Consolidated financial statements and group management report of Bremer Landesbank as of 31 December 2011 in accordance with IFRSs

The Bremer Landesbank Group at a glance

	1 Jan 2011 – 31 Dec 2011 (in EUR m)	1 Jan 2010 – 31 Dec 2010 (in EUR m)	Change (in EUR m)	(in %)
Net interest income	376	314	62	20
Risk provisions in the lending business	–112	–59	–53	90
Net commission income	26	28	–2	–7
Profit/loss from financial instruments at fair value through profit or loss (including hedge accounting)	25	–89	114	–
Other operating profit/loss	1	17	–16	–94
Administrative expenses	159	162	–3	–2
Profit/loss from financial investments	–2	8	–10	–
Profit/loss from investments accounted for using the equity method	10	6	4	67
Earnings before taxes	**165**	**63**	**102**	**>100**
Income taxes	34	14	20	>100
Consolidated profit	**131**	**49**	**82**	**>100**
Cost-income ratio (CIR)	36.4%	57.0%		
Return on equity (after taxes)	15.8%	7.0%		
	31 Dec 2011 (in EUR m)	**31 Dec 2010 (in EUR m)**	**Change (in EUR m)**	**(in %)**
Reported equity	1,048	989	59	6
Regulatory equity	1,895	1,913	–18	–
- thereof core capital	1,710	1,576	134	9
Risk-weighted assets	17,897	17,449	448	3
Reported equity ratio	5.86%	5.67%		
Overall ratio	10.59%	10.96%		
Core capital ratio (after profit appropriation)	9.09%	9.33%		
Loans and advances to banks	4,851	5,513	–662	–12
Loans and advances to customers	22,685	22,060	625	3
Risk provisions	–378	–306	–72	24
Financial assets at fair value through profit or loss	1,349	1,087	262	24
Financial assets	5,234	5,688	–454	–8
Investments accounted for using the equity method	84	77	7	9
Other assets	1,037	682	355	52
Total assets	**34,862**	**34,801**	**61**	**0**
Liabilities to banks	11,009	11,600	–591	–5
Liabilities to customers	10,604	10,155	449	4
Securitized liabilities	8,692	8,939	–247	–3
Financial liabilities at fair value through profit or loss	1,686	1,449	237	16
Provisions	319	320	–1	–
Other liabilities	334	185	149	81
Subordinated capital	1,170	1,163	7	1
Reported equity including non-controlling interests	1,048	989	59	6
Total liabilities and equity	**34,862**	**34,801**	**61**	**0**
Number of employees				
Total	1,092	1,061		
Current ratings (long-term rating)				
Moody's	A2	AA2		
Fitch Ratings	A	A		

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1. Group management report

The terms “Bank”, “Bremer Landesbank” and “BLB” are used below interchangeably to refer to the Bremer Landesbank Group. The development of the Group is almost exclusively determined by the parent company. The companies of the Bremer Landesbank Group are included and consolidated in the consolidated financial statements of the NORD/LB Group and are a significant part of the latter.

A. Business and general conditions

Economic situation and financial markets

After a very good start, the economy slowed over the course of 2011, with global growth according to the International Monetary Fund (IMF) averaging 3.8%, compared to 5.2% in 2010.

However, growth was spread unevenly. While the emerging economies performed well, expanding by 6.2%, against 7.3% in 2010, the world’s industrial nations reported a meager increase of 1.6%, after 3.2% in 2010. Against this backdrop, world output rose by 6.2%, compared with 12.7% in 2010.

The emerging economies were once again the main drivers of growth in 2011, with China’s output expanding by 9.2%. India notched up growth of 7.4% and Latin America’s economies grew by 4.6%, while Russia reported an expansion of 4.1%.

In Europe, Germany prospered, its GDP up 3%. However, reform efforts in countries with high budgetary deficits and the ensuing crisis meant that GDP within the eurozone rose by a mere 1.6%. The United States reported growth of 1.8%. Defying the global trend, its economy proved to be highly stable in the second half of the year.

The slowdown in world trade was attributable to exogenous factors rather than to cyclical saturation in the global economy. The “Arab Spring” had indeterminable repercussions for the world’s economy. It was followed by the natural and nuclear disasters in Japan later in the spring which sent even greater shockwaves around the globe. There was no respite as the crisis sparked by the raising of the US debt limit posed the next challenge for the global economy. From 1 August 2011, France became the victim of aggressive speculation which severely aggravated the European deficit crisis and undermined confidence in the world economy as a collapse of the eurozone became a possible scenario. Overall, political risks were responsible for the slowing pace of global trade.

The eurozone is on the road to fiscal recovery, but its efforts are not properly appreciated by the markets. New borrowing in the eurozone stood at 6.2% of GDP in 2010 but was down to 4.3% in 2011. For 2012, the IMF and the OECD are expecting new debt of around 3%. In comparison to the United States, Japan and the United Kingdom, which are forecast to raise new debt of between 7% and 10% in 2012, the eurozone looks much healthier in terms of both total debt levels and political reform.

The consequences of the heightened aversion to risk were noticeable on the world's finance markets in 2011. The stock markets slumped in the second half of 2011 and the German stock index DAX fell from 7,600 points in May to 4,965 points in the summer of 2011, closing the year at 5,898 points. Yields on 10-year German treasury bonds dropped to well below 2%, whereas treasury bond yields in the eurozone reform countries leaped. There was growing pressure on the euro while commodity prices fell. Security was top priority for investors who were seeking to dispose of risk assets.

The fate of the German economy mirrored the global economic trend. After a strong start, with growth of 5.0% in the first quarter, the pace gradually slowed. A moderate contraction in GDP of 0.2% (compared with the prior quarter) is expected for the fourth quarter of 2011. This weakness was mainly caused by a drop in both order intake and output. By contrast, the construction sector was strong despite its new orders tailing off toward the end of the year. The situation on the job markets was shaped by a steady rise in employment. In December 2011, seasonally adjusted unemployment stood at 6.8%, compared with 7.4% at the end of 2010. At year-end 2011, the IFO Business Climate Index had recovered from its current-year lows in October, improving twice in a row to close the year at 107.3 points. The situation at the end of 2011 thus held promise of a steadying German economy in 2012.

The region

The Bremen Chamber of Commerce looks back on a satisfactory year in 2011. Following a good start in the manufacturing, export, transport, investment and hospitality sectors (which had a positive knock-on effect on employment), a steady construction, property and housing sector and a restrained retail sector, fall 2011 saw an appreciable decline in business expectations which soon materialized in the real economy.

The picture was bright at the end of 2011. The business climate index rose to 124 points (the all-time high in 2010 was 136 points, the 2011 low 105) and was thus well above the long-term average of 105 points.

The Bremerhaven Chamber of Industry and Commerce concluded at the end of 2011 that it had never seen so many satisfied businesses since it had started conducting its economic survey and looked back on a good year across the board.

The upswing in the Oldenburg region continued in 2011. According to the local chamber of industry and commerce, the economy in Oldenburg was barely affected by the downturn in the rest of Germany. The mood was good at the end of the year, with robust domestic demand a key contributing factor. Export orders fell noticeably toward the end of the year. However, domestic orders were steady and, combined with full order books, the overall picture was positive. The construction sector benefited from the low interest rates in 2011. Private spending did not quite live up to expectations in the fourth quarter in spite of a satisfactory Christmas season. Business was good in the service sector in 2011. The food and drink sector reported growth of around 6% by the end of the third quarter 2011.

Businesses in East Frisia and Papenburg experienced a successful year in 2011. The economic climate index dropped from its all-time high of 130, reached in summer 2011, to 120 at year-end. This figure is only 3 points below the prior-year score and 10 less than the record high.

Manufacturers, wholesalers, retailers, service companies and the transport sector all experienced a successful year. The willingness to invest declined only marginally in the fourth quarter of 2011 and the employment market improved in the course of 2011.

Bremer Landesbank

Since the 2005 reporting period, Bremer Landesbank, as a capital market-oriented enterprise, has published its consolidated financial statements in accordance with the provisions of the HGB ["Handelsgesetzbuch": German Commercial Code]. For fiscal year 2007, the consolidated financial statements were published in accordance with international accounting standards (IASs/IFRSs) for the first time, including comparative figures for 2006. The basis of consolidation, determined in accordance with IAS 27 and IAS 28, is as follows in the fiscal year:

Parent company:

- Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen

Subsidiaries and investment funds in which Bremer Landesbank directly or indirectly holds more than 50% of the voting rights or may otherwise control:

- BLB Immobilien GmbH, Bremen
- BLB Leasing GmbH, Oldenburg
- Bremische Grundstücks-GmbH, Bremen
- NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen
- NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen

NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen, continues to operate but has transferred part of its operations to NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen, founded on 30 September 2011. Bremer Landesbank holds a 10% direct interest and a 90% indirect interest (via BLB Immobilien GmbH, Bremen) in NORDWEST Vermietungs-GmbH & Co. KG.

The following associates are accounted for using the equity method:

- DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen
- BREBAU GmbH, Bremen
- Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede
- GSG OLDENBURG Bau- und Wohngesellschaft mbH, Oldenburg
- Lazard-Sparkassen Rendite-Plus-Fonds

There were no other changes to the basis of consolidation in fiscal year 2011.

As the parent company, Bremer Landesbank AöR is represented in the management and/or supervisory bodies. Significant interests from the Group's point of view are coordinated by involving the subsidiaries in the planning process.

The Group's parent company, Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – is a corporation under public law incorporated by the Free Hanseatic City of Bremen and the State of Lower Saxony. It is a public lending and Pfandbrief (covered bond) institute and has trustee status. Bremer Landesbank has branches in the two major cities in the metropolitan region of the North-West, with some 300 employees in Oldenburg and over 700 in Bremen. The North-West is the business region allocated to the Bank under an interstate agreement.

Bremer Landesbank is included and fully consolidated in the consolidated financial statements of the NORD/LB Group and is a significant part of the latter. Bremer Landesbank also prepares its own sub-group consolidated financial statements in accordance with international accounting standards.

Following the European Commission's decision in 2001 to abolish the legal obligations of Gewährträgerhaftung (public guarantee under which the owners of savings banks are jointly and severally liable to the banks' creditors) and Anstaltslast (liability assumed by public-sector owners for economic viability of a corporation incorporated under public law), Bremer Landesbank developed a focused business model that was swiftly implemented and is being constantly enhanced. It therefore has a viable concept and is in a position to react quickly and flexibly to heterogeneous developments in the regional market and in international specialty segments.

The rating agencies rate Bremer Landesbank's business model – as a profitable and adequately capitalized regional bank – positively (Moody's financial strength: C-; Fitch's viability rating: bbb). Its long-term ratings (Fitch: A; Moody's: A2) give Bremer Landesbank access to the national and international capital markets. In the fall, the rating agencies lowered many European bank ratings, with Moody's also adjusting its financial strength rating for Bremer Landesbank to C- and its long-term rating to A2. To date, this adjustment has not had any appreciable effect on the Bank's refinancing.

In the reporting period, Bremer Landesbank continued to strictly follow its business model of operating as a regional bank with specialty operations on an international level while maintaining its function as a Landesbank and central savings bank.

Continued customer-driven revenue growth, stringent cost management and consistent risk management are all helping Bremer Landesbank to strengthen its capital base year after year.

Its capital market competence and local decision-making authority set Bremer Landesbank apart from the regional competition. Its success as a regional bank and a public-sector Landesbank show that the Bank is following the right strategy and is successfully positioned.

Integrated bank management

Bremer Landesbank's integrated bank management is value and risk based. It fulfills the legal requirements and provides decision-makers with key information for management purposes. The Bank's key control instrument is direct costing, which is structured along the lines of business segments and cost centers.

Key metrics for the internal management of business segments are earnings before taxes (EBT) and RORAC (ratio of earnings before taxes to committed core capital).

Two key metrics for profitability management at an integrated bank level are return on equity (ROE) and cost-income ratio (CIR).[1]

Administrative expenses comprise personnel expenses, other administrative expenses and depreciation and amortization of property and equipment and intangible assets. Operating income includes interest and service income and trading profit/loss.

Integrated bank management links the following management processes:

- Statutory metrics such as the ongoing comparison of direct costing and the income statement
- Regulatory metrics such as the consistent disclosure of risk-weighted assets
- Value and risk-based metrics such as the use of cost of capital and expected loss

The management process at Bremer Landesbank commences with a strategy review conducted in the spring by the Management Board and the second management level. In addition to reviewing the Bank's strategy, future areas of business activity – for both the Bank as a whole and for the business segments – are identified in a strategic workshop (the subsidiary controlling process also involves the subsidiaries in the Group's planning and management process).

The strategy workshop defines the top-down targets for the business segments on the basis of the indicators described. The subsequent process of medium-term planning over a five-year horizon is concluded in a closed-door budget meeting in the fall. The final quantitative budget figures are significant inputs in the bank-wide goal definition process.

This independent, established process of corporate control, with its integral element of risk and reward management, including the monitoring of target achievement levels, is being constantly enhanced and the instruments employed are continuously refined.

Business performance

On the whole, operating income at Bremer Landesbank developed extremely well during the past year. The main source of income – net interest income – increased strongly yet again, driven by business with customers. The sale of the indirect equity investment in DekaBank Deutsche Girozentrale also had a positive effect on net interest income. Net commission income settled at the prior-year level, while trading profit was under pressure again from net valuation effects stemming from the debt levels of a number of European states, but was nonetheless positive.

In the fiscal year, Bremer Landesbank strengthened its position as a notable lender in the region and as a leading bank in the North-West of Germany. In 2011, the negative effects of the ongoing crisis on the financial and capital markets had a stronger impact on the Bank's risk provisions than originally expected – especially in the shipping sector. Nevertheless, Bremer Landesbank's stringent risk management once again proved its worth.

[1] ROE: Operating result after risk provisions/"sustainable" capital (comprising share capital, capital reserves, retained earnings, minority interests) CIR: Administrative expenses/total income

Only a limited volume of impairments had to be recognized on the Bank’s own securities in the fiscal year.

Administrative expenses decreased slightly in 2011. Personnel expenses also decreased slightly in spite of a higher headcount. As expected, other administrative expenses were higher, due mainly to the increase in information technology costs and the project to migrate to Finanz Informatik systems. However, this increase was not fully reflected in the income statement as internally developed intangible assets have to be recognized as assets under IFRSs.

Another of Bremer Landesbank’s strategic goals is to cooperate more closely with associated banks. Based on the cooperation agreement (Verbundvereinbarung) signed in 2006, the implementation of an integrated service concept for the 14 associated savings banks in the region has contributed significantly to strengthening collaboration.

The subsidiaries operating in the real estate sector managed to prevail in the market in the face of a persistently difficult environment by concentrating on certain market segments.

BLB Leasing mainly generates new business through the customer consultants of Bremer Landesbank. This business strategy continued to be successful and once again resulted in the transaction of a considerable volume of new business. The entity also took over contracts with a substantial volume from two leasing companies that cooperate with the parent company. BLB Leasing is subject to oversight as a financial services company and makes appropriate allowance for this.

The very good result for fiscal year 2011 will enable Bremer Landesbank AöR to both further strengthen its liable capital and make a reasonable dividend payment to its owners. As before, Bremer Landesbank does not require any government aid.

Below we report in detail on the business performance of the Bremer Landesbank Group in 2011.

B. Results of operations

On the whole, the Bank's results of operations were again very good in 2011.

Income statement

	Notes	1 Jan 2011– 31 Dec 2011 (in EUR m)	1 Jan 2010 – 31 Dec 2010 (in EUR m)	Change (in %)
Interest income		2,263	2,140	6
Interest expenses		1,887	1,826	3
Net interest income	18	376	314	20
Risk provisions in the lending business	19	–112	–59	90
Net interest income after risk provisions		**264**	**255**	**4**
Commission income		51	57	–11
Commission expenses		25	29	–14
Net commission income	20	**26**	**28**	**–7**
Trading profit/loss		13	–93	–
Profit/loss from designated financial instruments		0	0	–
Profit/loss from financial instruments at fair value through profit or loss	21	**13**	**–93**	**–**
Profit/loss from hedge accounting	22	12	4	>100
Profit/loss from financial assets	23	–2	8	–
Profit/loss from investments accounted for using the equity method	24	10	6	67
Administrative expenses	25	159	162	–2
Other operating profit/loss	26	1	17	–94
Earnings before taxes		**165**	**63**	**>100**
Income taxes	27	34	14	>100
Consolidated profit		**131**	**49**	**>100**
thereof: attributable to shareholders of the parent company		131	49	>100
thereof: attributable to non-controlling interests		–	–	–

Net interest income

Net interest income increased by 20%, from EUR 314m to EUR 376m.

The key driver was again the Special Finance segment, while business transacted with regional corporate customers stabilized at a high level. The sale of the equity investment in DekaBank Deutsche Girozentrale, held indirectly through GLB GmbH & Co. KG, also had a positive effect on net interest income. The Bank was again able to absorb the negative effect that the maintenance of adequate liquidity had on its net interest income.

In the next few years, net interest income is expected to remain flat for some time before increasing steadily.

Risk provisions in the lending business

Risk provisions in the lending business rose substantially to EUR 112m in 2011 (prior year: EUR 59m).

In 2011, the negative effects of the ongoing crisis on the financial and capital markets had a stronger impact on the Bank's risk provisions than originally expected – especially in the shipping sector. Freight rates, which had been falling fast since late summer 2008, reached their lowest level in the first half of 2010. However, they started to pick up in some important sub-markets later on in 2010. The crisis came to a head again in 2011. Charter rates that were only sufficient to cover operating and interest expenses were seen throughout the year in tanker and bulk shipping. This was also the case in container and MPP shipping in the second half of the year. Low freight and charter rates had a negative impact on the value of vessels and on their collateral values. The ongoing excess supply of tonnage led to falling charter rates and vessel prices. The global economic recovery in the first six months of 2011 briefly pushed up freight rates, but was not sufficient to absorb the increase in deliveries of new vessels in the second half of the year. However, due to the rating systems in place, the renewed deterioration in the creditworthiness of many shipping companies has a delayed impact. Risk provisions were higher than forecasts, which were based on a sideways movement on the markets. However due to the high granularity of the portfolio, these did not have a substantial negative effect on Bremer Landesbank's results of operations.

Nevertheless, Bremer Landesbank's stringent risk management once again proved its worth.

The Bank accounts for risks which may have already occurred but which were not known on the balance sheet date by establishing portfolio allowances. While an allocation of EUR 7m was made in the reporting period, no allocation was required in the prior year. EUR 6m was expensed for the recognition of specific allowances. A stress margin of EUR 5m (prior year: EUR 6m) was again added to the portfolio allowance in light of the special situation in some sub-segments of the shipping sector.

The level of risk provisions in 2012 and 2013 is expected to remain shaped by the gradually lessening impact of the financial market crisis on the real economy. Since 2010, risk provisions at Bremer Landesbank have been determined largely by developments in the merchant shipping sector. If the market does not recover in 2012, risk provisions are likely to be on a par with those for 2011.

Net commission income

Net commission income decreased by 7% from EUR 28m to EUR 26m, settling close to the level of 2010.

While guarantee commissions, particularly for ship finance, continued to decline due to the economic situation, other commission income, e.g., from securities business and payment transactions, remained steady.

The Bank expects its net commission income to decline moderately in 2012, but forecasts a steady improvement from 2013.

Profit/loss from financial instruments at fair value through profit or loss

The acute crisis on the financial and capital markets has eased further, but the uncertainty surrounding the financing of the high sovereign debt of a number of countries has led to sharp swings on the markets. These again had a significant impact on Bremer Landesbank's trading loss in the fiscal year, especially as a result of changes in value. In 2011, a profit of some EUR 13m was recorded from the fair value measurement of financial instruments, whereas a loss of EUR 93m was incurred in the prior year.

With its active trading to support customer-driven business, Bremer Landesbank again dealt successfully on the financial markets in 2011.

The volume of credit default swaps for which Bremer Landesbank is the protection seller decreased slightly as swaps matured. Bremer Landesbank engaged in such structured credit business to utilize available equity to generate commission income reported in trading profit and to diversify its loan portfolio, notably with regard to regions/countries and rating categories. The Bank only ever sold protection to prime counterparties and always used recognized standard agreements (ISDA protocol before the "Big Bang Protocol"). Due to the difficulties which arose on the international financial and capital markets over the course of 2007 and the related widening in credit spreads, the Bank has discontinued all new business in this area except for a small number of selected position liquidations and hedges.

Late in fall 2010, Ireland was forced to accept the EU's bailout package as it was clearly no longer able to shoulder the financial burdens of its support for various national banks alone. As a result, restructuring credit events were declared for Irish Resolution Bank Corporation (formerly Anglo Irish Bank), the Bank of Ireland and Irish Life and Permanent. Bremer Landesbank held various CDSs on these companies totaling EUR 230m as a protection seller. The Bank received securities of these Irish institutions for a portion of EUR 185m in return for payment of the nominal amount. The securities, which the Bank intends to hold to maturity, are allocated to the "available-for-sale" category upon receipt. No credit event notices have been issued to the Bank yet for a portion of EUR 45m relating to the exposure to Irish Life and Permanent.

In mid-December 2011, a restructuring credit event was called for the UK bank Northern Rock, currently in liquidation, due to a change in the terms for junior bonds. Bremer Landesbank held CDSs of EUR 30m as a protection seller and EUR 10m as a protection buyer. A termination agreement has since been signed with the counterparty of the protection seller contracts so the Bank is not required to purchase any securities at nominal value under this contract. Bremer Landesbank is able to meet its delivery obligation under the protection buyer agreement using securities it already has on its books.

In the first few months of 2012, the Greek debt crisis came to a head. A credit event in connection with the voluntary debt restructuring is no longer out of the question. Lengthy negotiations between the Greek government, the EU, the IMF and the private sector were held in the first quarter of 2012. The compromise reached – the private sector was asked to take a voluntary haircut of 53.5% on the nominal volume of Greece's outstanding debts – was accepted by the vast majority of private investors. Nevertheless, in February 2012, the Greek government decided to introduce statutory collective action clauses (CACs) for securities issued under Greek law allowing bond terms to be subsequently amended. These CACs were activated by the Greek government on 8 March 2012, in response to which the International Swaps and Derivatives Association (ISDA) recognized a restructuring credit event on 9 March 2012. Bremer Landesbank must now expect claims due to its protection seller position and has since received credit event notices from the counterparties. Some of the Bank's counterparties have also served notices of physical settlement (NOPS) in the meantime, announcing the delivery of a specific security. However, these notices are not yet legally binding and may still be amended before a bond is actually delivered. As of 31 December 2011, the Bank recognized trading liabilities of EUR 33.2m for its CDSs on Greece (equivalent to EUR 58.6m). The trading loss for 2012 resulting from the fair value measurement of CDSs on Greece (equivalent to EUR 58.6m) could be as much as EUR 14m.

There were no other credit events, for example with recourse to the Bank as protection seller requiring delivery of the reference assets.

The net valuation effect from financial instruments at fair value through profit or loss improved considerably from –EUR 107m to –EUR 29m, while the realized profit stood at EUR 24m, compared with a loss of EUR 5m in the prior year. Trading profit/loss continues to be dominated by the net valuation effect from credit default swaps (–EUR 50m; prior year: –EUR 129m). The Bank had built up these positions in recent years as a substitute for lending business; because it intends to hold them to maturity, they are mostly kept in the regulatory banking book. As the market for credit derivatives became inactive in 2008 – and is still inactive for many credit derivatives – these financial instruments were measured using a valuation model. The estimation parameters for the model were aligned with IAS 39 in 2011.

Bremer Landesbank's foreign exchange profit was unchanged at EUR 12m.

The profit from financial instruments designated at fair value was again negligible in 2011. This category is only rarely used by Bremer Landesbank.

It is still difficult to predict how the international financial markets will develop. Since the beginning of the financial crisis, the markets have reacted extremely sensitively to bad news. The Bank expects the uncertainties surrounding the financial situation of certain countries to continue in 2012. However, it is confident that the global efforts to contain the situation will ultimately pacify the markets. For these reasons, it is not possible to completely rule out further negative valuation results. Nevertheless, the outlook for successful dealing on the financial markets in active, customer-driven trading operations is good for 2012 and 2013.

Profit/loss from hedge accounting

This item includes the net valuation effects from effective hedges. The more effective hedges are, the lower their effects on income. For some time, Bremer Landesbank has employed micro fair value hedges in fair value hedge accounting to reduce the effects on income of IAS-related balance mismatches. In 2010, the portfolio fair value hedge was added to the range of hedging instruments. In a portfolio fair value hedge, groups of underlying transactions are combined with appropriate hedging transactions in a portfolio so that changes in the fair value of the financial instruments roughly offset each other.

The hedges designated by Bremer Landesbank generated a profit of EUR 12m in 2011, compared with EUR 4m in 2010. The negative change in the fair value of the underlyings was outweighed by the positive change in the fair value of the hedging instruments, both for the micro fair value hedges and for the portfolio fair value hedge.

The Bank expects the profit/loss from hedge accounting to remain volatile over the next few years as hedge accounting continues to be used intensively and the interest rate landscape changes.

Profit/loss from financial assets

The loss from available-for-sale (AFS) securities and equity investments amounts to EUR 2m, after a profit of EUR 8m in 2010. Whereas the profit in the prior year was significantly influenced by the sale of an inflation-linked bond, the loss in 2011 was due to the impairment of an equity interest held by the Bank.

Profit/loss from investments accounted for using the equity method

The profit from investments accounted for using the equity method stood at EUR 10m, compared with EUR 6m in 2010. The profit from such investments attributable to Bremer Landesbank is higher than the prior-year level.

Administrative expenses

Contrary to the planning, administrative expenses decreased by 2%, from EUR 162m to EUR 159m.

In spite of the scheduled increase in headcount, personnel expenses decreased year on year by 1%, from EUR 92m to EUR 91m.

Other administrative expenses decreased by EUR 3m, or 5%, to EUR 62m. IT costs and consulting fees rose mainly because of the project to migrate to Finanz Informatik systems at the end of 2011. However, IFRSs require the cost of internally developed intangible assets to be recognized as an asset, which is why these expenses were not fully reflected in the 2011 income statement. Management projects initiated to comply with legal or regulatory changes also led to higher expenses. On the whole, other administrative expenses were below budget.

Amortization, depreciation and impairment of intangible assets and property and equipment increased by EUR 1m, from EUR 5m to EUR 6m. This increase is attributable to higher depreciation on buildings and long-lived assets after the completion of conversion work in Oldenburg.

Personnel expenses will increase slightly in 2012 in line with collective wage agreements. Other administrative expenses are forecast to increase again in 2012 due to project costs, but should consolidate from 2013 onward.

Other operating profit/loss

Other operating profit amounted to EUR 1m, compared with EUR 17m in 2010. In addition to reversals of provisions, this item also contains expenses and income from buying back own issues. The decrease is mainly due to the bank levy, first paid in 2011 (EUR 5m). In the prior year, non-recurring income was received from the sale of canceled, impaired debt securities issued by Icelandic banks (EUR 7m).

Earnings before taxes

Earnings before taxes in the Bremer Landesbank Group amounted to EUR 165m for 2011; this represents a substantial increase of EUR 102m against 2010. Higher net interest income and the significantly improved trading profit (stemming largely from the valuation of credit default swaps) outweighed higher risk provision expenses.

Income taxes

Bremer Landesbank's current income taxes increased by EUR 6m compared with the prior year, to EUR 47m, which reflects the increase in the parent company's taxable income.

Deferred taxes, for which income of EUR 27m was recognized in 2010, resulted in income of EUR 13m in 2011, increasing income taxes overall by EUR 20m to EUR 34m. As in the prior year, the pre-tax profit for the year is less than the taxable profit.

Consolidated profit

Consolidated profit comes to EUR 131m (prior year: EUR 49m).

The basis for appropriation of profits is the profit for the year of the parent in accordance with German accounting regulations (HGB) (EUR 78m; prior year: EUR 48m). As in the prior year, the parent intends to pay a dividend of EUR 28m to the Bank's owners. This is equivalent to a return of 20% on the share capital. Thanks to the very good results of operations, the equity base was strengthened by an allocation of EUR 50m to retained earnings.

The problems on the international financial and capital markets and their effects on the real economy also impacted the results of Bremer Landesbank. The Bank was, however, able to absorb these effects without any substantial impairment to its positive results of operations. The Bank expects this to be the case in 2012 and 2013 as well.

C. Net assets and financial position

Total assets

As in prior years, the Bank focused on transacting high-yield business. The resurgence of the financial and capital market crisis combined with the downgrading of a number of countries again significantly reduced the volume of interbank business. However, loans and advances to customers rose, increasing total assets from EUR 34.8b to EUR 34.9b, on a par with the prior year.

Loans and advances to banks

Loans and advances to banks decreased significantly, down 12%, from EUR 5.5b to EUR 4.9b in connection with the decline in interbank business in fiscal year 2011, especially in relation to money market business. Other loans and advances to banks were on a similar level to that of the prior year.

Loans and advances to customers

Loans and advances to customers increased by EUR 0.6b in the fiscal year to EUR 22.7b. The increase was chiefly attributable to limited-term loans and advances to foreign customers and loans and advances to German customers payable on demand. Please see the notes on the development of the business segments in the segment report for a more detailed analysis of this item.

Risk provisions

The risk provisions of the Bremer Landesbank Group, deducted from the asset side on the face of the balance sheet, increased substantially again in the fiscal year, by 24%, or EUR 72m, to EUR 378m, and now represent 1.37% of total loans and advances (prior year: 1.11%).

Financial instruments at fair value through profit or loss (AFV)

This item comprises the fair values of held-for-trading financial instruments. Instruments with a positive fair value are reported in assets and those with negative fair values in liabilities. Financial instruments with a positive fair value increased in 2011 by EUR 262m to EUR 1,349m, while financial instruments with negative fair values increased by EUR 237m to EUR 1,686m.

Bremer Landesbank enters into derivative transactions mainly for managing and hedging interest rate and foreign currency risks, but also for generating proprietary trading income. Bremer Landesbank also utilized available equity to conclude credit derivative transactions to generate commission income reported in trading profit/loss and to diversify its loan portfolio, notably with regard to regions/countries and rating categories. The nominal volume at year-end 2011 amounted to EUR 58.8b, compared with EUR 63.1b in the prior year, i.e., approximately 1.7 times (prior year: 1.8 times) total assets. In comparison to other institutions in the sector, Bremer Landesbank only engages in such transactions to a relatively minor extent. Almost all counterparties are banks located in OECD member countries and therefore may be assumed to have a sound financial background. For detailed information on volumes, maturities and counterparty classification please refer to the information in the notes to the consolidated financial statements of Bremer Landesbank.

Positive/negative fair values from derivative hedges and adjustment item for financial instruments included in the portfolio fair value hedge

In 2011, fair values from hedge derivatives changed as shown in the notes under (33) and (46). The portion of the change in value that relates to the hedged interest rate risk is offset by changes in value for the underlying transactions.

Financial assets/investments accounted for using the equity method

Financial assets decreased from EUR 5.7b in 2010 to EUR 5.2b in 2011. This item mainly comprises available-for-sale securities and investments in non-consolidated entities at fair value. The volume of debt securities issued by other borrowers decreased due to maturing positions.

Investments accounted for using the equity method increased by EUR 7m to EUR 84m in the reporting period, due entirely to write-ups.

Securities are either allocated to the Management Board's strategic position or the Financial Markets segment's credit investment portfolio. In 2011 changes in the portfolio resulted from additions and disposals of financial assets as well as from changes in the value of securities still held. Such changes are reflected in the revaluation reserve, shown under equity.

Traditionally, Bremer Landesbank meets its obligations as a public-sector bank and association bank in part through its investment portfolio. For instance, it supports trade and industry by investing in surety banks (e.g., Bürgschaftsbank Bremen, Niedersächsische Bürgschaftsbank), special credit institutions (e.g., Deutsche Factoring Bank) and economic development companies.

The Bank cements its ties with the region through investments in several housing companies, some of which are named in the list of shareholdings in the notes.

Following the disposal of the equity investment in DekaBank Deutsche Girozentrale, held indirectly through GLB GmbH & Co. OHG, and the related reduction in the capital of GLB GmbH & Co. OHG, the carrying amounts of equity investments and the investment risk were significantly lower as of 31 December 2011 than they were as of 31 December 2010. Regardless of the disposal, Bremer Landesbank, as a guarantor, is still jointly liable together with the other owners for certain liabilities of DekaBank Deutsche Girozentrale.

There were no other significant acquisitions or sales of equity investments in 2011.

The primary aim of investments is to reap strategic and operational benefits; earnings are a secondary goal. In keeping with Bremer Landesbank's strategic focus, the investment volume is therefore expected to remain steady or decline. New equity investments will only be entered into if they generate substantial added value for the Bank and the region.

Property and equipment/investment property/intangible assets

Property and equipment, which covers furniture, fixtures and office equipment and buildings and parts of buildings used for operations, increased by EUR 2m to EUR 38m due to the conversion work on the buildings in Oldenburg, which had been completed by the balance sheet date, and the completion of the transfer of the Bank's data processing centers to an external location. The mirroring of the data processing centers increases furniture, fixtures and office equipment to EUR 8m.

Real estate owned by the Group and intended for use by or leased to third parties is reported as “Investment property”. The EUR 2m decrease in investment property (to EUR 68m) is due to reclassifications to property and equipment.

Intangible assets increased by EUR 9m to EUR 11m due to system and application software developed in connection with the migration to Finanz Informatik systems.

Current income tax assets/deferred tax assets/other assets

Potential future income tax relief stemming from temporary differences between figures stated in the IFRS consolidated balance sheet for assets and liabilities and the tax values stated by group companies is reported as deferred tax assets and amounted to EUR 142m in 2011 (prior year: EUR 117m). Furthermore, in the HGB financial statements, current income tax assets of EUR 6m (prior year: EUR 7m) are recognized in “Other assets”. This resulted in income tax assets of a total of EUR 148m, against EUR 124m in 2010.

