business events are mostly handled locally. All accounting-relevant events are initiated in IT systems. The respective business units are responsible for full and proper capture and for implementing and documenting the required controls. Bank-wide functional responsibility for the accounting rules, the booking system, accounting and the definition of the valuation principles rests with the Finance business unit. This ensures that consistent accounting and valuation principles are applied within NRW.BANK even where business transactions are recorded locally. Risk Control is responsible for the trading-independent valuation and results analysis.

In the context of the Management Information System, a standardised report on the income statement, the cost centre statement, total assets, the business volume and the planning and budgeting process is sent to the Managing Board each month to ensure timely reporting. The Managing Board regularly informs the Supervisory Board and its committees about the current business situation.

The financial statements are prepared by the Finance business unit and drawn up by the Managing Board. In accordance with the Statutes, the Board of Guarantors of NRW.BANK approves and endorses the financial statements, which are published in the electronic Federal Gazette within the statutory deadlines.

On the basis of legal standards, especially of the German Commercial Code (HGB) and the "Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute" (Ordinance on accounting by banks and financial institutions – RechKredV), NRW.BANK's accounting process is described and laid down in manuals and work instructions. These written orders are updated on a regular basis. All employees have direct access to the corresponding manuals via NRW.BANK's intranet. Compliance to the manuals is mandatory.

The Finance business unit examines all new legislation for its potential relevance to the Bank's accounting process. Necessary adjustments to processes and manuals are implemented in a timely manner. The management and monitoring of new products are coordinated by the Risk Control business unit in a standardised process. In this context, an accounting-related analysis of the products and the associated risks is carried out with a view to ensuring accurate accounting.

The front-office business units are functionally and organisationally separated from the business units responsible for settlement, monitoring and control. This separation is also reflected in the responsibilities of the individual Managing Board members. The authorities and responsibilities are laid down in detail in the individual specialist business units. Employees involved in accounting-relevant processes have the knowledge and experience required for their respective tasks. Where required, external experts are called in for certain calculations, e.g. the measurement of pension obligations.

Besides the minimum requirements of the four-eye principle, the use of standard software is a key element of the internal control system. The software is protected against unauthorised access by means of authorisations reflecting users' competence levels. In addition, system-immanent plausibility checks, standardised coordination routines and target-actual comparisons

serve to check completeness and avoid and identify errors. For instance, the figures determined in the accounting process are checked for plausibility on a monthly basis by means of comparisons with prior-year figures and planning figures and on the basis of the actual business trend. Inconsistencies are addressed jointly by the external and internal accounting Departments.

The Supervisory Board establishes an Audit Committee from among its members. In accordance with the Statutes and the Public Corporate Governance Code of NRW.BANK, the Audit Committee addresses matters such as accounting-related issues, the selection of the auditors and the verification of their independence, the commissioning of the auditors to carry out the audit, the definition of focal points for the audit and the auditor's fee.

The auditor is appointed by the Board of Guarantors at the recommendation of the Supervisory Board/Audit Committee.

The auditor participates in the Supervisory Board's and the Board of Guarantors' consultations regarding the financial statements and reports on the key results of the audit.

The functionality of the accounting-related internal control system is additionally monitored by Internal Audit through regular process-independent tests in accordance with the MaRisk requirements published by the Federal Financial Supervisory Authority (BaFin). The Managing Board and the Supervisory Board are informed of the results of the tests in a timely manner.

# Balance Sheet

of NRW.BANK at December 31, 2016

## Assets

		see Notes No.	Dec. 31, 2015	
		€	€	€ thousands
<b>1. Cash</b>				
a) cash on hand		8,382.82		19
b) balances with central banks		506,280,570.72		750,833
thereof:				
with Deutsche Bundesbank	€ 506,280,570.72			(750,833)
			<b>506,288,953.54</b>	750,852
<b>2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks</b>				
a) treasury bills and discounted treasury notes as well as similar debt instruments issued by public institutions			<b>0.00</b>	24,572
thereof:				
eligible for refinancing with Deutsche Bundesbank	€ 0.00			(24,572)
<b>3. Receivables from banks</b>	<b>1, 11, 23, 28</b>			
a) payable on demand		678,532,496.86		1,032,239
b) other receivables		35,171,384,217.87		32,417,126
			<b>35,849,916,714.73</b>	33,449,365
<b>4. Receivables from customers</b>	<b>2, 11, 23, 28</b>		<b>59,687,527,646.19</b>	60,273,798
thereof:				
secured by mortgages	€ 5,457,665.33			(7,150)
loans to public authorities and entities under public law	€ 37,246,603,192.10			(36,943,963)
			<b>96,043,733,314.46</b>	94,498,587
		To be carried forward:		

## Liabilities

see Notes No.

Dec. 31, 2015

	€	€	€ thousands
<b>1. Liabilities to banks</b>	<b>13, 23, 27, 28</b>		
a) payable on demand	2,449,616,099.28		1,808,745
b) with agreed maturity or period of notice	36,658,290,729.49		36,624,782
		<b>39,107,906,828.77</b>	<b>38,433,527</b>
<b>2. Liabilities to customers</b>	<b>14, 23, 28</b>		
a) other liabilities			
aa) payable on demand	308,717,795.59		267,774
ab) with agreed maturity or period of notice	16,050,619,758.58		17,543,515
		<b>16,359,337,554.17</b>	<b>17,811,289</b>
<b>3. Certificated liabilities</b>	<b>15, 23, 28</b>		
a) bonds and notes issued by the bank	60,499,887,326.57		58,731,250
		<b>60,499,887,326.57</b>	<b>58,731,250</b>
<b>3a. Trading portfolio</b>	<b>16</b>	<b>227,265.72</b>	<b>3,324</b>
<b>4. Trust liabilities</b>	<b>17</b>	<b>1,558,058,036.76</b>	<b>1,669,245</b>
thereof:			
trust loans € 1,491,758,936.76			(1,603,595)
<b>5. Other liabilities</b>	<b>18, 23</b>	<b>674,596,227.05</b>	<b>577,320</b>
<b>6. Deferred items</b>	<b>19, 23</b>	<b>812,413,797.98</b>	<b>831,398</b>
<b>7. Provisions</b>	<b>20</b>		
a) provisions for pensions and similar obligations	1,817,091,953.00		1,837,854
b) tax reserves	8,208,390.63		6,719
c) provisions for interest rate subsidies	93,787,506.94		102,580
d) other	402,203,802.72		372,890
		<b>2,321,291,653.29</b>	<b>2,320,043</b>
<b>8. Subordinated liabilities</b>	<b>21</b>	<b>1,941,520,207.00</b>	<b>2,058,220</b>
thereof:			
due in less than two years € 177,400,000.00			(211,000)
		<b>123,275,238,897.31</b>	<b>122,435,616</b>
	To be carried forward:		

# Balance Sheet

of NRW.BANK at December 31, 2016

## Assets

		see Notes No.		Dec. 31, 2015	
		€	€	€	€ thousands
			Carried forward:	<b>96,043,733,314.46</b>	94,498,587
<b>5. Bonds and other interest-bearing securities</b>	<b>3, 7, 12, 23, 26, 28</b>				
a) money market instruments					
aa) of public institutions	20,813,618,057.23				21,861,683
thereof: eligible as collateral for Deutsche Bundesbank advances	€ 17,722,249,313.80				(18,734,394)
ab) of other issuers	17,800,830,618.67				17,572,870
thereof: eligible as collateral for Deutsche Bundesbank advances	€ 14,008,188,576.52				(13,104,088)
		38,614,448,675.90			39,434,553
b) bonds issued by the bank			0.00		8
principal amount	€ 0.00				(8)
				<b>38,614,448,675.90</b>	39,434,561
<b>6a. Trading portfolio</b>	<b>4, 23</b>			<b>6,991.64</b>	68,996
<b>7. Equity investments in non-affiliated companies</b>	<b>5, 7</b>			<b>2,298,371,200.27</b>	2,286,660
thereof: equity investments in banks	€ 2,243,772,546.20				(2,243,773)
<b>8. Equity investments in affiliated companies</b>	<b>5, 7</b>			<b>181,152,755.66</b>	180,642
<b>9. Trust assets</b>	<b>6</b>			<b>1,558,058,036.76</b>	1,669,245
thereof: trust loans	€ 1,491,758,936.76				(1,603,595)
<b>10. Intangible assets</b>	<b>7</b>			<b>6,732,254.36</b>	4,939
<b>11. Tangible assets</b>	<b>7</b>			<b>69,800,384.05</b>	71,333
<b>12. Other assets</b>	<b>8, 23</b>			<b>2,951,596,620.76</b>	2,593,214
<b>13. Deferred items</b>	<b>9, 23</b>			<b>341,778,254.66</b>	367,070
<b>Total assets</b>				<b>142,065,678,488.52</b>	141,175,247

## Liabilities

see Notes No.

Dec. 31, 2015

	€	€	€ thousands
		Carried forward:	
		<b>123,275,238,897.31</b>	122,435,616
<b>9. Fund for general banking risks</b>		<b>807,899,000.00</b>	757,727
thereof: special item pursuant to Section 340e Para. 4 of the German Commercial Code (HGB) € 2,899,000.00			(2,727)
<b>10. Equity capital</b>	<b>22</b>		
a) subscribed capital	17,000,000,000.00		17,000,000
b) capital reserves	726,793,462.79		726,157
c) reserves from retained earnings			
ca) reserves required by NRW.BANK's Statutes	36,100,000.00		36,100
cb) other reserves	219,647,128.42		219,647
d) profit for the year	0.00		0
		<b>17,982,540,591.21</b>	17,981,904
<b>Total liabilities</b>		<b>142,065,678,488.52</b>	141,175,247
<b>1. Contingent liabilities</b>	<b>23, 24</b>		
liabilities from guarantees and indemnity agreements		<b>15,529,675,952.15</b>	15,956,499
<b>2. Other commitments</b>	<b>23, 25</b>		
irrevocable loan commitments		<b>4,375,365,082.91</b>	3,270,064
<b>3. Administered funds</b>		<b>44,254,078.02</b>	64,881

# Income Statement

of NRW.BANK for the Period January 1–December 31, 2016

	see Notes No.			Jan. 1 – Dec. 31, 2015
	€	€	€	€ thousands
<b>1. Interest income from</b>				
a) lending and money market transactions	3,556,966,591.53			3,778,014
b) interest-bearing securities and book-entry securities	923,241,558.21			1,143,275
thereof:		4,480,208,149.74		4,921,289
from negative interest € 9,235,490.17				(976)
<b>2. Interest expenses</b>		3,868,408,684.64		4,350,077
thereof:				
from positive interest € 51,782,355.97				(11,793)
			<b>611,799,465.10</b>	571,212
<b>3. Income from</b>				
a) equity investments in non-affiliated companies		3,902,160.60		8,397
b) equity investments in affiliated companies		10,323,639.29		9,458
			<b>14,225,799.89</b>	17,855
<b>4. Income from profit pooling, profit transfer and partial profit transfer agreements</b>			<b>2,799,322.12</b>	1,229
<b>5. Commission income</b>	<b>29</b>	120,592,955.28		119,705
<b>6. Commission expenses</b>		11,405,491.59		10,184
			<b>109,187,463.69</b>	109,521
<b>7. Net profit from trading portfolio</b>			<b>1,543,519.83</b>	3,496
<b>8. Other operating income</b>	<b>30</b>		<b>31,831,231.41</b>	32,106
<b>9. General administrative expenses</b>				
a) personnel expenses				
aa) wages and salaries		103,423,947.73		99,557
ab) social security contributions and expenses for pensions and other employee benefits		22,107,768.58		23,367
thereof:				122,924
for pensions € 7,211,159.04				(9,276)
b) other administrative expenses	<b>31</b>	84,756,749.86		80,405
			<b>210,288,466.17</b>	203,329
<b>10. Depreciation and value adjustments on intangible and tangible assets</b>			<b>4,927,099.35</b>	7,118
<b>11. Other operating expenses</b>	<b>30</b>		<b>90,848,318.30</b>	161,075
			<b>465,322,918.22</b>	363,897
		To be carried forward:		

see Notes No.

Jan. 1 –  
Dec. 31, 2015

	€	€	€ thousands
	Carried forward:	465,322,918.22	363,897
<b>12. Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions</b>		<b>610,768,324.10</b>	<b>547,085</b>
thereof: allocation to fund			
for general banking risks 50,000,000.00 €			(50,000)
<b>13. Income from write-ups of equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as tangible assets</b>		<b>165,100,296.70</b>	<b>206,842</b>
<b>14. Expenses from the assumption of losses</b>		<b>0.00</b>	<b>22</b>
<b>15. Result from normal operations</b>		<b>19,654,890.82</b>	<b>23,632</b>
<b>16. Taxes on income and revenues</b>	7,467,449.17		9,686
<b>17. Other taxes not shown under other operating expenses</b>	161,337.07	<b>7,628,786.24</b>	<b>149</b> <b>9,835</b>
<b>18. Net income</b>		<b>12,026,104.58</b>	<b>13,797</b>
<b>19. Designated payout due to legal requirements</b>		<b>12,026,104.58</b>	<b>13,797</b>
<b>20. Profit for the year</b>		<b>0.00</b>	<b>0</b>

# Notes

## of NRW.BANK for the Fiscal Year 2016

### Information for the identification of the Bank

The following information is provided to identify NRW.BANK in accordance with Section 264 Para. 1a HGB:

#### Company name

NRW.BANK  
Anstalt des öffentlichen Rechts

#### Registered office

Düsseldorf	Münster
Kavalleriestraße 22	Friedrichstraße 1
40213 Düsseldorf	48145 Münster

#### Commercial Register

Commercial Register A 15277 District Court Düsseldorf  
Commercial Register A 5300 District Court Münster

### 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 (Handelsgesetzbuch – HGB) and the Ordinance Regarding Accounting for Banks and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – 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.

As in the previous year, assets and liabilities in the present annual accounts have been recognised at amortised cost in accordance with Sections 252 et seqq. HGB.

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

### Accounting and Valuation Principles

Assets, liabilities and open contracts are valued in accordance with Sections 340 et seqq. HGB in conjunction with Sections 252 et seqq. HGB.

### 1. General

Receivables are reported at their amortised cost less any discounts where appropriate. Premiums and discounts from notes and bonds are released by the end of the term. Liabilities are carried at their settlement amount with any related discounts reported under deferred items. Premiums on receivables and liabilities are reported under deferred items as an asset or liability, respectively. The proportionate amount of accrued interest on a receivable or liability at year-end is generally included with the receivable or liability to which it applies. These items are released on a straightline basis. 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.

