

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.

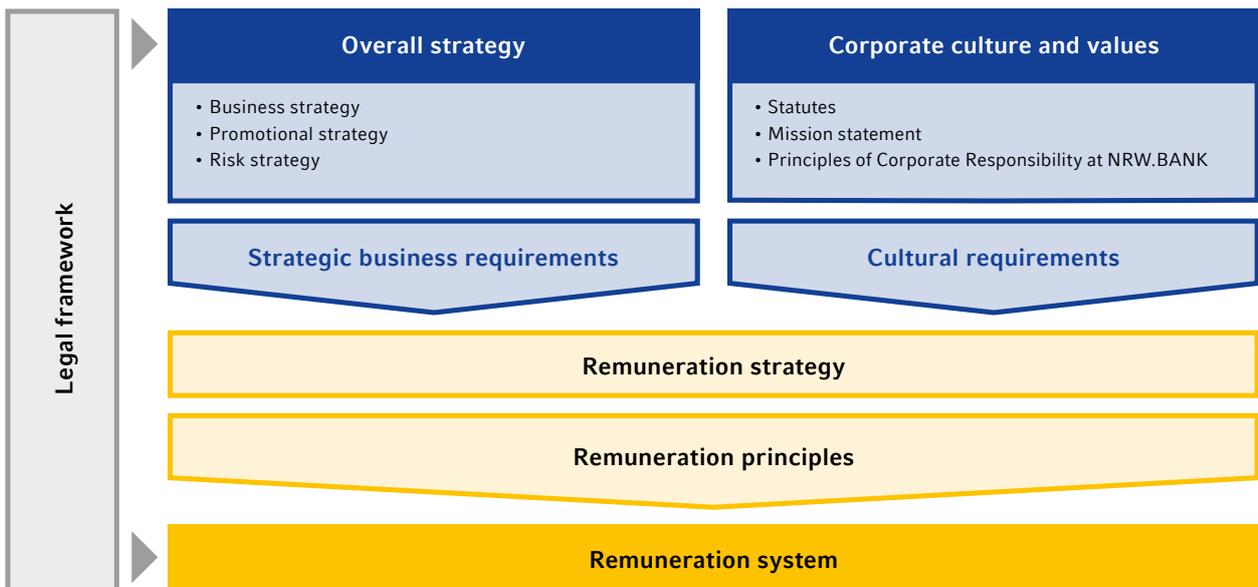
9.1 Remuneration of the Members of the Supervisory Board

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

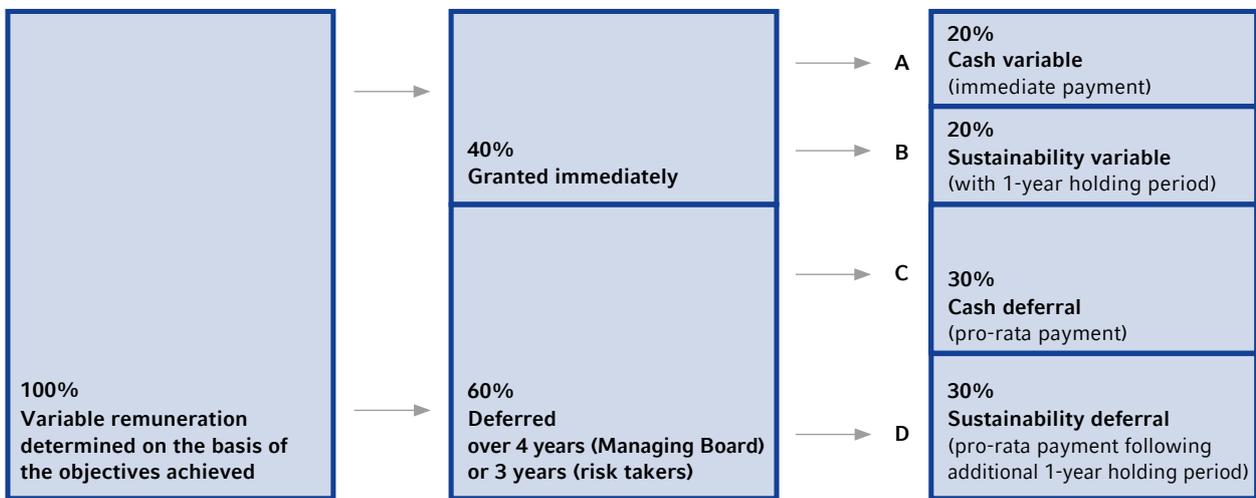
NRW.BANK has,

- 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 ²⁾	Number of risk takers
Fixed remuneration	Other benefits ¹⁾				
€ 1,611,174	€ 100,153	€ 404,000	€ 2,115,327	€ 75,907	5

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

²⁾ 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 ¹⁾
	Fixed remuneration	Other benefits ²⁾				
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
Total result	€ 10,672,239	€ 544,080	€ 3,633,275	€ 14,849,594	€ 22,094	86

¹⁾ 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

²⁾ 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 ¹⁾	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

¹⁾ 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.