Other assets amounted to EUR 27m as of 31 December 2011 (prior year: EUR 38m). In addition to inventories, tax refund claims and reimbursements for claims under guarantee obligations, this item contains loans and advances to non-consolidated subsidiaries of EUR 14m (prior year: EUR 16m) and receivables from canceled securities issued by Icelandic banks of EUR 7m (prior year: EUR 8m).

Liabilities to banks

Liabilities to banks decreased by 5% from EUR 11.6b to EUR 11.0b. In light of the decline in interbank business, liabilities from money market business decreased substantially in comparison to the prior year, whereas limited-term other liabilities – especially to German banks – increased substantially.

Liabilities to customers

Bank refinancing through liabilities to customers increased by some 4% to EUR 10.6b. Liabilities to German customers – both from money market business and other types of business – increased moderately. Savings deposits are an insignificant element of Bremer Landesbank’s refinancing.

Securitized liabilities

Securitized liabilities at the Bank include Pfandbriefe, municipal debt securities and other debt securities and money market instruments such as commercial paper. The volume of such liabilities decreased by 3% in 2011, to EUR 8.7b.

A more detailed presentation of the Bank’s refinancing via the various issuing programs is provided in the notes on Financial Markets in the segment report in the notes and in the section on financing.

Provisions

Provisions in the Bremer Landesbank Group totaled EUR 319m at year-end 2011 (prior year: EUR 320m) and have hence fallen by EUR 1m.

Provisions for pensions and similar obligations account for the largest share, amounting to EUR 281m for the Group, compared with EUR 275m in the prior year. The present value of the defined benefit obligation is calculated actuarially using specific parameters, such as a group-wide discount rate based on the yield of senior corporate bonds of the same maturity. Other parameters are salary, career and pension trends and employee turnover rates (please also see the overview). The assets invested by the Bremer Landesbank pension fund (plan assets) are offset at fair value (EUR 35m, compared with EUR 36m in 2010) against the present value of the obligation. In addition, the actuarial gains or losses resulting from a change in the discount rate are recognized under equity in a separate item. Cumulatively, this item totaled EUR 56m in the reporting period (prior year: EUR 56m).

Parameter	31 Dec 2011	31 Dec 2010
Employee turnover (excl. retirement/early retirement)	1.5%	1.5%
Actuarial interest rate	5.1%	5.3%
Pension trend:		
Management Board/permanent employees p.a.	2.5%	2.5%
Total benefits p.a.	3.5%	3.5%
Add-on benefits p.a.	2.0%	2.0%
New pension scheme	1.0%	1.0%
Calculated on the basis of:		
Collective wage increases p.a.	2.0%	2.0%
Premiums based on years of service	–.– *	–.– *
Individual salary increases (pensionable) p.a.	0.4%	0.4%
Increases in statutory pensions	0.5%	0.5%
Increases in ÖLV pensions	1.0%	1.0%
BVV	0.0%	0.0%

* Not relevant as final salaries were used in the calculations.

The pension scheme was redesigned for employees joining Bremer Landesbank after 31 December 2008.

Annually defined pension contributions are credited to beneficiaries' personal pension accounts, which bear interest at a guaranteed rate of 3.25% p.a. until benefits are paid. To cover pension commitments, Bremer Landesbank acquires securities in the amount of the credited pension contribution. The level of the subsequent pension benefits is determined by the higher of the pension account (including guaranteed interest) and the value of the securities at the time benefits are first paid.

In addition, beneficiaries have the option of making their own contribution to their occupational pension by paying in portions of their salaries.

Loan loss provisions amounted to EUR 21m at year-end, compared with EUR 26m at the end of the prior year.

Provisions for uncertain liabilities amounted to EUR 16m at the end of 2011, compared to EUR 19m in 2010. They mainly relate to personnel obligations, such as provisions for early retirement (2011: EUR 12m; 2010: EUR 14m) or long-service awards (2011: EUR 3m, as in the prior year).

Current income tax liabilities/deferred tax liabilities/other liabilities

Potential future income tax burdens stemming from temporary differences between figures stated for assets and liabilities in the IFRS consolidated balance sheet and the tax values stated by group companies are reported as deferred tax liabilities and came to EUR 2m (prior year: EUR 1m). Furthermore, in the HGB financial statements, current income tax liabilities of EUR 32m (prior year: EUR 33m) are recognized. Total income tax liabilities therefore remained unchanged at EUR 34m.

As of 31 December 2011, other liabilities total EUR 34m, against EUR 24m at the prior-year end. EUR 2m (prior year: EUR 3m) relate to outstanding taxes and social security contributions. This item also contains outstanding employee remuneration of EUR 9m (prior year: EUR 8m) and liabilities from outstanding invoices of EUR 4m (prior year: EUR 6m). Other liabilities relate to the allocation to the funds of the pension fund (EUR 4m), the profit distribution of GLB OHG (EUR 5m) and to Bremer Landesbank liabilities to third parties of EUR 9m.

Subordinated capital

At year-end 2011, the Bremer Landesbank Group had subordinated capital of EUR 1.2b, as in the prior year. This item also includes silent participations allocated to equity in accordance with the HGB.

Equity

The equity of the Bremer Landesbank Group totaled EUR 1,048m at the end of 2011, which represents an increase of EUR 59m or 6%. Since converting to international accounting standards at the beginning of 2006, the Group's equity has increased by EUR 159m or 18%.

As, under IFRSs, some items affecting the Group's net assets are recognized directly in equity (i.e., changes in the fair value of available-for-sale assets) and not in profit or loss, the change in equity is more significant than under the provisions of the HGB, which was applied for group financial reporting until 2006.

The subscribed capital of the parent company is unchanged at EUR 140m; the capital reserves are also unchanged, at EUR 40m.

Retained earnings in the Bremer Landesbank Group rose 13% from EUR 763m at the end of 2010 to EUR 866m. The profit for the prior year less distributions to the sponsors of the parent company will be transferred to retained earnings in the current year.

The profit for the year in the Bremer Landesbank Group amounts to EUR 131m in 2011, against EUR 49m in the prior year. As in the prior year, an amount of EUR 28m is earmarked for distribution to the owners of Bremer Landesbank AöR.

The first-time adoption reserve, in which the asset and liability measurement differences between German accounting standards and the first-time adoption of IFRSs are presented as a fixed component, comes to EUR 185m.

Actuarial gains from provisions for pensions are unchanged at EUR 56m.

The revaluation reserve, which reflects changes in the values of available-for-sale assets, decreased by EUR 44m to EUR 2m in 2011, primarily due to the sale of the equity investment in DekaBank Deutsche Girozentrale.

At year-end, after appropriation of profit and the impairment losses recognized in the financial statements, the parent company's core capital ratio was 9.1% (prior year: 9.3%).

Contingent liabilities and other obligations

The volume of Bremer Landesbank's traditional off-balance sheet business, reported as guarantees, was slightly lower at year-end at EUR 1.1b (prior year: EUR 1.2b).

Irrevocable loan commitments which were not taken up amounted to EUR 2.6b on the balance sheet date (prior year-end: EUR 2.8b).

There are also other financial obligations of the Bremer Landesbank Group resulting from the facts and circumstances described in the notes to the consolidated financial statements.

Financing

In 2011, bearer and registered debt securities were once again the most important source of medium to long-term refinancing for the Bank.

The gross volume of issues transacted by Bremer Landesbank, including borrower's note loans, amounted to EUR 2.3b (excluding the European Commercial paper (ECP) program and EIB loans), compared with EUR 1.8b in 2010.

The volume of debt securities outstanding at year-end was unchanged at EUR 17.4b (prior year: EUR 17.4b).

The total outstanding volume of refinancing loans raised from the European Investment Bank was approximately EUR 1.0b as of 31 December 2011 (prior year: EUR 1.1b).

In connection with refinancing and liquidity management during the year, Bremer Landesbank continually employed the various instruments of the European Central Bank in addition to the interbank and repo market.

In 2011, the ECP program was used as and when needed in the currencies EUR, USD, CHF and GBP. As of 31 December 2011, the outstanding volume had an equivalent value of EUR 0.542b (prior year: EUR 0.566b).

Key ratios

The return on equity (ROE) for fiscal year 2011, calculated using the valuation formula defined above, is 15.8%, compared with 7.0% in the prior year. The significant increase is attributable to a combination of several factors:

- The substantial growth in earnings from operating activities, enhanced by non-recurring effects
- The improved net valuation result from credit derivatives
- Relatively steady costs, as compared with the prior year

The cost-income ratio (CIR) is 36.4%; it was 57.0% in 2010. In 2011, Bremer Landesbank's operating income thus rose faster than its administrative expenses, with Bremer Landesbank's stringent cost management contributing to the significant improvement of this ratio.

As of 31 December 2011, the risk ratio (defined as the ratio of risk provisions in the lending business to risk assets) is 0.62% (prior year: 0.43%). This increase is attributable to higher risk provisions in the lending business, particularly for ship finance.

Capital requirements under the SolvV ["Solvabilitätsverordnung": German Solvency Ordinance] total approximately EUR 1.4b (prior year: approximately EUR 1.4b), equivalent to risk assets of approximately EUR 17.9b (prior year: approximately EUR 17.4b). The overall ratio is 10.6%, compared with 11.0% at the prior year-end. The main reasons for the increase in risk assets and the decrease in the overall ratio are rating migrations, leading to a higher shortfall for IRBA exposures. No condensed report in accordance with Sec. 10a KWG ["Kreditwesengesetz": German Banking Act] is required due to the exemption granted under Sec. 10a (10) KWG.

Investing activities

Bremer Landesbank still intends to invest substantially in modernizing and redesigning its buildings. Building work in Oldenburg was completed in 2011 and the new premises are now being used for banking operations. The architecture competition for Bremen was held in 2011. Logistical preparations are currently underway for the construction work in Bremen.

Other non-financial performance indicators

For Bremer Landesbank, being close to the markets and to the people who live and work in the region is both a privilege and an obligation and is reflected in its social involvement, the sponsoring of the "NordWest Award", and in the fact that the Bremer Landesbank Group, with an average of 1,098 employees (prior year-end: 1,058), is a major economic factor in the State of Bremen and the North-West region. The Bank offers attractive jobs, as is shown by the employee turnover rate, which, at 1.4% (prior year: 2.0%), is low for the industry, and a relatively high average length of service of 16.2 years (prior year: 16.1 years) for Bremer Landesbank AöR.

As the leading regional bank in the North-West, Bremer Landesbank is committed to setting a good example, not least as a family-friendly employer, enabling a better work-family balance for its employees. Its efforts were rewarded in 2010 with the berufundfamilie [work and family] audit certificate issued by berufundfamilie gGmbH from Berlin.

These are just some of Bremer Landesbank's efforts to make its activities economically, socially and ecologically sustainable. In 2011, it developed its first sustainability report, which was published separately. The Bank will step up its sustainability management activities in the years to come.

Conclusion

The excellent result for 2011, in spite of the adverse economic situation, especially in ship finance, validates Bremer Landesbank's alignment as a regional bank with specialty offerings – in the North-West and for the North-West. In close cooperation with the savings banks and its association partners, Bremer Landesbank has firmly positioned and established itself as a leading bank in the region. The Bank is still by far the most significant partner for small and medium-sized businesses in the North-West of Germany. Having clearly focused on its business model at the right time, Bremer Landesbank is well positioned to remain profitable, weathering any adverse economic conditions, and to drive forward its business development in 2012 and 2013.

D. Segment report

Information on the business segments

The following segment information is based on the management approach, which requires segment information to be presented on the basis of the management accounts, i.e., the information used regularly by the chief operating decision-maker to make decisions on the allocation of resources to the segments and to assess their performance. In the Bremer Landesbank Group, the Management Board functions as the chief operating decision-maker.

The segment report provides information on the Group's business segments and is in compliance with the Bank's business model. The segments are defined as customer or product groups in alignment with the Group's organizational structures. In view of the fact that the Bank's business activities are mainly conducted within the region, the criteria for geographical segmentation are not met. There has been no change in the number of segments in the Group. The following segments are analyzed in the segment report by business segment.

Corporate Customers

The Corporate Customers segment comprises business conducted by the Bank with small and medium-sized corporate customers in the North-West of Germany and is a reliable and innovative financial services partner.

Sales activities were expanded further in 2011. In a highly varied market environment, the business segment clearly surpassed its income forecast. An encouraging increase in the volume of both capital investment loans and working capital facilities was seen during the course of the year. Traditional investment activity in the region was quiet for a while, but the reinforcement of the sales team in the "Public Subsidies" department produced encouraging increases in volumes of long-term finance. In spite of the rise in lending volume, risk costs were far lower than anticipated.

A promising niche product was futures trading in agricultural commodities, which grew substantially. The launch of an electronic trading platform at the end of 2011 laid the foundations for further growth. Fluctuating interest rates in 2011 led to rising demand for derivative products. In 2012, volatile markets could give rise to a further increase in income from hedging products.

For 2012, we generally expect the result of operations to develop positively, if moderately. For this to be the case, it is vital that the economy does not slow significantly and that demand for credit remains high. A healthy risk structure combined with a comfortable capital base will allow us to support customers' large-scale investment projects in the future.

Overall, the Corporate Customers segment aims to be the leader in corporate customer business in the region and underpin this with growing market share.

Traditionally, Bremer Landesbank has a reputation in the region of being a steady and reliable partner. The Bank was able to boost its image of trust during the economic crisis, which will help it to acquire new customers and become a principal bank for more major companies.

Special Finance

The Special Finance segment at Bremer Landesbank covers ship finance, refinancing of equipment leasing and factoring companies, community interest properties and renewable energies, with the sub-segments wind, biogas and photovoltaics.

Bremer Landesbank's Special Finance segment continued to develop well in 2011. Since the financial and economic crisis, Special Finance has seen more moderate growth with a particularly noticeable effect on ship finance. Risk provisions were higher than forecasts, which were based on a sideways movement on the markets. However due to the high granularity of the portfolio, these did not have a substantial negative effect on Bremer Landesbank's results of operations. Nevertheless, the business segment reached its earnings target once again. Renewable Energies, in particular, made use of market opportunities and grew faster than budgeted.

In the ship finance business, Bremer Landesbank has only engaged selectively in limited new business since the onset of the shipping crisis. The growth in volume is due in particular to deliveries of vessels contracted in prior years. Bremer Landesbank's crisis management proved to be cautious and robust. Bremer Landesbank remains prepared for potential payment disruptions as a result of the shipping crisis and will adjust its risk provisions where necessary. With its sustainable financing structures and long-established relationships with direct customers, the Bank is as ever in a strong position but it does not expect to see a slow market recovery until 2013. In the long term, globalization and the accompanying rise in global trade will fuel demand for modern tonnage.

In refinancing of equipment leasing companies, Bremer Landesbank stood its ground as a leading financer of medium-sized leasing companies in 2011, improving its earnings situation further. Bremer Landesbank has acted as the competence center for the NORD/LB Group in this sub-segment since 2008, and, with a broader customer base, is a reliable partner for leasing companies with bank functions. At the beginning of 2011, it also concluded its first contracts to refinance factoring companies.

In the community interest properties sector, Bremer Landesbank specializes in the financing of nursing homes and is the competence center for the NORD/LB Group in this field. Demographic trends and the growing need for in-patient nursing highlight the strategic importance of this area.

In the fiscal year, Bremer Landesbank enjoyed notable growth in its renewable energy segment. The development of new business reflects customers' greater structuring and financing needs in the wake of the revision of the EEG ["Erneuerbare-Energien-Gesetz": German Renewable Energy Act]. Wind power and photovoltaics continued to benefit from a positive regulatory environment. Within the NORD/LB Group, Bremer Landesbank is the competence center for biogas and photovoltaics in Germany. It also supports experienced customers in selected ventures in other European countries.

With its emphasis on shipping, lease refinancing, community interest properties and renewable energies, as well as its consistent focus on long-term, reliable relationships with mostly midmarket companies, Bremer Landesbank's Special Finance segment considers itself to be well positioned.

Private Customers

The Private Customers segment covers all the Bremer Landesbank business transacted with private customers. The segment comprises the private customer service, private banking and asset and securities management business units.

The international financial market crisis has also had an effect on the Private Customers segment, leading in particular to increased information requirements on the part of customers. Thanks to its professional customer management, Bremer Landesbank has been able to build long-lasting customer confidence, as was confirmed and reflected in the very good results of our customer satisfaction survey.

The Bank's attention continues to be focused on growing its market share in private banking. Its business performance in 2011 again underlines its positioning as a premium private banking service provider.

A cornerstone of the Bank's success in this business segment is its stringent adherence to an integrated advisory approach. In private banking, this is supported by the wealth concept, which was developed with a view to financial planning. The finance concept, also based on a financial planning approach, was also introduced with great success in the private customer service segment for less complex wealth situations.

“Entrepreneur banking” was also promoted further, with excellent results. The integrated consulting philosophy again proved to be a success driver. Thanks to the close cooperation with the Special Finance and Corporate Customer segments, the Bank's private banking expertise is well received by this clientele. This success will be entrenched by focusing the attentions of the Bank's private banking advisers on the group of entrepreneurs and self-employed.

Another key factor for the positive results is that the Private Customer segment has its own, independent portfolio management. The results of the specially designed SIP® investment process are applied particularly in asset management, the SIP® family of funds and in the advisory process.

Overall, the trend which first emerged last year – restrained customer demand for securities products, also extending to “safe” investments – continued in the fiscal year.

Financial Markets

Bremer Landesbank's Financial Markets segment provides access to the national and international financial markets for private and institutional customer groups as well as for the Bank's proprietary business. Refinancing measures carried out by Bremer Landesbank both during the year and for a period longer than one year are also conducted by the Financial Markets segment.

With the volume of business generated in the customer and counterparty portfolio, Bremer Landesbank's Financial Markets segment contributes significantly to positions relevant to the Group's balance sheet.

In connection with refinancing and liquidity management during the year, in 2011 Bremer Landesbank continually employed the various instruments of the European Central Bank in addition to the interbank and repo market.

Capital market operations took place in a market shaped in 2011 by the effects of the euro crisis and international and multi-institutional efforts to contain its impact on the financial and real markets.

The Financial Markets units were successful in their treasury, trading and sales marketing operations. Trading activities focused on managing liquidity and interest rate risks, safeguarding the Bank's liquidity at all times and supplying the above customer groups with money and capital market products.

In 2011, the segment's sales desks once again recorded a high volume of trade and unabated, intensive demand for consulting and support services for all money, currency and derivative products.

Again in 2011, credit spreads had an effect on the net valuation effect from financial instruments at fair value, and thus on the overall segment result. The still negative results from the valuation of CDSs were offset by the operations of the Financial Markets segment. The encouraging net interest income led to a positive segment result that was significantly higher than in the prior year.

Bremer Landesbank's business with associated banks, which it also operates in the Financial Markets segment, was successfully continued in 2011 and included comprehensive support services for the associated savings banks.

In the syndicated transactions business with corporate customers of the associated savings banks, sales activities again focused on traditional financing as well as interest and currency management and international documentary business.

Another focus of business with associated banks is public-sector refinancing.

Apart from offering finance to regional authorities, sales activities also encompass support to the associated savings banks with regard to their public-sector finance arrangements.

Overall, despite the testing economic environment with strong competitive structures, the segment result was again positive, significantly surpassing the prior-year result.

E. Subsequent events

Apart from the following, there were no events of special significance for the economic situation of the Bank between the end of fiscal year 2011 and the preparation of the consolidated financial statements that have not been accounted for in the consolidated financial statements.

Given the current situation, Bremer Landesbank must now expect claims due to its protection seller position for the credit derivatives on Greece contained in its exposure to Greece. The trading loss for 2012 resulting from the fair value measurement of CDSs on Greece (equivalent to EUR 58.6m) could be as much as EUR 14m.

As in the prior year, there are no risks to the Bank's ability to continue as a going concern.

F. Outlook

Economic situation and financial markets

As the global economy started to slow in spring 2011, the leading international economic research institutes are forecasting a reduced rate of growth for 2012. The IMF is anticipating an increase of 3.3% in global output for 2012. The emerging economies, accounting for some 50% of global output, will remain the key drivers of the world's economy in 2012. The IMF forecasts growth in the vicinity of 5.4% (compared with 6.2% in 2010) for this segment. According to the IMF, the industrial nations will expand by 1.2%, after 1.6% in 2010.

These latest forecasts factor in the eurozone deficit crisis and its macroeconomic impact to date.

An analysis of key global cyclical forces – be it the inventory cycle or the capital goods cycle – does not indicate any lasting saturation. On the contrary, the flagging economy in 2011 has created potential for stronger global growth provided that the deficit crisis in the eurozone can be properly resolved. Purchasing manager indices have been pointing toward a global recovery for two to three months now.

Reactions on the financial markets early in 2012 imply a more relaxed attitude toward most of the reform countries. There have been qualitative changes in the management of the eurozone crisis, with a greater focus on solidarity and a commitment to maintain the political integrity of the eurozone, the prerequisite for a lasting solution to Europe's problems. Given that new borrowing and total debt levels are far better than in the United States, Japan or the UK, the forthcoming sealing of the fiscal pact, marking the birth of the stability union, signals positive potential for the eurozone – with corresponding economic repercussions for the rest of the world. In view of this, the current forecasts for global growth appear cautious. Nonetheless, the outlook remains uncertain.

In its monthly report for January 2012, the Bundesbank writes that there are indications that the economy will move sideways at the beginning of 2012, after the contraction in the fourth quarter of 2011. The Bundesbank cites a positive change in business expectations.

The capital goods sector is one of Germany's main ties to the global economy. The IMF forecasts German GDP growth of 0.3% in 2012, based on the situation in the past nine months. In light of the position of the capital goods and inventory cycles in the world economy, this forecast appears moderate.

The good employment situation in Germany and its positive effects on consumer spending will create domestic stability and growth potential in 2012. The construction industry will also make a contribution to growth in 2012. Despite the economic decline in 2011, full order books for the next nine months on average in the chemical, mechanical engineering and automotive sectors point to higher growth potential than is currently forecast. The fact that cancelation rates were low in the downturn supports the theory that global markets are not saturated. As a result, the German economy has the potential to surpass the generally accepted growth forecasts.

Spurred by high growth during the last two years and by the effects of the Agenda 2010, the fiscal recovery of public coffers in Germany is making progress. Just as 2011 was a great surprise compared with the German government's budgetary forecasts, 2012 holds similar potential, aside from the fiscal requirements to provide capital for the ESM.

The financial markets appeared to be less risk averse at the beginning of 2012, mainly due to adjustments of extremely underweighted risk asset exposures.

The Federal Reserve's zero interest rate policy, likely to be maintained until 2014, and the ECB's monetary policy of allowing unlimited tenders for a period of 36 months reflect the intentions of the key central banks to create a basis for economic stability and expansion. They are also providing incentives to take on exposures to risk assets, aimed at reviving and safeguarding the functionality of the relevant markets for the real economy. Against this backdrop, the current value of German treasury bonds is rather ambitious. Shares (DAX) are undervalued both by historical comparison and considering cyclical aspects. The low inflation estimates are linked with the moderate growth forecasts and will be up for review in 2012.

The region

According to the Chamber of Commerce's economic report for 2012, the business situation in Bremen remains good at the beginning of the year. The current survey indicates moderate growth in Bremen in manufacturing, trade and services throughout 2012.

Two thirds of industrial businesses were optimistic at the beginning of 2012, with the new order index just under the prior-year level. The construction sector is more cautious in its outlook. Wholesalers and exporters are expecting the economic situation to slow, in which case exports would lose their role as the driver of the economy. The hospitality sector is optimistic in spite of the tourist tax. By contrast, retailers are less happy with their current situation and future prospects, which they rate as moderate at most. The situation in the transport and logistics sector is varied, but on the whole slightly negative.

The risks and related challenges are thought to be greater than they were at the beginning of 2011. Apart from the European deficit crisis and its ramifications for the financial markets, businesses view energy and commodity supply as critical issues.

According to the Bremerhaven Chamber of Industry and Commerce, the economic outlook and risk assessment for 2012 largely tallies with that of Bremen.

The Oldenburg Chamber of Industry and Commerce presents a positive outlook for 2012. Its economic climate index, which gauges both the current and future situation, recently rose to 125 points, a boom-time level. One in four companies expect business to be better in 2012, whereas 60% forecast that it will be the same. Domestic investment and private spending are defined as key factors, while exports are expected to play a lesser role in the year ahead.

Manufacturing companies, the construction sector, domestic wholesalers, transport companies and the service sector will be the main catalysts of continued economic growth in 2012. Retailers are less optimistic in their expectations.

The East Frisia and Papenburg Chamber of Industry and Commerce has an optimistic outlook on 2012. After a minor dip in expectations at the end of the year, confidence now prevails. The eurozone's sovereign debt crisis is seen as the main risk factor. Wholesalers and the transport and service sectors are particularly positive about the year to come. Earnings, for the most part, will remain stable and companies' optimistic stance will translate into jobs. More than 95% of the companies surveyed are expecting employment levels to be steady or improve. Companies remain willing to invest, with just under two thirds planning to step up capital expenditure. However, they are more critical as far as exports are concerned.

Bremer Landesbank

Having clearly focused on its business model at the right time, Bremer Landesbank is well positioned to remain profitable, weathering any adverse economic conditions, and to drive forward its business development in 2012 and 2013. The acute crisis on the financial and capital markets has eased further, but the growing uncertainty surrounding the financing of the high sovereign debt of a number of countries has led to sharp swings on the markets which are likely to continue in coming years.

The economic measures taken by the government and the expansion of business in future industries should help boost business. The recognition of the North-West as a metropolitan region could encourage further growth of the regional economy, in particular of small and medium-sized enterprises, as will extensive public works projects involving roads, railways and waterways and other major projects such as those in the port industry.

Competition in lending business is set to increase further. Major banks have now also turned their attention to small and medium-sized enterprises, which have often been neglected in the past. However, given the competitive edge offered by its local advisors, short lines of decision, local capital market and foreign business expertise and an extensive range of products and services, Bremer Landesbank remains confident that it will not only be able to stand its ground in this low-risk, high-income business but even grow its market share.

The sustainably strengthened cooperation with associated savings banks and Landesbanken, short lines of decision and quick response times create a promising environment for further sound earnings growth in the Bank's core segments.

The Bank's subsidiaries operating in real estate business still anticipate that income will be stable medium to long term and that it will rise steadily in the long term.

BLB Leasing GmbH expects that new business and income will match the 2010 figures. The resurgent economic power of businesses in the region will lay the foundations for BLB Leasing GmbH's activities, in collaboration with Bremer Landesbank, as a financer of investments for their joint customers. The most important line of business, which is being developed further, remains direct business with Bremer Landesbank customers initiated by Bremer Landesbank's account officers.

Integrated bank management

The Integrated Bank Management unit is responsible for the ongoing enhancement of value and risk-based management. The Bank's reporting function was systematically enhanced, as planned, in 2011. The regulatory requirements anticipated under Basel III were also factored into the mid-range planning.

Results of operations, net assets and financial position

The Bank expects its consolidated profit to decrease in 2012 and 2013 before improving steadily in subsequent years. In spite of the recessionary effects which usually set in with some delay in the lending business, the Bank assumes that it will be in a position to further strengthen its capital base and pay an adequate dividend in the coming years. According to the Bank's forecasts, it will not need to make use of any state aid.

In the next few years, net interest income is expected to remain flat for some time before increasing steadily.

The level of risk provisions in 2012 and 2013 is expected to remain shaped by the gradually lessening impact of the financial market crisis on the real economy. Since 2010, risk provisions at Bremer Landesbank have been determined largely by developments in the merchant shipping sector. If the market does not recover in 2012, risk provisions are likely to be on a par with those for 2011.

The Bank expects its net commission income to decline moderately in 2012, but forecasts a steady improvement from 2013.

It is still difficult to predict how the international financial markets will develop. Since the beginning of the financial crisis, the markets have reacted extremely sensitively to bad news. The Bank expects the uncertainties surrounding the financial situation of certain countries to continue in 2012. However, it is confident that the global efforts to contain the situation will ultimately pacify the markets. For these reasons, it is not possible to completely rule out further negative valuation results. Nevertheless, the outlook for successful dealing on the financial markets in active, customer-driven trading operations is good for 2012 and 2013.

The Bank expects the profit/loss from hedge accounting to remain volatile over the next few years as hedge accounting is more widely used and the interest rate landscape changes.

Personnel expenses will increase slightly in 2012 in line with collective wage agreements. Other administrative expenses are forecast to increase again in 2012 due to project costs, but should consolidate from 2013 onward.

After the highly encouraging result for 2011, the return on equity is expected to decrease in the forecast period before improving in subsequent years. The cost-income ratio will be slightly higher in 2012 than in 2011, but is set to fall again in 2013. The risk ratio is expected to decrease moderately in the forecast period. According to the Bank's forecasts, risk assets will increase further during the same period.

The problems on the international financial and capital markets and their negative effects also impacted the results of Bremer Landesbank. The Bank was, however, able to absorb these effects without any substantial impairment to its positive results of operations. The Bank expects this to be the case in 2012 and 2013 as well.

G. Opportunities and risks

The risk report of Bremer Landesbank and the Bremer Landesbank sub-group as of 31 December 2011 was drawn up on the basis of IFRS 7, taking into account the national provisions of the HGB and the more specific German Accounting Standards GAS 5 and GAS 5-10.

Scope

The risk report should, in principle, cover all entities consolidated under IFRSs. The materiality analysis required under the MaRisk [“Mindestanforderungen an das Risikomanagement”: Minimum Requirements for Risk Management] for Bremer Landesbank showed for 2011 that all of its direct and indirect subsidiaries are immaterial in terms of risk. Bremer Landesbank therefore does not qualitatively address any risks arising from its subsidiaries in its IFRS notes. Significant or specific risks are nevertheless discussed irrespective of the results of the materiality test.

Integrated bank management

Bremer Landesbank defines risk from an operational perspective as the possibility of direct or indirect financial losses arising when actual results from ordinary activities are unexpectedly lower than forecast.

Bremer Landesbank has identified its overall risk profile in a multi-stage process. It reflects the risks that are relevant to the Bank, distinguishing between significant and insignificant risks. Significant risks are all types of risk which could have a significant negative effect on capital, the results of operations, liquidity or the attainment of strategic objectives. Bremer Landesbank’s overall risk profile is reviewed once a year and as required (risk inventory) and modified if necessary.

<table>
<tr><th colspan="6">Risk/sub-risk (risk universe)</th><th>Relevant</th><th>Significant</th></tr>
<tr><td rowspan="7">Counterparty risk</td><td rowspan="6">Credit risk</td><td colspan="4">Traditional credit risk</td><td rowspan="6">x</td><td rowspan="6">x</td></tr>
<tr><td rowspan="5">Counterparty risk from trading</td><td colspan="3">Default risk from trading</td></tr>
<tr><td colspan="3">Replacement risk</td></tr>
<tr><td rowspan="2">Settlement risk</td><td colspan="2">Pre-settlement risk</td></tr>
<tr><td colspan="2">Actual settlement risk</td></tr>
<tr><td colspan="3">Issuer risk</td></tr>
<tr><td colspan="5">Investment risk</td><td>x</td><td>x</td></tr>
<tr><td rowspan="25"></td><td rowspan="8">Market price risk</td><td rowspan="2">Interest rate risk</td><td colspan="3">General interest rate risk[1]</td><td rowspan="7">x</td><td rowspan="7">x</td></tr>
<tr><td colspan="3">Specific interest rate risk</td></tr>
<tr><td colspan="4">Currency risk</td></tr>
<tr><td colspan="4">Equity price risk</td></tr>
<tr><td colspan="4">Fund price risk</td></tr>
<tr><td colspan="4">Volatility risk</td></tr>
<tr><td colspan="4">Credit spread risk in the banking book</td></tr>
<tr><td colspan="4">Commodity risk</td><td>–</td><td>–</td></tr>
<tr><td rowspan="3">Liquidity risk</td><td colspan="4">Traditional liquidity risk</td><td rowspan="3">x</td><td rowspan="3">x</td></tr>
<tr><td colspan="4">Refinancing risk</td></tr>
<tr><td colspan="4">Market liquidity risk</td></tr>
<tr><td rowspan="6">Operational risk</td><td colspan="4">Legal risk</td><td rowspan="6">x</td><td rowspan="6">x</td></tr>
<tr><td colspan="4">Reputational risk as consequential risk</td></tr>
<tr><td colspan="4">Compliance risk</td></tr>
<tr><td colspan="4">Outsourcing risk</td></tr>
<tr><td colspan="4">Fraud risk</td></tr>
<tr><td colspan="4">Dilution risk</td></tr>
<tr><td rowspan="8">Other risks</td><td colspan="4">Business and strategic risks, including group risks</td><td>x</td><td>–</td></tr>
<tr><td colspan="4">Reputational risk</td><td>x</td><td>–</td></tr>
<tr><td colspan="4">Syndication risk</td><td>x</td><td>–</td></tr>
<tr><td colspan="4">Model risk</td><td>x</td><td>–</td></tr>
<tr><td colspan="4">Collective risk</td><td>–</td><td>–</td></tr>
<tr><td colspan="4">Technical risk</td><td>–</td><td>–</td></tr>
<tr><td colspan="4">Residual value risk</td><td>–</td><td>–</td></tr>
<tr><td colspan="4">Real estate risk</td><td>x</td><td>–</td></tr>
</table>

[1] Credit spread risks in the trading book are included in general interest rate risk.

Bremer Landesbank's significant risks have to be covered at all times by available risk capital. In the risk-bearing capacity model, this is ensured by means of three perspectives.

- The first perspective is the going concern case which is based on the assumption that the Bank is continued as a going concern with the existing business model. Risks are measured using a defined confidence level of 90% and the economic risk potential is compared with free regulatory capital above a defined threshold. Effects on risk capital arising during the year are also taken into account.

- The going concern approach is supplemented by the economic capital adequacy perspective in which the risk potential is calculated with higher confidence levels. Risks are measured on the basis of serious events of the kind that occur statistically about once every 1,000 years. On the capital side, the tests include all the equity and equity-related components. Effects on risk capital arising during the year are also taken into account. This perspective provides proof of the capital adequacy required under the MaRisk (ICAAP – Internal Capital Adequacy Assessment Process).
- In the third perspective, regulatory capital adequacy, risk-bearing capacity is tested on the basis of the regulatory requirements. As with the economic capital adequacy perspective, all equity and equity-related components are included on the capital side. This perspective must be complied with as a strict condition.