According to a decision made by the Specialist Committee on Banking (Bankenfachausschuss – BFA) of the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) on June 23, 2015, negative interest included in the net interest income has to be shown separately in the income statement (P&L). The Specialist Committee on Banking justifies this by saying that negative interest is an unusual phenomenon in money and capital markets. In the fiscal year 2016, NRW.BANK therefore discloses negative interest by open deduction as a sub-item of interest income (reduction in interest income on the assets side) and interest expenses (reduction in interest expenses on the liabilities side) in the income statement.

Repurchase agreements and reverse repurchase agreements are combinations of a spot purchase or sale of securities with a simultaneous forward sale or repurchase transaction entered into with the same counterparty. Securities purchased with an obligation to sell (reverse repurchase agreements), and securities sold with an obligation to repurchase (repurchase agreements), are generally regarded as collateralised financial transactions. The securities pledged under repurchase agreements (spot sale) are still recognised as part of the securities portfolio. The cash deposit received as part of the repurchase agreement, including accrued interest, is recognised as a liability. In the case of reverse

repurchase agreements, a corresponding receivable is recognised, including accrued interest. The underlying securities received in pledge (spot purchase) are not recognised on the balance sheet.

In securities lending transactions, the lender transfers securities held in its portfolio to the borrower for a certain period of time. The borrower undertakes to retransfer the same type and the same amount of securities at the end of the lending period. According to prevailing legal opinion, this is a non-cash loan. The lender is obliged to assign the securities to the borrower; the borrower assumes all rights associated with the securities. Regardless of this, the lender remains the beneficial owner of the lent securities according to prevailing legal opinion. Consequently, the securities are not recognised in the borrower's balance sheet but continue to be recognised in the lender's balance sheet, as the latter remains the beneficial owner.

Discernible risks in the lending business were adequately covered by individual value adjustments (Einzelwertberichtigungen – EWB) and provisions. A global provision (Pauschalwertberichtigungen – PWB) was formed in accordance with tax valuation methods for latent risks from receivables and recourse receivables. Value adjustments were deducted from assets in the longest remaining maturity range. Non-performing loans were written off.

In the past, generalised individual value adjustments (pauschalierte Einzelwertberichtigungen – pEWB) were formed for risk exposures in the rental housing promotion with a total utilisation of up to € 750.0 thousand. This policy was changed in the fiscal year 2016 insofar as only individual value adjustments instead of generalised individual value adjustments are formed for the corresponding credit exposures. This change had an effect of € 6.0 million on total risk provisions in the income statement.

The principles of the IDW statement on accounting "Zur einheitlichen oder getrennten handelsrechtlichen Bilanzierung strukturierter Finanzinstrumente" (On Uniform or Separate Accounting under Commercial Law for Structured Financial Instruments) (IDW RS

HFA 22) are incorporated in the current financial statements. According to these principles, each structured financial instrument held in the investment book including securities issued is generally recognised as an integral asset or an integral liability. In those cases where the structured financial instrument has much higher or additional risks or opportunities than the basic instrument due to an embedded derivative, each individual component of the asset or liability is recognised separately as an underlying transaction and a derivative in accordance with the relevant HGB principles. In those cases where the recognition as an integral asset or an integral liability gives a fair view of the net assets, financial position and results of operations, such recognition is applied.

In the context of the determination of the fair value, NRW.BANK applies mark-to-market valuation provided that an active market exists for a given security. In this case, the valuation is based on the liquid prices provided by respected market data providers (such as Reuters or Bloomberg). In addition, the discounted cash flow method is used for mark-to-model valuation. Under the discounted cash flow method, the contractually agreed cash flows of an instrument (without options) are discounted using risk-adjusted interest rates (use of spread curves). To the extent possible, interest curves based on curves quoted in the market are used. In exceptional cases, the spreads used for discounting are taken from research publications or, alternatively, provided by external market participants and verified independently by the Risk Control business unit.

Structured derivatives and other structured products are valued on the basis of generally accepted models (Black 76, Normal-Black 76, Normal-Black 76 with extension for CMS spread instruments, One, Two and Three Factor Model of Interest Rates, Hazard Rate Model, One Factor Gauss Copula Model). Here, too, valuation parameters based on standard market data sources are used (such as Reuters or Markit).

When using models, standard model assumptions are made. Valuation uncertainties primarily result from uncertainties of the parameters used and the assumptions on which the models are based.

## 2. Promotional Loans of the Housing Promotion Business Unit

The Housing Promotion business unit's promotional loans to customers and banks, most of which are at no interest or below-market interest, are carried at their nominal value. This recognises the fact that these loans are funded at matching maturities from equity capital and takes into account the interest balance guarantee under which the State of North Rhine-Westphalia would compensate for any negative interest balance for all promotional loans granted by the Housing Promotion business unit up to December 31, 2009. No negative interest balance existed for these receivables as of the balance sheet date.

All loans granted by the Housing Promotion business unit after December 31, 2009 are not covered by the interest balance guarantee of the State of North Rhine-Westphalia. Up to the balance sheet date, the Bank exclusively used equity capital to finance these non-guaranteed loans.

## 3. Loss-Free Valuation of the Banking Book

According to the IDW statement "Einzelaspekte der wertfreien Bewertung von zinsbezogenen Geschäften des Bankbuchs (Zinsbuchs)" (Individual Aspects of the Loss-Free Valuation of Interest-Related Transactions in the Banking Book) (Interest Book) (IDW RS BFA 3), a provision for contingent losses must be established for a surplus of obligations resulting from the banking and interest book in an overall view of the transactions. NRW.BANK performed the corresponding calculations in the 2016 financial statements, for which a periodic (P&L-oriented) view was taken. The present value of the future interest result of the banking book was reduced by pro-rated risk and administrative costs for the total term. The calculation did not result in a surplus of obligations, which means that there was no need to establish a provision for contingent losses.

## 4. Securities and Derivatives in the Investment Portfolio

Securities treated as fixed assets (financial investment portfolio) are valued at amortised cost. If an impairment is expected to be permanent, they are written down to the lower fair value. Where securities in the financial

investment portfolio are recognised at values which exceed the current market or stock exchange values in accordance with the mitigated lower of cost or market principle, these differences are stated in the notes. This information is subject to change over time due to portfolio changes as well as interest rate-induced movements and/or risk-induced movements.

For securities held in the financial investment portfolio with a carrying value of € 3,154,192,779.61 lower market values of € 3,062,257,465.70 were determined.

Because these securities have been funded and/or hedged at matching maturities and interest rates, and because none of the issuers' credit ratings indicated sustained weakening (no permanent impairment in value expected), it was not necessary to write the securities down to market value.

Revaluation adjustments relating to derivative transactions in the financial investment portfolio are not recognised. These derivatives are macrohedges in the form of interest rate and currency derivatives, which serve to manage the Bank's overall exposure to interest rate risk, as well as credit default swaps (CDS), which are used as credit substitute transactions.

## 5. Securities Held in the Liquidity Reserve

Securities held in the liquidity reserve are valued according to the strict lower of cost or market principle. If the carrying value exceeds the fair value, they are recognised at the lower fair value on the reporting date.

## 6. Financial Instruments of the Trading Portfolio

In accordance with Section 340e Para. 3 HGB, financial instruments in the trading portfolio are measured at fair value less a risk discount of € 0.2 million (2015: € 0.6 million). As this risk discount would lead to a negative value for the trading portfolio (assets) due to the low number of financial instruments held as at December 31, 2016, the risk discount was recognised as a risk premium in the trading portfolio (liabilities).

The risk discount was calculated on the basis of the value-at-risk (VaR) model, which the Risk Control business unit also uses for internal monitoring of the market

price risks of the trading book. The regulatory requirements of a confidence level of 99% and a holding period of ten days were applied. The historical observation period for the determination of the statistical parameters is 250 days, with a greater weight placed on incidents in the more recent past.

The internally defined criteria for the inclusion of financial instruments in the trading portfolio remained unchanged in the past fiscal year.

In order to comply with the distribution restriction for unrealised gains required pursuant to Section 340e Para. 4 HGB, an amount of € 172,000.00 (2015: € 389,000.00) of the net result of the trading portfolio was allocated to the "Fund for general banking risks" pursuant to Section 340g HGB.

## **7. Equity Investments in Non-Affiliated and Affiliated Companies**

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

With regard to the equity investment in Portigon AG, the State of North Rhine-Westphalia has issued an indefinite value guarantee to NRW.BANK to hedge the equity investment risk. In the case of a sale, the difference between the proceeds and a value of € 2,200.0 million is guaranteed.

NRW.BANK treats the equity investment in Portigon AG and the value guarantee as a hedge relationship as defined in Section 254 HGB, which is accounted for using the net hedge presentation method. Accordingly, the equity investment in Portigon AG was recognised at an amount of € 2,190.8 million as of December 31, 2016.

## **8. Tangible and Intangible Assets**

Tangible and purchased intangible assets with a limited useful life are depreciated in accordance with the applicable tax regulations. They are written down for impairment where such impairment is likely to be permanent.

## **9. Provisions**

Provisions have been made for contingent liabilities and anticipated losses from open contracts in the amount of the settlement amount that will be required according to prudent commercial judgment.

Due to an amendment of the commercial law provisions for the valuation of provisions in 2016, provisions for pension obligations with a remaining maturity of more than one year were, for the first time, discounted at the average market rate of the past ten fiscal years as appropriate for the respective remaining maturity in accordance with Section 252 Para. 2 Sentence 1 HGB. By contrast, other provisions with a remaining maturity of more than one year continue to be discounted using the average market rate of the past seven years as appropriate for the respective remaining maturity.

In accordance with the option granted under Section 253 Para. 2 Sentence 2 HGB, NRW.BANK has discounted provisions for pension obligations or comparable long-term obligations using the average market rate for an assumed remaining maturity of fifteen years. The interest rate of 4.01% used for discounting was stipulated by Deutsche Bundesbank.

Interest rate effects from the valuation of pension, benefit and other personnel provisions in the amount of € -69.9 million were no longer recognised in the net interest income but, for the first time as at December 31, 2016, in other operating income. The prior year figure of € -153.5 million was adjusted accordingly. This change served to make the financial statements clearer and more easily comprehensible with regard to the interest rate effects from long-term pension, benefit and other personnel provisions which are not interest income and interest expenses from the original banking business and, hence, to provide an improved true and fair view of the interest result from the banking operations.

The difference arising from the recognition of pension provisions using the average market rate of the past ten fiscal years and the recognition of pension provisions using the average market rate for the past seven years in the amount of € 212.6 million, which is determined in accordance with Section 253 Para. 6 Sentence 1 HGB,

is subject to a payout restriction pursuant to Section 253 Para. 6 Sentence 2 HGB, according to which profits may be distributed only if the free reserves remaining after the profit distribution plus a profit carried forward and minus a loss carried forward are equivalent to at least the amount of the difference.

Pension, benefit and other personnel provisions are measured by using the internationally accepted projected unit credit method, taking the future development of wages and pensions into account. Based on the 2005 G tables of Heubeck-RichttafelN-GmbH in Cologne, average wage and salary rises of 2.5% were applied for this purpose.

The assessment of the provisions for benefit payments was again calculated using an annual cost increase of 3% for healthcare benefits. The average rate of the benefit payments over the past three years was taken as the basis.

As in the previous years, NRW.BANK used interest rate subsidies for certain loans in order to fulfil its state promotional tasks. When the loan is extended, the interest rate subsidy is provisioned for in the amount of the present value.

In accordance with Article 67 Para. 1 Sentence 2 of the Introductory Act to the Commercial Code (Einführungsgesetz zum Handelsgesetzbuch – EGHGB), the option was used insofar as the existing provisions are maintained due to excess cover, as the amount to be released in the context of a required release would have to be reallocated by December 31, 2024 at the latest. As of December 31, 2016, excess cover of € 27.2 thousand exists for these provisions.

#### 10. Currency Translation

Foreign currency amounts are translated in accordance with Section 256a HGB in conjunction with Section 340h HGB as well as the IDW statement "Besonderheiten der handelsrechtlichen Fremdwährungsumrechnung bei Instituten" (Special Aspects of Currency Translation at Institutions under Commercial Law) (IDW RS BFA 4). Assets, liabilities and pending transactions denominated in foreign currencies were translated using the spot exchange rate on December 30, 2016.

In this context, NRW.BANK uses the reference rates of the European System of Central Banks (ESCB). In case of foreign exchange forwards, the forward rate is split into a spot rate and a swap rate.

For the translation of foreign currencies, NRW.BANK determines the foreign currency positions by offsetting the claims and obligations of all foreign currency assets, liabilities and pending transactions in the respective foreign currency. In accordance with Section 256a HGB in conjunction with Section 340h HGB, these transactions are classified and valued as being specifically covered in all currencies. Accordingly, all income and expenses from foreign currency translation are stated in the income statement pursuant to Section 340h HGB. The foreign currency results from currency translation are shown in "Net profit from trading portfolio" or "Net expenditure from trading portfolio".

Positive revaluation adjustments resulting from the currency translation of foreign exchange forwards as at December 31, 2016 are recognised as "Adjustment item from currency translation in accordance with Section 340h HGB" under "Other assets".

## Balance Sheet

### Receivables from Banks (1)

Breakdown by maturity	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
Payable on demand	678.5	1,032.2
Other receivables		
– up to 3 months	2,343.5	1,512.2
– between 3 months and 1 year	3,016.3	2,389.3
– between 1 and 5 years	12,937.4	12,281.8
– more than 5 years	16,874.2	16,233.9
<b>Total receivables from banks</b>	<b>35,849.9</b>	<b>33,449.4</b>

As in the previous year, receivables from banks do not include receivables from affiliated companies. The receivables from other companies in which equity investments are held totalled € 12.6 million (2015: € 13.6 million).

### Receivables from Customers (2)

Breakdown by maturity	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
– up to 3 months	3,810.3	4,781.0
– between 3 months and 1 year	4,463.3	2,933.8
– between 1 and 5 years	13,625.1	13,319.4
– more than 5 years	37,788.8	39,239.6
<b>Total receivables from customers</b>	<b>59,687.5</b>	<b>60,273.8</b>

As in the previous year, receivables from customers do not include receivables from affiliated companies. The receivables from other companies in which equity investments are held totalled € 1.7 million (2015: € 1.6 million).

### Bonds and Other Interest-Bearing Securities (3)

Marketability	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
Bonds and other interest-bearing securities		
– listed on a stock exchange	35,194.7	36,316.9
– not listed on a stock exchange	3,419.7	3,117.7
<b>Total bonds and other interest-bearing securities</b>	<b>38,614.4</b>	<b>39,434.6</b>

Of the bonds and other interest-bearing securities, an amount of € 4,169.9 million (2015: € 3,441.3 million) is due in the following year.

As in the previous year, bonds and other interest-bearing securities do not include securities from affiliated companies or companies in which equity investments are held.