The economic and regulatory capital adequacy perspectives are supplemented by stress tests, reflecting Bremer Landesbank's key business and risk types for the industries, segments, regions and customers which have a significant influence on the risk situation of Bremer Landesbank. All stress scenarios are designed to cover all types of risk. When determining the stress effects of the various risk types, two different scenarios are calculated: one that reduces risk capital and one that increases risk potential. This means that the stress tests always have two opposite effects – on risk capital and on risk potential.

Risk concentrations, both within a single risk and across risks, are taken into consideration when calculating the risk-bearing capacity. Concentrations within a single risk mainly involve credit risk, Bremer Landesbank's most significant risk. These are integrated into the risk-bearing capacity model via the internal credit risk model. The requirements of the MaRisk regarding risk concentrations across risks are taken into account in the economic capital adequacy perspective in the form of stress tests.

Under the risk-bearing capacity model, a portion of the total available risk capital is reserved as a buffer. The economic capital adequacy ratio must be at least 125% (primary criterion). The secondary criterion is a defined allocation of risk capital to the various risk types in the economic capital adequacy perspective. This allocation is monitored as a strategic limit. Further operational limits for each type of risk are derived consistently from these strategic limits. In parallel, capital is also allocated to business segments in the form of ceilings for risk-weighted assets (RWA) on the basis of the Bank's risk-bearing capacity and its business and earnings forecasts.

The above ratios and limits are monitored as part of monthly reporting.

The NORD/LB Group revised and enhanced its existing risk-bearing capacity model in the reporting period, focusing on a more differentiated quantitative capturing of stated risk potentials. This included an extensive enhancement of the credit portfolio model with a view to modeling losses given default, mapping dependencies between individual borrowers and integrating losses due to rating migrations. In the process, the previous premiums used in the model were reduced. The migration of internal credit risk reporting data to a new IT environment will improve data quality, for example with regard to market values and collateral.

The process for quantifying investment risk was redesigned to also adequately allow for risks greater that the investment's carrying amount. The scaling factor used to calculate market price risk for long holding periods was adjusted. In addition, inverse stress tests were conducted for the first time as of 31 December 2011.

Prompted partly by discussions between the industry and the German supervisory authorities concerning the assessment of internal risk-bearing capacity concepts and the requirements formulated by the supervisory authorities for such concepts, the risk-bearing capacity model is currently being critically reviewed in order to ensure that it satisfies the MaRisk. Conversion to the revised risk-bearing capacity model is scheduled for 31 March 2012.

Strategy and management

Addressing risks is an ongoing process, and not a one-off event, and is thus an integral part of Bremer Landesbank's business processes. The actual effectiveness of risk management depends on whether the processes are fully embraced in a risk-based corporate culture – by all employees and not just by management. This requires an open culture of risk awareness that fosters a conscious approach to risk. A risk-based corporate culture is mirrored in the attitudes, skills and professional competence of employees and is significantly influenced by the corporate philosophy and leadership style. The clear delegation of competencies and responsibilities within Bremer Landesbank, an open style of communication and transparency are vital elements of a strong culture of risk awareness. Ensuring that communication functions both horizontally and vertically sensitizes employees to risks in Bremer Landesbank and in their workflows.

On the basis of Sec. 25a KWG, the MaRisk specify the framework for the design of the risk management process for banks or groups of banks.

In this respect, the Management Board has installed a risk management system that meets both the legal requirements and internal management requirements. The risk management system includes all organizational arrangements and measures to identify risks and handle the risks relating to the banking business. The principles of the risk management system are defined in the risk strategy. The MaRisk require management to define a sustainable business strategy and a consistent risk strategy. The latter is based on the requirements of the MaRisk and on the NORD/LB Group's group risk strategy.

The risk strategy is a guideline for the entire Bremer Landesbank Group and contains statements on risk policy and on the organization of the risk management process, as well as strategies specific to the main banking risks. It focuses on safeguarding the Bank's risk-bearing capacity in the future and is reviewed, communicated to and discussed with the Supervisory Board of Bremer Landesbank at least once a year.

The strategy reflects Bremer Landesbank's sustainable risk policy and its choice of a conservative business model.

The Bank has implemented a risk management process spanning all of its activities. In the strategic sub-process "risk identification", the risk types relevant to the Bank are identified and analyzed for materiality (risk inventory). The significant risks then pass through the operational sub-processes "risk assessment", "risk reporting" and "risk management and monitoring". The strategic sub-process "risk identification" is carried out at last once a year as part of the risk inventory and on an ad hoc basis. The operational sub-processes are conducted regularly at intervals suited to the particular type of risk. Risk management instruments are consistently improved through organizational measures and the adaptation of risk measurement and risk management parameters.

The risk manual helps to build a shared understanding of risk in the Bank. It provides an overview of the entire risk management system and is a basis for creating the transparency essential for enhancing risk awareness. Details are specified in procedural instructions, organizational policies and Management Board resolutions. Policies and regulations are regularly updated as part of the ongoing quality control process. Any changes to the risk control and risk management system are presented in the relevant procedural instructions and manuals.

The Bank has installed early warning systems specific to the types of risk which enable the Bank to identify and analyze potential risks at an early stage. This ensures that information relating to risk that is relevant for the Bank's critical success factors is communicated to the right decision-makers. The systems comprise the reports (market price risk, liquidity risk and monthly risk-bearing capacity reports as well as the credit portfolio report) and the methods for early identification of different types of risk.

Structures

The framework for Bremer Landesbank's structures is defined by the Management Board and ensures the orderly interaction of all areas involved in the risk management process. In addition, efficient risk management and control processes with clearly defined functions and authorities provide for a smooth workflow – supported by an adequate IT infrastructure and qualified employees.

The Management Board also bears overall responsibility for risk management.

At overall bank level, the risk control function is responsible for identifying the various risks, making them measurable, evaluating them and communicating them. Its tasks are split between the Market Price Risk Control unit and the Integrated Bank and Credit Risk Control unit. These units develop the methods, implement the essential systems, monitor the entire process of risk management and report on risks.

Risk management is carried out actively within the specified framework by the four business segments and Back Office Financing.

The Back Office Financing unit operates independently of the front office units and monitors risk at individual borrower or sub-portfolio level. Administrative activities relating to individual loans are also conducted by Back Office Financing. This unit is also responsible for optimizing and assuring the quality of the entire lending process (front and back office) and bears central responsibility for regulations and reports in accordance with Sec. 13 and Sec. 14 KWG.

Corporate Service is responsible for processing and reviewing trade transactions concluded by the front office. Its tasks include checking to ensure that the transactions have been completely and correctly entered and assessing them for deviations from specified standards. The Market Price Risk Control unit verifies the market compliance of the transactions.

Internal Audit performs the risk-based and process-independent review of the effectiveness and adequacy of all risk management processes. As a Management Board instrument, it forms part of the internal monitoring system. Internal Audit's aims also include helping to ensure the effectiveness, efficiency and propriety of operations. Moreover, it supports the optimization of business processes and management and monitoring procedures. As part of efforts to enhance the group-wide monitoring instruments, Bremer Landesbank's internal audit function works closely together with the group internal audit function of NORD/LB and the internal audit functions of NORD/LB Luxembourg and Deutsche Hypothekenbank with a uniform audit policy and largely standardized audit methods.

A functioning internal control system (ICS) as part of the internal monitoring system ensures process security and the reliability of financial data and minimizes fraud. In addition to meeting legal requirements, the ICS secures process knowledge, optimizes workflows and increases the awareness of risks within the organization, creating integrated process and risk-based structures and procedures. All organizational safeguards and controls are assigned to the ICS. They allow comprehensive control of all relevant business workflows within Bremer Landesbank. Functions, authorities and responsibilities are clearly distributed. The functional departments carry out the controls as part of day-to-day business. Organization/IT have overall responsibility for the ICS. They enhance the methods and instruments, assess the adequacy and effectiveness of the controls in cooperation with the functional departments and take action, if necessary.

New business operations are commenced in a structured process (NPP = new product process) which considers their effects on the risk profile and risk management. Each product has its own risk and return profile. The risk profile is determined by the risks defined in line with the risk strategy. The main aim of the new product process is to identify, analyze and evaluate all potential risks for Bremer Landesbank prior to commencing business. It entails documentation of the new business activities, their treatment within the overall operating process, the decisions to commence business and any related restrictions.

In addition to the Bank's specific organizational structure, committees have been installed at the level of the NORD/LB Group to ensure the use of uniform methodologies throughout the Group and to approve any bank-specific regulations that deviate from such standards.

As such, the risk control method committees are a group risk management tool which supplements regular bilateral communication between NORD/LB and its subsidiaries.

The Management Board is supported by the Group Risk Committee (GRC) in connection with the integrated analysis of risks within the NORD/LB Group. The GRC comprises the Chief Risk Officer, the heads of the front office units, the heads of Central Management Risk, Risk Control, Research/Economics and the Lending back office units at NORD/LB and the heads of Risk at Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo.

Internal control and risk management system in relation to the group financial reporting process

As Bremer Landesbank is a capital market-oriented corporation within the meaning of Sec. 264d HGB, it is required by Sec. 315 (2) No. 5 HGB to describe the main features of its internal control and risk management system relating to the group financial reporting process, which also includes the financial reporting processes of the companies included in the consolidated financial statements.

The internal control and risk management system relating to the group financial reporting process is not defined by law. The Bank understands the internal control and risk management system as a comprehensive system, referring to the definition by the IDW ["Institut der Wirtschaftsprüfer in Deutschland e.V.": Institute of Public Auditors in Germany], Düsseldorf, of the accounting-related internal control system (IDW AuS 261 section 19 et seq.) and of the risk management system (IDW AuS 340 section 4). According to the IDW, an internal control system comprises the policies, procedures and measures installed within the organization by management which are aimed at implementing management's decisions

- To secure the effectiveness and efficiency of operations (including the protection of assets and preventing and detecting misappropriations of assets)
- To ensure the propriety and reliability of internal and external financial reporting
- To conform to the legal provisions relevant to the organization

Bremer Landesbank considers information to be significant for the purposes of Sec. 315 (2) No. 5 HGB when its omission could affect the economic decisions made by users on the basis of the consolidated financial statements and other elements of the financial reporting. Whether information is significant is determined by reference to the issue at hand and depends on the nature and scope of the issue. When deciding whether an issue is significant, Bremer Landesbank considers its significance in relation to the consolidated financial statements.

Functions of the group accounting-related internal control and risk management system

Bremer Landesbank has exacting standards of quality when it comes to the correct presentation of transactions in its financial reporting. Ensuring proper financial reporting is a function of the internal control system.

As regards the financial reporting process, the following structures and processes have been installed at Bremer Landesbank:

Organization of the group accounting-related internal control and risk management system

The Management Board is responsible for preparing the consolidated financial statements and the group management report. It has clearly defined responsibilities for individual financial reporting components and work steps in organizational policies and delegated these to specific organizational units.

Bremer Landesbank prepares its consolidated financial statements in accordance with IFRSs as adopted by the EU. The national provisions of the HGB are also observed in accordance with Sec. 315a HGB as well as the German Accounting Standards (GAS).

For consolidation purposes, subsidiaries and associates prepare group reporting packages in accordance with group instructions.

Integrated Bank Management is primarily responsible for managing and implementing the preparation of the consolidated financial statements and the financial reporting. It performs the following key functions:

- Monitoring changes in the law
- Preparing and updating financial statement instructions
- Compiling the consolidated financial statements and the group management report
- Providing the information for the segment report
- Providing specific disclosures for the notes to the financial statements
- Providing the information to be disclosed about market price, credit, liquidity and operational risk

The following work is delegated to other units within the group financial reporting process:

- Proper entry and processing of financial reporting data/transactions in the IT applications
- Calculation of personnel and pension provisions and provision of related disclosures for the notes to the financial statements
- Draft of decision documents for specific allowances on German and foreign loans
- Provision of relevant information for the notes to the consolidated financial statements and the group management report

The Supervisory Board oversees the Management Board. In the financial reporting process the Supervisory Board approves the consolidated financial statements of Bremer Landesbank. The Audit Committee, elected by the Supervisory Board, has the following functions:

- Advising on and monitoring the financial reporting, internal control system, risk management and control, internal audit (with a right to obtain information)
- Considering questions of auditor independence

Bremer Landesbank's Internal Audit department also has a process-independent monitoring function. On behalf of the Management Board it conducts audits in all parts of the organization and all of the subsidiaries, reporting directly to the Management Board. Apart from assessing the propriety and functional reliability of the processes and systems, it evaluates in particular the effectiveness and adequacy of the internal control system and of risk management in general.

Before being approved, the consolidated financial statements and the group management report must be audited by the auditor engaged by the Supervisory Board.

The policies, structures and procedures, as well as the processes of the internal control and risk management system (including the group accounting-related ICS), are set out in a procedural instruction which is revised at regular intervals in line with current external and internal developments.

Pertaining to the group financial reporting process, Bremer Landesbank regards the main features of the internal control and risk management system to be those which may have a significant impact on the group accounts and on the overall picture conveyed by the consolidated financial statements together with the group management report. These include:

- Identification of the main risk fields and control areas relevant to the financial reporting process
- Cross-segment controls for monitoring the financial reporting process
- Preventive controls in the Bank's finance and accounting functions, the strategic business segments and subsidiaries and in operating processes which generate key information for preparing the consolidated financial statements and the group management report, including functional segregation and pre-defined approval processes in relevant areas
- Measures to ensure the orderly computer-assisted processing of accounting transactions and data
- Measures to monitor the group accounting-related internal control and risk management system

Components of the group accounting-related internal control and risk management system

As one component of the accounting-related internal control and risk management system, Bremer Landesbank's control environment provides the framework within which existing regulations are introduced and applied at Bremer Landesbank. It is shaped by attitudes, awareness of problems and management's conduct in relation to the internal control system. The control environment has a substantial effect on employees' awareness of the significance of control. A favorable control environment is a prerequisite for an effective internal control system.

Accounting policies and other rules ensure that transactions are properly accounted for; the former are subject to ongoing review and adjusted if need be. Bremer Landesbank uses the SAP system for its accounting entries. It also makes use of customized data processing tools whose design is separately monitored. The group reporting packages of the consolidated companies are imported into the SAP system SEM/BCS. The Bank prepares its consolidated financial statements on the basis of this data and the information provided by the relevant units.

Appropriate instructions in the policies mitigate the risk of non-compliant preparation of the consolidated financial statements. The group reporting packages are tested for conformity with the group accounting manual. The quality of the consolidated financial statements is assured by Integrated Bank Management. Procedures relating to the consolidated financial statements are explained and changes to IFRSs are communicated at regular information events for subsidiaries.

Generally accepted measurement methods are used. These methods and the underlying parameters are regularly checked and modified if necessary.

The clear segregation of incompatible activities is a guiding principle behind the design of the processes. The principle of dual control is very important in this context. All entries made are double-checked when processing transactions, applying either a technical and/or organizational dual control.

The financial reporting process for the consolidated financial statements comprises functional transaction support, data entry and processing, reporting and publication of the elements of the financial reporting. Preparation of the consolidated financial statements also includes identifying the basis of consolidation, reporting on the consolidated companies, intercompany reconciliation, automatic and manual consolidation procedures and the final generation of the consolidated financial statements.

The entire financial reporting process is supported by IT applications – both standard programs and customized software. Based on Bremer Landesbank's IT strategy and risk strategy, policies and procedures exist governing program development and change, data backups and access rights, to ensure the propriety of the financial reporting.

Process-integrated controls include programmed plausibility checks and automatic and manual reconciliations, with the Bank regularly reconciling the general ledger and subledgers. All entries made are double-checked by a second person.

Reporting

The dynamics of the respective risk type determine risk reporting cycles.

Risk Control prepares a monthly report on the Bank's risk-bearing capacity. This report monitors the minimum ratio adopted in the risk strategy, the allocation of risk capital and the RWA ceilings. In addition to the risk-bearing capacity report, the Management Board also receives other monthly or quarterly risk-specific reports. The relevant sections contain more details about these reports.

The General Working and Credit Committee is informed about the risk situation five times a year, and the Supervisory Board is also informed about the status of risks in its twice-yearly (or more frequent) meetings.

The risk reporting system ensures that risks are identified at an early stage and provides the Management Board with the information it requires for managing risk, as well as making additional analyses and interim reports available upon request and supporting local risk management in the business segments.

Analysis

The risk management process is subject to constant review and enhancement due to its cross-segment functions and the constantly changing parameters in the various segments. Adjustments which may become necessary include organizational measures, adjustments to procedures for quantifying risk and the continuous updating of relevant parameters.

The risk quantification procedures within Bremer Landesbank are coordinated with the risk control department at NORD/LB, the goal being to apply uniform methods and procedures within the NORD/LB Group.

Development in 2011

Ratio of available risk capital to risk potential in the economic capital adequacy perspective

(in EUR m)	Risk-bearing capacity			
	31 Dec 2011		31 Dec 2010	
Risk capital	**1,906.3**	**100.0%**	**1,912.8**	**100.0%**
Credit risk	732.8	38.4%	942.7	49.3%
Investment risk	10.6	0.6%	28.1	1.5%
Market price risk	98.1	5.1%	67.3	3.5%
Liquidity risk	61.4	3.2%	49.5	2.6%
Operational risk	43.1	2.3%	42.3	2.2%
Total risk potential	**946.0**	**49.6%**	**1,129.9**	**59.1%**
Capital surplus	**960.3**	**50.4%**	**782.9**	**40.9%**
Capital-risk ratio		**201.5%**		**169.3%**

As of 31 December 2011, the capital-risk ratio was 202%, still above the internal minimum ratio of 125%. Since the prior year, in connection with the risk-bearing capacity concept there have been methodological changes in the measurement of risk potentials for credit risk which have a significant bearing on economic capital adequacy. Applying the revised methodology as of 31 December 2010 would yield a higher ratio of 215%. This shows that the risk-bearing capacity deteriorated appreciably over the year due to the increased probabilities of default within the portfolio.

The deficit crisis in many eurozone countries, especially the PIIGs nations, combined with the risk of an economic downturn led to considerably widening spreads at banks, especially in the second half of 2011. The Iltraxx Financial 5y Senior spread widened from 152bp at the end of June to 333bp in mid-December. Concerns about a systemic crisis, which first emerged in 2008, mean that banks have lost confidence in each other and – in the PIIGS nations in particular – are now only able to refinance themselves through the ECB. The EBA stress test carried out in the late fall and repeated at the end of the year was unable to calm the markets. It failed to achieve its objective of restoring trust in the banking sector by encouraging higher capitalization levels. The systemic European banks will need fresh injections of capital within a short period of time that will have to obtained by buying back subordinated capital and reducing risk assets. Only in exceptional cases will banks be able to raise new capital.

The Bank’s credit investment portfolio contains only two direct sovereign exposures in the form of credit derivatives (Italy and Greece). The portfolio is dominated by well diversified exposures to banks. The risk of default is estimated to be fairly low. Credit events on credit derivatives are called because of the restructuring of subordinated capital and not because of a downgrade in the credit rating. The spread volatility has an impact on the credit investment portfolio and is mitigated by use of mark-to-model valuation for parts of that portfolio.

Credit risk

Counterparty risk (including country risk) is made up of credit risk and investment risk. In international transactions, country risk (transfer risk) occurs alongside the primary counterparty risk. Country risk is the risk of losses due to overriding state barriers (despite the individual counterparty's ability and willingness to repay).

Credit risk breaks down into traditional credit risk and counterparty risk from trading.

Traditional credit risk is the risk of loss resulting from an obligor's failure to pay or deterioration in a borrower's credit rating.

Counterparty risk from trading is the risk of loss from trading activities stemming from an obligor's or counterparty's failure to pay or deterioration in an obligor's or counterparty's credit rating. It breaks down into default risk from trading, replacement, settlement and issuer risk.

Default risk from trading is the risk of loss stemming from an obligor's failure to pay or deterioration in an obligor's credit rating. It is equivalent to the traditional credit risk and occurs in money trading, in money market or treasury activities.

Replacement risk is the risk that the counterparty is unable to meet the terms of a pending contract with a positive present value and that this contract has to be replaced, potentially at a loss.

Settlement risk comprises pre-settlement and actual settlement risk. Pre-settlement risk is the risk that, when it comes to settling a contract, the counterparty fails to provide consideration for a contract on which the Bank has already made advance delivery or, when performance is mutually offset, no compensation payment is made. Pre-settlement risk can be prevented by acquiring the transaction value from the counterparty in advance under good value or on a reciprocal basis or if sufficient cover exists. Actual settlement risk is the risk of a transaction not being mutually settled on or after the contractual settlement date.

Issuer risk is the risk of loss stemming from an issuer's or reference entity's (credit derivatives) failure to pay or deterioration in an issuer's or reference entity's credit rating.

Strategy and management

For the Bank, lending business and the associated management of credit risk is a core competence which must be permanently enhanced and extended. The Bank's strategy is to position itself as a reliable regional bank with international specialty operations.

In order to do justice to the specific requirements of each business segment, the Bank has stipulated financing policies for each market segment which are binding guidelines for new lending business in the respective front office. In new lending business, the focus is clearly on concluding agreements with customers with a good credit rating. No new business may be transacted for the credit investment portfolio.

Structures

For lending business, the structures of Bremer Landesbank guarantee a functional segregation of front and back office units and risk control right through to Management Board level. Independent back office functions are performed by Back Office Financing, functions relating to the independent monitoring of risks at portfolio level and to independent reporting are the responsibility of the Integrated Bank and Credit Risk Control unit in Integrated Bank Management.

The model of functional segregation in the loan decision process chosen by the Bank is consistent with its strategic alignment as a regional bank with international specialty finance operations in that loan decisions are only taken after a high-quality risk analysis has been conducted as part of the front office vote and a second vote has been cast by the back office, which thus assumes an independent, uniform quality assurance function in terms of assessing risks in the lending business. In addition to preparing the second vote, the back office is responsible for verifying and stipulating rating levels, verifying collateral values, processing and supervising debt rescheduling and work-out cases and risk provisions as well as designing processes and rules for the Bank's lending business.

Decisions are made by the Management Board, the General Working and Credit Committee or its chairman for transactions above a certain volume. As a committee of the Supervisory Board, the General Working and Credit Committee has the task, in regular meetings, of discharging the rights and duties of the Supervisory Board in advising and monitoring management.

The procedural instructions and internal policies contained in the Bank's organizational policies, especially the lending, competency, voting, collateral and rating policies, form the basis of operations in the lending business.

Reporting

As part of risk reporting, monthly or quarterly reports are made to the Management Report: a report on close watch and problem exposures and on the development of risk provisions, a report on the monitoring of concentration risks in borrower groups and a credit portfolio report.

- In the report on individual borrowers drawn up by Back Office Financing for close watch and problem exposures, the development of potentially problematic and defaulted borrowers is closely monitored. This may also reveal short-term or long-term structural changes in this portfolio or related sub-portfolios and areas where measures to mitigate or reduce risk may be undertaken.
- The report on concentration risks in borrower groups addresses borrower groups with a notable risk concentration as identified in respect of Bremer Landesbank's available risk capital, its management's risk preferences, the creditworthiness of the borrower in question and the collateralization of the exposure.
- At the end of each quarter, Risk Control prepares a credit portfolio report containing a differentiated presentation of the credit portfolio. The Bank's quarterly Pfandbrief report is currently included in the credit portfolio report.

Integrated Bank Management and Credit Risk Control are responsible for methodologies (rating, scoring, risk modeling).

Risk reporting follows the management approach in accordance with IFRS 7. Internal and external risk reports are therefore based on the same terms, methods and data. Credit exposure is a significant parameter in managing credit risk. This figure reflects the value of all the transactions bearing credit risk concluded with a counterparty.

Credit exposure is calculated based on outstandings (in the case of guarantees, the nominal value, and in the case of securities, the carrying amount) and the credit equivalent resulting from derivatives (including add-ons and after netting). Irrevocable and revocable loan commitments are included in the credit exposure on a transaction-specific basis; collateral is not taken into account.

Analysis

The rating methods developed by the Sparkasse Financial Group, which are tailored to the customer segments and approved by the banking supervisory authorities, are the basis for assessing the default risk at customer level. The procedures cover the analysis and assessment of the customer’s financial situation and, depending on the customer group, the market conditions, product quality, competitive situation and management, as well as cash flow and forward-looking data.

With the help of these rating methods, the probability of default of borrowers and counterparties is calculated and allocated to a rating category.

Bremer Landesbank master scale

IFD	Rating category	Mean probability of default	Customer category
Very good to good	1 (AAAA)	0.00%	Normal
	1 (AAA)	0.01%	
	1 (AA+)	0.02%	
	1 (AA)	0.03%	
	1 (AA–)	0.04%	
	1 (A+)	0.05%	
	1 (A)	0.07%	
	1 (A–)	0.09%	
	2	0.12%	
	3	0.17%	
	4	0.26%	
Good/satisfactory	5	0.39%	
	6	0.59%	
Still good/adequate	7	0.88%	
	8	1.32%	
Increased risk	9	1.98%	Close watch
	10	2.96%	
High risk	11	4.44%	
	12	6.67%	Debt rescheduling
Very high risk	13	10.00%	
	14	15.00%	
	15	20.00%	
Default (= non-performing loans)	16	100.00%	
	17	100.00%	
	18	100.00%	Work-out

The rating methods are an instrument for active risk management. The accuracy (forecast quality) of the rating methods, each individual rating component and their interaction are regularly examined by the rating service agencies by backtesting and validating using the data pools. These quality controls, which use observed default rates and other factors, not only confirm compliance with minimum standards; they also provide input for enhancements.

The rating methods are validated by the two central rating service agencies of the Sparkasse Financial Group, Sparkassen Rating und Risikosysteme GmbH (S Rating), a subsidiary of the German Savings and Giro Bank Association (DSGV), and Rating Service Unit GmbH & Co. KG (RSU), a company founded with other Landesbanken. The two rating service agencies ensure an internal rating within the meaning of the SolvV. In a structured process, the banking supervisory authorities are regularly informed of changes to and enhancements of the rating methods and other IRBA systems.

Bremer Landesbank data is pooled at the two rating service agencies. The task of Bremer Landesbank in each case is to prove that the rating modules validated at pool level are adequate for the Bank's internal portfolio (proof of representativeness).

The Bank has fulfilled the requirements relating to the SolvV and has calculated capital charges in accordance with the internal ratings-based approach (foundation IRBA) since 2008.

The Bank is involved in enhancing the methodology of the RSU rating systems. The focus here is on ship, project and lease finance, a field in which the Bank has exceptional know-how. The Bank is involved in ensuring the quality of the communication of S Rating's system results within the Sparkasse Financial Group.

Bremer Landesbank draws on the economic expertise of NORD/LB for the purpose of calculating country and transfer risk.

The modules Banks, Corporates, Country and Transfer Risk, Leasing as well as DSGV Standard Rating and DSGV Minor Customer Rating are based on scorecard methods which identify attributes and factors for distinguishing between good and bad borrowers. A sufficient number of relatively homogenous borrowers is required for using scorecards.

Since this requirement is frequently not met in the case of special finance, simulations are primarily used here. In this case financing arrangements for projects, ships and national properties are valued with the help of cash flow simulation models. The main source of income for the repayment of liabilities is generated by the financed asset. Credit risk is thus determined by fluctuations in income and expenses relating to the asset. In simulations, the asset's cash flow is shown in various scenarios which vary in terms of macroeconomic and industry conditions and reflect the future development of factors such as leases and charter rates. Scenarios in which a borrower must be considered to have defaulted can subsequently be identified from the large number of scenarios.

In addition to quantitative factors, qualitative factors are also considered in the scorecard and simulation methods in the rating modules. Override options for revising a rating are also available; these are, however, limited when it comes to enhancing ratings. Warning signals and the background of the enterprise are also considered. A final rating result is only obtained once these aspects have been taken into account.

In 2012, cooperation with NORD/LB, the Landesbanken that are members of RSU and with the DSGV to improve the rating methods will be continued. The cooperation will focus on estimating exposures at default and losses given default.

The full evaluation of the borrower or transaction forms the basis for the decision to extend credit, for credit risk management and for the risk-adjusted loan pricing of the expected loss. The probability of default of a borrower or a transaction reflected in the rating results plays a significant role. However, beyond the probability of default, loss given default, terms, exposure at default as well as other transaction-related risks (including currencies and products) are important.

A specific limit is set for each borrower in order to manage risks at transaction level. The significant parameters applied in setting such limits are the borrower's creditworthiness, expressed as a rating, and funds available for making principal repayments.

The risk of the exposure is valued in a rating procedure and in defined lending processes. In existing business, any need to take action is identified in operational segments on the basis of the results generated by the rating methods applied regularly or ad hoc. Significant declines in ratings or creditworthiness trigger the preparation of a status report or credit-control documents, depending on the rating or credit rating level and the volume of an exposure.

In addition, the Bank ensures that exposures with a higher probability of default are managed by specially qualified employees in separate organizational units. In accordance with credit regulations, higher exposure risks result in specific obligations in terms of processing and management. These exposures are submitted much more frequently (twice a year or ad hoc in the case of negative information). Depending on the rating category and the volume of an exposure, the approval process goes as far as the Management Board. The following allocation always applies:

1. Exposures in rating category 9 and above are closely watched. The causes of deterioration in a situation and the exposure strategy are analyzed with a view to costs and benefits. If necessary, collateral is improved, terms are adjusted and the customer's reporting duties are intensified. The front office unit remains responsible for managing the exposure, while the back office unit previously responsible for processing continues to process it. The new exposure strategy must be discussed with and approved by Back Office Debt Rescheduling.
2. From a rating of 12 or higher, an exposure is transferred to Back Office Debt Rescheduling for management and processing. This unit is part of Back Office Financing. It examines the viability and feasibility of debt rescheduling, consulting external advisors if need be. A reevaluation of the exposure strategy with regard to costs and benefits is required. The rescheduled loan may be secured by further adequate collateral, the terms may be adjusted or a decision to terminate the business relationship made.
3. If acute default risks are identified, the Bank initiates a standard process which ensures the prompt recognition, recording and communication of a specific allowance (SA). These exposures must all be re-rated, with the "SA established" reason for default recorded. The steps mentioned above are triggered by this classification. If considerable new or additional risk provisions are required (of EUR 1.0m or more in the current year), the Management Board is informed immediately via the head of the back office.
4. Terminated exposures are processed by the Work-Out group. When exposures are terminated or in the event of insolvency, etc., they have to be re-rated and the reason for default needs to be recorded.

The Bank uses an LEM (Large Exposure Management) limit model for identifying and monitoring risk concentrations at borrower group level. Large exposure limits are set for economic associations which at least comprise borrower groups in accordance with Sec. 19 (2) KWG, including any indirect commitments. The model allows evaluation of the risk concentration of an exposure, taking into account the Bank's available risk capital and management's risk preferences, as well as the creditworthiness of the borrower and the collateral provided for the exposure.

The limit model defines limits for every large exposure on the basis of an exposure which is rated as unproblematic (white area), susceptible to risk concentration (gray area) or very susceptible to risk concentration (black area). The aim is to reduce the exposures in the black area and to obtain a balance between risk and return in the gray area. This provides protection against excessive concentrations at counterparty level.

Risks at portfolio level are mainly controlled on the basis of risk asset ceilings in the business segments and on the basis of country and industry segment limits. The upper exposure limits are calculated by reference to the risk-bearing capacity of Bremer Landesbank.

For measuring credit risk, standard collateral which has been made available and other risk-mitigation techniques are significant in addition to the credit standing of a borrower or that of a counterparty. In order to reduce credit risk, the Bank accepts domestic and foreign collateral in the form of property and rights. When accepting collateral, it is ensured that cost and benefit are proportionate.

Collateral is assessed both when a loan is granted and during the process of monitoring loans (at least once a year) to identify whether it can be realized at the value presumed given its expected economic development during the (remaining) loan period. For this reason each case is examined to determine whether the stated value appears justified based on the special type of collateral and its legal and economic realizability, taking account of the borrower and the type of loan. Valuations are adjusted accordingly if factors relevant to valuation have changed.

The Bank's credit policies and lending principles specify what basic types of collateral can be accepted and the maximum loan-to-value ratio. Guarantees, collateral similar to guarantees, assignments of claims and other rights, liens on movable property, real estate, claims and other rights and movable property assigned as security are accepted as collateral. Other collateral may also be contracted with a borrower. This collateral will, however, not reduce the unsecured portion of an exposure.

All the relevant collateral is entered in the Collateral Management System (CMS) in order to calculate credit risk mitigation. A realistic estimation of proceeds from collateral or the loss given default as well as the exposure at default and the probability of default enable the loss potential associated with an exposure to be quantified.

The Bank was last active as an investor in securitization transactions in 2004; as of year-end it no longer had any holdings. Except for traditional Pfandbrief operations and municipal bonds, the Bank has not securitized its own lending business.

Bremer Landesbank also participated in the solidarity-based bailout of the former Sachsen LB by the Landesbanken led by the German Savings and Giro Bank Association (DSGV), extending loans to the special purpose entity Sealink Funding in a securitization transaction. As these loans are senior debt, the resulting risks are extremely limited. This exposure is being scaled back as scheduled; the last portion is due to mature in January 2013.

The risk metrics of expected loss and unexpected loss are used to quantify the risk of default (credit risk and investment risk). Expected loss is calculated on the basis of one-year probabilities of default (PD) in conjunction with the loss given default. The risk premium which must be collected in order to cover expected loss is calculated using the CPC (Credit Pricing Calculator) software.

In contrast to expected loss, unexpected loss resulting from risk-bearing transactions, i.e., the risk that actual losses are higher than anticipated, constitutes the actual risk potential for the Bank.

Unexpected loss is quantified for different confidence levels and a timeframe of one year. In this connection, the Bank introduced a group-wide standard economic credit risk model in 2009, validating and revising it again in 2011. The model is used to estimate the probability of unexpected losses in combination with portfolio effects (concentration and diversification effects due to correlations in the portfolio). The aim is to monitor and limit credit risks at portfolio level, in particular considering counterparty and industry concentrations. The credit risk model is being constantly enhanced.

Development in 2011

The Bank's credit exposure came to approximately EUR 39,214m as of 31 December 2011, down some 0.5% compared with the end of the prior year.

The following table compares the rating structure of the loan portfolio with the prior year. The classification follows the standard IFD ["Initiative Finanzstandort Deutschland": Initiative for Germany as a Financial Location] rating scale which was agreed on by the banks, savings banks and associations participating in the IFD. It was designed to improve the comparability of the different rating categories used by banks.

The rating categories of the 18-step DSGV rating master scale applied at the Bank may be transposed directly to the IFD categories.

Lending business by rating structure

Rating structure[1) 2)] (in EUR m)	Loans [3)]	Securities [4)]	Derivatives [5)]	Other [6)]	Total	
			31 Dec 2011		31 Dec 2011	31 Dec 2010
Very good to good	13,716	4,964	3,192	4,463	**26,336**	**27,518**
Good/satisfactory	2,960	219	96	765	**4,039**	**4,216**
Still good/adequate	3,319	46	59	492	**3,917**	**3,563**
Increased risk	1,350	32	19	129	**1,530**	**1,232**
High risk	1,027	–	21	26	**1,075**	**950**
Very high risk	1,093	–	20	24	**1,137**	**1,189**
Default (= NPL)	1,072	–	64	45	**1,181**	**755**
Total	**24,537**	**5,260**	**3,472**	**5,945**	**39,214**	**39,423**

[1)] Classification according to the IFD rating categories.
[2)] Differences between totals are due to rounding.
[3)] Includes loans taken up, loan commitments, guarantees and other non-derivative off-balance sheet assets; as in the management accounts, the irrevocable loan commitments and the revocable loan commitments are included on a pro rata basis.
[4)] Includes the Bank's own portfolio of securities issued by third parties (banking book only).
[5)] Includes derivative financial instruments such as financial swaps, options, futures, forward rate agreements and currency transactions.
[6)] Includes other products such as transmitted loans and administrative loans.

The high proportion of exposures in the “very good” and “good” categories stems from the significance attached to interbank and public-sector business and, at the same time, reflects the Bank’s risk policy. The risk structure of the loan portfolio deteriorated further overall in 2011, as is shown by the rising probabilities of default and a significant increase in non-performing loans. The global financial market and economic crisis had a particularly negative impact on the ship finance portfolio. The ongoing excess supply of tonnage led to falling charter rates. The global economic recovery in the first six months of 2011 briefly pushed up freight rates, but was not sufficient to absorb the increase in deliveries of new vessels in the second half of the year. However, due to the rating systems in place, the renewed deterioration in the creditworthiness of many shipping companies has a delayed impact. Risk provisions were higher than forecasts, which were based on a sideways movement on the markets. However due to the high granularity of the portfolio, these did not have a substantial negative effect on Bremer Landesbank’s results of operations. If the market does not recover in 2012, risk provisions are likely to be on a par with those for the prior year.

The table below shows the Bank’s credit exposure by region.

Lending business by region

Region[1)2)] (in EUR m)	**Loans**	**Securities**	**Derivatives**	**Other**	**Total**	
			31 Dec 2011		**31 Dec 2011**	**31 Dec 2010**
Euro countries	22,994	4,818	2,717	5,941	**36,469**	**36,594**
- thereof Germany	21,533	3,265	1,076	5,830	**31,704**	**31,275**
Rest of EU	343	159	652	4	**1,157**	**1,367**
Rest of Europe	132	123	19	0	**274**	**338**
North America	136	141	84	–	**361**	**275**
Latin America	148	–	–	–	**148**	**130**
Middle East/Africa	196	–	0	1	**197**	**110**
Asia	588	20	–	0	**608**	**610**
Other	–	–	–	–	**–**	**–**
Total	**24,537**	**5,260**	**3,472**	**5,945**	**39,214**	**39,423**

1) The definition of the regions has changed slightly since the prior year (e.g., Australia/Oceania is now allocated to Asia).
2) Differences between totals are due to rounding.

The tables show that country risk is of secondary importance for the Bank. The eurozone is still by far the Bank’s most important business region. A detailed discussion of countries with serious debt problems is provided in Note (61).

Discrepancies between the aggregate exposure presented above by region and those of the financial instruments included in the balance sheet are due to differences in valuation and other add-ons.

The percentage of financial institutions and insurance companies contained in the aggregate exposure is relatively high, at 35% (prior year: 39%), but includes institutions with very good to good ratings. The most significant credit risks still stem from Special Finance and Corporate Customers activities.

Lending business by industry group

Industry group[1]	Loans	Securities	Derivatives	Other	Total	
(in EUR m)		31 Dec 2011			31 Dec 2011	31 Dec 2010
Financial institutions/insurance companies	4,576	3,852	3,005	2,407	13,841	**15,182**
Service industries/other	7,920	1,399	189	698	10,207	**10,122**
- thereof real estate and housing	1,272	–	24	168	1,463	**1,186**
- thereof public administration	3,755	1,382	138	57	5,331	**5,281**
Transport/communications	7,657	9	136	114	7,916	**7,855**
- thereof shipping	7,022	0	130	44	7,197	**7,103**
Manufacturing	752	–	22	129	904	**900**
Energy, water and mining	2,083	–	38	2,215	4,336	**3,377**
Trade, maintenance and repairs	1,083	–	79	171	1,333	**1,346**
Agriculture, forestry and fishing	140	–	1	153	294	**252**
Construction	325	–	1	58	384	**389**
Other	–	–	–	–	–	**0**
Total	**24,537**	**5,260**	**3,472**	**5,945**	**39,214**	**39,423**

[1] Differences between totals are due to rounding.

The Bank recognizes specific allowances for acute default risks if there are objective indications of such risks. The level of risk provisions is based on a present value analysis of expected interest and redemption payments as well as on proceeds from the realization of collateral.

Specific allowances and loan loss provisions rose significantly yet again in 2011, above all because of the worsening crisis in ship finance. The specific allowance ratio, expressed as the ratio of specific allowances to the aggregate exposure, is 0.79% (prior year: 0.60%). The percentage of non-performing loans in the aggregate exposure is 3.01% (prior year: 1.91%). Before deducting collateral, 26.1% of non-performing loans are covered by specific allowances (prior year: 31.3%).

Freight rates, which had been falling fast since late summer 2008, reached their lowest level in the first half of 2010. However, they started to pick up in some important sub-markets later on in 2010. The crisis came to a head again in 2011. Charter rates that covered only operating and interest expenses were seen throughout the year in tanker and bulk shipping and in the second half of the year in container and MPP shipping. As expected, the lower charter rates had little effect on prices for new builds and used vessels. The portfolio allowance for the ship finance portfolio (EUR 46.9m in 2010) increased by EUR 2.2m to EUR 49.1m.

Risk provision requirement by industry group

Industry group[2] (in EUR m)	Impaired credit exposures[1]		Specific allowances		Loan loss provisions		Net allocations/ reversals of specific allowances/ provisions	
	2011	2010	2011	2010	2011	2010	2011	2010
Financial institutions/insurance companies	3	4	10	8	0	0	2	–2
Service industries/other	143	133	54	62	2	2	–8	–2
Transport/communications	695	436	189	115	1	6	68	69
Manufacturing	29	18	12	8	2	2	5	–6
Energy, water and mining	64	7	8	3	3	2	7	4
Trade, maintenance and repairs	16	20	12	15	0	0	–3	0
Agriculture, forestry and fishing	5	4	3	4	1	–	–1	–1
Construction	53	36	20	22	10	12	–3	10
Other	–	–	–	–	–	–	–	–
Total	**1,008**	**658**	**308**	**237**	**19**	**24**	**67**	**72**

[1] Exposure of non-performing loans prior to allowances, with impairments.
[2] Differences between totals are due to rounding.

Risk provision requirement by region

Region[1] (in EUR m)	Impaired credit exposures		Specific allowances		Loan loss provisions		Net allocations/ reversals of specific allowances/ provisions	
	2011	2010	2011	2010	2011	2010	2011	2010
Euro countries	948	638	282	230	19	24	47	68
Rest of EU	27	19	11	6	0	0	5	5
Rest of Europe	8	0	5	–	–	0	6	0
North America	–	1	0	1	–	–	–1	–1
Latin America	11	–	2	–	–	–	2	–
Middle East/Africa	–	–	–	–	–	–	–	–
Asia	14	–	8	0	–	–	8	–
Other	–	–	–	–	–	–	–	–
Total	**1,008**	**658**	**308**	**237**	**19**	**24**	**67**	**72**

[1] Differences between totals are due to rounding.

The following tables show the past due, unimpaired exposures. All exposures which are at least one day in arrears are listed as past due.

Past due exposures by industry group

Industry group[1)] (in EUR m)	Past due, unimpaired exposures		Portfolio allowances		Net allocations/reversals of portfolio allowances	
	2011	2010	2011	2010	2011	2010
Financial institutions/insurance companies	9	129	2	1	1	0
Service industries/other	88	67	10	13	–3	–6
Transport/communications	947	283	51	49	2	–27
Manufacturing	11	17	1	2	–1	–1
Energy, water and mining	147	42	4	2	2	0
Trade, maintenance and repairs	30	55	2	3	–1	0
Agriculture, forestry and fishing	1	9	1	1	0	0
Construction	2	20	1	1	0	–1
Other	–	–	–	–	–	–
Total	**1,235**	**622**	**72**	**72**	**0**	**–35**

[1)] Differences between totals are due to rounding.

Past due exposures by region

Region[1)] (in EUR m)	Past due, unimpaired exposures		Portfolio allowances		Net allocations/reversals of portfolio allowances	
	2011	2010	2011	2010	2011	2010
Euro countries	1,069	589	69	64	4	–38
Rest of EU	0	18	0	0	0	–1
Rest of Europe	52	13	0	0	0	0
North America	11	0	1	1	1	–1
Latin America	20	0	0	0	0	0
Middle East/Africa	–	0	0	1	–1	0
Asia	83	2	2	6	–4	5
Other	–	–	–	–	–	–
Total	**1,235**	**622**	**72**	**72**	**0**	**–35**

[1)] Differences between totals are due to rounding.

Broken down by days past due, past due, unimpaired exposures to customers are as follows.

Days past due[1)] (in EUR m)	Past due, unimpaired exposures	
	31 Dec 2011	31 Dec 2010
< 30 days	538	562
30-60 days	628	29
90-180 days	7	6
> 180 days	62	25
Total	**1,235**	**622**

[1)] Differences between totals are due to rounding.

The Bank did not acquire any assets in the fiscal year in connection with the realization of collateral held and other credit enhancements as a result of the default of borrowers.

Outlook

The Bank will continue to enhance its credit risk control system in 2012. In this context, the risk parameters and the credit risk model will be validated, as is done every year. The RWA management process will also be enhanced to optimize risk-return planning and build a buffer for future crises. The credit risk analyses with a focus on inverse stress testing, which will need to be intensified further, as well as the risk concentration analyses at counterparty and loan portfolio level will provide further input for efficient credit risk management at the Bank.

Since 2010, risk provisions at Bremer Landesbank have been determined largely by developments in the merchant shipping sector. If this market does not recover in 2012, risk provisions are likely to be on a par with those for 2011.

Investment risk

Investment risk is the risk of loss resulting from making equity available to third parties. Investment risk also includes the risk of loss from other financial obligations (e.g., Gewährträgerhaftung (public guarantee under which the owners of savings banks are jointly and severally liable to the banks' creditors), letters of comfort, profit and loss transfer agreements) except where it is covered by the other risk types.

Strategy and management

The Bank fulfills its special responsibility toward the north-western region of Germany with its equity investments. Shares in regional companies thus constitute a focus of investment portfolio activities, in addition to equity investments within the framework of the Sparkasse Financial Association. With its equity investments, the Bank contributes equally toward fulfilling its public mandate and strengthening the regional economy.

The subsidiaries are integrated in the corporate strategy and participate in the group-wide risk management process as defined in Sec. 25a KWG.

Significant investees are consistently controlled and managed by evaluating and analyzing regular reports and by exercising influence in their governing bodies (shareholder meetings and supervisory, administrative or advisory boards).

Structures

Credit risks relating to equity investments are managed by the Management Board Support/Corporate Development/Investments unit and monitored by Risk Control.

Reporting

Risk management is conducted in a systematic, ongoing process and comprises the identification, analysis, evaluation, documentation and communication of any risks which may arise. Credit risks associated with equity investments are communicated in the monthly risk-bearing capacity report. In addition to this report, the Management Board is informed at least twice a year about the key issues relating to equity investments in the form of an investment report.

Analysis

Apart from a few exceptions, the Bank's equity investments undergo a rating process along the lines of the lending process. The only exceptions are if Bremer Landesbank's share in the carrying amount of strategic investments not involving loans does not exceed EUR 1,000k in accordance with Sec. 19 (2) KWG. The method used to calculate risk potentials was changed as of 31 December 2011. By adopting a scoring model for the risk inventory, the risks associated with equity investments will be able to be quantified.

Development in 2011

The investment portfolio has been subject to a critical review over the last few years. The Bank has since disposed of some of its equity investments and continued this process in 2011. The sale of the shares in Deka Bank, held indirectly through GLB GmbH & Co. OHG, significantly reduced the equity investment portfolio, more than halving its carrying amount. As in prior years, in 2011, no equity investments are deemed material as defined by the MaRisk.

Outlook

The investment portfolio has now been largely optimized.

Market price risk

Market price risk describes the potential loss arising from changes in market parameters. Market price risk comprises interest rate, currency, equity price, fund price, volatility, credit spread and commodity risk.

Interest rate risk comprises the components of general (including credit spread risk in the trading book) and specific interest rate risk. General interest rate risk occurs when the value of a position or a portfolio reacts to changes in one or more interest rates or in entire yield curves and when such changes may subsequently impair the position. This risk also includes the credit spread risk of the trading book. In line with the regulatory definition, specific interest rate risk includes potential changes in value resulting from rating migrations or the default of issuers (for securities) or reference entities (for credit derivatives). For Bremer Landesbank, specific interest rate risk is the same as issuer risk.

Currency (or exchange rate) risk is the risk that the value of a position may react to changes in one or more exchange rates and that such changes subsequently impair the position.

Equity price risk is the risk that the value of a position may react to changes in one or more equity prices or indices and that such changes subsequently impair the position.

Fund price risk is the risk that the value of a position may react to changes in one or more fund prices and that such changes subsequently impair the position.

Volatility risk is the risk that the value of an option may react to potential changes in value resulting from market movements of the volatilities used to price the option and that such changes subsequently impair the position. Volatility risks are allocated to the risk categories of interest rate risk, equity price risk and exchange rate risk, depending on the type of option product in question.

As with the trading book, credit spread risk in the banking book describes potential changes in value arising from changes in the credit spread applicable to the issuer, borrower or reference entity used to mark a position to market. In order to avoid duplicating risks, changes in ratings due to changes in credit quality can be neglected when determining credit spread risks in the banking book as such changes are covered by the issuer risk.

Commodity risk is the risk of a loss in value of a position (including indices and derivatives) because of a change in the price of the underlying commodity (e.g., oil, wheat). Commodity risk currently has no relevance for Bremer Landesbank because it does not have any open positions in this area.

Strategy and management

The Bank's activities aimed at the management of market price risk focus on selected markets, customers and product segments. Its positioning on the money, foreign exchange and capital markets is primarily geared toward the needs of customers and supporting bank management. The Bank also conducts proprietary trading activities and holds strategic investments subject to market price risk.

With regard to interest rate risk, the Bank aims to transform maturities and participate in general market developments, within the scope of its risk limits. Also, significant credit spread risks result from strategic investments in securities refinanced with matching maturities and credit derivatives. However, a buy-and-hold strategy is chiefly pursued for these positions. The transactions are therefore generally presented in the banking book. Fund risks, equity price and exchange rate risks were of lesser strategic significance in 2011.

In accordance with the trading strategy, trading activities focus on interest rate risk, resulting in a conscious concentration of risk in this area. The main products are interest rate derivatives and fixed-income securities (bank bonds, Pfandbriefe, public-sector bonds). The risk concentrations are minimized by means of limits for the various risk categories.

Structures

The Management Board decides how much of the available risk capital is allocated to market price risk.

The trading desks in Financial Markets may take on market price risk in their trading transactions and positions. The functions and activities of the trading desks are defined by the Financial Markets trading strategy, the unit business strategies and the sub-strategies for all of the organizational units which, in accordance with the MaRisk, conduct trading activities or in which market price, liquidity or counterparty risks, as defined by the trading strategy, arise. These functions and activities are set forth in the procedural instructions of the various units.

Open market price risk positions in Financial Markets are managed by the trading desks and Asset/Liability Management, which also centrally plans and manages market price risks relating to deposit and lending business for terms of more than 12 months. Money Market Trading manages interest rate risk for maturities up to 12 months, while Foreign Exchange Trading is responsible for foreign currency of all maturities.

Asset/Liability Management presents the current strategic investment situation to the Treasury Committee and proposes action to be undertaken. The Treasury Committee votes on the further strategic treasury activities. This committee, which meets fortnightly, is an advisor to the Management Board and has members from Financial Markets and Integrated Bank Management. Measures are implemented by Asset/Liability Management in accordance with the Management Board's resolutions and within the risk limit for strategic treasury activities (Treasury).

The Credit Investments unit presents to the Credit Investment Board the Bank's investments in securities refinanced with matching maturities and in credit derivatives in the banking book and proposes strategies for managing the risks inherent in the portfolio. The Board usually meets once a fortnight. It advises the Management Board on management activities and presents the economic impact of such activities. The members of the Management Board responsible for risk and the front office, and representatives from Financial Markets, Back Office Financing and Integrated Bank Management sit on the Credit Investment Board. The Credit Investments unit implements the measures resolved by the Management Board.

The Corporate Service and the Financial Markets Head Office groups provide services. In accordance with the MaRisk, Market Price Risk Control is independent of the market price risk management units in functional and organizational terms. Market Price Risk Control monitors, limits and reports on market price risks and is responsible for measurement methodology.

The Regulatory Reporting/Financial Reporting Systems unit prepares the external reports on market price risk in accordance with the SolvV. Bremer Landesbank applies the standardized approach prescribed by the supervisory authorities.

Reporting

In accordance with the MaRisk, Market Price Risk Control reports to the Management Board on Bremer Landesbank's market price risks on a daily basis. The report on credit spread risks in the banking book is included in the daily market price risk report. In addition to the value-at-risk (VaR) analyses, the daily report also includes the impact of the worst case scenario (Financial Markets scenario).

A report on the credit investment portfolio is prepared once a fortnight, containing information about spread risks and about the market and model values of the credit derivatives and securities in this portfolio. Credit spread risks and profits are also stated in the daily market price risk report. The Management Board receives information about market price risks and the results of backtesting and stress testing in the monthly risk-bearing capacity report. The General Working and Credit Committee is reported to five times a year.

In accordance with the SolvV, the Regulatory Reporting/Financial Reporting Systems unit reports market price risks based on the month-end figures to NORD/LB once a month. External reports to the Bundesbank are sent once a quarter.

Analysis

Bremer Landesbank uses the variance-covariance approach for the risk-specific internal management and monitoring of market price risk, applying a one-tailed confidence level of 95% and a holding period of one day. Value-at-risk is calculated using a normal distribution function with a variance-covariance matrix whose parameters are determined by the risk factors (interest rates/spreads, exchange rates, stock prices/indices and valuation volatilities) of the last 12 months. Correlations between the sub-portfolios and the various risk categories are taken into consideration in the value-at-risk approach.

Historical changes in market parameters and the normal distribution assumption used in the value-at-risk model reflect a normal market scenario. In order to cover extraordinary market movements, special stress tests are carried out to gauge the sensitivity of the portfolio in relation to large market changes. Group-wide stress parameters are defined for each risk.

A market price risk project is underway to develop an alternative market price risk system and implement the historical simulation approach for daily market price risk management. For the purposes of the risk-bearing capacity report, Market Price Risk Control already calculates the value-at-risk on the basis of historical simulation. Historical simulation involves applying historical changes in the risk factors to the current exposure and calculating the potential profit or loss. The value-at-risk can then be taken from the list of profits and losses. For example, in a list of 100 results and a confidence level of 99%, the value-at-risk is the second highest loss.

Limits derived from the loss limits specified by the Management Board for each trading desk are stipulated for value-at-risk. Any trading desk losses are immediately deducted from the loss limits, thereby reducing value-at-risk limits in accordance with the principle of self-absorption. The limits specified are broken down into structure limits for the various risk categories for Financial Markets and for strategic positions.

Banking book credit spread risks are currently not managed using a value-at-risk method; they are calculated in a scenario analysis and limited separately. Due to the market distortions triggered by the financial market crisis and the resulting squeeze on market liquidity for securities trading, modeling banking book positions using a value-at-risk approach inevitably leads to extremely volatile risk values. Management of the portfolio, which is geared to a buy-and-hold strategy, is therefore more stable when based on scenario analyses.

Daily value-at-risk calculations are verified by Market Price Risk Control with the help of backtesting analyses which compare the daily fluctuations in trading desk results with the previous day's value-at-risk forecasts. Forecast models and parameters used for quantifying market price risk are regularly reviewed and adapted to current market developments if necessary.

Development in 2011

The following table shows the Bank's market price risk in the fiscal year and the prior year (credit spread risks in the banking book are not included in this overview):

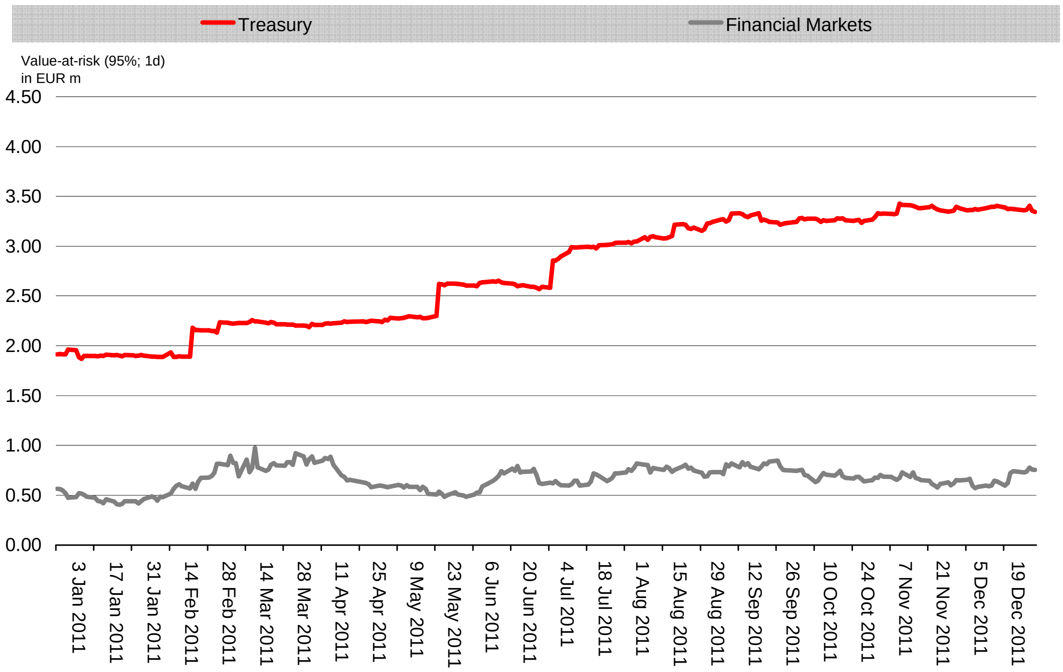
Market price risks – overview:

(in EUR m)	Maximum		Average		Minimum		Year-end	
	2011	2010	2011	2010	2011	2010	2011	2010
Interest rate risk (VaR)	4.6	3.0	3.7	1.8	2.5	0.7	4.6	2.7
Currency risk (VaR)	0.3	0.2	0.1	0.1	0.0	0.0	0.1	0.2
Equity price and fund price risk (VaR)	0.3	0.2	0.2	0.1	0.1	0.1	0.3	0.1
Total risk (VaR)	**4.1**	**2.7**	**3.1**	**1.6**	**1.9**	**0.6**	**4.0**	**2.4**

The average utilization of the market price risk limit for the overall Bank was 43% (maximum 56% and minimum 25%). As of 31 December 2011, the value-at-risk (confidence level of 95% and a holding period of one day) at the Bank amounted to EUR 4.0m. In the 2011 reporting period, average utilization of the risk limit in Financial Markets was 19%; in Treasury it was 51%.

The development of value-at-risk at the Bank in 2011 is shown in the following chart. Again, this chart does not include banking book credit spread risks.

Market price risk value-at-risk

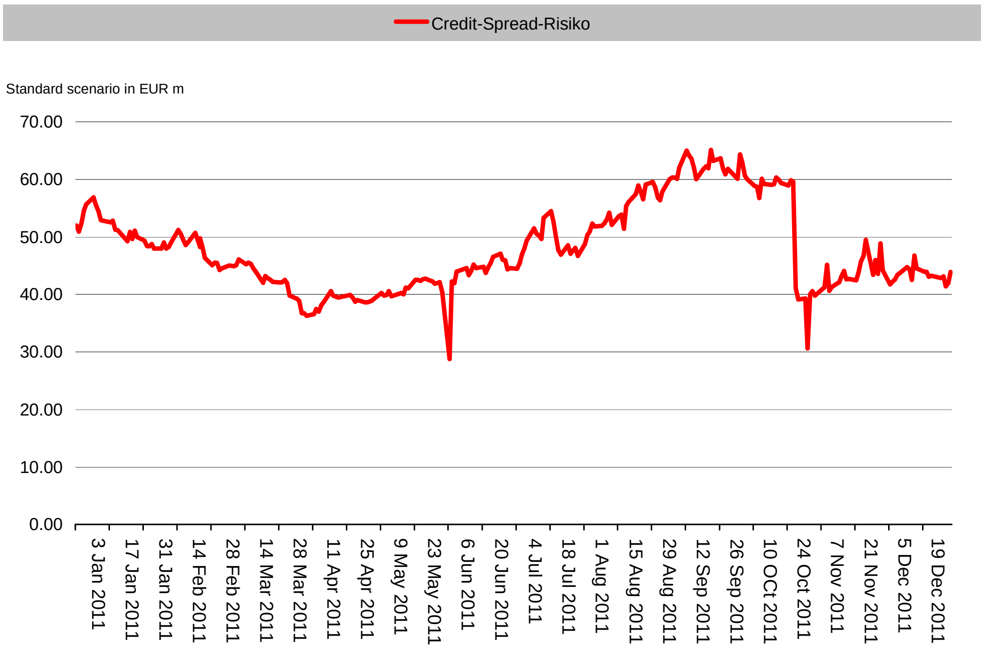


In fiscal year 2011, the stress tests performed for the Bank as a whole showed a maximum risk of EUR 47m and an average of EUR 37m, with a minimum of EUR 28m. As of 31 December 2011, the stress tested value for the Bank as a whole was EUR 45m.

The market price risk relating to the change in credit spreads in the credit investment portfolio was, in accordance with the scenario approach, EUR 44m on 30 December 2011. The risk here was lower than in the prior year (EUR 51m). The maximum risk in 2011 was EUR 65m (EUR 53m in 2010). In October of the fiscal year, Bremer Landesbank changed the valuation algorithm for credit default swaps and now applies default risk-induced discounting of future premium cash flows. The method used previously yielded excessively high results when spreads widened considerably, as they did in the wake of the debt crisis, especially in the third quarter of 2011. This explains why the chart “Development of the credit spread risk in the banking book in 2011” displays an exaggerated risk potential in the third quarter. The new method reduces these effects and produces values that are closer to the market.

A separate risk limit used in the management process is in place for this position. In fortnightly meetings, the Credit Investment Board and the Management Board continued to scrutinize market and risk developments; the entire portfolio was closely and regularly examined and selected positions were reduced in 2011.

Development of the credit spread risk in the banking book in 2011



The Bank calculates the interest rate shock required by Basel II on a monthly basis. In accordance with the requirements of a circular issued by BaFin [“Bundesanstalt für Finanzdienstleistungsaufsicht”: Federal Financial Supervisory Authority], the interest rate shock entails a parallel shift of the yield curve. BaFin reviews the parallel shift at least once a year and adjusts the amount of the interest rate shock in the event of significant deviations. For January to September 2011, the parallel shift in the yield curve was 130bp upward and 190bp downward. For October to December 2011, the parallel shift was 200bp upward and downward.

In fiscal year 2011, the average interest rate risk in relation to liable equity was 3.35%. The results show that the Bank is far from being classified as an “outlier bank”. Components of equity which are available to the Bank without any time restrictions are not used to calculate the present value of interest rate risk.

Bremer Landesbank uses the standardized approach to calculate the capital charge for market price risks in accordance with the SolvV. The Regulatory Reporting/Financial Reporting Systems unit reports the month-end figure to the Bundesbank once a month.

Outlook

In 2011, the Bank worked hard on its project to review and enhance the market price risk model. The core aim of the project is to review the variance-covariance approach. The use of the variance-covariance method is restricted by the normal distribution assumption. However, in reality, risk factors do not always follow a normal distribution. For a portfolio containing options which do not have a linear dependence on a certain underlying this approach results in disproportionately high or low changes in the option price and thus also in the risk. Key project milestones in the past year were the integration of a new risk engine in the existing system landscape, the examination of a change in the methodology for measuring value-at-risk and the methodological and technical enhancement of the MPRC approach. For the purposes of the risk-bearing capacity report, value-at-risk has been calculated in the new risk engine on the basis of historical simulation since the beginning of 2011. A switch to the risk metrics obtained from historical simulation is planned in 2012 for internal management purposes. In addition, exposures relevant to credit-spread risk will be fully integrated in the internal market price risk measurement using value-at-risk. Risks are currently measured using a scenario approach.

In order to continue to meet the requirements for risk management as prescribed by Sec. 27 (1) PfandBG [“Pfandbriefgesetz”: German Pfandbrief Act], the NORD/LB Group will enhance its Pfandbrief reporting in 2012.

Liquidity risk

Liquidity risks are risks which may arise from disruptions to the liquidity of individual market segments, unexpected events in lending, deposit or issue business or a deterioration in the Bank’s own refinancing conditions. Bremer Landesbank defines placement risk as part of liquidity risk. Placement risk is the risk that the Bank’s own issues cannot be placed on the market at the desired conditions.

Liquidity risk breaks down into traditional liquidity risk, refinancing risk and market liquidity risk.

Traditional liquidity risk is the risk that payment obligations cannot be met in due time. Such risks may arise due to a general disruption in the liquidity of the money markets affecting individual banks or the entire financial market. Market disruptions can also mean that collateral from significant asset classes can no longer be realized. Alternatively, unexpected events in the Bank’s own lending, deposit or issue business can lead to liquidity shortages. Bremer Landesbank’s focus is on the next 12 months.

Refinancing risk constitutes potential losses of earnings resulting from the worsening of the Bank’s own refinancing conditions on the money or capital markets. The most significant cause is a change in the estimation of the Bank’s credit rating by other market participants. The Bank’s focus is on the entire range of maturities.

Market liquidity risk describes potential losses to be borne if transactions need to be concluded at conditions which are not in line with the fair market value due to a lack of liquidity in individual market segments. Market liquidity risks result primarily from securities positions in the trading and banking books.

Strategy and management

Ensuring liquidity at all times is an operational, strategic and regulatory requirement for the Bank. While traditional liquidity risk is principally avoided by maintaining sufficient liquid assets (especially central bank-eligible securities), refinancing risk stems from a structural transformation of liquidity maturities. Risks in both cases are contained using suitable limits. The factors of securing sufficient liquidity, risk-bearing capacity and utilization of the opportunity to contribute to earnings from the “liquidity spread” profit source typical of banking business are taken into account when measuring liquidity risk limits. Liquidity risk limits provide the Bank’s business segments with the operational framework essential for reaching targets.

The measurement, management and monitoring of liquidity risk are recorded in the risk manual. The LRC (liquidity risk control) manual is the framework for Bremer Landesbank’s liquidity risk management. It defines the objectives of risk management, the organizational, methodical and technical structure of liquidity risk control, as well as its integration in integrated bank management.

A global group liquidity policy has been drawn up in connection with group risk management which, consistent with Bremer Landesbank’s liquidity policy, lays down the framework for group-wide liquidity management. This notably involves the specification of goals and responsibilities for liquidity management in different scenarios. Both the liquidity policy and the global group liquidity policy are updated annually.

The liquidity contingency plan governs activities and management in crisis situations. The aim of this plan is to preserve the solvency of the Bank should an extreme, unforeseen market situation arise. Also as part of group-wide liquidity management, group-wide contingency management has been extended in line with the regulatory requirements. This relates in particular to the emergency processes, the legal allocation of responsibilities and ensuring group-wide liquidity.

Structures

Money Market and Foreign Exchange Trading, Asset/Liability Management and Market Price Risk Control are involved in the Bank’s liquidity risk management process.

Money Market and Foreign Exchange Trading and Asset/Liability Management are responsible for managing liquidity risk positions and for the profits and losses resulting from changes in the liquidity situation. The forward liquidity exposure is the basis of asset/liability management and is presented in the Treasury Committee. Refinancing risk is also reported to this committee; proposals for strategic treasury activities are also discussed if necessary.

Market Price Risk Control is responsible for the installation and development of internal procedures for measuring, limiting and monitoring liquidity risk. This group also calculates refinancing and traditional liquidity risks and monitors compliance with limits. The Regulatory Reporting/Financial Reporting Systems unit calculates and monitors the utilization of the liquidity ratio in accordance with the LiqV [“Liquiditätsverordnung”: German Liquidity Ordinance] and performs service and control functions.

The main tasks of the Liquidity Management Working Group are to optimize liquidity management and clarify related issues promptly, with an emphasis on the fast-acting management of new business and funding activities. The enhancements developed in the project are implemented in day-to-day management by the Working Group.