Of the total bonds and other interest-bearing securities € 0.0 million (2015: € 662.0 million) are held as part of the liquidity reserve and € 38,614.4 million (2015: € 38,772.6 million) are held in the financial investment portfolio.

#### Trading Portfolio (Assets) (4)

##### Breakdown of trading portfolio (assets)

	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
Derivative financial instruments	0.0	0.8
Receivables	0.0	25.1
Bonds and other interest-bearing securities	0.0	43.7
Risk discount pursuant to Section 340e Para. 3 Sentence 1 HGB	–	–0.6
<b>Total trading portfolio</b>	<b>0.0</b>	<b>69.0</b>

Derivative financial instruments include futures with a positive market value of € 98.3 thousand (2015: € 95.0 thousand). This market value is offset against the opposite variation margin received from futures.

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

NRW.BANK holds € 2,298.4 million (2015: € 2,286.7 million) in equity investments in non-affiliated companies and € 181.2 million (2015: € 180.6 million) in equity investments in affiliated companies. Of the equity investments in non-affiliated companies, € 2,193.9 million (2015: € 2,191.3 million) are securitised by marketable securities. However, none are listed on a stock exchange.

An itemised list of NRW.BANK's investments pursuant to Section 285 No. 11 and 11a HGB is shown separately in these notes.

NRW.BANK holds more than 5% of the voting rights in the following major corporations:

- Portigon AG
- Investitionsbank des Landes Brandenburg (ILB)

#### Trust Assets (6)

Trust assets comprise the following:

##### Breakdown by asset type

	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
Receivables from banks	65.2	100.4
Receivables from customers	1,426.6	1,503.2
Equity investments in non-affiliated and affiliated companies	66.3	65.6
<b>Total trust assets</b>	<b>1,558.1</b>	<b>1,669.2</b>

## Fixed Assets (7)

Schedule of fixed assets	Acquisition cost/ Production cost	Additions	Retirements	Reclas-sifications	Write-ups	Accumu-lated de-preciation and amor-tisation at the be-ginning of the fiscal year	Deprecia-tion and amorti-sation during the fiscal year	Changes in deprecia-tion and amortisa-tion in the fiscal year	Accumu-lated deprecia-tion and amortisa-tion in the fiscal year	Net book value
	Jan. 1, 2016					€ mil-lions	€ mil-lions	€ mil-lions	€ mil-lions	€ mil-lions
Bonds and other interest-bearing securities forming part of fixed assets	38,194.5									38,137.9
Equity investments in non-affiliated companies	3,859.9									2,298.4
Equity investments in affiliated companies	227.9									181.2
Intangible assets	69.4	4.2	0.0	0.0	0.0	-64.5	-2.4	0.0	-66.9	6.7
Land and buildings	73.2	0.0	-0.1	0.0	0.0	-8.6	-1.3	0.0	-9.9	63.2
Office equipment	25.5	1.1	-0.6	0.0	0.0	-18.8	-1.2	0.6	-19.4	6.6
						Net change pursuant to Section 34 Para. 3 Sentence 2 RechKredV: € -1,664.8 million				

Of the land and buildings, € 63.2 million (2015: € 64.5 million) is used for business purposes.

**Other Assets (8)****Breakdown by individual items**

	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
Adjustment item from currency translation in accordance with Section 340h HGB	1,945.7	1,538.2
Interest receivables from the State of North Rhine-Westphalia under the Guarantee for the equity investment in Portigon AG	559.3	559.8
Option premiums paid	208.0	230.3
Option premiums not yet received	181.0	209.2
Compensation claims to Helaba Landesbank Hessen-Thüringen relating to pension provisions for "dual contract holders"	29.1	28.5
Compensation claims to Portigon AG relating to service cost of "dual contract holders"	8.6	9.0
Other	19.9	18.2
<b>Total other assets</b>	<b>2,951.6</b>	<b>2,593.2</b>

The "Other" item includes a cash deposit in the amount of € 3.7 million (2015: € 1.2 million) made by NRW.BANK in connection with the bank levy.

**Deferred Items (Assets) (9)****Breakdown of deferred items**

	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
Prepaid swap fees	172.7	199.3
Discounts from underwriting business	82.0	101.6
Prepaid CDS fees	60.6	57.6
Other	26.5	8.6
<b>Total deferred items</b>	<b>341.8</b>	<b>367.1</b>

**Deferred Tax Assets (10)**

Due to NRW.BANK's exemption from income tax, deferred taxes primarily relate to investments in commercial partnerships held as part of the public mission. In accordance with Section 274 Para. 1 Sentence 2 HGB, no deferred taxes were recognised for the deductible temporary differences which result in a tax reduction.

**Subordinated Assets (11)**

Subordinated assets are included in:

**Breakdown by asset type**

	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
Receivables from banks	0.8	0.8
Receivables from customers	22.5	25.2
<b>Total subordinated assets</b>	<b>23.3</b>	<b>26.0</b>

### Pledged Assets (12)

Of the assets reported, NRW.BANK pledged € 190.2 million (2015: € 96.2 million) under repurchase agreements.

### Liabilities to Banks (13)

Breakdown by maturity	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
Payable on demand	2,449.6	1,808.7
Other liabilities		
– up to 3 months	2,209.9	2,128.8
– between 3 months and 1 year	3,042.1	2,134.3
– between 1 and 5 years	12,233.0	13,778.3
– more than 5 years	19,173.3	18,583.4
<b>Total liabilities to banks</b>	<b>39,107.9</b>	<b>38,433.5</b>

The liabilities to other companies in which equity investments are held totalled € 3.6 million (2015: € 5.3 million).

### Liabilities to Customers (14)

Breakdown by maturity	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
Payable on demand	308.7	267.8
Other liabilities		
– up to 3 months	531.0	667.3
– between 3 months and 1 year	686.5	947.6
– between 1 and 5 years	4,019.9	4,152.5
– more than 5 years	10,813.2	11,776.1
<b>Total liabilities to customers</b>	<b>16,359.3</b>	<b>17,811.3</b>

Liabilities to customers include liabilities to affiliated companies in the amount of € 39.0 million (2015: € 29.0 million).

The Liabilities to other companies in which equity investments are held totalled € 0.0 million (2015: € 0.0 million).

**Certificated Liabilities (15)****Breakdown of certificated liabilities**

	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
Notes issued		
– mortgage bonds	0.6	0.6
– municipal bonds	249.6	247.0
– other bonds	60,249.7	58,483.7
<b>Total certificated liabilities</b>	<b>60,499.9</b>	<b>58,731.3</b>

Of the notes issued, € 31,038.6 million (2015: € 28,353.0 million) is due in the following year.

**Trading Portfolio (Liabilities) (16)****Breakdown of trading portfolio (liabilities)**

	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
Derivative financial instruments	0.0	0.0
Liabilities from repurchase agreements	0.0	3.3
Risk discount pursuant to Section 340e Para. 3 Sentence 1 HGB	0.2	–
<b>Total trading portfolio</b>	<b>0.2</b>	<b>3.3</b>

Derivative financial instruments include futures with a negative market value of € 48.8 thousand (2015: € 28.0 thousand). This market value is offset against the opposite variation margin paid on futures.

**Trust Liabilities (17)**

Trust liabilities comprise the following:

**Breakdown by liability type**

	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
Liabilities to banks	5.1	6.7
Liabilities to customers	1,553.0	1,662.5
<b>Total trust liabilities</b>	<b>1,558.1</b>	<b>1,669.2</b>

## Other Liabilities (18)

### Breakdown by individual items

	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
Liabilities owed to the State of North Rhine-Westphalia from repayment discounts granted for housing promotional programmes	270.7	109.5
Option premiums received	197.4	230.0
Option premiums not yet paid	181.0	209.2
Liabilities owed to the State of North Rhine-Westphalia	12.0	13.8
Other	13.5	14.8
<b>Total other liabilities</b>	<b>674.6</b>	<b>577.3</b>

## Deferred Items (Liabilities) (19)

### Breakdown of deferred items

	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
Swap fees received in advance	558.5	572.2
Premiums from underwriting business	108.4	95.3
Transfer of pension obligation provisions for employees of Portigon AG under "dual contracts"	86.4	86.4
CDS fees received in advance	34.5	56.4
Transfer of salaries for employees of Portigon AG under "dual contracts"	24.2	20.8
Other	0.4	0.3
<b>Total deferred items</b>	<b>812.4</b>	<b>831.4</b>

## Provisions (20)

The provisions for pensions include € 1,287.4 million (2015: € 1,315.7 million) in pension obligations to employees of Portigon AG who have claims for or are entitled to a pension under the laws relating to civil servants. Pursuant to Article 1 Section 4 Para. 1 Sentence 4 of the Bank Redefining Act (Neuregelungsgesetz) of July 2, 2002, these obligations passed from the former Westdeutsche Landesbank Girozentrale to NRW.BANK. Pursuant to the regulations of the assessment dated August 1, 2002, Portigon AG and NRW.BANK agreed in the fiscal year 2013, to settle NRW.BANK's claims resulting from the compensation entitlement for good, with the exception of the future service cost, by means of a one-time payment. With this one-time payment, responsibility for managing and handling the pension payments has passed to NRW.BANK.

The provisions for pensions additionally include pension obligations in the amount of € 29.1 million (2015: € 28.5 million) towards employees of Helaba Landesbank Hessen-Thüringen who also have contractual claims or are entitled to a pension under the laws relating to civil servants. NRW.BANK is entitled to reimbursement from Helaba Landesbank Hessen-Thüringen in the same amount, which is shown in other assets.

NRW.BANK's provisions for additional benefits are at € 269.4 million (2015: € 242.5 million). This amount includes € 221.2 million (2015: € 201.4 million) in obligations to persons covered under the former pension agreement of the former Westdeutsche Landesbank Girozentrale, for which NRW.BANK has assumed the additional benefit payments since the spin-off from the former Westdeutsche Landesbank Girozentrale. An additional € 48.2 million (2015: € 41.1 million) has been set aside for claims to additional benefits that employees of NRW.BANK have for their retirement.

Provisions in an amount of € 76.7 million (2015: € 76.7 million) exist for potential compensation claims under the value guarantee.

### **Subordinated Liabilities (21)**

The subordinated liability as described below exceeds 10% of the total subordinated liabilities of € 1,941.5 million (2015: € 2,058.2 million).

The State of North Rhine-Westphalia has to make repayments towards the Federal Government in conjunction with the use of housing promotional loans granted by the Federal Government. Under applicable federal state law, NRW.BANK has to transfer the required funds from the repayment of housing promotional loans to the state budget. This transfer duty takes the form of a non-interest-bearing subordinated loan in an amount of € 2,413.9 million granted by the State of North Rhine-Westphalia to NRW.BANK, which has to be repaid by the year 2044 in accordance with a defined repayment plan. Based on the repayments made to date, the subordinated loan was stated in an amount of € 1,686.5 million as of December 31, 2016.

The remaining subordinated liabilities of € 255.0 million have original maturities between fifteen and thirty years and carry interest rates of between 0.0% and 6.0%. There is no early redemption obligation.

Subordinated liabilities include liabilities with a remaining term of less than two years in an amount of € 177.4 million (2015: € 211.0 million).

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

Interest expenses of € 6.2 million (2015: € 9.1 million) incurred for subordinated liabilities.

The subordinated liabilities carried by NRW.BANK comply with the requirements of Article 63 of the Capital Requirements Regulation (CRR).

## Equity Capital (22)

As of December 31, 2016, NRW.BANK's subscribed capital remained unchanged at € 17,000.0 million. The reserves totalled € 982.5 million (2015: € 981.9 million).

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

Commercial law equity	Dec. 31, 2016	Dec. 31, 2015
	€ millions	€ millions
Subscribed capital	17,000.0	17,000.0
Capital reserves	726.8	726.2
Reserves from retained earnings		
– reserves required by NRW.BANK's Statutes	36.1	36.1
– other reserves	219.6	219.6
Profit for the year	0.0	0.0
<b>Total equity capital</b>	<b>17,982.5</b>	<b>17,981.9</b>

Once the annual accounts are approved, the capital of NRW.BANK required for regulatory purposes under Section 10 of the German Banking Act (Kreditwesengesetz – KWG) will total € 20,112.5 million (2015: € 20,129.9 million).

## Foreign Currency Assets and Foreign Currency Liabilities (23)

At the reporting date, NRW.BANK had foreign currency assets valued at € 9,907.1 million (2015: € 10,001.3 million) and foreign currency liabilities valued at € 34,809.8 million (2015: € 30,512.1 million). Contingent liabilities and other commitments denominated in foreign currencies totalled € 7,229.6 million (2015: € 6,731.7 million).

## Contingent Liabilities (24)

Contingent liabilities totalled € 15,529.7 million (2015: € 15,956.5 million) and incorporate € 14,741.6 million (2015: € 15,160.3 million) for credit derivatives (thereof as in the previous year € 250.0 million for embedded derivatives ) and € 788.1 million (2015: € 796.2 million) for other guarantees and indemnity agreements.

The credit derivatives are credit default swaps, in which NRW.BANK acts as protection seller. Against receipt of a premium from the protection buyer, NRW.BANK has taken the risk that a credit event agreed between the two parties with regard to the reference debtor occurs. The credit default swaps of NRW.BANK are primarily referenced to countries and are almost exclusively of very good and good investment grade quality. No claims are expected to be raised at present.

The other guarantees and indemnity agreements primarily comprise liability releases in favour of house banks for loans granted in the context of various promotional programmes as well as global guarantees, guarantee lines and risk sub-participations held to reduce the risk of SME financing. Claims under these guarantees would potentially be raised in the event of the non-fulfilment of contractual obligations of the main borrower towards the beneficiary. This would arise, for instance, in the event of the delayed (or non-)repayment of loans or the improper completion of promised services. NRW.BANK considers the overall risk of future claims being raised because of such non-fulfilment by the main borrower to be low. In those cases where claims are likely to be raised, adequate provisions have been established.

**Other Commitments (25)**

Other commitments comprise irrevocable loan commitments in an amount of € 4,375.4 million (2015: € 3,270.1 million). Of this total, € 1,185.1 million (2015: € 855.7 million) relate to commitments in conjunction with the housing promotional business.

The irrevocable loan commitments result from transactions in which NRW.BANK has made a binding commitment towards its customers and is therefore exposed to a future credit risk. Based on historical experience from the previous years, it is expected that the irrevocable loan commitments will be utilised with a probability of almost 100%.