Reporting

Reporting on the liquidity risk situation takes the form of Market Price Risk Control's monthly liquidity status report, which is discussed by the Treasury Committee and the Liquidity Working Group.

The Management Board is also informed on a monthly basis of liquidity risks in the context of the Bank's risk-bearing capacity. In addition, the credit portfolio report informs the Management Board about the risks related to Pfandbrief operations.

Market Price Risk Control reports to the Management Board about the refinancing risk on a weekly basis. The management units Money Market and Foreign Exchange Trading and Asset/Liability Management receive once a week additional structural information about the forward liquidity exposures in all currencies as well as daily structural information about the stress and current case scenarios of traditional liquidity management.

Analysis

In additional to managing liquidity for the aggregate exposure in EUR, the Bank also defines its USD foreign exchange exposure as material and its exposures in CHF and JPY as significant. All other foreign currencies are immaterial for the Bank's liquidity management. Refinancing risks from maturity transformation in material and significant foreign currencies are included in the calculation of risk-bearing capacity. Material foreign currencies are also managed in terms of traditional liquidity risk.

The Bank employs the following instruments to manage traditional liquidity risk:

In accordance with the LiqV, the Bank is deemed to have sufficient liquidity if the cash and cash equivalents it has available within the next 30 days at least cover its anticipated liquidity outflows during this period. A comparison of cash and cash equivalents and payment obligations results in the liquidity ratio, which must be at least one. This requirement was met throughout fiscal year 2011. In addition to the monthly report to the Bundesbank, the liquidity ratio is calculated daily and used in money trading to support operational management. During the course of the year, the liquidity ratio in accordance with the LiqV far exceeded the minimum of 1.00 required by regulatory law; the liquidity ratio as of 31 December 2011 was 1.74.

The Bank performs liquidity stress tests (LSTs) on a daily basis to simulate the impact of unexpected events on the Bank's liquidity. This allows the Bank to plan ahead and prepare itself for emergencies with the aim of preventing liquidity bottlenecks. The Bank's forward liquidity exposures are observed in one dynamic and three static scenarios over a period of up to one year. Specific assumptions about the cash flows the Bank has at its disposal in the event of a crisis are simulated in the different scenarios. The liquid, freely available securities deposited with the central bank act as a safeguard in the contingency scenarios.

Cash flows from various products as well as new business and refinancing potential are simulated using current case scenarios (CC scenarios). The CC scenarios show the impact of expected events on the Bank’s liquidity and allow the Bank to plan ahead and to adjust new business in the light of current liquidity and a restricted refinancing market and to prevent a liquidity squeeze.

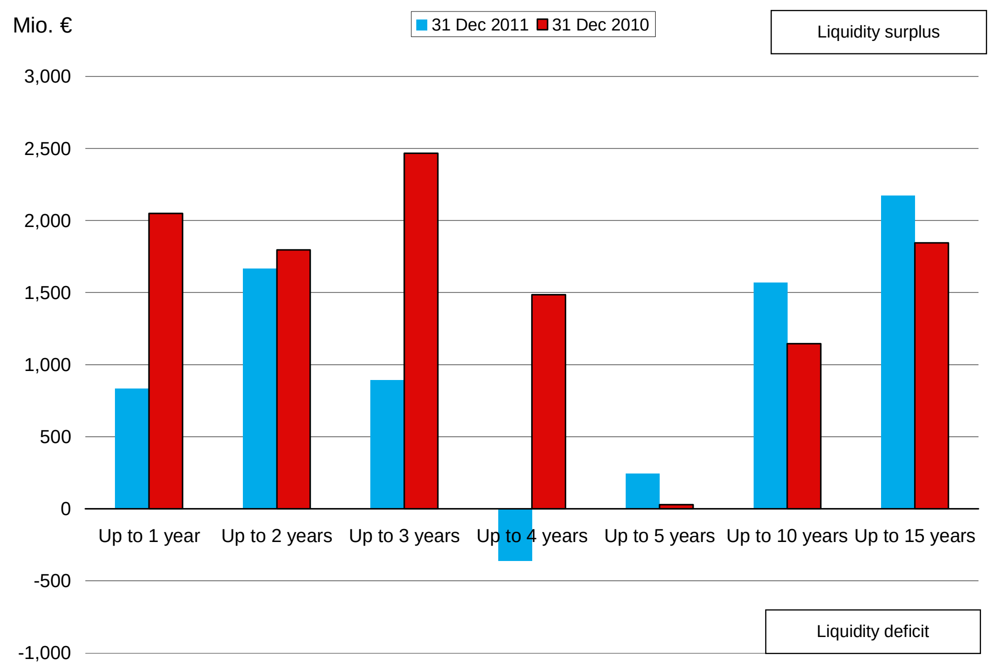
Bremer Landesbank has implemented a limit system to mitigate traditional liquidity risk. A traffic light system (number of days of liquidity surplus) triggers management measures if the simulated liquidity surplus is due to last for less than 180 days.

In 2011, there were no signals whatsoever pointing to a potential liquidity squeeze for the Bank in the either the current case scenarios or in the dynamic liquidity stress test. At the Bank, management signals from the static stress tests do not automatically trigger countermeasures, prompting instead a more in-depth analysis of the present liquidity situation and a factoring-in of the key drivers based on the current probability of the crisis stress scenario.

The Bank analyzes refinancing risk by determining the present value cost of closing a liquidity mismatch on the liabilities side over the course of all maturities in all terms and currencies assuming a defined increase in liquidity spreads (spread parameters). The refinancing risk expressed in terms of present value is limited by the allocated risk capital. In addition, to avoid concentrations in specific maturities, the liquidity mismatch per maturity band on the liabilities side (forward liquidity exposure) is restricted by volume structure limits.

The forward liquidity exposure used for internal management of refinancing risk is as follows as of the balance sheet date:

Accumulated forward liquidity exposure



Overall, the Bank's forward liquidity exposure as of 31 December 2011 shows that the liquidity situation remains comfortable. There are minimal liquidity mismatches in two time bands: up to one year and up to four years. Liquidity limits employed for management purposes were maintained at all times in the fiscal year.

Refinancing with Pfandbriefe is very significant for the Bank. Statutory requirements of the PfandBG ["Pfandbriefgesetz": German Covered Bond Act] are fully met for all the Bank's issues.

The PfandBG sets high standards for the quality of loans to be taken to cover Pfandbriefe. An external trustee has to verify that the provision of cover for loans and advances is formally compliant with the law. The Bank is also required to publish the key figures on the structure of the cover funds every three months.

Market liquidity risk is included in market price risk. The aim is to restrict the market liquidity risk by chiefly operating on liquid markets. To support this aim, the Bank enhanced its options for managing liquidity risk within the NORD/LB Group in the reporting period. The previous liquidity class concept was replaced by a significantly more differentiated security liquidity class concept, allowing specific haircuts to be modeled for managing the forward liquidity exposure, liquidity stress testing and collateral allocation management.

Development in 2011

The effects of the financial market crisis can still be observed on the money and capital markets. The Bank continued to have sufficient access to the money and capital markets through reasonably diversified investor groups and products, evident in the fact that it was able to refinance at comparatively good terms on these markets. Long-term refinancing on both a collateralized and unsecured basis is primarily provided by long-term issues and customer deposits. Close observation of the markets and active liquidity management ensured that the Bank had a sufficient supply of liquidity at all times in fiscal year 2011.

As a result of the financial crisis, the regulatory and legal requirements were tightened in fiscal year 2011. The Bank addressed these more exacting demands by expanding its liquidity management and control system as part of a project. The Bank is systematically enhancing its liquidity risk management methods and models in close consultation with the NORD/LB Group. Applying its newly developed security liquidity class concept, the Bank first satisfied the requirements for market-compliant presentation of the liquidity buffer in November 2011. As of 31 December 2011, the liquidity buffer requirement was covered by highly liquid assets at a rate of 351%.

Outlook

Bremer Landesbank constantly enhances its liquidity risk management system in the context of changing demands.

Its development work in 2012 will be geared to making early allowance for the new extensive and changing regulatory requirements relating to Basel III/CRD 4 in its liquidity management.

Another focus will be on including liquidity costs and liquidity risk costs in integrated bank management instruments at an even earlier stage of the preliminary and actual costing process.

Operational risk

Operational risk is defined as the risk of losses incurred as a result of inadequate or failed internal processes, employees and technology or as a result of external events. This definition includes legal and reputational risks as consequential risks. It does not include business and strategic risks.

Legal risk is the risk of loss caused by failure to comply fully or partly with the legal framework defined by laws and court rulings. Legal risk exists only in respect of the Bank's relationships with third parties.

Bremer Landesbank defines compliance risk, outsourcing risk, dilution risk and fraud risk as components of operational risk.

Compliance risk is the risk of penalties imposed by courts or authorities or disciplinary measures resulting from non-compliant procedures, processes, etc. (due to failure to comply with laws, regulations, rules of conduct and standards) within the Bank.

Outsourcing risk is the risk resulting from the outsourcing of activities and processes.

Dilution risk is the risk with regard to the existence and realizability of a purchased receivable that the obligor of the purchased receivable is not obliged to perform to the full extent.

Fraud risk is the risk of an avoidable pecuniary loss or damage to the Bank's reputation resulting from fraudulent acts against the Bank.

Strategy and management

The guidelines for handling operational risk are set out in the Bank's risk strategy. The Bank's operational risk strategy is to a large extent one of prevention, reflected, for example, in an internal control system, business continuity management (BCM) or the conclusion of insurance policies.

The Bank's business continuity management and its contingency and crisis management are set forth in detail in procedural instructions. These aspects are being developed further in an ongoing project, due to be completed in mid-2012.

Human Resources Management analyzes and manages bottleneck risk, exit risk, the risk of insufficient and inadequate staffing, adjustment risk and motivation risk in an integrated personnel risk management process. Targeted personnel development in line with requirements is the responsibility of the managers. Human Resources Management advises and supports the departments in their personnel development activities.

In the IT department, procedural instructions, alternative capacities and backups ensure that the IT infrastructure is adequately stable. Security and recovery plans supplement the safeguards in place to prevent loss or damage resulting from the failure or the manipulation of systems and information.

The Bank has adequate insurance coverage. Insurance coverage is regularly reviewed.

The Bank is required under Sec. 25a and Sec. 25c KWG to establish appropriate business and customer-related safeguards in order to prevent other criminal acts to the detriment of the Bank and its subsidiaries. The Management Board considers any attempt at fraudulent, dishonest and/or other criminal acts to be a serious and intolerable offense ("zero tolerance"). The Bank does everything in its powers to prevent other criminal acts or at least identify such acts as early as possible and to keep such risks to a minimum and carry out controls. Any instances of crime are dealt with in close cooperation with the criminal prosecution authorities. In addition to its established policies and procedures, the Bank has conducted a detailed risk analysis and developed and implemented a comprehensive fraud prevention organization. One element of this fraud prevention organization is the creation of a fraud management position that is being filled by the Bank's anti-money laundering officer. The anti-money laundering/fraud management function is a head office function and, as such, is part of the Compliance unit and reports directly to the member of the Management Board responsible for risk.

To protect the Bank against legal risks, the Legal unit is called in when legal action is taken and agreements are to be concluded which are not based on the approved standard form contracts.

The quality of external suppliers and service organizations is assured by signing service level agreements or detailed service specifications and through regular checks. A process to assess service providers in terms of risk significance has been installed to implement the requirements of the MaRisk relating to outsourcing. An office responsible for quality and risk management is appointed for each significant outsourced activity. An individual contingency plan is also drafted for each significant outsourced activity.

Structures

The Bank's Management Board, Integrated Bank and Credit Risk Control and all other units are involved in the process of managing operational risk. The Management Board stipulates the basic framework for addressing operational risk, based on the risk situation at overall bank level. Integrated Bank and Credit Risk Control is responsible for the central monitoring of operational risk and the independent reporting of any such risks. Responsibility for managing operational risk within the general framework specified is local and lies with the individual units.

Analysis

Defining and developing the methods, procedures and concepts employed as well as the continuous enhancement of these methods, procedures and concepts is the responsibility of Integrated Bank and Credit Risk Control. All enhancements are made in close consultation with the NORD/LB Group.

The Bank collects data on loss events resulting from operational risks and classifies these events by cause and effect. The loss data collected is entered in the DakOR data consortium initiated by the German Association of Public Sector Banks (VÖB).

The data on historical losses is supplemented with future components using the risk assessment carried out at the Bank on an annual basis. Expert estimates provide a detailed insight into the risk situation of the individual functional departments and allow any required steps to be taken. The first step in the risk assessment process is completion of a catalog of qualitative questions. In a second step, a scenario is calculated to quantify operational risk for areas with significant operational risk.

A method for collecting risk indicators was introduced in 2011. Indicators are chosen with a view to risk and reviewed regularly for relevance. These risk indicators are designed to help identify risks at an early stage so that countermeasures can be taken.

The results from the loss database, the collected risk indicators and risk assessment are analyzed and any necessary measures are initiated by the units concerned.

A uniform value-at-risk method and a group-wide allocation model are used to determine risks within the NORD/LB Group.

Reporting

Losses, risk indicators, and risk assessment results are presented in a monthly report.

Development in 2011

A method for collecting risk indicators was introduced in 2011 (see above). The indicators did not signal any increased risks in 2011.

The losses arising in 2011 are deemed insignificant overall from the perspective of the Bank as a whole. All reported losses (including credit risk cases) came to EUR 16.0m (gross) in 2011 (2010: EUR 4.6m).

Net losses as a percentage of total losses (excluding losses relating to lending)

Loss database	Percentage 31 Dec 2011	Percentage 31 Dec 2010
External events	2.5%	48.0%
Internal processes	5.3%	0.0%
Employees	92.2%	51.8%
Technology	0.0%	0.2%

Given the risk assessment results and entries in the loss database, the Bank does not consider it highly likely that operational risk could lead to losses that would jeopardize the Bank's ability to exist as a going concern.

The Bank still considers payment claims totaling approximately EUR 24.8m plus interest asserted by the insolvency administrators in connection with two insolvency proceedings to be unfounded. In one of these cases, the action was dismissed for all but a partial amount of approximately EUR 37k by the court of first instance; the insolvency administrator has appealed. The claims do not pose a threat to the existence of the Bank in any case.

The standardized approach continued to be used for operational risk capital charges in 2011.

Outlook

The Bank has met the regulatory requirements with the methods and procedures in place to manage operational risk. Work to improve the methods is currently being carried out in consultation with the NORD/LB Group.

Other risks

Other risks not included in credit, investment, market price, liquidity and operational risk are of secondary importance for the Bank.

Summary and outlook

The Bank adopts a conservative risk policy. It has taken measures to mitigate all significant risks. The loss potential is in reasonable proportion to the Bank's risk-bearing capacity. The risk management systems proved their effectiveness in the liquidity and credit crisis which took hold of the markets. The findings gleaned are being used to enhance the risk management systems used for all risk types.

Risks were covered at all times during the reporting period. Bremer Landesbank does not believe there to be any risks to its ability to continue as a going concern. The consequences of the financial and economic crisis remained noticeable for Bremer Landesbank in the fiscal year, with higher probabilities of default and an increase in non-performing loans having a negative effect.

As positions will mature and no new business will be transacted, the credit investment portfolio will be continually scaled back over the next few years, falling below the EUR 1b mark by the end of 2015. Appropriate measures will be taken if there are reasons to exit positions early due to changes in credit ratings. The exposure to the PIIGS states will decrease roughly in line with the overall exposure, thus gradually lessening the potential impact of a long-lived debt crisis in the PIIGS nations on the Bank's portfolio. Apart from Italy and Greece, the Bank has no direct sovereign exposure to the PIIGS countries, only exposures to financial institutions in these countries. The EU has recently imposed higher capital requirements for financial institutions. The Bank believes that the strengthening of banks' capital bases – either by using their own resources or by taking advantage of the EU's extensive support schemes – will significantly reduce the risk of a substantial impact on its credit investment portfolio, which is dominated by financial institutions.

In its risk management, the Bank is preparing for a continued crisis in merchant shipping during the next two years and is taking adequate measures, making appropriate risk provisions and actively managing its portfolio in order to work out non-performing loans that cannot realistically be recovered. Overall, the Bank expects that market values in the shipping markets will return to their average levels in the next two to three years and therefore aims to avoid sales of collateral wherever possible.

In 2011, the Bank complied with the current regulatory provisions governing equity and liquidity. The requirements from the third revision of the MaRisk have been implemented in consultation with the NORD/LB Group. The Bank has a comprehensive funding and collateral strategy which will ensure its liquidity in the years to come. Liquidity management models and regular controls of new funding and loan transactions can be used to respond to changes in the market environment.

In 2011, the rating agencies reviewed their ratings of banks all around the world, scrutinizing the probability that banks would be able to obtain third-party support in an emergency. In this context, Moody's revised its long-term rating for Bremer Landesbank from Aa2 to A2 (stable outlook). Fitch has confirmed its long-term A rating (stable outlook).

The Bank's aim is to continue to improve the management of the loan portfolio in terms of risks and returns, also enhancing the existing risk management system. This is being carried out in line with the Bank's strategic alignment as a regional bank with international specialty operations.

Disclaimer – forward-looking statements

This report contains forward-looking statements concerning the development of business and earnings at Bremer Landesbank which are based on current plans, estimations, forecasts and expectations. These statements entail risks and uncertainties since there are numerous factors which influence Bremer Landesbank's business, many of which are beyond its control. These notably include economic developments, the state of financial markets worldwide and potential loan losses. Actual results and developments may therefore differ considerably from the assumptions made in the report. They are thus only valid at the time of publication. Bremer Landesbank assumes no obligation to update forward-looking statements in the light of more recent information or unexpected events.

2. Consolidated income statement

Income statement

	Note	1 Jan 2011 – 31 Dec 2011 (in EUR m)	1 Jan 2010 – 31 Dec 2010 (in EUR m)	Change (in %)
Interest income		2,263	2,140	6
Interest expenses		1,887	1,826	3
Net interest income	18	376	314	20
Risk provisions in the lending business	19	–112	–59	90
Net interest income after risk provisions		**264**	**255**	**4**
Commission income		51	57	–11
Commission expenses		25	29	–14
Net commission income	20	**26**	**28**	**–7**
Trading profit/loss		13	–93	–
Profit/loss from designated financial instruments		0	0	–
Profit/loss from financial instruments at fair value through profit or loss	21	**13**	**–93**	**–**
Profit/loss from hedge accounting	22	12	4	>100
Profit/loss from financial assets	23	–2	8	–
Profit/loss from investments accounted for using the equity method	24	10	6	67
Administrative expenses	25	159	162	–2
Other operating profit/loss	26	1	17	–94
Earnings before taxes		**165**	**63**	**>100**
Income taxes	27	34	14	>100
Consolidated profit		**131**	**49**	**>100**
thereof: attributable to shareholders of the parent company		131	49	>100
thereof: attributable to non-controlling interests		–	–	–

The prior-year figures have been restated for some items; see Note (2).

3. Statement of comprehensive income

Bremer Landesbank's total comprehensive income for the period comprises other comprehensive income and the income reported in the income statement.

	Note	1 Jan 2011 – 31 Dec 2011 (in EUR m)	1 Jan 2010 – 31 Dec 2010 (in EUR m)	Change (in %)
Consolidated profit in the income statement		**131**	**49**	**>100**
Change from AFS financial instruments				
Unrealized gains/losses		–37	16	–
Reclassifications due to realized gains/losses		–20	–7	>100
Changes in value of investments accounted for using the equity method recognized directly in equity		0	0	–
Actuarial gains/losses on defined benefit obligation		1	–7	–
Deferred taxes	27	12	3	>100
Other comprehensive income		**–44**	**5**	**–**
Total comprehensive income for the period		**87**	**54**	**61**
thereof: attributable to shareholders of the parent company		87	54	61
thereof: attributable to non-controlling interests		–	–	–

The prior-year figures have been restated for some items; see Note (2).

4. Consolidated balance sheet

Assets

	Note	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Cash reserve	28	214	74	>100
Loans and advances to banks	29	4,851	5,513	–12
Loans and advances to customers	30	22,685	22,060	3
Risk provisions	31	–378	–306	24
Financial assets at fair value through profit or loss	32	1,349	1,087	24
Positive fair values from hedge accounting derivatives	33	531	338	57
Financial assets	34	5,234	5,688	–8
Investments accounted for using the equity method	35	84	77	9
Property and equipment	36	38	36	6
Investment property	37	68	70	–3
Intangible assets	38	11	2	>100
Current income tax assets	39	6	7	–14
Deferred income taxes	39	142	117	21
Other assets	40	27	38	–29
Total assets		**34,862**	**34,801**	**0**

Liabilities and equity

	Note	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Liabilities to banks	41	11,009	11,600	–5
Liabilities to customers	42	10,604	10,155	4
Securitized liabilities	43	8,692	8,939	–3
Adjustment item for financial instruments included in the portfolio fair value hedge	44	142	22	>100
Financial liabilities at fair value through profit or loss	45	1,686	1,449	16
Negative fair values from hedge accounting derivatives	46	124	106	17
Provisions	47	319	320	0
Current income tax liabilities	48	32	33	–3
Deferred income taxes	48	2	1	100
Other liabilities	49	34	24	42
Subordinated capital	50	1,170	1,163	1
Equity		1,048	989	6
Subscribed capital		140	140	–
Capital reserves		40	40	–
Retained earnings		866	763	13
Revaluation reserve		2	46	–96
Equity attributable to BLB shareholders		1,048	989	6
Non-controlling interests		–	–	–
Total liabilities and equity		**34,862**	**34,801**	**0**

The prior-year figures have been restated for some items; see Note (2).

5. Statement of changes in equity

Changes in equity:

(in EUR m)	Notes	Sub-scribed capital	Capital reserves	Retained earnings	Re-valuation reserve	Equity before minority interests	Minority interests	Consoli-dated equity
Equity as of 1 Jan 2011		**140**	**40**	**763**	**46**	**989**	**0**	**989**
Change in the fair value of AFS financial instruments		–	–	–	–57	**–57**	–	**–57**
Profit/loss from investments accounted for using the equity method	24	–	–	0	–	**0**	–	**0**
Change in actuarial gains/losses		–	–	1	–	**1**	–	**1**
Deferred taxes on changes in value recognized directly in equity	27	–	–	–1	13	**12**	–	**12**
Other comprehensive income		0	0	0	–44	**–44**	**0**	**–44**
Consolidated profit		–	–	131	–	**131**	–	**131**
Total comprehensive income for the period		0	0	131	–44	**87**	**0**	**87**
Distributions		–	–	–28	–	**–28**	–	**–28**
Change in the basis of consolidation		–	–	–	–	**–**	–	**–**
Equity as of 31 Dec 2011		**140**	**40**	**866**	**2**	**1,048**	**0**	**1,048**
Equity as of 1 Jan 2010		140	40	747	36	**963**	**0**	**963**
Change in the fair value of AFS financial instruments		–	–	–	9	**9**	–	**9**
Profit/loss from investments accounted for using the equity method	24	–	–	0	–	**0**	–	**0**
Change in actuarial gains/losses		–	–	–7	–	**–7**	–	**–7**
Deferred taxes on changes in value recognized directly in equity	27	–	–	2	1	**3**	–	**3**
Other comprehensive income		0	0	–5	10	**5**	**0**	**5**
Consolidated profit		–	–	49	–	**49**	–	**49**
Total comprehensive income for the period		0	0	44	10	**54**	**0**	**54**
Distributions		–	–	–28	–	**–28**	–	**–28**
Change in the basis of consolidation		–	–	–	–	–	–	–
Equity as of 31 Dec 2010		**140**	**40**	**763**	**46**	**989**	**0**	**989**

The prior-year figures have been restated for some items; see Note (2). Please see page 135 for explanatory notes on the statement of changes in equity.

6. Cash flow statement

(in EUR m)	2011	2010
Consolidated profit	**131**	**49**
Adjustment for non-cash items		
Amortization, depreciation, impairment and write-ups of property and equipment, intangible assets and financial assets	–1	0
Change in provisions	22	30
Gains/losses from the disposal of financial assets, property and equipment and intangible assets	–19	–8
Change in other non-cash items	227	–47
Other adjustments (net)	–473	–351
Subtotal	**–113**	**–327**
Change in assets and liabilities from operating activities after adjustment for non-cash items		
Loans and advances to banks and customers	44	–1,790
Trading book positions and hedge accounting derivatives	–14	378
Other assets from operating activities	–169	–11
Liabilities to banks and customers	–209	983
Securitized liabilities	–274	–318
Other liabilities from operating activities	–18	–2
Interest and dividends received	2,255	2,146
Interest paid	–1,833	–1,765
Income tax paid	–47	–32
Cash flow from operating activities	**–378**	**–738**
Cash receipts from the disposal of		
Financial assets	974	758
Property and equipment and intangible assets	0	0
Cash payments for the acquisition of		
Financial assets	–363	0
Property and equipment and intangible assets	–16	–21
Cash receipts from the disposal of consolidated companies and other business units	0	7
Cash flow from investing activities	**595**	**744**
Cash payments to shareholders and non-controlling interests (dividends and other payments)	–28	–28
Interest paid for subordinated capital	–49	–49
Cash flow from financing activities	**–77**	**–77**
Cash and cash equivalents at the end of the prior year	**74**	**145**
Cash flow from operating activities	–378	–738
Cash flow from investing activities	595	744
Cash flow from financing activities	–77	–77
Cash and cash equivalents at the end of the period	**214**	**74**

The prior-year figures have been restated for some items; see Note (2).

7. Notes to the consolidated financial statements

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen, Oldenburg (Bremer Landesbank) (Domshof 26, 28195 Bremen) has its registered office in Bremen (local court of Bremen; HRA no. 22159), Germany, and has branches in Bremen and Oldenburg. Norddeutsche Landesbank Girozentrale, Hanover, holds 92.5% of the share capital and the Free Hanseatic City of Bremen 7.5%. NORD/LB is the direct and ultimate parent company of Bremer Landesbank.

Accounting policies

(1) Basis of preparation of the consolidated financial statements

The consolidated financial statements of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen, Oldenburg (Bremer Landesbank) as of 31 December 2011 were prepared on the basis of Regulation (EC) No. 1606/2002 of the European Parliament and the Council of 19 July 2002 (IAS Regulation) in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and endorsed by the EU. The standards published and adopted by the European Union as of the date of preparing the financial statements were applied. The national provisions of the HGB ["Handelsgesetzbuch": German Commercial Code] were also observed in accordance with Sec. 315a HGB.

The consolidated financial statements as of 31 December 2011 comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the notes. The segment report is contained in the notes (Note (17)). Risk reporting in accordance with IFRS 7 is chiefly contained in a separate report on the opportunities and risks relating to future development as part of the group management report.

Assets are generally measured at depreciated/amortized cost, except for those financial instruments which are measured at fair value in accordance with IAS 39. Recognition and measurement were performed on a going concern basis. Income and expenses are cut off pro rata temporis. They are recognized and reported in the period to which they are attributable. Significant accounting policies are described below.

Estimates and judgments by management required under IFRS accounting are made in accordance with the respective standard, are continuously reviewed and are based on experience and other factors, including expectations as to future events which appear reasonable under prevailing circumstances. Estimates and judgments are made with regard to the following matters, in particular: determining the fair values of Level 2 and Level 3 financial assets and liabilities, including assessing the existence of an active or inactive market, measurement of pension provisions in terms of determining the underlying parameters, gauging risk provisions in relation to future cash flows, determining deferred tax assets with regard to the recoverability of unused tax losses.

Where estimates were required on a larger scale, the assumptions made are presented.
The estimates and judgments themselves and the underlying judgment factors and estimation methods are reviewed regularly and compared with actual events. Provided that a change refers

to a single period only, changes in estimates are only taken into account for this period; if a change refers to the current and the following reporting periods, it is considered in this and in the following periods.

The reporting currency for the consolidated financial statements is the euro. Amounts are all stated rounded in millions of euros (EUR m), unless otherwise indicated.

These consolidated financial statements were signed by the Management Board and released for distribution to the Supervisory Board on 28 March 2012.

(2) Restatement of prior-year figures

The interest relating to two time deposits in liabilities to customers was overstated by EUR 3m in the consolidated financial statements as of 31 December 2010; the net interest income was therefore understated by the same amount.

Furthermore, loan processing fees for new loans and loan restructuring of EUR 13m were reported under net commission income rather than under interest income.

The following table shows the adjustments made to the prior-year figures including the tax effects:

(in EUR m)		31 Dec 2010	
	Before adjustment	Adjustment	After adjustment
Liabilities to customers	10,158	–3	10,155
Current income tax liabilities	32	1	33
Equity	987	2	989
Retained earnings	761	2	763
Interest income	2,127	13	2,140
Interest expenses	1,829	–3	1,826
Commission income	70	–13	57
Earnings before taxes	**60**	**3**	**63**
Income taxes	13	1	14
Consolidated profit	**47**	**2**	**49**

The respective adjustments were also taken into account in the following items explained in Notes (17), (18), (20), (27), (42), (48), (51), (55) and (63).

The opening balance sheet values for assets, liabilities and equity for fiscal year 2010 do not have to be restated as these adjustments have no effect on periods before 2010.

Figures were not presented in three columns in the consolidated balance sheet as required by IAS 1 (revised) as there were no significant effects on the reference period.

(3) Applied IFRSs

All IFRSs, interpretations and amendments which were endorsed by the EU and are relevant for the BLB Group in fiscal year 2011 were applied.

The following amendments to standards, effective from 1 January, were applied in the reporting period:

In November 2009, the IASB published a revised version of IAS 24 Related Party Disclosures which clarifies the definition of related parties and introduces an exemption for government-related entities.

Following the first-time application of IAS 24 (Revised 2009) the related parties of Bremer Landesbank include the subsidiaries and joint ventures of the State of Lower Saxony and the Lower Saxony Association of Savings Banks as well as the subsidiaries of joint ventures and associates of the BLB Group. This has increased the volume of the transactions disclosed in the notes. The prior-year disclosures have been restated accordingly (cf. Note (78) Related party relationships). The BLB Group does not apply the exemption in the revised standard relating to disclosures for government-related entities.

In May 2010, the IASB published amendments to existing IFRSs as part of its Annual Improvements Project. These encompass both changes to various IFRSs with effects on the recognition, measurement and disclosure of transactions as well as editorial and terminology corrections. Most amendments become effective for fiscal years beginning on or after 1 January 2011.

The relevant Improvements to IFRSs (2010) concern the update of IFRS 7.36(b) and the deletion of IFRS 7.36(d). The updated IFRS 7.36(b) requires a quantitative disclosure in addition to the previous description of the collateral held as security. At the same time, the deletion of IFRS 7.36(d) does away with the requirement to disclose loans whose terms have been renegotiated. The amendments to the accounting standards and the new interpretations do not have any significant effect.

The changes due to the Annual Improvements Project do not have any significant effects on recognition, measurement and presentation in the consolidated financial statements of Bremer Landesbank.

We did not apply the following standards and amendments which do not have to be implemented by the Bremer Landesbank Group until after 31 December 2011:

- **IAS 19 (Revised 2011) Employee Benefits**

  The revised IAS 19 was published in June 2011 and is effective for fiscal years beginning on or after 1 January 2013. The new rules affect the recognition and measurement of the cost of defined benefit plans and termination benefits.

  IAS 19 (Revised 2011) includes the following changes:

  Pension obligations and plan assets will have to be recognized in full in the balance sheet in the future, i.e., actuarial gains and losses have to be recognized immediately in other comprehensive income. The previous option to apply the corridor method – whereby actuarial gains and losses are only recognized on the balance sheet or income statement if certain limits are exceeded – is being abolished.

  The Bremer Landesbank Group chose not to apply the corridor method in the past, recognizing instead actuarial gains and losses immediately and in full in retained earnings.

  The revised IAS 19 also requires past service cost to be recognized sooner. Interest cost and expected return on plan assets (net) must be determined using the same interest rate used to measure the pension obligations.

The revised IAS 19 also contains enhanced disclosure requirements.

The effects arising from the application of the revised IAS 19 have yet to be analyzed in detail.

- **IFRS 9 Financial Instruments**

  A revised version of IFRS 9 was published in October 2010 as part of the project to replace IAS 39. The first of the three phases includes rules for the classification and measurement of financial assets and liabilities. There are now only two options for classifying financial assets under IFRS 9; measurement at amortized cost or measurement at fair value. In the future, classification will be based on the business model of the reporting entity and the contractually agreed cash flows from the asset. Moreover, the rules for embedded derivatives and reclassification have been modified. The rules for financial liabilities are largely unchanged compared with IAS 39. Only when the fair value option is used do changes in the fair value of financial liabilities attributable to credit risk have to be recognized in other comprehensive income. The IASB is expected to publish rules on the other phases (addressing impairment and hedge accounting) in the first half of 2012. Provided that it is endorsed by the EU, as it currently stands IFRS 9 will be effective for fiscal years beginning on or after 1 January 2015.

  The transitional requirements of IFRS 9 have been amended by Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date and Transition Disclosures. These amendments postpone the date of first-time adoption from fiscal years beginning on or after 1 January 2013 to fiscal years beginning on or after 1 January 2015. Early adoption is permitted. The amendments are effective retrospectively. The obligation to present restated prior-year figures has also been eliminated.

  IFRS 9 is expected to have a significant impact on recognition, measurement and presentation in future consolidated financial statements. The potential effects for the Bremer Landesbank Group can only be quantified when the final rules for all phases of IFRS 9 have been approved by the IASB.

- **IFRS 10 Consolidated Financial Statements**

  IFRS 10, published in May 2011, changes the definition of “control” and creates a single set of rules for determining control applicable to both subsidiaries and structured entities (special purpose entities) as a basis for assessing the requirement to consolidate. The standard replaces the relevant rules in IAS 27 and SIC-12 and is effective for fiscal years beginning on or after 1 January 2013.

  All of the Bremer Landesbank Group’s entities which must potentially be consolidated – especially special purpose entities – are currently being analyzed with respect to the new definition of control in IFRS 10. It will not be possible to tell whether there will be any changes in the basis of consolidation until these analyses have been completed.

- **IFRS 11 Joint Arrangements**

  IFRS 11, published in May 2011 and effective from 1 January 2013, replaces IAS 31 Interests in Joint Ventures and addresses the accounting for cases in which an entity has joint control over a joint venture or conducts a joint operation. There are two major changes compared with the previous standard. The option to account for joint ventures using proportionate consolidation has been removed, i.e., joint ventures must now be accounted for using the equity method as in IAS 28. A new category “joint operation” has been introduced. Groups now have to account for the assets and liabilities of such joint operations attributable to them.

The first-time adoption of IFRS 11 is unlikely to lead to any restatements in the Bremer Landesbank consolidated financial statements.

- **IFRS 12 Disclosure of Interests in Other Entities**

  The new IFRS 12 combines the disclosure requirements relating to subsidiaries, joint ventures, associates and unconsolidated structured entities. The aim is to supply information about the nature of the reporting entity’s ability to influence another entity and the associated risks and the effects on financial position, financial performance and cash flows. IFRS 12 is effective for fiscal years beginning on or after 1 January 2013.

  IFRS 12 will probably lead to enhanced disclosure requirements for the Bremer Landesbank consolidated financial statements.

- **IFRS 13 Fair Value Measurement**

  In May 2011, the IASB published IFRS 13 Fair Value Measurement which is effective for fiscal years beginning on or after 1 January 2013; the disclosure of restated comparative figures is not required. IFRS 13 provides more guidance on the definition of fair value and determining levels, accounting for a day one profit/loss and using a bid-ask spread for measuring assets and liabilities.

  The effects of IFRS 13 on recognition, measurements and disclosures in the notes for the Bremer Landesbank Group are currently being evaluated.

- **Amendments to IAS 1 Presentation of Items of Other Comprehensive Income**

  Amendments to IAS 1, published by the IASB in June 2011 as part of its financial statements presentation project, require the items of other comprehensive income to be grouped on the basis of whether they are potentially reclassifiable to profit or loss. If other comprehensive income items are presented before tax, the tax related to both groups must also be shown separately as items that might be reclassified and those that cannot be reclassified. The mandatory date of first-time adoption for Bremer Landesbank is 1 January 2013.

  The amendments to IAS 1 will lead to a change in the presentation of the Bremer Landesbank Group’s statement of comprehensive income.

- **Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities**

  In December 2011, the IASB clarified its requirements for offsetting financial instruments when it published Amendments to IAS 32 Financial Instruments: Presentation. The amendments, which are designed to eliminate inconsistencies in the application of offsetting criteria, explain the significance of the “currently enforceable legal right of set-off” and on which conditions a gross settlement system is deemed equivalent to net settlement for the purposes of the standard. These amendments are retrospectively effective for fiscal years beginning on or after 1 January 2014.

- **Amendments to IFRS 7 Disclosures – Transfers of Financial Assets**

  Following a comprehensive review of off-balance sheet transactions, the IASB issued Amendments to IFRS 7 Financial Instruments: Disclosures in October 2010. These amendments are designed to provide a better insight into transactions to transfer assets and evaluate the potential effects of the risks remaining with the transferring entity.

  The amendments give rise to enhanced disclosure requirements which are effective for the Bremer Landesbank Group from 1 January 2012. Comparative information does not need to be presented in the first year of application.

- **Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities**

  In connection with the publication of Amendments to IAS 32 Financial Instruments: Presentation, the disclosure requirements of IFRS 7 relating to offsetting were also amended in December 2011 in order to allow users of financial statements to evaluate the effects of set-off agreements, including rights to offset recognized financial assets and financial liabilities, on an entity's financial position. The amendments are applicable with retroactive effect for interim periods and fiscal years beginning on or after 1 January 2013.

  The effects of the amendments to IAS 32 and IFRS 7 regarding the offsetting of financial instruments on the Bremer Landesbank Group are currently being assessed.

  In addition, the following amendments or revised standards were not applied early:

  - Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets
  - IAS 27 (Revised 2011) Separate Financial Statements
  - IAS 28 (Revised 2011) Investments in Associates and Joint Ventures

These amendments are mandatory for the Group for fiscal years beginning on or after 1 January 2012 (Amendments to IAS 12) or 1 January 2013.

The amendments to IAS 12, IAS 27 and IAS 28 are not expected to have any significant effect on Bremer Landesbank's consolidated financial statements.

All of the above standards and amendments (except for Amendments to IFRS 7 Disclosures – Transfers of Financial Assets, which was endorsed on 22 November 2011) have yet to be endorsed by the EU.

(4) Consolidation principles

Bremer Landesbank's consolidated financial statements, prepared in accordance with uniform group accounting policies, comprise the financial statements of the parent company and of the companies controlled by the parent company, including special purpose entities (subsidiaries). Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The acquisition method is applied for acquisition accounting. All assets and liabilities of subsidiaries are recognized at fair value, taking deferred taxes into account, on the date on which control is acquired. Shares in the equity of subsidiaries which are not attributable to the parent company are reported as non-controlling interests under consolidated equity.

Intercompany receivables and liabilities, expenses and income are eliminated. Intercompany profits and losses are also eliminated during consolidation.

The profits/losses of subsidiaries acquired or disposed of during the course of the year are included in the income statement from the date of acquisition or until the date of disposal.

Associates are valued using the equity method and are reported as investments accounted for using the equity method. The cost of these investments accounted for using the equity method and the differences are determined on the date on which a significant influence is acquired. The rules applied are the same as those applied for subsidiaries. Adjustments to the carrying amount of such investments are recognized in profit or loss or under equity on the basis of uniform group accounting policies. Losses in excess of the carrying amount are not recognized, unless the Group has entered into legal or constructive obligations or makes payments on behalf of the investments accounted for using the equity method.

If a group company transacts business with an associate, profits and losses are eliminated in proportion to the Group’s share in the respective entity.

An entity is deconsolidated on the date on which control or significant influence ceases to exist.

(5) Basis of consolidation

In addition to Bremer Landesbank as the parent company, the following subsidiaries in which Bremer Landesbank directly or indirectly holds more than 50% of the voting rights or may otherwise control are consolidated:

- BLB Immobilien GmbH, Bremen
- BLB Leasing GmbH, Oldenburg
- Bremische Grundstücks-GmbH, Bremen
- Nordwest Vermögen Bremische Grundstücks-GmbH & Co. KG, Bremen
- Nordwest Vermögen Vermietungs-GmbH & Co. KG, Bremen

NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen, continues to operate but has transferred part of its operations to NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen, founded on 30 September 2011. Bremer Landesbank holds a 10% direct interest and a 90% indirect interest (via BLB Immobilien GmbH, Bremen) in NORDWEST Vermietungs-GmbH & Co. KG.

The following associates are accounted for using the equity method:

- Deutsche Factoring Bank Deutsche Factoring GmbH & Co. KG, Bremen
- BREBAU GmbH, Bremen
- Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede

- GSG Oldenburg Bau- und Wohngesellschaft mbH, Oldenburg
- Lazard-Sparkassen Rendite-Plus-Fonds

The associate Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede, was accounted for using the equity method with a different balance sheet date (31 December 2010) as the entity does not prepare its financial statements until after the reporting company.

Subsidiaries, investment funds, joint ventures and associates as well as equity investments are shown in the list of shareholdings (Note (81)).

(6) Currency translation

Monetary assets and liabilities in foreign currencies and non-monetary items measured at fair value were translated using the ECB reference rates as of 31 December 2011. Non-monetary items measured at cost are recognized using historical rates. Expenses and income in foreign currencies are translated using market exchange rates. Currency differences relating to monetary items are reflected in the income statement; such differences relating to non-monetary items are recognized either through profit or loss or under equity depending on how changes in such items are reported.

There are no consolidated foreign subsidiaries whose functional currency is not the euro.

(7) Financial instruments

A financial instrument is a contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments at Bremer Landesbank are reported accordingly in the balance sheet. In accordance with IAS 39 they are allocated to the holding categories and measured depending on their classification.

Financial instruments include financial guarantees as defined in IAS 39.

Classification in accordance with IFRS 7.6 is in line with the IAS 39 holding categories which largely correspond to individual balance sheet items. The cash reserve, hedge accounting derivatives, financial guarantees and irrevocable loan commitments each form additional classes. Silent participations, which are classified as liabilities under IAS 32, are also included. The explanations of the composition of these items allow the classes to be reconciled with the balance sheet items.

Addition and disposal of financial instruments

A financial asset or a financial liability is recognized in the balance sheet when the Group becomes a party to a contract in accordance with the contractual provisions of the financial instrument. In regular way purchases or sales of financial assets, the trade date and the settlement date usually differ. Such regular way purchases or sales can be accounted for using either trade date accounting or settlement date accounting. Trade date accounting is used for the recognition and disposal of all financial assets within the Group.

The derecognition rules of IAS 39 are based on both the concept of risks and rewards and the concept of control. However, the evaluation of the risks and rewards of ownership precedes the evaluation of the transfer of control for all derecognition transactions.

The continuing involvement approach is employed when risks and rewards are only partly transferred and control is retained. In this case, a financial asset is recognized to the extent of the Group's continuing involvement using special accounting policies. The extent of continuing involvement is determined by the extent to which the Group continues to bear the risk of changes in the value of the asset transferred.

A financial liability (or a part of a financial liability) is derecognized when the liability has been extinguished, i.e., when the obligations specified in the contract have been discharged or canceled or have expired. The repurchase of the Bank's own debt instruments is also included in the derecognition of financial liabilities. Differences between the carrying amount of a liability (including premiums and discounts) and the purchase price on repurchase are recognized in profit or loss; a new financial liability whose cost is equivalent to the amount of sales proceeds will arise upon resale at a later date. Differences between this new cost and the amount repaid are spread over the remaining term of the debt instrument in accordance with the effective interest method.

Classification of financial assets and liabilities and their measurement

Financial assets and financial liabilities are initially recognized at fair value. The net method is used for financial guarantees reported in the consolidated financial statements. For financial instruments in the categories loans and receivables (LAR), held to maturity (HTM), available for sale (AFS) and other liabilities (OL), transaction costs are included in the cost if they are directly attributable. They are added to the nominal value or the amount repayable as part of allocation of premiums and discounts using the effective interest method. Transaction costs for financial instruments classified as financial assets or financial liabilities at fair value through profit or loss (AFV) are recognized immediately in profit or loss.

Subsequent measurement of financial assets and financial liabilities is contingent on the IAS 39 category to which the assets or liabilities were classified on the date of acquisition.

Loans and receivables (LAR)

Non-derivative financial assets with fixed or determinable payments which are not listed in an active market are allocated to this category provided they have not been classified as financial assets at fair value through profit or loss (AFV) or as available for sale (AFS). The LAR category is the largest in the Group as it comprises the entire traditional credit and lending business. Subsequent measurement is at amortized cost using the effective interest method. Premiums and discounts are recognized in profit or loss over the term. Loans and receivables are tested for impairment on each balance sheet date and whenever there are indications of potential impairment, and written down if necessary (cf. Notes (31) Risk provisions and (23) Profit/loss from financial assets). In the event of impairment, this impairment is recognized in profit or loss when calculating amortized cost. Reversals of impairment losses are recognized in profit or loss. Impairment losses can be reversed up to the amount of the amortized cost which would have been recognized on the date of measurement had impairment losses not been charged.

Held to maturity (HTM)

Non-derivative financial assets with fixed or determinable payments and a fixed term are classified in this category if they are intended and able to be held until maturity. Financial instruments may be classified as held to maturity if they are not classified as financial assets at fair value through profit or loss (AFV), as available for sale (AFS) or as loans and receivables (LAR). Subsequent measurement is at amortized cost using the effective interest method. The HTM category is currently not used in the consolidated financial statements.

Financial assets or financial liabilities at fair value through profit or loss (AFV)

This category comprises two sub-categories:

- **Held for trading (HFT)**

  This sub-category comprises financial instruments (trading assets and trading liabilities) acquired with the intention of generating profits from short-term purchases and sales and contains all the derivatives which are not hedging instruments for the purposes of hedge accounting. Trading assets mainly comprise money market securities, bonds and debt securities and derivatives with a positive fair value. Trading liabilities mainly comprise derivatives with a negative fair value. Trading assets and trading liabilities are recognized at fair value through profit or loss upon subsequent measurement. Premiums and discounts are not separately amortized at constant effective interest rates.

- **Designated at fair value through profit or loss (DFV)**

  Any financial instrument can be allocated to this sub-category, known as the fair value option, provided that certain requirements are met. Exercising the fair value option eliminates or significantly reduces the recognition and measurement mismatches which stem from different measurement methods (e.g., from accounting for economic hedging relationships without the restrictive requirements of hedge accounting). Allocation to this category also means that hybrid (combined) products do not need to be separated. Information on the nature and scope of application of the fair value option in the Group is provided in Note (64). Financial instruments for which the fair value option is exercised are reported in the respective balance sheet items and are measured at fair value through profit or loss upon subsequent measurement. There is no amortization at constant effective interest rates in net interest income.

- **Available for sale (AFS)**

  All non-derivative financial assets which have not been assigned to any of the above categories are allocated to this category. It primarily comprises bonds and debt securities, shares and equity investments. Subsequent measurement is at fair value; if the fair value of financial investments in equity instruments, such as certain shares or equity investments that do not have a quoted price in an active market (and the related derivatives), is not reliably measurable, such assets are measured at cost. The profit/loss from measurement at fair value is recognized under equity in a separate equity item (revaluation reserve). In the event of the sale of the financial asset, the accumulated fair value adjustments recognized in the revaluation reserve are reversed to the income statement. In the case of rating-induced impairments, the difference between amortized cost and current fair value is accounted for in the income statement. Reversals of impairment losses on debt instruments are reported through profit or loss. Reversals of impairment losses on equity instruments are recognized under equity unless such instruments are measured at cost. Differences between the cost and amount repayable are amortized through profit or loss using the effective interest method.

Available-for-sale financial assets are tested on each balance sheet date to identify any objective indications of impairment of an asset or a group of assets. In the case of equity instruments classified as available for sale, a significant or permanent decline in the fair value of the investment below its cost is an objective indication of impairment. Impairment of debt instruments classified as available for sale is determined on the basis of the same criteria applied for loans.

- **Other liabilities (OL)**

  This category notably includes liabilities to banks and to customers, securitized liabilities and subordinated capital, except where such liabilities have been designated at fair value through profit and loss under the fair value option. Subsequent measurement is at amortized cost using the effective interest method.

  The carrying amounts and net results for each measurement category can be found in Notes (55) and (56).

Measurement of fair value

In accordance with IFRS 7, the Bremer Landesbank Group uses the hierarchy and the terminology (Level 1, Level 2 and Level 3) stipulated in IFRS 7. The level is determined by the inputs used for measurement and reflects the significance of the variables used in the measurement of fair value.

Under the fair value hierarchy used in fiscal year 2011, a financial instrument is categorized as Level 1 if it is traded in an active market and publicly quoted market prices or prices effectively traded in the OTC market are employed to measure its fair value. If no market prices or prices effectively traded in the OTC market are available, prices quoted by dealers are used for Level 1 measurement. If price sources other than stock exchange prices are used, such sources are quotes by banks or other market makers.

In the event that no price quotes are available in active markets, fair value is measured using recognized valuation methods or models or using external pricing services, provided that valuation is carried out either fully or in part using spread curves (Level 2).

For measuring financial instruments, these methods include valuation models which are established on the market under normal market conditions (e.g., discounted cash flow method) whose calculations are always based on inputs available on the market. Factors which market players would have considered in quoting prices are considered in the valuation process. Wherever possible, the relevant inputs are taken from the markets on which the instruments were issued or acquired.

Valuation models are employed primarily for OTC derivatives and for securities in inactive markets. Various inputs are used in the models, for example market prices and other market quotations such as volatility and market liquidity. A standard market method is always applied whenever estimates are required, also in the case of option pricing models.

Market data used in risk control are applied for these Level 2 measurements. They are mainly credit spreads available on the market which are used in combination with the risk-free yield curve for valuing financial instruments. Spreads are determined on the basis of comparable financial instruments (e.g., comparable in terms of the respective market segment and the issuer's credit rating).

Since fiscal year 2011, a hazard rate method has been used to determine fair value whereby probabilities of survival are determined on the basis of the credit spreads. These probabilities are then used to calculate expected future cash flows. The cash flows thus weighted using their probability of payment are then discounted using the (risk-free) swap curve.

As of the balance sheet date, no CDS spreads were available for the CDSs held, all of which follow the old CDS protocol. This is because, since the launch of the new CDS protocol, CDS prices are only quoted for CDSs under the new protocol. The fair values of the CDSs held are therefore determined on the basis of the spreads for comparable CDSs quoted under the new protocol.

CDSs valued in this way are assigned to Level 2.

Depending on the spread levels of comparable CDSs, spreads for liquid bonds issued by reference entities were taken into consideration for valuation purposes. In determining the fair value, allowance was made for the fact that physical settlement under the CDS protocol, which the CDSs in Bremer Landesbank's CDS portfolio follow, is made when a credit event occurs. I.e., in a credit event, the protection buyer must deliver to the protection seller a bond issued by the reference entity at its nominal value as specified in the CDS contract.

If the observable CDS market spread is below a threshold of 75 base points, valuation is based solely on the CDS market spread. If, however, the CDS market spread is higher than 450 base points, i.e., the implied probability of a credit event is relatively high, valuation is based solely on the observable bond market spread. If a CDS market spread is between 75 and 450 base points, the CDS contract is valued using a linear combination of the observable CDS market spread and the observable bond market spread. However, a CDS contract valued in this way is classified as Level 3 in the fair value hierarchy.

During 2008, some sections of the money and capital markets ceased to function, which resulted in uncertainty among market participants, illiquidity of some of the markets and declining investment activity in secondary market products. This meant that there were no longer any viable prices available for some financial instruments on the market, quotations in some cases were intended to discourage investment and some transactions were conducted at fire-sale conditions. These conditions remained in place in 2011 for a number of financial instruments.

For financial instruments for which no active market existed on 31 December 2011 and which therefore cannot be valued using market prices, a discounted cash flow method has been used to determine the fair value, as has been the case since the 2008 financial statements. This method uses indicative market data and the credit rating of the reference entity.

The financial instruments within the Bremer Landesbank Group that should be measured in this way are identified individually with a subsequent division into active and inactive markets. Any changes in the assessment of the market are continuously taken into account when measuring the instruments. Whether an active market exists for Bremer Landesbank's CDS contracts is primarily assessed by reference to three criteria. Indicators of an inactive market are a high bid-ask spread on the valuation date, substantial differences in the prices stated by various market data providers and low levels of trading as of the valuation date. The thresholds for the criteria separating an active market from an inactive market are derived from the typical parameters for active markets.

The valuation model for financial instruments in inactive markets is based on term-specific interest rates, the credit rating of the respective issuer and an adequate return on committed equity. The ratings of the respective counterparties are also used as inputs in the procedure.

As the internal ratings from the internal ratings-based approach used by Bremer Landesbank are used in the procedure, the financial instruments are allocated to Level 3.

Financial instruments are allocated to Level 3 regardless of the fact that the internal data for regulatory approval were calibrated using data from published ratings which form the basis for price decisions made by market players. This is done because there is a fair value measurement in accordance with the Level 3 procedure for financial instruments for which an active market no longer exists and observable market data can no longer be used in full for their measurement.

As compared and opposed to Level 2 measurement, under this method both bank-specific models are used and data included which are not observable in the markets. The proportion of such inputs is kept as low as possible and the inclusion of market-specific data is preferred, i.e., basic signals from the market which may be observed on the balance sheet date are included in the method.

The Group's CDS papers and securities for which the market is considered inactive are measured using the Level 3 procedure. In addition, other interest-bearing securities which are measured using an internal ratings-based approach are classified as Level 3.

To value CDS contracts classified as Level 3 a valuation spread is derived from the observable CDS market spread and the credit rating of the reference entity. The credit spread for the specific credit rating is adjusted toward the observable CDS market spread in order to incorporate the recent information on credit quality that is contained in the CDS spread in the valuation process.

Further disclosures on the fair value hierarchy and the fair values of financial instruments are provided in Note (54).

Financial assets

Equity investments and investments in affiliates are recognized at fair value. Fair value is the present value of the future net cash flows to the owners incidental to ownership of the entity (future earnings value). The net earnings of the owners, which are discounted in order to calculate the capitalized earnings value, chiefly stem from the distributions of the net cash flows generated by the entity.

The calculation of the fair value of the equity investment is therefore based on a forecast of earnings development in 2011 and a detailed budget for 2012 and, if applicable, a medium-term forecast for up to four subsequent years (planning phase I). The entity is generally assumed to have a perpetual life for subsequent years beyond the planning horizon. For this purpose, a perpetual annuity is calculated to reflect the sustainable situation of the investee (planning phase II). These expected future earnings are discounted to the balance sheet date taking planned distributions into account.

The discount rate used is derived from a capital market model and represents the return on an alternative investment that adequately matches the investment in the investee in terms of maturity and risk. The discount rate comprises the components of risk-free interest rate as well as the risk premium based on the risk relating to future net cash flows. The risk premium is the product of an average market risk premium and the beta factor, which expresses the specific risk structure of the entity being valued. As a relative measure, the beta factor describes the extent to which the return on the relevant security held in the investee reflects the changes in the return on the market portfolio.

To value equity investments in unlisted companies, groups of comparable listed instruments are formed (peer groups) and the beta factor is calculated for each position in relation to the respective national index. The beta factor of the peer group so calculated is used as a key multiplier to determine the capitalization rate.

Raw beta is the historical beta factor of a company derived from a linear regression of the share return against the return on the market portfolio. As an alternative to using raw beta, adjusted beta is an estimation of the future development of the beta factor. Adjusted beta (adjusted beta = raw beta x 0.67 + 0.33) was used as part of a standardized approach within the NORD/LB Group in order to smooth out the volatility of the valuation over the course of time.

Hybrid (combined) products

Hybrid (combined) products comprise two components – one or more embedded derivative financial instruments (e.g., swaps, futures or caps) and a host contract (e.g., financial instruments or leases). These two components are the subject of a single contract relating to the hybrid (combined) product, i.e., they constitute a legal unit and may not be negotiated separately as they are combined in a single contract.

In accordance with IAS 39, an embedded derivative should be separated from the host contract and accounted for as a derivative if, and only if, all of the following criteria are fulfilled:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract
- A separate derivative with the same terms as the embedded derivative financial instrument would meet the definition of a derivative financial instrument
- The hybrid (combined) product is not measured at fair value with changes in fair value recognized profit or loss (AFV category)

The Group measures and recognizes financial instruments that must be separated – other than those allocated to the AFV category – separately. The host contract is accounted for in accordance with the rules of the category to which the financial instrument is allocated, the embedded derivative is accounted for at fair value through profit or loss as a trading asset or trading liability.

Hedge accounting

Hedge accounting is the accounting and balance sheet presentation of hedging relationships. In this context, hedging relationships are established between underlying and hedging transactions. The aim is to avoid fluctuations in annual profit and equity resulting from differing valuations of underlying and hedging transactions.

Three basic forms of hedges are distinguished, each needing to be handled differently in terms of hedge accounting. Fair value hedge accounting involves hedging (portions of) assets or liabilities and firm commitments against changes in fair value. In particular, the Group's issues and lending transactions as well as its interest-bearing securities are subject to such fair value risk. Individual transactions and portfolios are hedged using fair value hedges. Fair value hedges are currently used to hedge against interest rate risk only. Interest rate swaps are used for this purpose.

The two other basic forms, cash flow hedge accounting and the hedging of net investments in a foreign operation, are currently not employed in the Group.

Only hedging relationships which meet the restrictive requirements of IAS 39 may be accounted for using the hedge accounting rules. Hedge accounting requirements, in particular proof of the effectiveness of hedges, must be met for each hedging relationship on each balance sheet date. The market data shift method and the regression method are applied in the Group for prospective tests of effectiveness. The modified dollar offset method is used for retrospective effectiveness tests. This method includes an additional tolerance limit to account for the problem related to the law of small numbers that arises when there are marginal changes in the value of the underlying and hedge transactions.

In the portfolio fair value hedge, the retrospective test of effectiveness previously used the percentage method for disposals from the hedged portfolio of underlyings. Since the second quarter of 2011, the bottom layer method has been used for disposals. If disposals had continued to be valued using the percentage method, net interest income from the reversal of the separate line items would have been EUR 5m higher as of 31 December 2011. Likewise, the adjustment item for financial instruments included in the portfolio fair value hedge would have been EUR 5m lower.

As the effects on subsequent periods will depend on transactions entered into in the future, they cannot be determined or stated.

In accordance with the rules of fair value hedge accounting, derivative financial instruments used to hedge fair values are accounted for as positive or negative fair values from hedge accounting derivatives (Note (33) and Note (46) Positive/negative fair values from hedge accounting derivatives). Changes in value are recognized in profit or loss (Note (22) Profit/loss from hedge accounting). Changes in fair value resulting from the hedged risk for hedged assets or hedged liabilities are also recognized through profit or loss in profit/loss from hedge accounting.

When applying hedge accounting for financial instruments classified as available for sale, the portion of the change in value attributable to hedged risks is recognized under profit/loss from hedge accounting, while the portion of the change in value which is not attributable to the hedged risk is accounted for in the revaluation reserve.

When hedging against interest rate risks on a portfolio basis the changes in the fair values of underlying transactions on the liabilities side in relation to the hedged risk are reported on the liabilities side in the balance sheet item “Adjustment item for financial instruments included in the portfolio fair value hedge” (Note (44)). Underlying transactions of AFS financial instruments on the assets side continue to be reported under financial assets at full fair value. There are currently no assets which are not classified as AFS in the portfolio fair value hedge.

In micro hedge accounting, financial instruments measured at amortized cost are adjusted in the balance sheet by the change in fair value attributable to the hedged risk (hedge adjustment).

A hedge is terminated when the underlying or hedging transaction expires, is sold or exercised or when the hedge accounting requirements are no longer met; cf. Note (62) for underlyings in effective hedges).

Securities sale and repurchase agreements and securities lending

The transfer of securities under genuine securities sale and repurchase agreements (repo transactions) does not result in derecognition since the transferring company retains substantially all the risks and rewards incidental to ownership of the transferred asset. The asset transferred must hence still be accounted for by the transferor and measured according to its category. The payment received is carried as a financial liability (in liabilities to banks or to customers, depending on the counterparty). Interest payments agreed are reported as interest expenses in accordance with the respective term.

Reverse repo transactions are accounted for accordingly as loans and advances to banks or to customers and are allocated to the loans and receivables category. Securities for sale and repurchase which underlie the cash transaction are not reported in the balance sheet. Interest resulting from this transaction is reported as interest income in accordance with the respective term.

The accounting principles for genuine repurchase transactions also apply to securities lending transactions. Securities lent are reported as security portfolios and measured in accordance with IAS 39, while borrowed securities are not recognized.

Cash collateral pledged for securities lending transactions is reported under loans and advances; collateral received is recognized as a liability.

With regard to the extent and the volume of securities sale and repurchase agreements and securities lending transactions, please see Note (66).

Reporting “day one profits and losses“

If no observable market data is used for the valuation models, financial instruments are recognized at their transaction price. Any profit determined on the trade date through application of the valuation model is cut off. On subsequent measurement of such a financial instrument, a gain or loss is only recognized to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price (fair value) (IAS 39.AG76A).

(8) Risk provisions

Risk provisions in the lending business cover all the identifiable credit risks by establishing specific allowances. In addition, for groups of financial assets with comparable default risk characteristics, portfolio allowances are recognized for risks which have occurred but have not yet been identified by the respective group units. Such allowances are determined for portfolios on the basis of historical probabilities of default. Industries were selected as a classification and reporting criterion when creating groups. Portfolio allowances are calculated on the basis of individual transactions. Ratings or the related probabilities of default and loss given default constitute the basis for calculating specific allowances at portfolio level. "Expected loss" in terms of the Basel II requirements is applied as a metric for calculating portfolio allowances. The loss identification period (LIP) is also applied. This is the time period between the occurrence of a default event and the date on which it is identified or becomes known.

Given the current market situation, when calculating portfolio allowances for the shipping portfolio the probabilities of default and losses given default resulting from ship stress tests are used. Stress was simulated in a stress test of the "ship finance" rating application. In view of this aggravated general environment, the incurred loss potential for the ship finance portfolio was covered by an additional portfolio allowance for the container and bulk shipping and the multi-purpose segments.

All loans and advances which are not subject to specific allowances for impairment are included in a portfolio analysis.

An allowance for impairment needs to be recognized when observable criteria show that it is likely that not all the interest and repayment commitments or other obligations will be able to be fulfilled in due time. Such criteria include default on interest and capital payments or at least 90 days' arrears of such payments and considerable financial difficulties on the part of the debtor.

Risk provisions relate to loans and advances to banks and to customers. The amount of allowances for impairment is the difference between the carrying amount and present value of anticipated future cash flows. No separate impairment is recognized for financial instruments in the AFV category, including the HFT category, as they are measured at fair value through profit or loss; this means that impairments are included in the profit/loss for the period.

Risk provisions as a separate item in the income statement also comprise expenses or income resulting from the recognition or reversal of loan loss provisions, for example those recognized for off-balance sheet transactions (guarantees, endorsement liabilities and loan commitments).

Canceled loans and advances for which no specific allowance was made are written off directly after the collateral has been realized. Loans and advances at risk of default of up to EUR 10k are all written off directly. Recoveries on written-off loans and advances are recognized in profit or loss. A loan or advance is only derecognized if economic aspects indicate that default is certain. Prior cancellation is not a mandatory requirement.

Any remaining balance of loans and advances for which a risk provision has been recognized is offset against existing risk provisions after the realization of collateral (i.e., the provision is utilized).

No risk provisions are recognized for losses which have not yet occurred.

(9) Property and equipment

Property and equipment is recognized at cost on the date of addition. Upon subsequent measurement, depletable property and equipment is reported less straight-line depreciation over its economic life. The underlying depreciation method reflects the wear and tear. Impairment losses are charged at the amount by which the carrying amount exceeds the higher of the asset's fair value less costs to sell and its value in use. If reasons for impairment no longer exist, write-ups (reversals of impairment losses) are carried out, but not in excess of depreciated cost. Regular depreciation is recognized in administrative expenses.

Property and equipment is depreciated over the following periods:

	Useful life in years
Land and buildings	25 to 50
Furniture, fixtures and office equipment	3 to 15

Before 1 January 2009, the option of immediate recognition as an expense was used for borrowing costs which were directly attributable to the acquisition, construction or production of a qualified asset.

From 1 January 2009, borrowing costs are capitalized pursuant to IAS 23 (Revised 2007). No borrowing costs were capitalized in fiscal year 2011.

Government grants are immediately deducted from the cost of the respective asset. No government grants were received in the fiscal year.

(10) Leases

Under IAS 17, leases must be classified as either finance leases or operating leases at the inception of the lease. If significant risks and rewards incidental to ownership are transferred to the lessee, the lease is classified as a finance lease and the lease asset is accounted for by the lessee. If significant risks and rewards incidental to ownership are not transferred to the lessee, the lease is classified as an operating lease and the lease asset is accounted for by the lessor.

Finance leases

As the lessor, Bremer Landesbank recognizes, at the inception of the lease, a receivable in the amount of the lessee's payment obligations under the lease. The receivable is reported at the net investment (difference between the gross investment in the lease and unearned finance income) and is shown in loans and advances to banks or customers. Any incidental costs are spread over the term of the lease.

Lease payments under a finance lease are split into a principal component and an interest component. The principal component is deducted from loans and advances (lessor) or liabilities (lessee) in the balance sheet. The interest component is accounted for as interest income (lessor) or interest expense (lessee) in the income statement.

Contracts concluded by Bremer Landesbank as a finance lessor are of minor significance. No contracts were concluded with Bremer Landesbank as a finance lessee.

Operating leases

For operating leases, the Bremer Landesbank Group reports lease payments made as expenditure in other administrative expenses. Initial direct costs (such as costs for appraisers) are expensed immediately.

Agreements concluded by Bremer Landesbank as an operating lessee are of minor significance. There are no contracts with Bremer Landesbank as an operating lessor.

(11) Investment property

Investment property is land and buildings or parts of buildings held to generate rental income and/or for the purpose of capital appreciation. Property in which more than 20% of the leased floor space is utilized by third parties is examined to determine whether the part used by third parties can be separated. If this is not the case, then the entire property is reported in property and equipment.

Under the cost model, investment property is measured at cost on the date of acquisition; transaction costs are included in the initial measurement. Subsequent expenditure is recognized in the carrying amounts of assets to the extent that it contributes toward significantly improving the asset and hence toward enhancing the future economic benefit from the asset.

Borrowing costs are generally capitalized in accordance with IAS 23 (Revised 2007). There were no items which had to be capitalized in fiscal year 2011.

Government grants are deducted directly from the cost of the respective asset. No government grants were received in the fiscal year.

Straight-line depreciation is included in subsequent measurement of investment property. Impairment losses are charged at the amount by which the carrying amount exceeds the higher of the asset’s fair value less costs to sell and its value in use. When the reasons for impairment cease to apply, impairment losses are reversed up to a maximum of depreciated cost. Regular depreciation is recognized in administrative expenses.

Investment property is depreciated over the following periods:

	Useful life in years
Investment property	25 to 50

The capitalization of earnings method is applied for measuring the fair value of investment property. Fair value is also substantiated on the basis of market data. Valuation is carried out by a bank appraiser.

(12) Intangible assets

Intangible assets comprise acquired software and internally developed intangible assets. Purchased intangible assets are recognized at cost. In accordance with IAS 38.57, the internally developed intangible assets first recognized in fiscal year 2011 were recognized at their development cost.

Intangible assets with a finite useful life are amortized straight-line over their economic lives. For intangible assets with a finite useful life, impairment losses are charged at the amount by which the carrying amount exceeds the higher of the asset's fair value less costs to sell and its value in use. If the reasons for applied impairment no longer apply, impairment losses are reversed up to a maximum of amortized cost. Regular amortization is recognized in administrative expenses. Borrowing costs are capitalized in accordance with IAS 23 (Revised 2007). There were no items which had to be capitalized in fiscal year 2011.