**Assets Used as Collateral (26)**

Bonds and notes in a nominal amount of € 5,678.1 million (2015: € 6,309.5 million) were pledged to the Deutsche Bundesbank and notes in a nominal amount of € 11,931.2 million (2015: € 5,971.9 million) were submitted to the Deutsche Bundesbank in the context of the process "Kreditforderungen – Einreichung und Verwaltung" (KEV) (credit claims – submission and administration) as collateral for funding facilities. Securities in a nominal amount of € 24.5 million (2015: € 22.8 million) were deposited for the Eurex (electronic futures and options exchange) as collateral for forward transactions. In addition, securities in a nominal amount of € 2,929.5 million (2015: € 2,999.3 million) were transferred in the past fiscal year to secure off-exchange derivatives; these securities were deposited as collateral with the counterparty. Furthermore, an amount of € 243.5 million (2015: € 268.6 million) was transferred as collateral to compensate for exchange rate fluctuations in Eurex repurchase agreements and securities in an amount of € 4.0 million (2015: € 4.0 million) were assigned as rent deposit.

**Collateral for Own Liabilities (27)**

As of December 31, 2016, no collateral in the form of registered municipal bonds and notes existed for loans raised. In the previous year, collateral in the form of registered municipal bonds and notes amounted to € 2.2 million.

### Cover (28)

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

On December 31, 2016, the nominal amounts of the cover are as follows:

Cover	Dec. 31, 2016	Dec. 31, 2015
	Municipal bonds (cover register II) € millions	Municipal bonds (cover register II) € millions
Municipal bonds issued	1,735.3	1,788.5
Loans raised secured with registered municipal bonds and notes	0.0	2.2
<b>Liabilities requiring cover</b>	<b>1,735.3</b>	<b>1,790.7</b>
Municipal loans	3,586.8	3,867.6
Excess cover	66.1	65.6
<b>Cover funds</b>	<b>3,652.9</b>	<b>3,933.2</b>
<b>Excess cover</b>	<b>1,917.6</b>	<b>2,142.5</b>

The cover only includes the cover register for municipal bonds (cover register II), as NRW.BANK currently holds no mortgage bonds (cover register I) and currently does not issue new mortgage bonds.

### Income Statement

#### Services Rendered for Third Parties (29)

The net commission income includes € 9.7 million (2015: € 11.1 million) from the trust and administered activities.

#### Other Operating Income and Expenses (30)

The principal contributions towards other operating income are composed of € 17.5 million (2015: € 13.2 million) in income from the write-back of other provisions as well as € 8.6 million (2015: € 9.0 million) in income from the reimbursement of the service cost of Portigon AG.

The principal contributions towards other operating expenses are composed of € 69.9 million (2015: € 153.5 million) in interest effects from the valuation of pension, benefit and other personnel provisions, € 14.2 million (2015: € 2.8 million) in expenses for the bank levy as well as € 6.5 million (2015: € 4.2 million) for allocations to pension and benefit provisions for employees of Portigon AG who have claims for or are entitled to a pension under the laws relating to civil servants.

#### Fee Paid to Auditor of the Annual Accounts (31)

In the fiscal year 2016, the auditor charged a total fee of € 1.2 million (2015: € 1.6 million). € 1.2 million (2015: € 1.3 million) of which accounted for the auditing of the annual accounts, € 0.0 million (2015: € 0.1 million) for other auditing services and € 0.0 million (2015: € 0.2 million) for other services.

## Miscellaneous

### Other Financial Obligations

NRW.BANK has long-term obligations in the amount of € 73.3 million (2015: € 86.0 million) up to the end of the contractual term. Thereof obligations in the amount of € 21.8 million relate to the fiscal year 2017. The remaining other financial obligations in the amount of € 51.5 million relate to the fiscal years 2018 to 2026. In addition, there are other annual financial obligations with an indefinite remaining term after the balance sheet date in the amount of € 1.9 million (2015: € 2.1 million).

Other financial obligations primarily result from rental, maintenance and IT service agreements.

Additional other financial obligations under a software maintenance agreement signed in the past fiscal year total € 0.1 million and relate to the fiscal years 2020 and 2021.

### Other Obligations

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

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

There is an obligation to make additional contributions in the amount of € 16.0 million (2015: € 16.0 million) to the European Investment Fund.

Both the liability assumed for Investitionsbank des Landes Brandenburg (ILB) and the obligation to make additional contributions to the European Investment Fund are included in other guarantees and indemnity agreements shown under contingent liabilities.

### Deposit Insurance

The state bank of the State of North Rhine-Westphalia "Landesbank NRW" became the promotional bank for North Rhine-Westphalia and was renamed NRW.BANK pursuant to the "Gesetz zur Umstrukturierung der Landesbank Nordrhein-Westfalen zur Förderbank des Landes Nordrhein-Westfalen und zur Änderung anderer Gesetze" (Act on the Reorganisation of the State Bank of the State of North Rhine-Westphalia into the Promotional Bank of North Rhine-Westphalia and on the Amendment of Other Laws). Owing to these developments, as of January 1, 2005 NRW.BANK was made a member of the compensation scheme of the Association of German Public Sector Banks in Berlin (Entschädigungseinrichtung des Bundesverbandes Öffentlicher Banken Deutschlands GmbH – EdÖ) by order of the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin).

### Derivative Transactions

According to the amended version of the IDW statement "Handelsrechtliche Behandlung von Kreditderivaten im Nichthandelsbestand" (Treatment of Credit Derivatives in the Non-Trading Portfolio under Commercial Law) (IDW RS BFA 1), credit derivatives which oblige the protection seller to make a compensation payment exclusively for the default risk and which the protection seller intends to hold until maturity or until the credit event materialises are comparable with guarantees (credit collateral furnished). Such credit derivatives are contingent liabilities of the protection seller which are excluded from the disclosure obligations for derivative financial instruments. As NRW.BANK intends to hold all credit derivatives permanently and the latter have therefore been assigned to the investment book, the following tables on derivative transactions no longer show any credit derivatives in comparison to the previous year. The figures for the previous year have been adjusted accordingly.

As of December 31, 2016, the total nominal value of derivative transactions is € 180,173 million (2015: € 176,969 million).

Derivative transactions are mostly used as hedges against fluctuations in interest rates, exchange rates and market prices and almost entirely relate to the banking book.

Banking book	Nominal values		Market values positive	Market values negative
	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2016
	€ millions	€ millions	€ millions	€ millions
<b>Interest rate derivatives</b>				
Interest rate swaps	135,633	136,506	8,233	-11,543
Interest rate options				
– bought (long)	4,520	4,331	81	–
– written (short)	5,309	4,903	–	-39
Stock market contracts				
– bought (long)	–	–	–	–
– written (short)	–	30	–	0
Other interest rate forwards	373	322	11	-43
<b>Total interest rate derivatives</b>	<b>145,835</b>	<b>146,092</b>	<b>8,325</b>	<b>-11,625</b>
<b>Currency derivatives</b>				
Foreign exchange forwards, swaps	8,995	13,783	486	-22
Currency swaps/ interest rate currency swaps	21,876	20,234	2,105	-1,108
<b>Total currency derivatives</b>	<b>30,871</b>	<b>34,017</b>	<b>2,591</b>	<b>-1,130</b>
<b>Total banking book</b>	<b>176,706</b>	<b>180,109</b>	<b>10,916</b>	<b>-12,755</b>

Trading book	Nominal values		Market values positive	Market values negative
	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2016
	€ millions	€ millions	€ millions	€ millions
<b>Interest rate derivatives</b>				
Interest rate swaps	221	50	0	0
Stock market contracts				
– bought (long)	10	5	0	–
– written (short)	27	9	0	0
<b>Total interest rate derivatives</b>	<b>258</b>	<b>64</b>	<b>0</b>	<b>0</b>
<b>Currency derivatives</b>				
Currency swaps/ interest rate currency swaps	5	–	–	–
<b>Total currency derivatives</b>	<b>5</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total trading book</b>	<b>263</b>	<b>64</b>	<b>0</b>	<b>0</b>

Banking book and trading book	Nominal values		Market values positive	Market values negative
	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2016
	€ millions	€ millions	€ millions	€ millions
Total interest rate derivatives	146,093	146,156	8,325	-11,625
Total currency derivatives	30,876	34,017	2,591	-1,130
<b>Total banking book and trading book</b>	<b>176,969</b>	<b>180,173</b>	<b>10,916</b>	<b>-12,755</b>

The presentation of derivative transactions also reflects embedded derivative instruments that have to be separated of a nominal value of € 4,808 million (2015: € 5,423 million).

The average nominal value of the derivative transactions and other forward transactions entered into by NRW.BANK for the period from January 1, 2016 to December 31, 2016 was € 184,760 million (2015: € 179,228 million).

The market values of the derivative transactions are shown without accrued interest.

To the extent available, stock exchange or market prices are used for valuing the derivative financial instruments. If stock exchange or 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/received are reported under the balance sheet items "Other assets" and "Other liabilities"; prepaid swap fees and swap fees received in advance are included in the respective deferred item.

The breakdown of derivative transactions by counterparty is as follows:

Banking book	Nominal values		Market values positive	Market values negative
	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2016
	€ millions	€ millions	€ millions	€ millions
OECD banks	159,585	164,767	9,645	-10,669
OECD public-sector entities	8,603	7,957	1,126	-1,710
Other counterparties	8,518	7,385	145	-376
<b>Total banking book</b>	<b>176,706</b>	<b>180,109</b>	<b>10,916</b>	<b>-12,755</b>

Trading book	Nominal values		Market values positive	Market values negative
	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2016
	€ millions	€ millions	€ millions	€ millions
OECD banks	241	59	0	0
Other counterparties	22	5	0	0
<b>Total trading book</b>	<b>263</b>	<b>64</b>	<b>0</b>	<b>0</b>

Banking book and trading book	Nominal values		Market values positive	Market values negative
	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2016
	€ millions	€ millions	€ millions	€ millions
<b>Total banking book and trading book</b>	<b>176,969</b>	<b>180,173</b>	<b>10,916</b>	<b>-12,755</b>

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

The interest rate contracts are spread across the entire spectrum of maturities, with approx. 47% (2015: € 46%) of the interest rate contracts having a remaining time to maturity of more than five years.

Banking book	Interest rate derivatives		Currency derivatives	
	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016
	€ millions	€ millions	€ millions	€ millions
Residual maturity				
– up to 3 months	11,246	7,725	10,765	15,415
– more than 3 months to 1 year	9,766	13,163	4,252	3,747
– more than 1 to 5 years	57,469	56,141	13,275	12,499
– more than 5 years	67,354	69,063	2,579	2,356
<b>Total banking book</b>	<b>145,835</b>	<b>146,092</b>	<b>30,871</b>	<b>34,017</b>

Trading book	Interest rate derivatives		Currency derivatives	
	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016
	€ millions	€ millions	€ millions	€ millions
Residual maturity				
– up to 3 months	238	64	5	–
– more than 5 years	20	–	–	–
<b>Total trading book</b>	<b>258</b>	<b>64</b>	<b>5</b>	<b>–</b>

Banking book and trading book	Interest rate derivatives		Currency derivatives	
	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016
	€ millions	€ millions	€ millions	€ millions
<b>Total banking book and trading book</b>	<b>146,093</b>	<b>146,156</b>	<b>30,876</b>	<b>34,017</b>

## Number of Employees

### Active employees as at Dec. 31, 2016\*

	2016			2015		
	Women	Men	Total	Women	Men	Total
Full-time employees	370	556	926	390	564	954
Part-time employees	312	63	375	281	36	317
Apprentices and trainees	16	21	37	14	24	38
<b>Total</b>	<b>698</b>	<b>640</b>	<b>1,338</b>	<b>685</b>	<b>624</b>	<b>1,309</b>
Thereof						
Former "dual contract" holders of Portigon AG outside of the approved headcount	6	5	11	5	5	10
In addition						
Employees under limited employment contracts	15	19	34	26	27	53
Employees employed outside of NRW.BANK (leave, secondments, employee assignments)	9	16	25	8	12	20

\* Excl. employees on parental leave and similar leave.

NRW.BANK employed 733 female employees (2015: 734) and 637 male employees (2015: 628) – employees under unlimited and limited contracts, employees on parental leave and similar but excluding apprentices as well as interns – on an annual average.

## Managing Board Remuneration (32)

Non-performance-linked and performance-linked components of the Managing Board remuneration paid in 2016 and 2015:

In € thousands	Non-performance-linked remuneration				Performance-linked remuneration <sup>1)</sup>		Total remuneration		Remuneration for mandates <sup>2)</sup>
	Fixed remuneration		Other remuneration		2016	2015	2016	2015	2016
	2016	2015	2016	2015					
Eckhard Forst <sup>3)</sup>	100.0	0.0	23.9	0.0	0.0	0.0	123.9	0.0	3.1
Klaus Neuhaus <sup>4)</sup>	500.0	600.0	27.3	32.0	132.5	120.4	659.8	752.4	8.9
Gabriela Pantring <sup>3)</sup>	68.3	0.0	1.7	0.0	0.0	0.0	70.0	0.0	0.1
Michael Stölting	465.0	465.0	32.6	30.1	128.7	118.8	626.3	613.9	61.8
Dietrich Suhlrie	477.8	477.8	14.6	13.8	128.7	118.8	621.1	610.4	2.0
<b>Total Managing Board</b>	<b>1,611.1</b>	<b>1,542.8</b>	<b>100.1</b>	<b>75.9</b>	<b>389.9</b>	<b>358.0</b>	<b>2,101.1</b>	<b>1,976.7</b>	<b>75.9</b>

<sup>1)</sup> The two years are not fully comparable, as the amount for 2016 includes parts of the bonuses for the years 2011 to 2015, while the amount for 2015 includes parts of the bonuses for the years 2011 to 2014.

<sup>2)</sup> Amounts incl. VAT, where applicable.

<sup>3)</sup> Pro-rated remuneration from the entry on November 1, 2016.

<sup>4)</sup> Pro-rated remuneration up to the departure on October 31, 2016.

Breakdown of the variable Managing Board remuneration granted in 2016 into components paid-out immediately and components retained over several years:

In € thousands	Variable remuneration for the year 2015, granted in 2016	Thereof retained	Thereof paid out in 2016	Thereof committed in 2016 but not paid out because of sustainability arrangement	Reduction pursuant to Section 20 Para. 5 InstitutsVergV
Eckhard Forst	0.0	0.0	0.0	0.0	0.0
Klaus Neuhaus	140.0	84.0	28.0	28.0	0.0
Gabriela Pantring	0.0	0.0	0.0	0.0	0.0
Michael Stölting	132.0	79.2	26.4	26.4	0.0
Dietrich Suhlrie	132.0	79.2	26.4	26.4	0.0
<b>Total Managing Board</b>	<b>404.0</b>	<b>242.4</b>	<b>80.8</b>	<b>80.8</b>	<b>0.0</b>

Commitments in case of premature or regular termination of the activity:

In case of a premature resignation not attributable to an extraordinary termination for serious cause, the members of the Managing Board will receive the agreed remuneration until the end of their contractual term. For Mr Forst and Ms Pantring, this payment is capped at an amount equivalent to the remuneration for a maximum of two years. Thereafter, Mr Stölting and Mr Suhlrie will receive an early pension based on the pension that would be paid in case of invalidity until they reach the age of retirement. If the contract of Mr Forst is not renewed and this is not his fault and he is still able to work, he may apply for early retirement benefits after having reached the age of 62, whose payment will end once he receives his statutory pension but no later than after having reached the age of 66 years plus two months.

The members of the Managing Board are entitled to pension benefits as they reach the age of retirement or in case of invalidity. In the event of their death their dependants are also entitled to benefits. All commitments are contractually unforfeitable or unforfeitable by law because of the number of years served. As a result of his previous employment, Mr Stölting has an entitlement to a civil-service-type pension taking into account entitlements from the public pension scheme as well as entitlements under a pension enhancement policy. Mr Forst, Ms Pantring and Mr Suhlrie benefit from a contribution-linked pension commitment. In the context of this pension commitment, a personal pension account with a starting component has been set up for them, into which annual pension components are paid.

In the fiscal year 2016, there were no changes in the commitments for old-age/invalidity and dependants' pension for Mr Stölting and Mr Suhlrie.

Expenses and present values of the benefits promised to the members of the Managing Board in case of regular termination of their activity:

In € thousands	Expenses <sup>1)</sup>		Present value of the obligation	
	2016	2015	2016	2015
Eckhard Forst	31.5	0.0	31.5	0.0
Klaus Neuhaus <sup>2)</sup>	0.0	339.0	0.0	6,100.2
Gabriela Pantring	20.1	0.0	20.1	0.0
Michael Stölting	48.0	559.9	3,335.6	3,287.6
Dietrich Suhlrie	179.9	356.5	1,509.9	1,330.0
<b>Total Managing Board</b>	<b>279.5</b>	<b>1,255.4</b>	<b>4,897.1</b>	<b>10,717.8</b>

<sup>1)</sup> The expenses shown here comprise personnel and interest expenses. The sharp decline in expenses compared to the previous year is mainly attributable to the increase in the discount rate from 3.89% as at December 31, 2015 to 4.01% as at December 31, 2016.

<sup>2)</sup> The present value for the year 2016 is shown in full under "Payments to retired and resigned Managing Board members and present values of their retirement benefits".

Payments to retired and resigned Managing Board members and present values of their retirement benefits:

In € thousands	Payments from active employment <sup>1)</sup>		Payments from pension claims		Present value of the obligation	
	2016	2015	2016	2015	2016	2015
Former Managing Board members <sup>2)</sup>	109.1	134.2	631.9	566.0	26,015.8	20,828.1

<sup>1)</sup> Remuneration components from the previous fiscal year and/or retained portions of the previous years paid in the respective year.

<sup>2)</sup> To facilitate a comparison, the present value of the commitment to Mr Neuhaus is shown for the full year 2016 and not only for the period starting November 1, 2016.

## Remuneration of the Members of the Board of Guarantors, the Supervisory Board and Its Committees as well as the Advisory Board

The tables below show the remuneration of the members of the Board of Guarantors, the Supervisory Board and its Committees as well as the Advisory Board in itemised form. The remuneration of the members of the Supervisory Board varies depending on their committee membership.

### Disclosure of the Remuneration Paid to Members of the Board of Guarantors

	Total remuneration		Total remuneration
	€		€
<b>Members Pursuant to Section 8 Para. 1 Letters a to c of the Statutes</b>		<b>Permanent Guests</b>	
Garrelt Duin Minister for Economic Affairs, Energy and Industry of the State of North Rhine-Westphalia	5,300	Martin Bösenberg Staff representative NRW.BANK	600
Michael Groschek Minister for Building, Housing, City Development and Transport of the State of North Rhine-Westphalia	5,600	Frank Lill Staff representative NRW.BANK	600
Dr. Norbert Walter-Borjans Minister of Finance of the State of North Rhine-Westphalia	5,000		
<b>Members Pursuant to Section 8 Para. 1 Letter d of the Statutes</b>			
Martina Hoffmann-Badache State Secretary Ministry of Health, Equalities, Care and Ageing of the State of North Rhine-Westphalia	5,600		
Franz-Josef Lersch-Mense Minister for Federal Affairs, Europe and Media as well as Head of the State Chancellery of the State of North Rhine-Westphalia	5,600		

1. On the basis of the rules adopted by the Board of Guarantors, turnover tax and travel expenses are refunded by the Bank upon request.
2. The labour remuneration for members who join or leave the Board of Guarantors during the year is paid on a pro-rata temporis basis for each calendar month.
3. Potential duties of payment of the mandate holders and/or payments made are not taken into account.

## Disclosure of the Remuneration Paid to Members of the Supervisory Board and Its Committees

	Total remuneration		Total remuneration
	€		€
<b>Members Pursuant to Section 12 Para. 1 Letters a to c of the Statutes</b>		<b>Permanent Representatives Pursuant to Section 12 Para. 2 of the Statutes</b>	
Garrelt Duin Minister for Economic Affairs, Energy and Industry of the State of North Rhine-Westphalia	24,100	Wulf Noll Assistant Secretary Ministry of Economic Affairs, Energy and Industry of the State of North Rhine-Westphalia	20,900
Michael Groschek Minister for Building, Housing, City Development and Transport of the State of North Rhine-Westphalia	19,400	Annett Fischer Assistant Secretary Ministry for Building, Housing, City Development and Transport of the State of North Rhine-Westphalia	14,400
Dr. Norbert Walter-Borjans Minister of Finance of the State of North Rhine-Westphalia	30,300	Gerhard Heilgenberg Assistant Secretary Ministry of Finance of the State of North Rhine-Westphalia	26,800
<b>Members Pursuant to Section 12 Para. 1 Letter d of the Statutes</b>		<b>Members Pursuant to Section 12 Para. 1 Letter e of the Statutes</b>	
Horst Becker, MdL Parliamentary State Secretary Ministry for Climate Protection, Environment, Agriculture, Conservation and Consumer Affairs of the State of North Rhine-Westphalia	5,900	Iris Aichinger Staff representative NRW.BANK	12,400
Ute Gerbaulet General Partner Bankhaus Lampe KG	18,600	Martin Bösenberg Staff representative NRW.BANK	18,600
Bernd Krückel, MdL Member of the CDU Parliamentary Group State Assembly of North Rhine-Westphalia	18,300	Matthias Elzinga Staff representative NRW.BANK	18,900
Johannes Rimmel Minister for Climate Protection, Environment, Agriculture, Conservation and Consumer Affairs of the State of North Rhine-Westphalia	19,200	Frank Lill Staff representative NRW.BANK	25,600
Norbert Römer, MdL Chairman of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	18,900	Thomas Stausberg Director NRW.BANK	21,800
Dr. Birgit Roos Chairwoman of the Managing Board Sparkasse Krefeld	21,200		
Svenja Schulze, MdL Minister for Innovation, Science and Research of the State of North Rhine-Westphalia	18,000		

1. On the basis of the rules adopted by the Board of Guarantors, turnover tax and travel expenses are refunded by the Bank upon request.
2. The labour remuneration for members who join or leave the Supervisory Board or its Committees during the year is paid on a pro-rata temporis basis for each calendar month.
3. Potential duties of payment of the mandate holders and/or payments made are not taken into account.

## Disclosure of the Remuneration Paid to Members of the Advisory Board of NRW.BANK

	Total remuneration		Total remuneration
	€		€
<b>Members Pursuant to Section 25 of the Statutes</b>		<b>Members Pursuant to Section 25 of the Statutes</b>	
Garrelt Duin Minister for Economic Affairs, Energy and Industry of the State of North Rhine-Westphalia	2,600	Prof. Dr. Ursula Gather Chairwoman of the Board of Trustees Alfried Krupp von Bohlen und Halbach-Stiftung	2,300
Michael Ackermann Managing Director Klinikum Bielefeld gem. GmbH	2,000	Dieter Gebhard Chairman Regional Assembly of Westphalia-Lippe	2,600
Frank Baranowski Lord Mayor City of Gelsenkirchen	2,000	Dr. Rolf Gerlach President Savings Banks and Giro Association of Westphalia-Lippe	2,000
Michael Breuer President Savings Banks and Giro Association of the Rhineland	2,600	Thomas Hendele District Administrator District of Mettmann and President Landkreistag Nordrhein-Westfalen e. V.	2,300
Pit Clausen (since January 1, 2016) Lord Mayor City of Bielefeld and Chairman of the Managing Board Städtetag Nordrhein-Westfalen	2,600	Thomas Hunsteger-Petermann Lord Mayor City of Hamm	2,300
Heinrich Otto Deichmann Chairman of the Supervisory Board Deichmann SE	2,000	Ralf Kersting President IHK NRW e. V.	0
Andreas Ehlert President Düsseldorf Chamber of Handicrafts	2,000	Arndt G. Kirchhoff Managing Partner and CEO KIRCHHOFF Holding GmbH & Co. KG	2,000
Thomas Eiskirch (since January 1, 2016) Lord Mayor City of Bochum	2,600	Dipl.-Ing. Hanspeter Klein Chairman of the Managing Board Verband Freier Berufe im Lande Nordrhein-Westfalen e. V.	2,600
Diana Ewert (since January 1, 2016) District President Arnsberg Regional Government	2,300	Prof. Dr. Reinhard Klenke District President Münster Regional Government	2,600
Andreas Feicht Chairman Verband kommunaler Unternehmen e. V. – Regional Group North Rhine-Westphalia –	2,300	Norbert Kleyboldt (until June 30, 2016) Apostolic Administrator Bischöfliches Generalvikariat Münster	1,300
Dr. Reinhold Festge Managing Partner HAVER & BOECKER OHG Drahtweberei und Maschinenfabrik	2,000	Dr. Arne Kupke (since July 1, 2016) Legal Vice President Evangelical Church of Westphalia	1,000
Heinz Fiege FIEGE Logistik Holding Stiftung & Co. KG	2,300	Markus Lewe Lord Mayor City of Münster	2,300

	Total remuneration		Total remuneration
	€		€
<b>Members Pursuant to Section 25 of the Statutes</b>		<b>Members Pursuant to Section 25 of the Statutes</b>	
Matthias Löb Director of LWL Regional Association of Westphalia-Lippe	2,600	Prof. Dr.-Ing. Gerhard Sagerer (since January 1, 2016) Chairman Directors Conference of the Universities in North Rhine-Westphalia	2,600
Ulrike Lubek Director of LVR Regional Association of the Rhineland	2,600	Prof. Dr. Uwe Schneidewind President and Academic Managing Director Wuppertal Institut für Klima, Umwelt, Energie gGmbH	2,300
Wolfgang Lubert Managing Director EnjoyVenture Management GmbH	2,300	Frank Sportolari (since May 1, 2016) District Manager UPS Deutschland Inc. & Co. OHG	1,633
Anne Lütkes District President Düsseldorf Regional Government	2,600	Dr. Jochen Stemplewski (until March 31, 2016) Chairman of the Managing Board EMSCHERGENOSSENSCHAFT und LIPPEVERBAND	500
Dr.-Ing. Hinrich Mählmann (since May 1, 2016) Personally liable partner Otto Fuchs KG	1,933	Peter Terium Chairman of the Managing Board innogy SE	2,300
Prof. Dr.-Ing. Wolfgang Marquardt Chairman of the Board of Directors Forschungszentrum Jülich GmbH	2,600	Marianne Thomann-Stahl District President Detmold Regional Government	2,600
Dr. Dominik Meiering (since November 1, 2016) Apostolic Administrator of the Archbishop of Cologne Cologne Archbishopric	333	Hans-Josef Vogel Mayor City of Arnsberg	2,300
Andreas Meyer-Lauber District Chairman Deutscher Gewerkschaftsbund NRW	2,000	Gisela Walsken District President Cologne Regional Government	2,600
Dr. Uli Paetzel (since May 1, 2016) Chairman of the Managing Board EMSCHERGENOSSENSCHAFT und LIPPEVERBAND	1,933	Prof. Dr. Jürgen Wilhelm Chairman Regional Assembly of the Rhineland	2,600
Dr. Paul-Josef Patt Chairman of the Managing Board eCAPITAL entrepreneurial Partners AG	2,300	Klaus Winterhoff (until June 30, 2016) Legal Vice President Evangelical Church of Westphalia	1,000
Henriette Reker (since January 1, 2016) Lord Mayor City of Cologne	2,000	Hans-Bernd Wolberg Deputy Chief Executive Officer DZ BANK AG Deutsche Zentral-Genossenschaftsbank	2,600
Martin Renker Chairman of the Managing Board Bankenverband Nordrhein-Westfalen e. V.	2,300	Matthias Zachert Chairman of the Managing Board LANXESS AG	2,300
Dr. Eckhard Ruthemeyer Mayor City of Soest and President Städte- und Gemeindebund Nordrhein-Westfalen e. V.	2,000		

1. On the basis of the rules adopted by the Board of Guarantors, turnover tax and travel expenses are refunded by the Bank upon request.
2. The labour remuneration for members who join or leave the Advisory Board during the year is paid on a pro-rata temporis basis for each calendar month.
3. Potential duties of payment of the mandate holders and/or payments made are not taken into account.

## Disclosure of the Remuneration Paid to Members of the Parliamentary Advisory Council of NRW.BANK

	Total remuneration		Total remuneration
	€		€
<b>Members Pursuant to Section 26 of the Statutes</b>		<b>Members Pursuant to Section 26 of the Statutes</b>	
Elisabeth Müller-Witt, MdL Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	250	Dr. Marcus Optendrenk, MdL Member of the CDU Parliamentary Group State Assembly of North Rhine-Westphalia	250
Mehrdad Mostofizadeh, MdL Chairman of the Bündnis 90/Die Grünen Parliamentary Group State Assembly of North Rhine-Westphalia	250	Dietmar Schulz, MdL (until November 15, 2016) Member of the Piraten Parliamentary Group State Assembly of North Rhine-Westphalia	0
Marc Herter, MdL Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	250	Ralf Witzel, MdL Member of the FDP Parliamentary Group State Assembly of North Rhine-Westphalia	125
Stefan Kämmerling, MdL Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	125	Hendrik Wüst, MdL Member of the CDU Parliamentary Group State Assembly of North Rhine-Westphalia	250
Nicolaus Kern, MdL (since November 15, 2016) Member of the Piraten Parliamentary Group State Assembly of North Rhine-Westphalia	0	Gudrun Zentis, MdL Member of the Bündnis 90/Die Grünen Parliamentary Group State Assembly of North Rhine-Westphalia	0
Gerda Kieninger, MdL Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	250	Stefan Zimkeit, MdL Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	0
Christian Möbius, MdL Member of the CDU Parliamentary Group State Assembly of North Rhine-Westphalia	250		

1. On the basis of the rules adopted by the Board of Guarantors, turnover tax and travel expenses are refunded by the Bank upon request.
2. Potential duties of payment of the mandate holders and/or payments made are not taken into account.