Intangible assets with a finite useful life are amortized straight-line in administrative expenses over the following periods:

	Useful life in years
Software	3 to 5

There are no intangible assets with an indefinite useful life.

(13) Provisions for pensions and similar obligations

The Bremer Landesbank Group pension scheme is a defined benefit plan. Employees acquire entitlements to pensions in which benefits are fixed and dependent on factors such as anticipated wage and salary increases, age, length of service and a pension trend forecast. The financial reporting regulations of IAS 19 governing defined benefit plans are applied for this pension scheme.

Provisions for future health insurance benefits (EUR 5m; prior year: EUR 5m) are also shown in provisions for pensions. This provision is calculated based on the average amount of health insurance benefits paid in the past few years and the assumption of a dynamic cost trend. A change in the cost trend of +1% would increase provisions for health insurance benefit obligations by EUR 1m. Effects on service and interest cost, on the other hand, would be insignificant.

In order to satisfy entitlements to pensions under defined benefit plans, part of the cover funds were transferred to Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen (pension fund), in 2005. The fair value of the plan assets is deducted when recognizing provisions for pensions.

The components of the provisions for pensions recognized in profit or loss comprise service and interest cost incurred on the present value of the obligation. The expected net return on plan assets reduces the pension expenses. In addition, past service cost may have to be recognized in profit or loss. Interest cost and the expected return on plan assets are included in net interest income. Service cost and any past service cost are reported in administrative expenses.

The Bremer Landesbank Group recognizes the full amount of actuarial gains and losses under equity so that pension expenses are not reduced or increased by the amortization of unrecognized actuarial gains or losses.

Pension obligations from defined benefit plans are calculated by independent actuaries as of the balance sheet date in accordance with the projected unit credit method. For calculation purposes, the discount rate for first-class industrial bonds and anticipated future salary and pension increases are taken into account in addition to biometric assumptions.

Valuation assumptions are shown in the following schedule:

	31 Dec 2011	31 Dec 2010
Actuarial interest rate	5.10%	5.25%
Expected long-term return on plan assets	3.5%	3.6%
Salary trend		
Pension obligations	2.4%	2.4%
Health insurance benefits	4.5%	4.5%
Pension trend		
Pension obligations (contingent on the pension scheme)	1.0 - 3.5%	1.0 - 3.5%
Health insurance benefits	4.5%	4.5%

The 2005 G Heubeck mortality tables were applied for calculating the defined benefit obligation.

(14) Other provisions

Other provisions are recognized in accordance with IAS 37 and IAS 19 for uncertain liabilities to third parties and anticipated losses from pending transactions if utilization is probable and the amount can be reliably determined. Provisions are measured using the best estimate. This is based on management's assessment in light of empirical values and, if necessary, expert reports or opinions. Risks and uncertainties are taken into account. Future events are only considered if there are sufficient objective indications that they will occur. Provisions are discounted.

A contingent liability is recognized if utilization is unlikely or if the amount of the obligation cannot be reliably estimated.

(15) Income taxes

Current income tax assets and liabilities were calculated at currently valid tax rates in the amount expected to be paid to or refunded by the respective tax authority.

Deferred tax assets and liabilities are calculated on the basis of the difference between the carrying amount of an asset or a liability in the balance sheet and its tax base. Deferred tax assets and liabilities are expected to lead to increased or reduced income taxes in future periods due to temporary differences. They were measured on the basis of tax rates expected to be valid in the period in which an asset is realized or a liability is settled. Company-specific tax rates (and tax regulations) which have been enacted or substantially enacted by the balance sheet date are applied.

Deferred tax assets for the carryforward of unused tax losses and unused tax credits are only recognized to the extent that it is probable that taxable future income will be available against which unused tax losses and unused tax credits can be utilized.

Current income tax assets and liabilities as well as deferred tax assets and liabilities are offset if the relevant requirements are met. They are not discounted. Depending on the treatment of the underlying items, deferred tax assets and liabilities are reported either through profit or loss or in equity.

Income tax assets and liabilities are shown separately in the balance sheet. They are broken down into current and deferred income tax assets and liabilities for the reporting period in the corresponding notes.

Income tax expense and income is recognized in the income taxes item in the consolidated income statement. The breakdown into current and deferred income tax assets and liabilities for the reporting period is shown in the corresponding notes. Current and deferred income tax assets and liabilities are shown as asset and liability items in the balance sheet, with the carrying amount of any deferred tax assets being tested for impairment on each balance sheet date.

(16) Subordinated capital

The subordinated capital item comprises securitized subordinated liabilities and silent participations. The silent participations must be classified as liabilities in accordance with IAS 32 as they are puttable; under the HGB, silent participations always constitute equity. For regulatory purposes under the KWG, they are recognized as liable equity.

Subordinated capital is recognized at amortized cost. Premiums and discounts are distributed over the term in accordance with the effective interest method and are recognized through profit or loss in net interest income. Accrued interest not yet due is allocated directly to the corresponding item in subordinated capital.

Segment report

(17) Classification by business segment (primary reporting format)

31 Dec 2011 (in EUR m)[1]	Corporate Customers	Special Finance	Private Customers	Financial Markets	All other segments	Reconci-liation	Total Group
Net interest income	59	200	33	70	32	–18	**376**
Risk provisions in the lending business	0	100	4	2	5	0	**112**
Net interest income after risk provisions	**59**	**100**	**29**	**68**	**27**	**–18**	**264**
Net commission income	13	19	8	4	1	–17	**26**
Profit/loss from financial instruments at fair value through profit or loss	4	6	0	–32	–1	35	**13**
Profit/loss from hedge accounting	0	0	0	0	0	12	**12**
Profit/loss from financial assets	0	0	0	0	–2	0	**–2**
Profit/loss from investments accounted for using the equity method	0	0	0	0	10	0	**10**
Total income	**76**	**125**	**36**	**40**	**34**	**12**	**323**
Administrative expenses	26	27	27	18	60	0	**159**
Other operating profit/loss	0	0	0	0	3	–2	**1**
Earnings before taxes	**50**	**97**	**9**	**22**	**–23**	**9**	**165**
Segment assets	4,053	13,007	1,670	13,569	888	1,675	**34,862**
Segment liabilities	2,300	3,853	1,173	15,110	–591	11,970	**33,814**
CIR[2]	33.8%	12.2%	66.8%	34.5%	0.0%	0.0%	**36.4%**
RORAC[3] ROE[4]	34.1%	13.7%	15.0%	16.5%	0.0%	0.0%	**15.8%**

[1] Differences between totals are due to rounding.
[2] Administrative expenses/total income excluding profit/loss from financial assets.
[3] Earnings before taxes/committed core capital.
[4] Operating result after risk provisions and valuation/committed core capital.

31 Dec 2010 (in EUR m)[1]	Corporate Customers	Special Finance	Private Customers	Financial Markets	All other segments	Reconci-liation	Total Group
Net interest income	59	171	28	58	4	–5	**314**
Risk provisions in the lending business	12	73	6	2	–34	0	**59**
Net interest income after risk provisions	**46**	**98**	**22**	**55**	**38**	**–5**	**255**
Net commission income	11	20	8	4	–1	–15	**28**
Profit/loss from financial instruments at fair value through profit or loss	2	7	1	–123	–1	21	**–93**
Profit/loss from hedge accounting	0	0	0	0	0	4	**4**
Profit/loss from financial assets	0	0	0	0	8	0	**8**
Profit/loss from investments accounted for using the equity method	0	0	0	0	6	0	**6**
Total income	**59**	**125**	**32**	**–64**	**50**	**5**	**208**
Administrative expenses	26	26	27	17	67	0	**162**
Other operating profit/loss	0	0	0	0	–11	28	**17**
Earnings before taxes	**34**	**99**	**4**	**–80**	**–28**	**33**	**63**
Segment assets	3,818	12,301	1,736	13,858	1,295	1,793	**34,801**
Segment liabilities	1,854	3,520	1,186	14,752	–387	12,887	**33,812**
CIR[2]	36.0%	12.6%	63.7%	–1385.3%	0.0%	0.0%	**57.0%**
RORAC[3] ROE4)	24.8%	20.4%	17.6%	–24.9%	0.0%	0.0%	**7.0%**

1) Differences between totals are due to rounding.
2) Administrative expenses/total income excluding profit/loss from financial assets.
3) Earnings before taxes/committed core capital.
4) Operating result after risk provisions and valuation/committed core capital.

Information on the business segments

The following segment information is based on the management approach, which requires segment information to be presented on the basis of the management accounts, i.e., the information used regularly by the chief operating decision-maker to make decisions on the allocation of resources to the segments and to assess their performance. In the Bremer Landesbank Group, the Management Board functions as the chief operating decision-maker.

The segment report provides information on the Group's business segments and is in compliance with the Bank's business model. The segments are defined as customer or product groups in alignment with the Group's organizational structures. In view of the fact that the Bank's business activities are mainly conducted within the region, the criteria for geographical segmentation are not met. There has been no change in the number of segments in the Group. The following segments are analyzed in the segment report by business segment.

Corporate Customers

The Corporate Customers segment comprises business conducted by the Bank with small and medium-sized corporate customers in the North-West of Germany and is a reliable and innovative financial services partner.

Sales activities were expanded further in 2011. In a highly varied market environment, the business segment clearly surpassed its income forecast. An encouraging increase in the volume of both capital investment loans and working capital facilities was seen during the course of the year. Traditional investment activity in the region was quiet for a while, but the reinforcement of the sales team in the "Public Subsidies" department produced encouraging increases in volumes of long-term finance. In spite of the rise in lending volume, risk costs were far lower than anticipated.

A promising niche product was futures trading in agricultural commodities, which grew substantially. The launch of an electronic trading platform at the end of 2011 laid the foundations for further growth. Fluctuating interest rates in 2011 led to rising demand for derivative products. In 2012, volatile markets could give rise to a further increase in income from hedging products.

For 2012, we generally expect the result of operations to develop positively, if moderately. For this to be the case, it is vital that the economy does not slow significantly and that demand for credit remains high. A healthy risk structure combined with a comfortable capital base will allow us to support customers' large-scale investment projects in the future.

Overall, the Corporate Customers segment aims to be the leader in corporate customer business in the region and underpin this with growing market share.

Traditionally, Bremer Landesbank has a reputation in the region of being a steady and reliable partner. The Bank was able to boost its image of trust during the economic crisis, which will help it to acquire new customers and become a principal bank for more major companies.

Special Finance

The Special Finance segment at Bremer Landesbank covers ship finance, refinancing of equipment leasing and factoring companies, community interest properties and renewable energies, with the sub-segments wind, biogas and photovoltaics.

Bremer Landesbank's Special Finance segment continued to develop well in 2011. Since the financial and economic crisis, Special Finance has seen more moderate growth with a particularly noticeable effect on ship finance. Risk provisions were higher than forecasts, which were based on a sideways movement on the markets. However due to the high granularity of the portfolio, these did not have a substantial negative effect on Bremer Landesbank's results of operations. Nevertheless, the business segment reached its earnings target once again. Renewable Energies, in particular, made use of market opportunities and grew faster than budgeted.

In the ship finance business, Bremer Landesbank has only engaged selectively in limited new business since the onset of the shipping crisis. The growth in volume is due in particular to deliveries of vessels contracted in prior years. Bremer Landesbank's crisis management proved to be cautious and robust. Bremer Landesbank remains prepared for potential payment disruptions as a result of the shipping crisis and will adjust its risk provisions where necessary. With its sustainable financing structures and long-established relationships with direct customers, the Bank is as ever in a strong position but it does not expect to see a slow market recovery until 2013. In the long term, globalization and the accompanying rise in global trade will fuel demand for modern tonnage.

In refinancing of equipment leasing companies, Bremer Landesbank stood its ground as a leading financer of medium-sized leasing companies in 2011, improving its earnings situation further. Bremer Landesbank has acted as the competence center for the NORD/LB Group in this sub-segment since 2008, and, with a broader customer base, is a reliable partner for leasing companies with bank functions. At the beginning of 2011, it also concluded its first contracts to refinance factoring companies.

In the community interest properties sector, Bremer Landesbank specializes in the financing of nursing homes and is the competence center for the NORD/LB Group in this field. Demographic trends and the growing need for in-patient nursing highlight the strategic importance of this area.

In the fiscal year, Bremer Landesbank enjoyed notable growth in its renewable energy segment. The development of new business reflects customers' greater structuring and financing needs in the wake of the revision of the EEG ["Erneuerbare-Energien-Gesetz": German Renewable Energy Act]. Wind power and photovoltaics continued to benefit from a positive regulatory environment. Within the NORD/LB Group, Bremer Landesbank is the competence center for biogas and photovoltaics in Germany. It also supports experienced customers in selected ventures in other European countries.

With its emphasis on shipping, lease refinancing, community interest properties and renewable energies, as well as its consistent focus on long-term, reliable relationships with mostly midmarket companies, Bremer Landesbank's Special Finance segment considers itself to be well positioned.

Private Customers

The Private Customers segment covers all the Bremer Landesbank business transacted with private customers. The segment comprises the private customer service, private banking and asset and securities management business units.

The international financial market crisis has also had an effect on the Private Customers segment, leading in particular to increased information requirements on the part of customers. Thanks to its professional customer management, Bremer Landesbank has been able to build long-lasting customer confidence, as was confirmed and reflected in the very good results of our customer satisfaction survey.

The Bank's attention continues to be focused on growing its market share in private banking. Its business performance in 2011 again underlines its positioning as a premium private banking service provider.

A cornerstone of the Bank's success in this business segment is its stringent adherence to an integrated advisory approach. In private banking, this is supported by the wealth concept, which was developed with a view to financial planning. The finance concept, also based on a financial planning approach, was also introduced with great success in the private customer service segment for less complex wealth situations.

"Entrepreneur banking" was also promoted further, with excellent results. The integrated consulting philosophy again proved to be a success driver. Thanks to the close cooperation with the Special Finance and Corporate Customer segments, the Bank's private banking expertise is well received by this clientele. This success will be entrenched by focusing the attentions of the Bank's private banking advisers on the group of entrepreneurs and self-employed.

Another key factor for the positive results is that the Private Customer segment has its own, independent portfolio management. The results of the specially designed SIP® investment process are applied particularly in asset management, the SIP® family of funds and in the advisory process.

Overall, the trend which first emerged last year – restrained customer demand for securities products, also extending to "safe" investments – continued in the fiscal year.

Financial Markets

Bremer Landesbank's Financial Markets segment provides access to the national and international financial markets for private and institutional customer groups as well as for the Bank's proprietary business. Refinancing measures carried out by Bremer Landesbank both during the year and for a period longer than one year are also conducted by the Financial Markets segment.

With the volume of business generated in the customer and counterparty portfolio, Bremer Landesbank's Financial Markets segment contributes significantly to positions relevant to the Group's balance sheet.

In connection with refinancing and liquidity management during the year, in 2011 Bremer Landesbank continually employed the various instruments of the European Central Bank in addition to the interbank and repo market.

Capital market operations took place in a market shaped in 2011 by the effects of the euro crisis and international and multi-institutional efforts to contain its impact on the financial and real markets.

The Financial Markets units were successful in their treasury, trading and sales marketing operations. Trading activities focused on managing liquidity and interest rate risks, safeguarding the Bank's liquidity at all times and supplying the above customer groups with money and capital market products.

In 2011, the segment's sales desks once again recorded a high volume of trade and unabated, intensive demand for consulting and support services for all money, currency and derivative products.

Again in 2011, credit spreads had an effect on the net valuation effect from financial instruments at fair value, and thus on the overall segment result. The still negative results from the valuation of CDSs were offset by the operations of the Financial Markets segment. The encouraging net interest income led to a positive segment result that was significantly higher than in the prior year.

Bremer Landesbank's business with associated banks, which it also operates in the Financial Markets segment, was successfully continued in 2011 and included comprehensive support services for the associated savings banks.

In the syndicated transactions business with corporate customers of the associated savings banks, sales activities again focused on traditional financing as well as interest and currency management and international documentary business.

Another focus of business with associated banks is public-sector refinancing.

Apart from offering finance to regional authorities, sales activities also encompass support to the associated savings banks with regard to their public-sector finance arrangements.

Overall, despite the testing economic environment with strong competitive structures, the segment result was again positive, significantly surpassing the prior-year result.

Reconciliation of the segment results to the consolidated financial statements

In the first half of 2011, the management accounts were substantially enhanced to achieve the key aim of improving the consistency between the management accounts, group reporting and external presentation in the segment report considerably. The alignments between the management accounts and the presentation in the segment report mainly concern net interest income and risk provisions and are described below.

Net interest income: The net interest income of the segments is determined using the market interest rate method, including interest income from lending and deposit business, investment and financing. All directly allocable investment and financing income is allocated to the segments. Other components of investment and financing income are presented under “All other segments” instead of “Reconciliation” starting in 2011. The Group's net interest income is calculated as actual interest income less interest expenses.

Risk provisions in the lending business: Specific allowances are allocated to the segments; as for management accounts purposes other risk provisions are allocated to “All other segments” (until 2010 they were allocated to the segments).

Net commission income: As in 2010, net commission income is mainly allocated directly to the segments. Compared to the presentation in 2010, the allocation of loan commissions to net interest income reduced net commission income in the “Total Group” segment. If presentation had been consistent with the prior year, the (negative) reconciliation item would have been higher in 2011. There were no changes as compared with 2010 due to the allocation method in either commission income or the following items.

Profit/loss from financial instruments at fair value through profit or loss: The reconciliation result from this item arises from various effects which cannot be allocated to the segments, especially payments and the net valuation effect from derivatives.

Profit/loss from hedge accounting: The profit/loss from hedge accounting is not allocated to a business segment and is shown in the reconciliation column.

Profit/loss from financial assets: Starting in 2011, the segments are presented without the revaluation reserve to enable a comparison with the income statement.

Profit/loss from investments accounted for using the equity method: This item is allocated to “All other segments” rather than the direct sales-based segments.

Administrative expenses: Directly attributable administrative expenses and the results from internal service allocations are allocated to the business segments. In 2011, the internal cost types in the management accounts were checked in detail against the income statement to minimize reconciliation.

Other operating profit/loss: This item is not allocated to the segments.

Segment assets/segment liabilities: The difference between the sum of segment assets/liabilities and the consolidated assets/liabilities is mainly due to the fact that averages are used for the segments whereas the group figures are based on figures at the balance sheet date. Refinancing funds are not presented for the business segments; they are included in segment liabilities in the reconciliation column.

Segment profitability ratios: In line with the management accounts and group reporting, RORAC is also stated in the external reporting (until 2010 RAROC was stated).

Bank ROE: This is ratio is calculated identically throughout the Group for comparability.

All other segments: This column contains the results of all staff departments (including net interest income from sales of equity investments and administrative expenses of segments not directly allocated to sales), strategic measures (primarily net interest income from investments and the cost of liquidity maintenance), investment and financing results which are not directly allocable to the business/other segments, the consolidation of subsidiaries in the sub-group and risk provisions other than specific allowances. Information about additions to non-current assets other than financial instruments: The additions of furniture, fixtures and office equipment (property and equipment) are mainly attributable to IT equipment of EUR 3m acquired for regulatory reasons for mirroring and transferring the data processing centers to external locations in Bremen and Oldenburg. Intangible assets relate to system and application software. In 2011, EUR 9m was recognized as an internally developed intangible asset for the architecture of the FI migration interfaces.

Reconciliation: The items reconciling the management accounts to the overall group figures in the income statement are shown in the reconciliation column.

Notes to the consolidated income statement

(18) Net interest income

In addition to interest income and interest expenses, the interest income and expenses items include pro rata amortization of premiums and discounts resulting from financial instruments. Payments to silent partners are reported as interest expenses due to the fact that, under certain circumstances, silent participations are classified as liabilities under IAS 32.

	1 Jan 2011 – 31 Dec 2011 (in EUR m)	1 Jan 2010 – 31 Dec 2010 (in EUR m)	Change (in %)
Interest income	1,004	989	
Interest income from lending and money market business	127	118	2
Interest income from fixed-income securities and government-inscribed debt			8
Interest income from financial instruments at fair value through profit or loss	1,080	1,001	
Trading book positions and hedge accounting derivatives	3	1	8
Interest income from the use of the fair value option			>100
Current income			
From shares and other variable-yield securities	0	0	–
From equity investments	24	3	>100
Interest income from other amortization			
Of the adjustment item for the portfolio fair value hedge	8	6	33
From hedge accounting derivatives	16	21	–24
Expected return on plan assets	1	1	–
Total interest income	**2,263**	**2,140**	**6**
Interest expenses			
Interest expenses from lending and money market business	597	587	2
Interest expenses from securitized liabilities	218	230	–5
Interest expenses from financial instruments at fair value through profit or loss			
Interest expenses from trading book positions and hedge accounting derivatives	980	910	8
Interest expenses from the use of the fair value option	–	0	–
Interest expenses from subordinated capital	47	49	–4
Interest expenses from other amortization			
From the adjustment item for the portfolio fair value hedge	1	5	–80
From hedge accounting derivatives	27	29	–7
Interest expenses for provisions and liabilities	17	16	6
Other interest expenses and interest-like expenses	–	–	–
Total interest expenses	**1,887**	**1,826**	**3**
Total	**376**	**314**	**20**

Current income from equity investments includes the valuation gains of EUR 21m from the sale of the indirect equity interest in DekaBank Deutsche Girozentrale.

Interest income from lending and money market business contains interest income from the unwinding of impaired assets in the amount of EUR 11m (prior year: EUR 9m).

Total interest income relating to financial instruments which are not measured at fair value through profit or loss amounted to EUR 1,164m (prior year: EUR 1,117m). Total interest expenses relating to financial instruments which are not measured at fair value through profit or loss amounted to EUR 880m (prior year: EUR 887m).

(19) Risk provisions in the lending business

	1 Jan 2011 – 31 Dec 2011 (in EUR m)	1 Jan 2010 – 31 Dec 2010 (in EUR m)	Change (in %)
Income from risk provisions in the lending business			
Reversal of specific allowances on loans and advances	41	45	–9
Reversal of portfolio allowances on loans and advances	–	17	–100
Reversal of loan loss provisions	6	7	–14
Recoveries on loans and advances previously written off	3	2	50
Income from risk provisions in the lending business	**50**	**71**	**–30**
Expenses for risk provisions in the lending business			
Allocation to specific allowances on loans and advances	146	119	23
Allocation to portfolio allowances	7	–	–
Allocation to loan loss provisions	3	9	–67
Direct write-offs of loans and advances	6	2	>100
Expenses for risk provisions in the lending business	**162**	**130**	**25**
Total	**–112**	**–59**	**90**

(20) Net commission income

	1 Jan 2011 – 31 Dec 2011 (in EUR m)	1 Jan 2010 – 31 Dec 2010 (in EUR m)	Change (in %)
Commission income			
Commission income from banking business			
Lending and guarantee business	9	12	–25
Security and custodian business	8	8	–
Account management and payment transactions	10	10	–
Trust business	18	21	–14
Brokerage business	2	2	–
Other standard bank commission income	3	3	–
Commission income from non-banking business			
Real estate business	1	1	–
Total commission income	**51**	**57**	**–11**
Commission expenses			
Commission expenses from banking business			
Security and custodian business	2	2	–
Trust business	18	21	–14
Brokerage business	1	1	–
Account management and payment transactions	–	1	–100
Lending and guarantee business	3	3	–
Other standard bank commission expenses	1	1	–
Total commission expenses	**25**	**29**	**–14**
Total	**26**	**28**	**–7**

(21) Profit/loss from financial instruments at fair value through profit or loss

	1 Jan 2011 – 31 Dec 2011 (in EUR m)	1 Jan 2010 – 31 Dec 2010 (in EUR m)	Change (in %)
Trading profit/loss			
Realized profit/loss			
From debt securities and other fixed-income securities	1	1	–
From derivatives	23	–6	–
Total realized profit/loss	**24**	**–5**	**–**
Net valuation effect			
From derivatives	–29	–107	–73
Total net valuation effect	**–29**	**–107**	**–73**
Foreign exchange profit/loss	12	12	–
Other profit/loss	6	7	–14
Total trading profit/loss	**13**	**–93**	**–**
Profit/loss from the use of the fair value option			
Realized profit/loss			
Debt securities and other fixed-income securities	0	0	–
Net valuation effect			
Debt securities and other fixed-income securities	0	0	–
Total profit/loss from designated financial instruments (fair value option)	**0**	**0**	**–**
Total	**13**	**–93**	**–**

The realized profit/loss represents the profit/loss on financial instruments which expired or were prematurely terminated during the fiscal year; the net valuation effect refers to financial instruments existing on the balance sheet date.

The foreign exchange profit/loss includes all the income realized from disposals and the valuation of all the Bank's foreign currency positions in the current fiscal year. Currency translation profit/loss is also reported as part of foreign exchange profit/loss and came to EUR 42m as of 31 December 2011 (prior year: EUR 123m).

Other profit/loss primarily relates to premium payments from credit default swaps.

(22) Profit/loss from hedge accounting

Profit/loss from hedge accounting comprises the changes in value due to interest rate fluctuations of underlying and hedging transactions in effective fair value hedges.

	1 Jan 2011 – 31 Dec 2011 (in EUR m)	1 Jan 2010 – 31 Dec 2010 (in EUR m)	Change (in %)
Profit/loss from micro fair value hedges			
From hedged underlying transactions			
in the available-for-sale (AFS) category	17	13	31
in the other liabilities (OL) category	–103	–71	45
From derivative hedging instruments	89	58	53
Total micro fair value hedges	**3**	**0**	**–**
Profit/loss from portfolio fair value hedges			
From hedged underlying transactions			
in the available-for-sale (AFS) category	11	5	>100
in the other liabilities (OL) category	–127	–28	>100
From derivative hedging instruments	125	27	>100
Total portfolio fair value hedge	**9**	**4**	**>100**
Total	**12**	**4**	**>100**

(23) Profit/loss from financial assets

The item profit/loss from financial assets reports profits/losses from the disposal and valuation of securities in the financial asset portfolio (available-for-sale securities), equity investments and associates that are not accounted for using the equity method, and investments in non-consolidated subsidiaries.

The profit/loss from available-for-sale financial assets comprises the following:

	1 Jan 2011 – 31 Dec 2011 (in EUR m)	1 Jan 2010 – 31 Dec 2010 (in EUR m)	Change (in %)
Profit/loss from the disposal of			
Debt securities and other fixed-income securities	–	8	–100
Shares and other variable-yield securities	–	–	–
Net impairment of debt securities	–	–	–
Total profit/loss from disposals	**–**	**8**	**–100**
Profit/loss from investments in entities	–2	–	–
Total	**–2**	**8**	**–**

Valuation gains of EUR 21m which were previously recognized under equity were reclassified from the revaluation reserve to the income statement (prior year: valuation gains of EUR 7m). These valuation gains are related to the sale of the indirectly held shares in DekaBank Deutsche Girozentrale and are reported in net interest income.

(24) Profit/loss from investments accounted for using the equity method

	1 Jan 2011 – 31 Dec 2011 (in EUR m)	1 Jan 2010 – 31 Dec 2010 (in EUR m)	Change (in %)
Investments in associates			
Income	10	6	67
Expenses	–	–	–
Total	**10**	**6**	**67**

(25) Administrative expenses

The Group's administrative expenses comprise personnel expenses, other administrative expenses and depreciation and amortization of property and equipment, investment property and intangible assets.

The expenses break down as follows:

	1 Jan 2011 – 31 Dec 2011 (in EUR m)	1 Jan 2010 – 31 Dec 2010 (in EUR m)	Change (in %)
Personnel expenses			
Wages and salaries	74	75	–1
Social security	11	12	–8
Pension and other benefit costs (thereof service cost of EUR 5m (prior year: EUR 4m))	6	5	20
Total personnel expenses	**91**	**92**	**–1**
Other administrative expenses			
IT and communication costs	31	36	–14
Premises costs	7	7	–
Marketing, communication and entertainment costs	7	6	17
Person-related other administrative expenses	4	3	33
Legal, audit, appraisal and consulting fees	7	7	–
Dues and contributions	4	4	–
Expenses for furniture, fixtures and office equipment	1	1	–
Other administrative expenses	1	1	–
Total other administrative expenses	**62**	**65**	**–5**
Depreciation and amortization			
Property and equipment	3	3	–
Intangible assets	2	1	100
Investment property	1	1	–
Total depreciation and amortization	**6**	**5**	**20**
Total	**159**	**162**	**–2**

(26) Other operating profit/loss

	1 Jan 2011 – 31 Dec 2011 (in EUR m)	1 Jan 2010 – 31 Dec 2010 (in EUR m)	Change (in %)
Other operating income			
From rental and lease income	7	7	–
From cost reimbursements	1	1	–
From the disposal of assets	–	7	–100
Other income	3	6	–50
Total other operating income	**11**	**21**	**–48**
Other operating expenses			
From rental and lease expenses	1	1	–
From the redemption of issued debt securities	2	3	–33
Other expenses	7	–	–
Impairment of property and equipment	–	–	–
Total other operating expenses	**10**	**4**	**>100**
Total	**1**	**17**	**–94**

Other operating income mainly comprises income from the reversal of other provisions of EUR 1m.

Other expenses relate to expenses from the repurchase of issued debt securities of EUR 2m and the bank levy of EUR 5m as stipulated by the RStruktFG [“Restrukturierungsfondsgesetz”: German Restructuring Fund Act] and enacted by the separate RStruktFV [“Restrukturierungsfonds-Verordnung”: German Restructuring Fund Ordinance] in the third quarter of 2011.

(27) Income taxes

The Group’s income taxes break down as follows:

	1 Jan 2011 – 31 Dec 2011 (in EUR m)	1 Jan 2010 – 31 Dec 2010 (in EUR m)	Change (in %)
Current income taxes	47	41	15
Deferred taxes	–13	–27	–52
Total income tax expense	**34**	**14**	**>100**

The following tax reconciliation statement shows the correlation between IFRS earnings before taxes and reported income tax expense.

	1 Jan 2011 – 31 Dec 2011 (in EUR m)	1 Jan 2010 – 31 Dec 2010 (in EUR m)	Change (in %)
IFRS earnings before taxes	**165**	**63**	**>100**
Anticipated income tax expense	52	20	>100
Effects of reconciliation			
Effects of differing tax rates	–1	–1	–
Taxes from prior years reported in the fiscal year	–5	–4	25
Effects of changes in tax rates	–1	0	–
Non-deductible business expenses	3	0	–
Effects of tax-free income	–13	–1	>100
Permanent accounting-related effects	–3	–1	>100
Effects of assessment base transfers	–2	–	–
Other effects	4	1	>100
Reported income tax expense	**34**	**14**	**>100**

Anticipated income tax expense in the tax reconciliation statement is calculated on the basis of the corporate income tax rate of 15% which was valid in Germany in 2011 plus a solidarity surcharge of 5.5% and the average trade tax rate of approximately 15.6%. This leads to a domestic income tax rate of 31.5% (prior year: 31.5%) which is used to measure deferred taxes as of the balance sheet date.

Notes to the consolidated balance sheet

(28) Cash reserve

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Cash on hand	4	4	–
Balances at central banks	210	70	>100
Total	**214**	**74**	**>100**

The balances at central banks of EUR 210m (prior year: EUR 70m) relate to balances at Deutsche Bundesbank to satisfy minimum reserve requirements.

(29) Loans and advances to banks

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Loans and advances from money market business			
German banks	594	1,261	–53
Foreign banks	301	196	54
Total loans and advances from money market business	**895**	**1,457**	**–39**
Other loans and advances			
German banks			
Payable on demand	66	47	40
Limited term	3,581	3,661	–2
Foreign banks			
Payable on demand	35	35	–
Limited term	274	313	–12
Total other loans and advances	**3,956**	**4,056**	**–2**
Total	**4,851**	**5,513**	**–12**

Of the loans and advances to German banks, EUR 3,245m (prior year: EUR 3,451m) are loans and advances to associated savings banks. Of the total amount, EUR 3,213m (prior year: EUR 3,240m) are loans and advances which will only be realized or settled after a period of more than 12 months.

(30) Loans and advances to customers

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Loans and advances from money market business			
German customers	152	125	22
Foreign customers	4	4	–
Total loans and advances from money market business	**156**	**129**	**21**
Other loans and advances			
German customers			
Payable on demand	1,010	798	27
Limited term	18,849	18,811	0
Foreign customers			
Payable on demand	110	65	69
Limited term	2,560	2,257	13
Total other loans and advances	**22,529**	**21,931**	**3**
Total	**22,685**	**22,060**	**3**

Of the total amount, EUR 18,282m (prior year: EUR 15,499m) are loans and advances which will only be realized or settled after a period of more than 12 months.

(31) Risk provisions

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Risk provisions for loans and advances to banks			
German banks	8	5	60
Portfolio allowances on loans and advances	1	1	–
Total risk provisions for loans and advances to banks	**9**	**6**	**50**
Risk provisions for loans and advances to customers			
German customers	300	232	29
Foreign customers	–	0	–
Portfolio allowances on loans and advances	69	68	1
Total risk provisions for loans and advances to customers	**369**	**300**	**23**
Total	**378**	**306**	**24**

The risk provisions and loan loss provisions recognized for loans and advances to banks and loans and advances to customers developed as follows:

(in EUR m)	Specific allowances		Portfolio allowances (on balance sheet)		Total		Loan loss provisions[1]	
	2011	2010	2011	2010	2011	2010	2011	2010
Loans and advances to banks 1 Jan	**5**	**6**	**1**	**1**	**6**	**7**	**–**	**–**
Changes through profit or loss								
Allocations	4	–	–	–	**4**	**0**	–	–
Reversals	–	–	–	–	**–**	**0**	–	–
Unwinding	–1	–1	–	–	**–1**	**–1**	–	–
Changes recognized in equity								
Utilizations	–	–	–	–	**–**	**–**	–	–
Reclassifications	–	–	–	–	–	**–**	–	–
31 Dec	**8**	**5**	**1**	**1**	**9**	**6**	**–**	**–**
Loans and advances to customers 1 Jan	**232**	**161**	**68**	**102**	**300**	**263**	**26**	**25**
Changes through profit or loss								
Allocations	142	119	7	–	**149**	**119**	3	9
Reversals	–41	–45	–	–17	**–41**	**–62**	–6	–7
Unwinding	–10	–8	–	–	**–10**	**–8**	1	–
Changes recognized in equity								
Utilizations	–29	–13	–	–	**–29**	**–13**	–1	–
Reclassifications	6	18	–6	–17	–	**1**	–2	–1
31 Dec	**300**	**232**	**69**	**68**	**369**	**300**	**21**	**26**
Total	**308**	**237**	**70**	**69**	**378**	**306**	**21**	**26**

[1] Including off-balance sheet portfolio allowances

The total amount of loans for which no interest payments are received was EUR 29m as of 31 December 2011 (prior year: EUR 36m). Specific allowances were made for loans with a total volume of EUR 878m (prior year: EUR 658m).