## Disclosure of the Remuneration Paid to Members of the Advisory Board for Housing Promotion of NRW.BANK

	Total remuneration		Total remuneration
	€		€
<b>Members Pursuant to Section 23 Para. 1 Letter a of the Statutes</b>		<b>Members Pursuant to Section 23 Para. 1 Letter c of the Statutes</b>	
Michael Groschek Minister for Building, Housing, City Development and Transport of the State of North Rhine-Westphalia	3,600	Arndt Klocke, MdL Member of the Bündnis 90/Die Grünen Parliamentary Group State Assembly of North Rhine-Westphalia	3,600
<b>Members Pursuant to Section 23 Para. 1 Letter b of the Statutes</b>		Bernhard Schemmer, MdL Member of the CDU Parliamentary Group State Assembly of North Rhine-Westphalia	3,600
Günther Bongartz Senior Principal Ministry of Finance of the State of North Rhine-Westphalia	3,300	Eva-Maria Voigt-Küppers, MdL Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	3,600
Dr. Michael Henze Assistant Secretary Ministry for Economic Affairs, Energy and Industry of the State of North Rhine-Westphalia	3,600	Klaus Voussem, MdL Member of the CDU Parliamentary Group State Assembly of North Rhine-Westphalia	3,600
Hans Lauf Assistant Secretary Ministry of Work, Social Integration and Welfare of the State of North Rhine-Westphalia	3,600	Olaf Wegner, MdL Member of the Piraten Parliamentary Group State Assembly of North Rhine-Westphalia	3,300
<b>Members Pursuant to Section 23 Para. 1 Letter c of the Statutes</b>		<b>Members Pursuant to Section 23 Para. 1 Letter d of the Statutes</b>	
Martin Börschel, MdL Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	3,600	Erik Amaya (since June 20, 2016) Association Director Haus & Grund Rheinland Verband Rheinischer Haus-, Wohnungs- und Grundeigentümer e. V.	2,050
Holger Ellerbrock, MdL Member of the FDP Parliamentary Group State Assembly of North Rhine-Westphalia	3,300	Ingo Apel (until June 20, 2016) Member of the Managing Board Haus und Grund Düsseldorf und Umgebung Verband des Haus-, Wohnungs- und Grund- eigentums im Regierungsbezirk Düsseldorf e. V.	1,500
Dieter Hilser, MdL Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	3,600	Dr. Werner Küpper BFW Landesverband Nordrhein-Westfalen e. V.	3,600
Gerda Kieninger, MdL Member of the SPD Parliamentary Group State Assembly of North Rhine-Westphalia	3,600	Alexander Rychter Association Director Verband der Wohnungswirtschaft Rheinland Westfalen e. V.	3,600

	Total remuneration		Total remuneration
	€		€
<b>Members Pursuant to Section 23 Para. 1 Letter e of the Statutes</b>		<b>Members Pursuant to Section 23 Para. 1 Letter f of the Statutes</b>	
Rudolf Graaff Deputy Mayor Städte- und Gemeindebund Nordrhein-Westfalen e. V.	3,600	Hans-Jochem Witzke 1st Chairman Mieterverein Düsseldorf e. V. and 1st Chairman Deutscher Mieterbund Nordrhein-Westfalen e. V.	3,600
Thomas Hendele District Administrator District of Mettmann	3,300	<b>Members Pursuant to Section 23 Para. 1 Letter g of the Statutes</b>	
Stefan Raetz Mayor City of Rheinbach	3,300	Dipl.-Ing. Ernst Uhing President Architektenkammer Nordrhein-Westfalen	3,300
Hilmar von Lojewski Deputy Mayor for Urban Development, Construction, Housing and Transport Städtetag Nordrhein-Westfalen	3,600	<b>Permanent Representative of the Chairing Member Pursuant to Section 23 Para. 2 of the Statutes</b>	
		Sigrid Koeppinghoff Assistant Secretary Ministry for Building, Housing, City Development and Transport of the State of North Rhine-Westphalia	3,300

1. On the basis of the rules adopted by the Board of Guarantors, turnover tax and travel expenses are refunded by the Bank upon request.

2. The labour remuneration for members who join or leave the Advisory Board for Housing Promotion during the year is paid on a pro-rata temporis basis for each calendar month.

3. Potential duties of payment of the mandate holders and/or payments made are not taken into account.

**Advances and Loans**

For members of the Supervisory Board of NRW.BANK loans totalling € 34.5 thousand (2015: € 38.3 thousand) exist whose interest rates range from 4.93% to 5.15%.

**Disclosure of Seats Held Pursuant to Section 340a Para. 4 No. 1 HGB****Seats Held by Members of the Managing Board****Klaus Neuhaus (until October 31, 2016)**

Portigon AG (until October 31, 2016)

**Eckhard Forst (since November 1, 2016)**

Portigon AG (since November 21, 2016)

**Gabriela Pantring (since November 1, 2016)**

Flughafen Berlin Brandenburg GmbH  
(until December 31, 2016)

**Michael Stölting**

Investitionsbank des Landes Brandenburg (ILB)  
Erste Abwicklungsanstalt

**Dietrich Suhlrie**

Investitionsbank des Landes Brandenburg (ILB)

**Seats Held by Employees****Dr. Peter Güllmann**

Investitionsbank des Landes Brandenburg (ILB)

**Regine Bukowski-Knuppertz**

Investitionsbank des Landes Brandenburg (ILB)  
(since January 1, 2016)

**Guido Köcher**

Kettler GmbH (since December 7, 2016)

**Disclosure Pursuant to Section 26a Para. 1 Sentence 2 KWG in conjunction with Section 64r Para. 15 Sentence 1 KWG**

NRW.BANK has dual head offices in Düsseldorf and Münster and has no branches performing banking activities outside the Federal Republic of Germany. All figures in the financial statements as defined in Section 26a Para. 1 Sentence 2 KWG therefore relate exclusively to the Federal Republic of Germany.

**Itemised List of NRW.BANK's Investments Pursuant to Section 285 No. 11 and 11a HGB**

Name and head office of the company	Direct (D)/ Indirect (I)	Capital share in %	Equity in thousands	Net income/loss for the year in thousands	Currency	As at
<b>Equity investments in affiliated companies</b>						
Bremer Spielcasino GmbH & Co. KG, Bremen	D/I	51.00%	1,145	1,142	EUR	Dec. 31, 2015
Casino Duisburg GmbH & Co. KG, Duisburg	I	100.00%	10,000	6,160	EUR	Dec. 31, 2015
Nordwestlotto in Nordrhein-Westfalen GmbH, Münster	D	100.00%	156	0	EUR	Dec. 31, 2015
NRW.BANK.Fonds Beteiligungs-GmbH, Düsseldorf	D	100.00%	183	0	EUR	Dec. 31, 2015
NRW.BANK.Kreativwirtschaftsfonds GmbH & Co. KG, Düsseldorf	D	100.00%	5,936	4,053	EUR	Dec. 31, 2015
NRW.BANK.Mittelstandsfonds GmbH & Co. KG, Düsseldorf	D	100.00%	52,141	-1,382	EUR	Dec. 31, 2015
NRW.BANK.Mittelstandsfonds Zwei GmbH & Co. KG, Düsseldorf	D	100.00%	12,529	-26	EUR	Dec. 31, 2015
NRW.BANK.Seed Fonds GmbH & Co. KG, Düsseldorf	D	100.00%	10,755	460	EUR	Dec. 31, 2014
NRW.BANK.Seed Fonds Zwei GmbH & Co. KG, Düsseldorf	D	100.00%	3,052	-509	EUR	Dec. 31, 2015
NRW.BANK.Spezialfonds GmbH & Co. KG, Düsseldorf	D	100.00%	9,804	1,253	EUR	Dec. 31, 2015
NRW.BANK.Venture Fonds GmbH & Co. KG, Düsseldorf	D	100.00%	13,226	-3	EUR	Dec. 31, 2015
NRW.BANK.Venture Fonds Zwei GmbH & Co. KG, Düsseldorf	D	100.00%	25,575	-4,811	EUR	Dec. 31, 2015
Ruhrgründer GmbH, Düsseldorf <sup>3)</sup>	D	100.00%				
Ruhrgründer Verwaltungs GmbH, Düsseldorf <sup>3)</sup>	I	100.00%				
Unterstützungseinrichtungs GmbH der Westdeutsche Lotterie GmbH & Co. OHG, Münster	D/I	100.00%	26	2,163	EUR	Dec. 31, 2015
Westdeutsche Lotterie GmbH & Co. OHG, Münster <sup>1)</sup>	D	100.00%	106,501	9,977	EUR	Dec. 31, 2015
Westdeutsche Lotto-VertriebsGmbH, Münster	I	100.00%	28	0	EUR	Dec. 31, 2015
Westdeutsche Spielbanken GmbH, Duisburg	D	100.00%	26	0	EUR	Dec. 31, 2015
Westdeutsche Spielbanken GmbH & Co. KG, Duisburg	D/I	100.00%	78,252	-596	EUR	Dec. 31, 2015
Westdeutsche Spielcasino Service GmbH, Duisburg	D	100.00%	525	0	EUR	Dec. 31, 2015
WestEvent GmbH & Co. KG, Münster	D/I	100.00%	3,927	527	EUR	Dec. 31, 2015
WestSpiel Entertainment GmbH, Duisburg	I	100.00%	25	0	EUR	Dec. 31, 2015
<b>Equity investments in non-affiliated companies</b>						
abbino GmbH, Dortmund <sup>2)</sup>	I	35.15%				
AlgiAx Pharmaceuticals GmbH, Erkrath	I	8.39%	717	-1,592	EUR	Dec. 31, 2015
AplaGen GmbH, Baesweiler <sup>2)</sup>	I	26.21%				
Auctus III GmbH Co. KG, Grünwald	D	4.35%	66,965	17,563	EUR	Dec. 31, 2015
audimark GmbH, Düsseldorf	I	20.00%	286	168	EUR	Dec. 31, 2013
AyoxxA Biosystems GmbH, Cologne	I	12.23%	3,013	-4,697	EUR	Dec. 31, 2015
azeti Networks AG, Lünen	I	5.98%	693	-2,894	EUR	Dec. 31, 2015

Name and head office of the company	Direct (D)/ Indirect (I)	Capital share in %	Equity in thou- sands	Net income/ loss for the year in thou- sands	Cur- rency	As at
BE Beteiligungen GmbH & Co. KG, Cologne	D	3.96%	20,070	1,809	EUR	Dec. 31, 2015
BGB Ges. Bankenconsortium ZENIT GmbH, Mülheim	D	33.40%	2,744	97	EUR	Dec. 31, 2015
BLSW Seedfonds GmbH & Co. KG, Wuppertal	I	44.25%	468	-73	EUR	Dec. 31, 2015
Bomedus GmbH, Bonn	I	22.80%	-1	-908	EUR	Dec. 31, 2015
Bürgschaftsbank Brandenburg GmbH, Potsdam	D	19.85%	26,328	1,340	EUR	Dec. 31, 2015
Bürgschaftsbank NRW GmbH – Kreditgarantiegemeinschaft, Neuss	D	15.75%	33,043	1,419	EUR	Dec. 31, 2015
CAP-CMV GmbH, Cologne <sup>2)</sup>	I	25.82%				
Capnamic United Venture Fund I GmbH & Co. KG, Cologne	D	9.98%	19,294	-1,014	EUR	Dec. 31, 2015
Capnamic Venture Fund II GmbH & Co. KG, Cologne <sup>3)</sup>	D	6.42%				
CellAct Pharma GmbH, Dortmund	I	38.65%	-35	-982	EUR	Dec. 31, 2015
CEVEC Pharmaceuticals GmbH, Cologne	I	21.56%	1,197	-2,304	EUR	Dec. 31, 2015
Chronext AG, Zug	I	9.19%	1,010	-4,017	CHF	Dec. 31, 2015
CMP German Opportunity Investors Fund II SCA, Luxembourg	D	1.71%	80,261	34,327	EUR	Dec. 31, 2015
CMP German Opportunity Investors Fund II SCS, Luxembourg	D	1.68%	70,040	54,415	EUR	Dec. 31, 2015
Creathor Venture Fund IV SCS, Luxembourg <sup>3)</sup>	D	10.00%				
Cryotherapeutics GmbH, Cologne	I	17.89%	-1,603	-2,928	EUR	Dec. 31, 2015
DBAG Expansion Capital Fund GmbH & Co. KG, Frankfurt am Main	D	9.79%	31,591	627	EUR	Dec. 31, 2015
DIREVO Industrial Biotechnology GmbH, Cologne	I	27.88%	2,349	-3,373	EUR	Dec. 31, 2015
Earlybird GmbH & Co. Beteiligungs KG 2011, Munich	D	6.94%	82,361	17,543	EUR	Dec. 31, 2015
Earlybird Health Tech Fund GmbH & Co. Beteiligungs KG, Cologne <sup>3)</sup>	D	5.45%				
ELS Fonds GmbH & Co. KG, Recklinghausen	I	32.30%	2,853	-1,257	EUR	Dec. 31, 2015
Europäischer Investitionsfonds, Luxembourg	D	0.44%	1,854,259	97,360	EUR	Dec. 31, 2015
femtos GmbH, Bochum	I	2.91%	388	-137	EUR	Dec. 31, 2016
Gardeur Beteiligungs GmbH, Mönchengladbach	I	49.00%	-8,489	-630	EUR	Sep. 30, 2015
GENUI Fund GmbH & Co. KG, Hamburg	D	1.72%	87,137	-7,137	EUR	Dec. 31, 2015
GreenPocket GmbH, Cologne	I	17.15%	199	-463	EUR	Dec. 31, 2015
Gründerfonds Bielefeld-Ostwestfalen GmbH & Co. KG, Münster	I	38.42%	6,108	2,184	EUR	Dec. 31, 2015
Gründerfonds Münsterland GmbH & Co. KG, Münster	I	37.81%	2,670	-113	EUR	Dec. 31, 2015
Harbert European Growth Capital Fund I, London	D	1.49%	84,490	8,099	GBP	Dec. 31, 2015
Haverkamp GmbH, Münster	I	49.00%	510	-447	EUR	Dec. 31, 2015
Hemovent GmbH, Wuppertal	I	16.28%	5	-10	EUR	Dec. 31, 2015
INNOLUME GmbH, Dortmund	I	1.63%	-6,439	401	EUR	Dec. 31, 2015
Investitionsbank des Landes Brandenburg, Potsdam	D	50.00%	211,223	11,038	EUR	Dec. 31, 2015
IPF Fund I SCA, Luxembourg	D	1.19%	42,962	-1,959	EUR	Dec. 31, 2016
JADO Technologies GmbH, Dresden <sup>2)</sup>	I	18.02%				
Kapitalbeteiligungsgesellschaft für die mittelständische Wirtschaft in NRW mbH, Neuss	D	49.63%	2,284	560	EUR	Dec. 31, 2015
Langendorf GmbH, Waltrop	I	37.00%	1,880	417	EUR	Sep. 30, 2016
Learnship Networks GmbH, Cologne	I	11.74%	-7,213	-5,951	EUR	Dec. 31, 2015

Name and head office of the company	Direct (D)/ Indirect (I)	Capital share in %	Equity in thousands	Net income/loss for the year in thousands	Currency	As at
LSI Pre-Seed-Fonds GmbH, Bonn	D	35.13%	11,402	772	EUR	Dec. 31, 2015
Mapudo GmbH, Düsseldorf	I	21.12%	261	-355	EUR	Dec. 31, 2015
mimoOn GmbH, Duisburg <sup>2)</sup>	I	17.06%				
Novihum Technologies GmbH, Dresden	I	10.00%	5,084	-1,301	EUR	Dec. 31, 2016
NRW.International GmbH, Düsseldorf	D	33.33%	30	4	EUR	Dec. 31, 2015
Occlutech Holding AG, Schaffhausen	I	0.17%	7,621	-7,641	CHF	Jun. 30, 2016
Odewald KMU GmbH & Co. Beteiligungsgesellschaft für Vermögenanlagen KG, Berlin	D	7.32%	71,574	62,181	EUR	Dec. 31, 2015
Odewald KMU II GmbH & Co. Beteiligungsgesellschaft für Vermögenanlagen KG, Berlin	D	7.96%	2	-574	EUR	Dec. 31, 2016
ODS Oddset Deutschland Sportwetten GmbH, Munich	I	33.44%	-2,679	1,197	EUR	Dec. 31, 2015
O-Flexx Technologies GmbH, Duisburg	I	22.18%	516	-1,508	EUR	Dec. 31, 2015
Peppermint CBF 1 GmbH & Co. KG, Berlin	D	14.36%	11,765	-478	EUR	Dec. 31, 2015
Phenox GmbH, Bochum	I	27.61%	6,737	957	EUR	Dec. 31, 2015
Pinova GmbH & Co. Beteiligungs 2 KG, Munich <sup>3)</sup>	D	9.80%				
Pinova GmbH & Co. Erste Beteiligungs KG, Munich	D	10.26%	56,950	1,702	EUR	Dec. 31, 2015
Portigon AG, Düsseldorf	D	30.51%	1,982,358	-28,706	EUR	Dec. 31, 2015
Precire Technologies GmbH, Aachen	I	9.01%	2,220	-1,404	EUR	Dec. 31, 2015
Protagen AG, Dortmund	I	22.54%	-1,560	-3,450	EUR	Dec. 31, 2015
RDZ GmbH, Engelskirchen	I	21.94%	59	-423	EUR	Dec. 31, 2014
Rheinland Venture Capital GmbH & Co. KG, Cologne	I	39.92%	3,141	-274	EUR	Dec. 31, 2015
Rigontec GmbH, Bonn	I	14.86%	4,611	-2,881	EUR	Dec. 31, 2015
RiverRock European Opportunities Feeder Fund II, London	D	1.65%	8,262	-2,981	EUR	Dec. 31, 2015
RiverRock European Opportunities Fund Ltd., London	D	1.48%	160,172	8,022	EUR	Dec. 31, 2015
saperatec GmbH, Bielefeld	I	23.76%	1,224	-1,639	EUR	Dec. 31, 2015
Schnöring GmbH, Schalksmühle	I	39.00%	1,894	-63	EUR	Dec. 31, 2015
Scienion AG, Dortmund	D/I	45.60%	5,622	1,842	EUR	Dec. 31, 2015
SeedCapital Dortmund GmbH & Co. KG, Dortmund	I	46.51%	2,842	-1,189	EUR	Dec. 31, 2015
SeedCapital Dortmund II GmbH & Co. KG, Dortmund	I	47.62%	1,890	-3	EUR	Dec. 31, 2015
Seed Fonds für die Region Aachen GmbH & Co. KG, Aachen	I	46.95%	4,349	34	EUR	Dec. 31, 2015
Seed Fonds II für die Region Aachen GmbH & Co. KG, Aachen	I	46.14%	4,194	34	EUR	Dec. 31, 2015
Simfy AG, Berlin <sup>2)</sup>	I	1.93%				
Sirius Seedfonds Düsseldorf GmbH & Co. KG, Düsseldorf	I	44.61%	3,436	3,859	EUR	Dec. 31, 2015
VENTECH GmbH, Marl <sup>2)</sup>	I	19.98%				
Vimecon GmbH, Herzogenrath	I	12.28%	1,542	-1,804	EUR	Dec. 31, 2015
WINDTEST Grevenbroich GmbH, Hamburg	D	25.00%	898	248	EUR	Dec. 31, 2015

<sup>1)</sup> NRW.BANK is a personally liable shareholder of Westdeutsche Lotterie GmbH & Co. OHG, Münster.

<sup>2)</sup> The company did not prepare financial statements due to insolvency or liquidation.

<sup>3)</sup> As the company was newly established in the fiscal year 2016, no financial statements are prepared yet.

**Report on Post-Balance Sheet Date Events**

No events of special importance which are shown neither in the income statement nor in the balance sheet occurred after the end of the fiscal year.

**Resolution on the Appropriation of Profits**

The Board of Guarantors has passed the following resolution on the appropriation of profits:

In accordance with Section 30 of the Statutes and to meet the statutory distribution requirements under Section 14 Para 1 of the Act on NRW.BANK, an amount of € 12,026,104.58 will be paid to the Federal Government for interest amounts that become due after December 31, 2016 and are to be paid by the State of North Rhine-Westphalia due to the utilisation of loans from the Federal Government for the promotion of housing construction and modernisation (subsidies pursuant to Article 104a Para. 4 of the German Constitution in the version effective until August 31, 2006).

## Executive Bodies of the Bank

### Board of Guarantors

Members Pursuant to Section 8 Para. 1  
Letters a to c of the Statutes

#### Garrelt Duin

Chairman  
Minister for Economic Affairs,  
Energy and Industry  
of the State of North Rhine-Westphalia  
Düsseldorf

#### Michael Groschek

Deputy Chairman  
Minister for Building, Housing,  
City Development and Transport  
of the State of North Rhine-Westphalia  
Düsseldorf

#### Dr. Norbert Walter-Borjans

Deputy Chairman  
Minister of Finance  
of the State of North Rhine-Westphalia  
Düsseldorf

Members Pursuant to Section 8 Para. 1  
Letter d of the Statutes

#### Martina Hoffmann-Badache

State Secretary  
Ministry of Health,  
Equalities, Care and Ageing  
of the State of North Rhine-Westphalia  
Düsseldorf

#### Franz-Josef Lersch-Mense

Minister for Federal Affairs,  
Europe and Media as well as  
Head of the State Chancellery  
of the State of North Rhine-Westphalia  
Düsseldorf

### Permanent guests

#### Martin Bösenberg

Staff representative  
NRW.BANK  
Münster

#### Frank Lill

Staff representative  
NRW.BANK  
Düsseldorf

### Supervisory Board

Members Pursuant to Section 12 Para. 1  
Letters a to c of the Statutes

#### Garrelt Duin

Chairman  
Minister for Economic Affairs,  
Energy and Industry  
of the State of North Rhine-Westphalia  
Düsseldorf

#### Michael Groschek

Deputy Chairman  
Minister for Building, Housing,  
City Development and Transport  
of the State of North Rhine-Westphalia  
Düsseldorf

#### Dr. Norbert Walter-Borjans

Deputy Chairman  
Minister of Finance  
of the State of North Rhine-Westphalia  
Düsseldorf

**Members Pursuant to Section 12 Para. 1  
Letter d of the Statutes**

**Horst Becker, MdL**

Parliamentary State Secretary  
Ministry for Climate Protection, Environment,  
Agriculture, Conservation and Consumer Affairs  
of the State of North Rhine-Westphalia  
Düsseldorf

**Ute Gerbaulet**

General Partner  
Bankhaus Lampe KG  
Düsseldorf

**Bernd Krückel, MdL**

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

**Johannes Rimmel**

Minister for Climate Protection, Environment,  
Agriculture, Conservation and Consumer Affairs  
of the State of North Rhine-Westphalia  
Düsseldorf

**Norbert Römer, MdL**

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

**Dr. Birgit Roos**

Chairwoman of the Managing Board  
Sparkasse Krefeld  
Krefeld

**Svenja Schulze, MdL**

Minister for Innovation,  
Science and Research  
of the State of North Rhine-Westphalia  
Düsseldorf

**Members Pursuant to Section 12 Para. 1  
Letter e of the Statutes**

**Iris Aichinger**

Staff representative  
NRW.BANK  
Düsseldorf

**Martin Bösenberg**

Staff representative  
NRW.BANK  
Münster

**Matthias Elzinga**

Staff representative  
NRW.BANK  
Münster

**Frank Lill**

Staff representative  
NRW.BANK  
Düsseldorf

**Thomas Stausberg**

Director  
NRW.BANK  
Düsseldorf

**Permanent Representatives**  
Pursuant to Section 12 Para. 2 of the Statutes

**Annett Fischer**

Assistant Secretary  
Ministry for Building, Housing,  
City Development and Transport  
of the State of North Rhine-Westphalia  
Düsseldorf

**Gerhard Heilgenberg**

Assistant Secretary  
Ministry of Finance  
of the State of North Rhine-Westphalia  
Düsseldorf

**Wulf Noll**

Assistant Secretary  
Ministry of Economic Affairs,  
Energy and Industry  
of the State of North Rhine-Westphalia  
Düsseldorf

**Managing Board**

**Klaus Neuhaus** (until October 31, 2016)

Chairman of the Managing Board

**Eckhard Forst** (since November 1, 2016)

Chairman of the Managing Board

**Gabriela Pantring** (since November 1, 2016)

Member of the Managing Board

**Michael Stölting**

Member of the Managing Board

**Dietrich Suhlrie**

Member of the Managing Board

Düsseldorf/Münster, February 13, 2017

NRW.BANK

The Managing Board

Forst, Pantring, Stölting, Suhlrie

# Cash Flow Statement

of NRW.BANK as of December 31, 2016

The cash flow statement shows the changes in cash and cash equivalents and the cash flows of NRW.BANK, divided into operating activities, investing activities and financing activities. The cash and cash equivalents shown include the balance sheet items "Cash" and "Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks". Cash flows are allocated to operating activities as operating income accrues. The cash flow from investing activities results primarily from cash received and cash used in connection with selling or acquiring financial and tangible assets. The change in cash from financing activities captures the relationships to equity capital providers. The statement was prepared in accordance with German Accounting Standard No. 21 (Deutscher Rechnungslegungs Standard Nr. 21 – DRS 21).

	2016
	€ millions
1. Net income	12.0
2. Depreciation, write-downs/write-ups of receivables and tangible assets	-16.7
3. Increase/decrease in provisions	60.6
4. Other non-cash items	498.5
5. Gain/loss on the sale of tangible assets	-149.5
6. Other adjustments (balance)	0.0
7. Increase/decrease in receivables from banks	-2,461.0
8. Increase/decrease in receivables from customers	72.0
9. Increase/decrease in securities (with the exception of financial assets)	725.2
10. Increase/decrease in other assets from operating activities	44.7
11. Increase/decrease in liabilities to banks	752.4
12. Increase/decrease in liabilities to customers	-1,519.9
13. Increase/decrease in certificated liabilities	1,645.5
14. Increase/decrease in other liabilities from operating activities	-330.1
15. Interest expenses/income	-628.8
16. Expenses for/income from extraordinary items	0.0
17. Income tax expenses/income	7.5
18. Interest and dividends received	4,727.5
19. Interest paid	-3,817.3
20. Extraordinary cash received	0.0
21. Extraordinary cash disbursed	0.0
22. Income tax payments	-6.8
<b>23. Cash flow from operating activities</b>	<b>-384.2</b>

2016

	€ millions
24. Cash from the disposal of financial assets	285.5
25. Disbursements for investments in financial assets	-35.2
26. Cash from the disposal of tangible assets	0.0
27. Disbursements for investments in tangible assets	-1.1
28. Cash from the disposal of intangible assets	0.0
29. Disbursements for investments in intangible assets	-4.2
30. Changes in cash from other investing activities (balance)	0.0
<b>31. Cash flow from investing activities</b>	<b>245.0</b>
32. Cash from allocations to equity capital	0.6
33. Disbursements from equity reductions	0.0
34. Dividends paid to shareholders	-13.8
35. Cash changes from other capital (balance)	-116.7
<b>36. Cash flow from financing activities</b>	<b>-129.9</b>
37. Net change in cash and cash equivalents	-269.1
38. Other changes in cash and cash equivalents	0.0
39. Cash and cash equivalents at the beginning of the period	775.4
<b>40. Cash and cash equivalents at the end of the period</b>	<b>506.3</b>

# Statement of Changes in Equity

of NRW.BANK as of December 31, 2016

	Subscribed capital	Capital reserves	Reserves from retained earnings	Reserves required by NRW.BANK's Statutes	Other reserves from retained earnings	Profit for the year	Total
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
<b>As of Dec. 31, 2014</b>	<b>17,000.0</b>	<b>676.9</b>	<b>36.1</b>	<b>219.6</b>	<b>0.0</b>	<b>17,932.6</b>	
Compensation payments of the Federal Government for new promotional measures		49.3				49.3	
Net income					13.8	13.8	
Designated payout due to legal requirements					-13.8	-13.8	
<b>As of Dec. 31, 2015</b>	<b>17,000.0</b>	<b>726.2</b>	<b>36.1</b>	<b>219.6</b>	<b>0.0</b>	<b>17,981.9</b>	
State budget allocations		0.6				0.6	
Net income					12.0	12.0	
Designated payout due to legal requirements					-12.0	-12.0	
<b>As of Dec. 31, 2016</b>	<b>17,000.0</b>	<b>726.8</b>	<b>36.1</b>	<b>219.6</b>	<b>0.0</b>	<b>17,982.5</b>	

# Reproduction of the Auditor's Report

We have issued the following Auditor's Report on the annual financial statements and the management report:

"We have audited the annual financial statements, comprising the balance sheet, the income statement, the notes to the financial statements, the cash flow statement and the statement of changes in equity, together with the bookkeeping system, and the management report of the NRW.BANK, Anstalt des öffentlichen Rechts, Düsseldorf and Münster, for the business year from 1 January to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law as well as supplementary provisions of the articles of incorporation are the responsibility of the Managing Board of NRW.BANK. 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 Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the NRW.BANK and 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 as well as supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements, complies with the legal requirements and as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development."

Düsseldorf, February 13, 2017

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

sgd. Werthmann  
Wirtschaftsprüfer  
(German Public Auditor)

sgd. Eckert  
Wirtschaftsprüferin  
(German Public Auditor)

# Responsibility Statement

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

Düsseldorf/Münster, February 13, 2017

NRW.BANK

The Managing Board



Eckhard Forst  
Chairman of the Managing Board



Gabriela Pantring  
Member of the Managing Board



Michael Stölting  
Member of the Managing Board



Dietrich Suhlrie  
Member of the Managing Board

# Members of the Advisory Board for Housing Promotion

## Members Pursuant to Section 23 Para. 1 Letter a of the Statutes

### Michael Groschek

Chairman

Minister for Building, Housing,  
City Development and Transport  
of the State of North Rhine-Westphalia  
Düsseldorf

## Members Pursuant to Section 23 Para. 1 Letter b of the Statutes

### Günther Bongartz

Senior Principal  
Ministry of Finance  
of the State of North Rhine-Westphalia  
Düsseldorf

### Dr. Michael Henze

Assistant Secretary  
Ministry of Economic Affairs,  
Energy and Industry  
of the State of North Rhine-Westphalia  
Düsseldorf

### Hans Lauf

Assistant Secretary  
Ministry of Work, Social Integration and Welfare  
of the State of North Rhine-Westphalia  
Düsseldorf

## Members Pursuant to Section 23 Para. 1 Letter c of the Statutes

### Martin Börschel, MdL

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

### Holger Ellerbrock, MdL

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

### Dieter Hilser, MdL

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

### Gerda Kieninger, MdL

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

### Arndt Klocke, MdL

Member of the  
Bündnis 90/Die Grünen Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### Bernhard Schemmer, MdL

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

### Eva-Maria Voigt-Küppers, MdL

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

### Klaus Vossemer, MdL

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

### Olaf Wegner, MdL

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

## Members Pursuant to Section 23 Para. 1 Letter d of the Statutes

### Erik Amaya (since June 20, 2016)

Association Director  
Haus & Grund Rheinland  
Verband Rheinischer Haus-, Wohnungs- und  
Grundeigentümer e. V.  
Düsseldorf

**Ingo Apel** (until June 20, 2016)

Member of the Managing Board  
Haus und Grund Düsseldorf und Umgebung  
Verband des Haus-, Wohnungs- und Grundeigentums im Regierungsbezirk Düsseldorf e. V.  
Düsseldorf

**Dr. Werner Küpper**

BFW Landesverband Nordrhein-Westfalen e. V.  
Bonn

**Alexander Rychter**

Association Director  
Verband der Wohnungswirtschaft  
Rheinland Westfalen e. V.  
Düsseldorf

**Members Pursuant to Section 23 Para. 1  
Letter e of the Statutes**

**Rudolf Graaff**

Deputy Mayor  
Städte- und Gemeindebund Nordrhein-Westfalen e. V.  
Düsseldorf

**Thomas Hendele**

District Administrator  
District of Mettmann  
Mettmann

**Stefan Raetz**

Mayor  
City of Rheinbach  
Rheinbach

**Hilmar von Lojewski**

Deputy Mayor  
for Urban Development, Construction,  
Housing and Transport  
Städtetag Nordrhein-Westfalen  
Cologne

**Members Pursuant to Section 23 Para. 1  
Letter f of the Statutes**

**Hans-Jochem Witzke**

1st Chairman  
Mieterverein Düsseldorf e. V. and  
1st Chairman  
Deutscher Mieterbund Nordrhein-Westfalen e. V.  
Düsseldorf

**Members Pursuant to Section 23 Para. 1  
Letter g of the Statutes**

**Dipl.-Ing. Ernst Uhing**

President  
Architektenkammer Nordrhein-Westfalen  
Düsseldorf

**Permanent Representatives of the Chairing Member  
Pursuant to Section 23 Para. 2 of the Statutes**

**Sigrid Koeppinghoff**

Assistant Secretary  
Ministry for Building, Housing,  
City Development and Transport  
of the State of North Rhine-Westphalia  
Düsseldorf

# Members of the Parliamentary Advisory Board

## Members Pursuant to Section 26 of the Statutes

### **Elisabeth Müller-Witt, MdL**

Chairwoman

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

### **Mehrdad Mostofizadeh, MdL**

Deputy Chairman

Chairman of the  
Bündnis 90/Die Grünen Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Marc Herter, MdL**

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

### **Stefan Kämmerling, MdL**

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

### **Nicolaus Kern, MdL** (since November 15, 2016)

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

### **Gerda Kieninger, MdL**

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

### **Christian Möbius, MdL**

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

### **Dr. Marcus Optendrenk, MdL**

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

### **Dietmar Schulz, MdL** (until November 15, 2016)

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

### **Ralf Witzel, MdL**

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

### **Hendrik Wüst, MdL**

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

### **Gudrun Zentis, MdL**

Member of the  
Bündnis 90/Die Grünen Parliamentary Group  
State Assembly of North Rhine-Westphalia  
Düsseldorf

### **Stefan Zimkeit, MdL**

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

# Members of the Advisory Board

## Members Pursuant to Section 25 of the Statutes

### **Garrelt Duin**

Chairman  
Minister for Economic Affairs,  
Energy and Industry  
of the State of North Rhine-Westphalia  
Düsseldorf

### **Michael Ackermann**

Managing Director  
Klinikum Bielefeld gem. GmbH  
Bielefeld

### **Frank Baranowski**

Lord Mayor  
City of Gelsenkirchen  
Gelsenkirchen

### **Michael Breuer**

President  
Savings Banks and Giro Association  
of the Rhineland  
Düsseldorf

### **Pit Clausen** (since January 1, 2016)

Lord Mayor  
City of Bielefeld and  
Chairman of the Managing Board  
Städtetag Nordrhein-Westfalen  
Düsseldorf

### **Heinrich Otto Deichmann**

Chairman of the Supervisory Board  
Deichmann SE  
Essen

### **Andreas Ehlert**

President  
Düsseldorf Chamber of Handicrafts  
Düsseldorf

### **Thomas Eiskirch** (since January 1, 2016)

Lord Mayor  
City of Bochum  
Bochum

### **Diana Ewert** (since January 1, 2016)

District President  
Arnsberg Regional Government  
Arnsberg

### **Andreas Feicht**

Chairman  
Verband kommunaler Unternehmen e. V.  
– Regional Group North Rhine-Westphalia –  
Cologne

### **Dr. Reinhold Festge**

Managing Partner  
HAVER & BOECKER OHG  
Drahtweberei und Maschinenfabrik  
Oelde

### **Heinz Fiege**

FIEGE Logistik Holding Stiftung & Co. KG  
Greven

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District of Mettmann and  
President  
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im Lande Nordrhein-Westfalen e. V.  
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Münster Regional Government  
Münster

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Bischöfliches Generalvikariat Münster  
Münster

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Evangelical Church of Westphalia  
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EnjoyVenture Management GmbH  
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City of Soest and  
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Directors Conference of the Universities  
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President and Academic Managing Director  
Wuppertal Institut für Klima,  
Umwelt, Energie gGmbH  
Wuppertal

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UPS Deutschland Inc. & Co. OHG  
Neuss

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Essen/Dortmund

**Peter Terium**  
Chairman of the Managing Board  
innogy SE  
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Detmold

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City of Arnsberg  
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**Gisela Walsken**

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Cologne Regional Government  
Cologne

**Prof. Dr. Jürgen Wilhelm**

Chairman  
Regional Assembly of the Rhineland  
Cologne

**Klaus Winterhoff** (until June 30, 2016)

Legal Vice President  
Evangelical Church of Westphalia  
Bielefeld

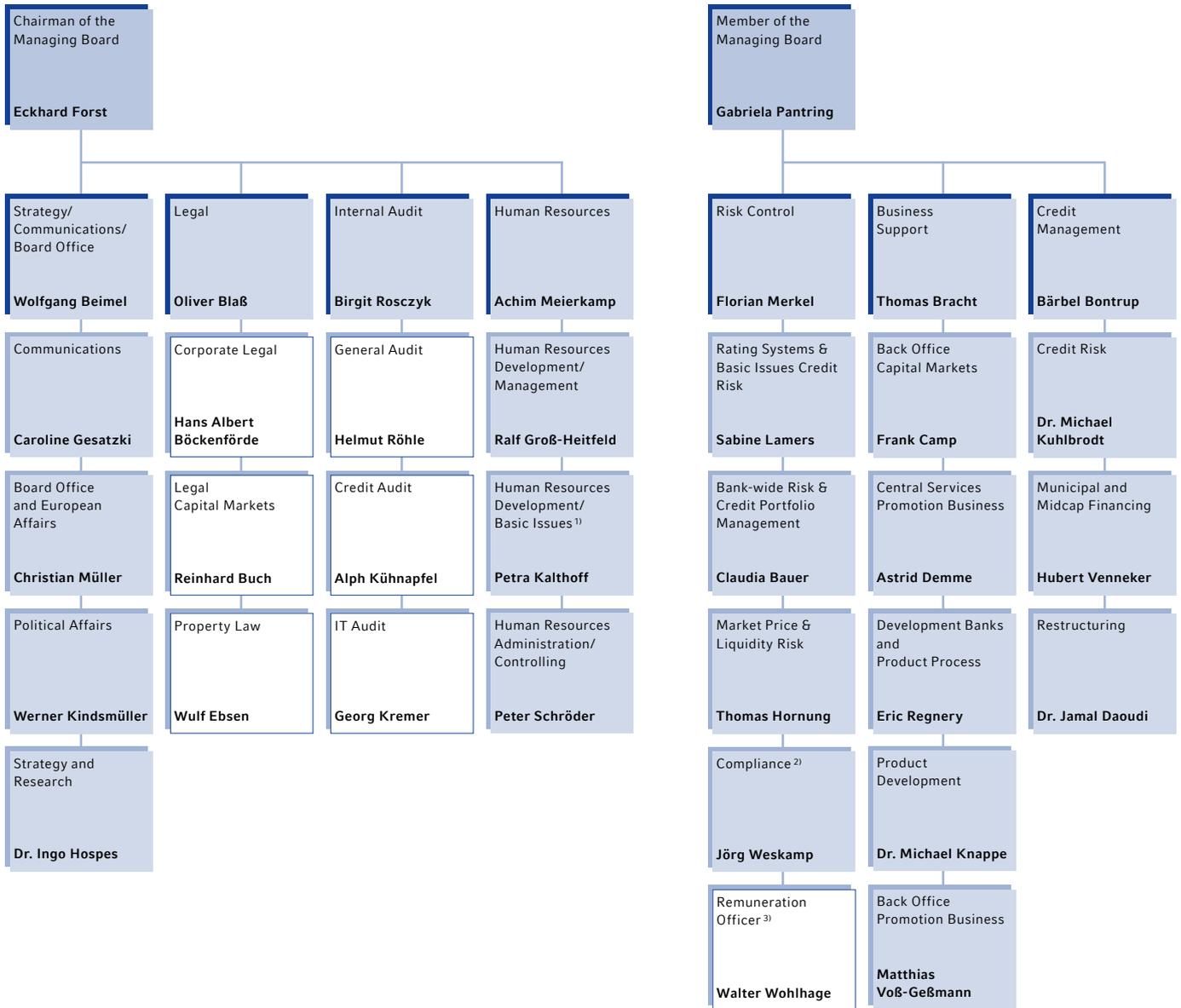
**Hans-Bernd Wolberg**

Deputy Chief Executive Officer  
DZ BANK AG  
Deutsche Zentral-Genossenschaftsbank  
Düsseldorf

**Matthias Zachert**

Chairman of the Managing Board  
LANXESS AG  
Leverkusen

# Organisation Chart



Business Unit
  Department
  Team with direct reporting line to the Business Unit Head

<sup>1)</sup> Occupational Safety Officer, Equal Opportunities Officer and Data Protection Officer report directly to the Managing Board.

<sup>2)</sup> The Money Laundering Officer, who is in charge of the central function for the prevention of money laundering, terrorist financing and other criminal acts pursuant to § 25h KWG, the WpHG Compliance Officer and the MaRisk Compliance Officer report directly to the Managing Board and are bound by instructions only from the latter.

<sup>3)</sup> The Remuneration Officer reports directly to the Supervisory Board and the Remuneration Control Committee.

Note: The Staff Council is not shown as an organisational unit in the organisational chart of NRW.BANK as it is an elected body which has no reporting relationship with the Managing Board.



# NRW.BANK at a Glance

## NRW.BANK Facts

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

### Guarantors

- State of North Rhine-Westphalia (100%)

### Liabilities/Guarantees

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

**Legal Status** Public law bank

**Head Offices** Düsseldorf and Münster

## Information Services of NRW.BANK

### NRW.BANK.Infoline

Initial advice and information on promotional products for:  
 commercial Phone +49 211 91741-4800  
 housing Phone +49 211 91741-4500  
 Fax +49 211 91741-1800  
 info@nrwbank.de

Service hours: Mondays to Thursdays from 8 a.m. to 6 p.m. and Fridays from 8 a.m. to 5.30 p.m.

### For further advice, you may also contact:

#### EU and Foreign Trade & Investment Promotion

Phone +49 211 91741-4000  
 Fax +49 211 91742-6218  
 europa@nrwbank.de

#### Accounting Management – Public Sector Clients

Phone +49 211 91741-4600  
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 48145 Münster  
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 info@nrwbank.de

#### Concept and Design, Production and Typesetting

vE&K Werbeagentur GmbH & Co. KG,  
 Essen

#### Print

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

## Financial Calendar 2017

March 23, 2017

Annual accounts press conference

August 29, 2017

Publication of the promotional result for the second quarter

November 2, 2017

Publication of the promotional result for the third quarter

## Net Volume of New Commitments

	2016	2015
	€ millions	€ millions
Housing & Living	6,792	5,148
Seed & Growth	3,028	3,344
Development & Protection	1,341	1,185
<b>Total</b>	<b>11,161</b>	<b>9,677</b>

## Key Figures

	2016	2015
	€ millions	€ millions
Total assets	142,066	141,175
Equity capital pursuant to the German Commercial Code (HGB)	17,983	17,982
Common Equity Tier 1 capital	18,394	18,385
Own funds	20,024	20,063
Operating income	680	574
Administrative expenses	215	210
Operating result	465	364
CET1 capital ratio	41.76%	42.58%
Total capital ratio	45.46%	46.47%
Staff	1,338	1,309

## Ratings

	Fitch Ratings	Moody's	Standard & Poor's	Dagong Europe
Long-term rating	AAA	Aa1	AA-	AA+
Short-term rating	F1+	P-1	A-1+	A-1
Outlook	stable	stable	stable	stable

## Sustainability

Rated by	oekom research	imug	Sustainalytics	Vigeo
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