Outstanding interest due on these loans amounted to EUR 1m as of 31 December 2011 (prior year: EUR 1m). In the fiscal year, direct write-offs of loans and advances amounted to EUR 6m (prior year: EUR 2m). Recoveries on loans and advances previously written off amounted to EUR 3m (prior year: EUR 2m).

The maximum exposure to credit risk of the financial assets under IFRS 7.36(a) equals the carrying amount of the instruments.

The quality of loans and receivables and available-for-sale financial assets developed as follows:

Rating (in EUR m)	Very good to good 2011	Very good to good 2010	Good/ satisfactory 2011	Good/ satisfactory 2010	Still good/ adequate 2011	Still good/ adequate 2010	Increased risk 2011	Increased risk 2010	High risk 2011	High risk 2010	Very high risk 2011	Very high risk 2010	No rating 2011	No rating 2010
Loans and receivables (LAR)														
Loans and advances to banks	4,825	5,487	–	–	–	–	–	–	–	–	26	26	–	–
Loans and advances to customers	12,060	12,745	2,960	3,094	3,319	2,798	1,350	930	1,027	806	1,093	1,042	876	645
Financial assets	14	14	–	–	–	–	–	–	–	–	–	–	–	–
Available for sale (AFS)														
Financial assets	4,984	5,578	–	58	–	–	236	38	–	–	–	–	–	0
Total	**21,883**	**23,824**	**2,960**	**3,152**	**3,319**	**2,798**	**1,586**	**968**	**1,027**	**806**	**1,119**	**1,068**	**876**	**645**

In the fiscal year, past due loans and receivables changed as follows:

Rating (in EUR m)	Neither past due nor impaired		Past due but not impaired							
			Less than 3 months		3 to 6 months		6 to 12 months		More than 12 months	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Loans and receivables (LAR)										
Loans and advances to banks	4,825	5,487	–	–	–	–	–	–	–	–
Loans and advances to customers	20,572	20,780	537	591	636	6	40	11	22	14
Financial assets	14	14	–	–	–	–	–	–	–	–
Available for sale (AFS)										
Financial assets	5,220	5,674	–	–	–	–	–	–	–	–
Total	**30,631**	**31,955**	**537**	**591**	**636**	**6**	**40**	**11**	**22**	**14**

As in the prior year, available-for-sale financial assets were not impaired.

In the fiscal year, impaired loans and receivables changed as follows:

(in EUR m)	Carrying amounts 2011	Carrying amounts 2010	Allowances 2011	Allowances 2010
Loans and receivables (LAR)				
Loans and advances to banks	26	26	8	5
Loans and advances to customers	878	658	300	232
Financial assets	–	–	–	–
Total	**904**	**684**	**308**	**237**

(32) Financial assets at fair value through profit or loss

This item contains trading assets (held for trading - HFT) and financial instruments designated at fair value. The trading activities of the Group comprise trading in debt securities and other fixed-income securities, shares and other variable-yield securities, registered securities and derivative financial instruments which are not used in hedge accounting.

Of the debt securities and other fixed-income securities measured at fair value through profit or loss and the shares and other variable-yield securities, EUR 107m (prior year: EUR 88m) are marketable and EUR 107m (prior year: EUR 83m) are listed.

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Trading assets			
Debt securities and other fixed-income securities			
Bonds and debt securities			
Issued by the public sector	10	–	–
Issued by other borrowers	15	–	–
Total debt securities and other fixed-income securities	**25**	**–**	**–**
Shares and other variable-yield securities and investment fund shares	–	–	–
Positive fair values from derivatives in connection with:			
Interest rate risk	1,046	787	33
Currency risk	176	200	–12
Credit derivatives	20	12	67
Total positive fair values from derivatives	1,242	999	24
Total trading assets	**1,267**	**999**	**27**
Financial assets designated at fair value			
Debt securities and other fixed-income securities	82	88	–7
Total financial assets designated at fair value	**82**	**88**	**–7**
Total	**1,349**	**1,087**	**24**

Of the total amount, EUR 1,086m (prior year: EUR 943m) are financial assets which will only be realized or settled after a period of more than 12 months.

(33) Positive fair values from hedge accounting derivatives

This item comprises the positive fair values of hedging instruments in effective fair value hedges.

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Derivatives from micro fair value hedges	364	306	19
Derivatives from portfolio fair value hedges	167	32	>100
Total	**531**	**338**	**57**

Of the total amount, EUR 462m (prior year: EUR 266m) are hedging instruments which will only be realized or settled after a period of more than 12 months. Interest rate swaps are used as hedging instruments.

(34) Financial assets

The item "Financial assets" comprises debt securities and other fixed-income securities classified as available for sale as well as shares and other variable-yield securities. Investments in entities and a silent participation in DekaBank Deutsche Girozentrale (carrying amount EUR 14m), classified as "Loans and receivables" (LAR), are also reported here.

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Financial assets in the LAR category	**14**	**14**	**–**
Available-for-sale financial assets (AFS)			
Debt securities and other fixed-income securities			
Issued by the public sector	1,423	1,417	0
Issued by other borrowers	3,723	4,065	–8
Money market securities	–	–	–
Total debt securities and other fixed-income securities	**5,146**	**5,482**	**–6**
Shares and other variable-yield securities	9	0	–
Investments in non-consolidated entities	65	192	–66
Other financial assets in the AFS category	–	–	–
Total available-for-sale financial assets (AFS)	**5,220**	**5,674**	**–8**
Total	**5,234**	**5,688**	**–8**

Of the total amount, EUR 4,625m (prior year: EUR 4,621m) represents available-for-sale financial assets (AFS) which will only be realized or settled after a period of more than 12 months. The LAR financial assets have a term of more than 12 months.

Particularly due to the disposal of the equity investment in DekaBank Deutsche Girozentrale, held indirectly through GLB GmbH & Co. OHG, and the related reduction in the capital of GLB GmbH & Co. OHG, the carrying amount of investments in non-consolidated entities is EUR 127m lower as of 31 December 2011 than it was as of 31 December 2010.

(35) Investments accounted for using the equity method

This item comprises investments in associates within the meaning of IAS 28 accounted for using the equity method. Investments accounted for in accordance with the equity method break down as follows:

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Associates			
Banks	15	12	25
Other companies	69	65	6
Total	**84**	**77**	**9**

Investments accounted for using the equity method have a term of more than 12 months.

(in EUR m)	Associates 2011	2010
1 Jan	**77**	**81**
Additions	0	0
Disposals	0	–7
Impairment losses	0	0
Write-ups	7	3
Changes recognized in equity	0	0
31 Dec	**84**	**77**

The following table summarizes financial information on associates accounted for using the equity method in proportion to the shareholding:

EUR m	DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG	BREBAU GmbH	Ammerländer Wohnungsbau-Gesellschaft mbH [1]	Lazard-Sparkassen Rendite-Plus-Fonds	GSG OLDEN-BURG Bau- und Wohngesellschaft mbH
Share in net assets as of 31 Dec 2011	16.50%	48.84%	32.26%	49.18%	22.22%
Assets	150	80	23	17	52
Liabilities	135	44	11	0	33
Equity	15	36	12	17	19
Total income	9	21	3	0	13
Profit/loss for the period	4	2	1	0	4

[1] Figures as of 31 December 2010

(36) Property and equipment

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Land and buildings	28	29	–3
Furniture, fixtures and office equipment	8	5	60
Other property and equipment	2	2	–
Total	**38**	**36**	**6**

First advance payments of EUR 3m were made in 2011 for the construction of the new building for the Bremen branch, commencing in 2012. In-house market value appraisals identified hidden reserves of EUR 45m in land and buildings. The additions of furniture, fixtures and office equipment are mainly attributable to IT equipment of EUR 3m acquired for regulatory reasons for mirroring and transferring the data processing centers to external locations in Bremen and Oldenburg. The historical cost of property and equipment which had been fully amortized by the balance sheet date but which is still in use is EUR 54m.

(37) Investment property

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Investment property	68	70	–3
Total	**68**	**70**	**–3**

The fair value of investment property amounts to EUR 99m. Renting out this property earned EUR 7m in the fiscal year (prior year: EUR 7m). The increase in the historical cost of investment property was attributable to the completion of the rented retail premises in the main building in Oldenburg (EUR 1m). Direct operating expenses (including repairs and maintenance) excluding depreciation amounted to EUR 2m (prior year: EUR 1m).

The development of cost and accumulated depreciation and impairment for property and equipment and investment property is as follows:

	Used for banking operations				Not used for banking operations		
(in EUR m)	Land and buildings	Furniture, fixtures and office equipment	Prepayments/assets under construction	Total	Investment property	Prepayments/assets under construction	Total
Historical cost as of 1 Jan 2010	**65**	**29**	**5**	**99**	**78**	**–**	**78**
Additions	13	3	4	**20**	10	1	**11**
Disposals	–	–1	–7	**–8**	–6	–	**–6**
Total as of 31 Dec 2010	**78**	**31**	**2**	**111**	**82**	**1**	**83**
Accumulated depreciation and impairment as of 1 Jan 2010	**–48**	**–24**	**–**	**–72**	**–14**	**–**	**–14**
Depreciation	–1	–2	–	**–3**	–1	–	**–1**
Impairment	–	–	–	**0**	–	–	**–**
Reclassifications	–	–	–	**0**	–	–	**–**
Disposals	–	–	–	**–**	2	–	**2**
Total as of 31 Dec 2010	**–49**	**–26**	**–**	**–75**	**–13**	**–**	**–13**
Closing balance as of 31 Dec 2010	**29**	**5**	**2**	**36**	**69**	**1**	**70**
Historical cost as of 1 Jan 2011	**78**	**31**	**2**	**111**	**82**	**1**	**83**
Additions	1	4	4	**9**	1	0	**1**
Disposals	–	0	–4	**–4**	0	–1	**–1**
Total as of 31 Dec 2011	**79**	**35**	**2**	**116**	**83**	**0**	**83**
Accumulated depreciation and impairment as of 1 Jan 2011	**–49**	**–26**	**–**	**–75**	**–13**	**–**	**–13**
Depreciation	–2	–1	–	**–3**	–2	–	**–2**
Impairment	–	–	–	**–**	–	–	**–**
Reclassifications	–	–	–	**–**	–	–	**–**
Disposals	–	–	–	**–**	–	–	**–**
Total as of 31 Dec 2011	**–51**	**–27**	**0**	**–78**	**–15**	**0**	**–15**
Closing balance as of 31 Dec 2011	**28**	**8**	**2**	**38**	**68**	**0**	**68**

(38) Intangible assets

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Software			
Purchased	2	2	–
Internally developed	9	–	–
Total	**11**	**2**	**>100**

Intangible assets relate to system and application software, both purchased software and internally developed intangible assets. In 2011, EUR 9m was recognized as an internally developed intangible asset for the architecture of the FI migration interfaces. The remaining useful life of intangible assets is between 1 and 59 months. The historical cost of intangible assets which had been fully amortized by the balance sheet date but which are still in use is EUR 10m (prior year: EUR 8m).

Intangible assets developed as follows:

(in EUR m)	Software 2011	Software 2010
Historical cost as of 1 Jan	**13**	**12**
Additions	11	1
Disposals	–	–
Total 31 Dec	**24**	**13**
Accumulated amortization as of 1 Jan	**–11**	**–10**
Amortization	–2	–1
Disposals	–	–
Total 31 Dec	**–13**	**–11**
Closing balance as of 31 Dec	**11**	**2**

(39) Current income tax assets and deferred income taxes

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Current income tax assets	6	7	–14
Deferred tax assets	142	117	21
Total	**148**	**124**	**19**

Deferred tax assets show potential income tax relief from temporary differences in the carrying amounts of assets and liabilities in the IFRS consolidated balance sheet and their tax base in accordance with the tax regulations governing group entities. No deferred tax assets were offset directly against equity as of 31 December 2011.

Deferred income tax assets were recognized in connection with the following balance sheet items and unused tax losses:

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change in %
Risk provisions	16	14	14
Financial assets at fair value through profit or loss	390	243	60
Financial assets	17	3	>100
Property and equipment	22	20	10
Intangible assets	1	1	–
Liabilities to banks	12	10	20
Liabilities to customers	40	21	90
Securitized liabilities	25	18	39
Financial liabilities at fair value through profit or loss	82	91	–10
Negative fair values from hedge accounting derivatives	83	40	>100
Provisions	65	65	–
Subordinated capital	9	6	50
Tax loss carryforwards and other deferred tax assets	11	11	–
Total	**773**	**543**	**42**
Netting	631	426	48
Total	**142**	**117**	**21**

Deferred income tax assets will be realized after more than 12 months.

(40) Other assets

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Inventories	1	1	–
Tax refund claims resulting from other taxes	–	2	–100
Other assets	26	35	–26
Total	**27**	**38**	**–29**

Other assets primarily include receivables from non-consolidated subsidiaries of EUR 14m (prior year: EUR 16m) and claims against Icelandic banks of EUR 7m (prior year: EUR 8m).

All the amounts recognized in other assets are due within the next 12 months.

(41) Liabilities to banks

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Deposits from other banks			
German banks	–	–	–
Foreign banks	–	–	–
Total deposits from other banks	**–**	**–**	**–**
Liabilities from money market business			
German banks	1,201	2,585	–54
Foreign banks	–	152	–100
Total liabilities from money market business	**1,201**	**2,737**	**–56**
Other liabilities			
German banks			
Payable on demand	246	240	3
Limited term	8,426	7,468	13
Foreign banks			
Payable on demand	9	25	–64
Limited term	1,127	1,130	–0
Total other liabilities	**9,808**	**8,863**	**11**
Total	**11,009**	**11,600**	**–5**

Of the total amount, EUR 8,289m (prior year: EUR 7,818m) are liabilities to banks which will probably only be realized or settled after more than 12 months.

Of the liabilities to German banks, EUR 437m (prior year: EUR 664m) relates to associated savings banks.

(42) Liabilities to customers

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Savings deposits			
With an agreed period of notice of three months			
German customers	158	184	–14
Foreign customers	15	15	–
With an agreed period of notice of more than three months			
German customers	17	13	31
Foreign customers	1	1	–
Total savings deposits	**191**	**213**	**–10**
Liabilities from money market business			
German customers	2,038	1,787	14
Foreign customers	93	120	–23
Total liabilities from money market business	**2,131**	**1,907**	**12**
Other liabilities			
German customers			
Payable on demand	1,847	1,811	2
Limited term	6,296	6,115	3
Foreign customers			
Payable on demand	138	109	27
Limited term	1	–	–
Total other liabilities	**8,282**	**8,035**	**3**
Total	**10,604**	**10,155**	**4**

Of the total amount, EUR 7,082m (prior year: EUR 5,472m) are liabilities to customers which will probably only be realized or settled after more than 12 months.

(43) Securitized liabilities

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Issued debt securities			
Pfandbriefe	632	677	–7
Municipal debt securities	2,196	2,285	–4
Other debt securities	5,340	5,304	1
Total issued debt securities	**8,168**	**8,266**	**–1**
Money market securities			
Commercial paper	524	673	–22
Other money market securities	–	–	–
Total money market securities	**524**	**673**	**–22**
Total	**8,692**	**8,939**	**–3**

Of the total amount, EUR 6,536m (prior year: EUR 7,105m) are securitized liabilities which will probably only be realized or settled after more than 12 months.

In accordance with IAS 39, debt securities issued and held by the Group itself of a nominal amount of EUR 150m (prior year: EUR 99m) were directly deducted from debt securities issued.

The following list contains the significant debt securities issued in 2011 with an issue volume of EUR 40m and higher.

Security abbreviation	Nominal	Currency	Maturity	Interest rate
BREM.LB.KR.A.OLD.PF.20VAR	50,000,000.00	EUR	21 Nov 2014	1.774
BREM.LB.KR.A.OLD.OPF 90	51,000,000.00	EUR	14 Jan 2014	1.95
BREM.LB.KR.A.OLD.OPF 93	100,000,000.00	EUR	12 Nov 2012	1.25
BREM.LB.KR.A.OLD.IS.116	47,679,000.00	EUR	7 Feb 2013	2.5
BREM.LB.KR.A.OLD.IS.118	42,566,000.00	EUR	17 Feb 2014	2.5
BREMER LDSBK TR.910	90,000,000.00	EUR	19 Jan 2012	0.955
BREMER LDSBK TR.913	190,000,000.00	EUR	3 Jan 2012	0.7

(44) Adjustment item for financial instruments included in the portfolio fair value hedge

This item comprises the changes in value due to interest rate fluctuations of designated other liabilities (OL) in the portfolio fair value hedge.

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Adjustment item for financial instruments included in the portfolio fair value hedge	142	22	>100
Interest rate risk	**142**	**22**	**>100**

(45) Financial liabilities at fair value through profit or loss

This item comprises the trading liabilities (held for trading – HFT). As in the prior year, there were no liabilities designated at fair value through profit or loss.

Trading liabilities are negative fair values resulting from derivative financial instruments which were not used in hedge accounting.

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Trading liabilities			
Negative fair values from derivatives in connection with:			
Interest rate risk	1,050	818	28
Currency risk	371	386	–4
Equity price and other price risks	–	–	–
Credit derivatives	265	245	8
Total trading liabilities	**1,686**	**1,449**	**16**
Total	**1,686**	**1,449**	**16**

Of the total amount, EUR 1,281m (prior year: EUR 1,199m) are financial instruments at fair value which will only be realized or settled after more than 12 months.

(46) Negative fair values from hedge accounting derivatives

This item comprises the negative fair values of hedging instruments in effective fair value hedges.

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Derivatives from micro fair value hedges	79	66	20
Derivatives from portfolio fair value hedges	45	40	13
Total	**124**	**106**	**17**

Of the total amount, EUR 93m (prior year: EUR 69m) are hedging instruments which will be realized or settled after more than 12 months.

Interest rate swaps are used as hedging instruments.

(47) Provisions

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Provisions for pensions and similar obligations	281	275	2
Other provisions			
Loan loss provisions	21	26	–19
Provisions for uncertain liabilities	17	19	–11
Total	**319**	**320**	**0**

Of the loan loss provisions, EUR 2m (prior year: EUR 3m) relates to portfolio allowances.

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations break down as follows:

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Present value of defined benefit obligation	316	311	2
Less fair value of plan assets	–35	–36	–3
Total	**281**	**275**	**2**

The present value of the defined benefit obligation is reconciled between the opening and the closing balance, taking into account the effects of the following items:

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Opening balance	**311**	**297**	**5**
Current service cost	5	4	25
Interest cost	16	16	–
Actuarial gains/losses from the obligation	–2	7	–
Benefits paid	–14	–13	8
Closing balance	**316**	**311**	**2**

The present value of the obligation is funded in the amount of EUR 311m (prior year: EUR 306m) and unfunded in the amount of EUR 5m (prior year: EUR 5m).

The actuarial gains recognized in retained earnings break down as follows:

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Actuarial gains	82	81	1
Adjustment for deferred taxes	–26	–25	4
Total	**56**	**56**	**–**

The fair value of plan assets developed as follows:

	2011 (in EUR m)	2010 (in EUR m)	Change (in %)
Opening balance	**36**	**38**	**–5**
Expected return on plan assets	1	1	–
Actuarial gains/losses from plan assets	–1	0	–
Employer contributions	13	10	30
Benefits paid	–14	–13	8
Closing balance	**35**	**36**	**–3**

Plan assets and expected returns by type of asset break down as follows:

	Expected return for 2012	Composition of plan assets	
		31 Dec 2011	31 Dec 2010
Equity instruments	7.0%	3.9%	4.0%
Debt instruments	3.3%	69.8%	78.0%
Other assets	3.5%	26.3%	18.0%
	3.5%	**100.0%**	**100.0%**

The cover funds of Bremer Landesbank's pension fund are reported as plan assets. Funds which are not required for current pension payments have been invested in annuity bonds and equities under an asset management agreement. Plan assets are measured at fair value.

The Group expects payments to employees and allocations to plan assets of EUR 9m in 2012. In the fiscal year, the actual return on plan assets amounted to EUR 0m (prior year: EUR 1m). The expected return on plan assets for 2012 is EUR 1m based on an estimated average return of 3.5%. The expected return for 2012 for equity instruments is based on the assumption of a long-term increase in share values of 7%. The expected return for 2012 for debt instruments is based on the average expected return on the interest-bearing securities held. The expected return for 2012 on other assets (3.5%) is a weighted value derived from other capital instruments. The fair value of plan assets contains financial instruments issued by Bremer Landesbank in the "debt instruments" category of EUR 3m (prior year: EUR 5m).

The history of the present value of the defined benefit obligation and the fair value of plan assets are shown in the following table:

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	31 Dec 2009 (in EUR m)	31 Dec 2008 (in EUR m)	31 Dec 2007 (in EUR m)
Present value of defined benefit obligation	316	311	297	272	295
Fair value of plan assets	–35	–36	–38	–39	–42
Balance	**281**	**275**	**259**	**233**	**253**

Experience adjustments to plan assets and the volume of obligations break down as follows:

(+ = income; – = expense)	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	31 Dec 2009 (in EUR m)	31 Dec 2008 (in EUR m)	31 Dec 2007 (in EUR m)
Differences between return on plan assets and actual income	**–1**	**0**	**1**	**–2**	**0**
Experience adjustments to pension obligations	**1**	**4**	**0**	**9**	**3**

The assumptions on the development of costs in the medical sector affect the amounts shown for health insurance benefits. A change in the assumed development of healthcare costs by 1 percentage point would have the following effects for the Group:

(in EUR m)	Increase by 1 percentage point		Decrease by 1 percentage point	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Effect on the obligation at year-end	**1**	**1**	**–1**	**–1**
Effect on total current service and interest cost for the fiscal year	**0**	**0**	**0**	**0**

Other provisions

The other provisions developed as follows:

(in EUR m)	Loan loss provisions	Provisions for uncertain liabilities Provisions for personnel obligations	Other provisions for other uncertain liabilities	Total
Balance as of 1 Jan 2010	**25**	**14**	**2**	**41**
Utilizations	0	–5	0	–5
Reversals	–8	0	–1	–9
Allocations	9	9	0	18
Reclassifications	0	0	0	0
Balance as of 31 Dec 2010	**26**	**18**	**1**	**45**
Balance as of 1 Jan 2011	**26**	**18**	**1**	**45**
Utilizations	–1	–4	–1	–6
Reversals	–6	0	0	–6
Allocations	4	2	1	7
Reclassifications	–2	0	0	–2
Balance as of 31 Dec 2011	**21**	**16**	**1**	**38**

Other provisions comprise loan loss provisions, provisions for personnel obligations and other provisions for uncertain liabilities. The Bank has not recognized any provisions for restructuring or pending losses.

Provisions for personnel comprise provisions for early retirement of EUR 13m (prior year: EUR 14m) and provisions for long-service awards of EUR 3m (prior year: EUR 3m).

The discount for the other loan loss provisions was unwound by a total of EUR 905k. EUR 25k of this amount resulted from the change in the discount rate.

None of the provisions are expected to be utilized within 12 months.

(48) Current income tax liabilities and deferred income taxes

Income tax liabilities break down as follows:

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Current income tax liabilities	32	33	**–3**
Deferred tax liabilities	2	1	**100**
Total	**34**	**34**	**–**

Deferred tax liabilities show potential income tax charges from temporary differences in the carrying amount of assets and liabilities in the IFRS consolidated balance sheet and their tax base in accordance with the tax regulations governing group entities. EUR 0.2m in deferred tax liabilities were offset directly against equity as of 31 December 2011.

Deferred tax liabilities relate to the following balance sheet items:

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Loans and advances to customers	6	8	–25
Positive fair values from hedge accounting derivatives	166	104	60
Financial assets	16	19	–16
Investment property	5	5	–
Intangible assets	2	0	–
Other assets	0	1	–100
Financial liabilities at fair value through profit or loss	394	245	61
Provisions	26	25	4
Other liabilities	18	20	–10
Total	**633**	**427**	**48**
Netting	631	426	48
Total	**2**	**1**	**100**

Income tax liabilities from deferred taxes will be settled after more than 12 months.

(49) Other liabilities

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Liabilities from outstanding invoices	4	6	–33
Liabilities from contributions	1	1	–
Liabilities from short-term employee remuneration	9	8	13
Liabilities from payable taxes and social security contributions	2	3	–33
Other liabilities	18	6	>100
Total	**34**	**24**	**42**

Accrued liabilities for short-term employee remuneration will be paid to group employees during the first six months of 2012.

Other liabilities relate to the allocation to the cover funds of the pension fund (EUR 4m), the profit distribution of GLB OHG (EUR 5m) and to Bremer Landesbank liabilities to third parties of EUR 9m.

All the amounts recognized in other liabilities will be realized within the next 12 months.

(50) Subordinated capital

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Subordinated liabilities	506	500	1
Silent participations	664	663	0
Total	**1,170**	**1,163**	**1**

Items reported in subordinated capital exclusively comprise liable capital in accordance with the Basel Accord. Subordination relates to the order in which payments due to creditors would be satisfied in the event of insolvency or liquidation. In such cases, subordinated liabilities would not be repaid until the claims of all senior creditors had been satisfied.

Interest expenses for subordinated liabilities amounted to EUR 15m (prior year: EUR 13m). Accrued interest not yet due is reported in subordinated capital under subordinated liabilities.

Due to their contractual form and economic substance, silent participations constitute liabilities in accordance with IAS 32.

Interest expenses for silent participations amounted to EUR 32m (prior year: EUR 36m).

A nominal EUR 150m (prior year: EUR 150m) of subordinated liabilities bears interest at fixed rates and EUR 350m (prior year: EUR 350m) bears interest at variable rates.

At the end of 2011, the following significant subordinated liabilities were outstanding:

Nominal amount (in EUR m)	Maturity	Interest rate
200	28 Jun 2030	Variable
85	21 Mar 2031	Variable
65	5 Apr 2041	Variable
150	15 Dec 2015	4.875
500		

Of the total amount, a nominal EUR 500m (prior year: EUR 500m) are subordinated liabilities which will only be realized or settled after a period of more than 12 months.

(51) Notes to the statement of comprehensive income

(in EUR m)	1 Jan 2011 – 31 Dec 2011 Amount before tax	Effect of income taxes	Amount after tax	1 Jan 2010 – 31 Dec 2010 Amount before tax	Effect of income taxes	Amount after tax
Consolidated profit in the income statement	**165**	**–34**	**131**	**63**	**–14**	**49**
Change from AFS financial instruments	–57	13	**–44**	9	1	**10**
Changes in value of investments accounted for using the equity method recognized directly in equity	0	0	**0**	0	0	**0**
Actuarial gains/losses on defined benefit obligation	1	–1	**0**	–7	2	**–5**
Other comprehensive income	**–56**	**12**	**–44**	**2**	**3**	**5**
Total comprehensive income for the period	**109**	**–22**	**87**	**65**	**–11**	**54**
thereof: attributable to shareholders of the parent company			**87**			**54**
thereof: attributable to non–controlling interests			**–**			**–**

The prior-year figures have been restated for some items; see Note (2).

(52) Notes on equity

Retained earnings include amounts allocated to the reserves from the profits of prior years and the current year. This item also reports actuarial gains from pension provisions and the profits/losses from investments accounted for using the equity method, which are recognized directly in equity.

The revaluation reserve includes the amounts resulting from the recognition in equity of valuation differences relating to available-for-sale financial assets. Related deferred taxes are deducted.

Bremer Landesbank's shareholders are as follows:

	Share
Norddeutsche Landesbank Girozentrale, Hanover, Braunschweig, Magdeburg	92.5%
Federal State of Bremen	7.5%
Total[1)]	**100.0%**

[1)] By contract, Bremer Landesbank's share capital is not divided into a specific number of shares or nominal amounts.

Capital management aims to achieve compliance with legal minimum requirements and a balance between risk potential and risk capital in order to ensure that the Bank is able to act at all times (cf. opportunities and risk section, risk-bearing capacity).

On the basis of this risk-bearing capacity concept, the risk potential of each type of risk is aggregated on a monthly basis and compared with the Bank's risk capital. In the risk-bearing capacity model, this is ensured by means of three perspectives.

- The first perspective is the going concern case which is based on the assumption that the Bank is continued as a going concern with the existing business model. Risks are measured using a defined confidence level of 90% and the economic risk potential is compared with free regulatory capital. Effects on risk capital arising during the year are also taken into account.

- The going concern approach is supplemented by the economic capital adequacy perspective in which the risk potential is calculated with higher confidence levels. Risks are measured on the basis of serious events of the kind that occur statistically about once every 1,000 years. On the capital side, the tests include all the equity and equity-related components. Effects on risk capital arising during the year are also taken into account. This perspective provides proof of the capital adequacy required under the MaRisk (ICAAP – Internal Capital Adequacy Assessment Process).
- In the third perspective, regulatory capital adequacy, risk-bearing capacity is tested on the basis of the regulatory requirements. As with the economic capital adequacy perspective, all equity and equity-related components are included on the capital side. This perspective must be complied with as a strict condition.

Risk capital (in EUR m)	**31 Dec 2011**	
Going concern (overall ratio 10%)	182	257
Going concern (overall ratio 9%)	361	431
Capital adequacy (economic)	1,906	1,913
Capital adequacy (regulatory)	1,904	1,913

In addition, under the ICAAP (Internal Capital Adequacy Assessment Process; second pillar of Basel II), a capital-risk ratio is calculated based on eligible capital excluding unused tier three capital in accordance with the SolvV.

External capital requirements were met throughout the fiscal year.

NORD/LB is obliged to offer its shares in Bremer Landesbank to the Free Hanseatic City of Bremen at the business value if Lower Saxony and the Association of the Savings Banks of Lower Saxony (SVN) dispose of their majority in the share capital and their owners' rights relating to NORD/LB, hence relinquishing their indirect authority to make decisions concerning Bremer Landesbank. The Free Hanseatic City of Bremen also has a permanent, unconditional put option vis-à-vis NORD/LB whereby the City can sell its shares in Bremer Landesbank to NORD/LB.

There are no other preferential rights and restrictions in accordance with IAS 1.76.

(53) Notes to the cash flow statement

The cash flow statement shows the change in cash and cash equivalents in the fiscal year based on the cash flows from operating, investing and financing activities.

Cash and cash equivalents are defined as the cash reserve (cash on hand, balances at central banks and public-sector debt instruments and bills of exchange eligible for refinancing with central banks).

The cash flow statement is prepared using the indirect method. Cash flow from operating activities is determined on the basis of the consolidated profit for the year, adding or deducting the non-cash expenses and income of that year. In addition, all cash expenses and income that do not relate to operating activities are eliminated. These payments are included in cash flow from investing or financing activities.

In accordance with the recommendations of the IASB, payments from loans and advances to banks and customers, trading book positions, liabilities to banks and customers and securitized liabilities are recognized in cash flow from operating activities.

In 2011, interest paid totaled EUR 1,882m (prior year: EUR 1,814m).

Information contained in the cash flow statement is of limited significance for banks. The cash flow statement neither replaces the liquidity or financial plan, nor is it used as a control instrument.

Please see the comments in the risk section regarding the Bremer Landesbank Group's liquidity risk management.

(54) Fair value hierarchy

The following tables show the application of the fair value hierarchy of the financial assets and liabilities recognized at fair value through profit or loss or in other comprehensive income:

(in EUR m)	Level 1 (Mark-to-market)	Level 2 (Mark-to-matrix)	Level 3 (Mark-to-model)
31 Dec 2011			
Trading assets	–	1,260	7
Financial assets designated at fair value	82	–	–
Positive fair values from hedge accounting derivatives	–	531	–
Financial assets at fair value	4,103	21	1,078
Other assets	7	–	–
Assets	**4,192**	**1,812**	**1,085**
Trading liabilities	0	1,581	105
Financial liabilities designated at fair value	–	–	–
Negative fair values from hedge accounting derivatives	–	124	–
Liabilities	**0**	**1,705**	**105**
31 Dec 2010			
Trading assets	–	987	12
Financial assets designated at fair value	83	5	–
Positive fair values from hedge accounting derivatives	–	338	–
Financial assets at fair value	4,709	73	875
Other assets	8	–	–
Assets	**4,800**	**1,403**	**887**
Trading liabilities	0	1,284	165
Financial liabilities designated at fair value	0	0	–
Negative fair values from hedge accounting derivatives	–	106	–
Liabilities	**0**	**1,390**	**165**

The estimation parameters used for measuring credit default swaps (CDSs) were analyzed in accordance with IAS 39.AG76 with the result that sharply widening credit spreads meant the valuation method previously used was increasingly failing to produce a standard market valuation for some CDS positions. As a result, in fiscal year 2011 Bremer Landesbank decided to apply a more differentiated approach for valuing CDSs (hazard rate method) which is more closely aligned to market practices when spreads are wider.

Had CDSs been valued using the previous method, the trading profit from the valuation of CDS positions would have been EUR 71m lower as of 31 December 2011, while trading liabilities EUR 75m would have been higher and trading assets EUR 4m higher.

As the effects on subsequent periods will depend on future market developments, they cannot be determined or stated.

Fair values from the synthetic credit portfolio of CDSs (Level 2 and Level 3) now total 8.3% as of 31 December 2011 (prior year: 6.8%) of the nominal amounts of EUR 2.9b (prior year: EUR 3.4b). The Bank intends to hold the existing synthetic credit portfolio to maturity.

In the case of mark-to-model valuation (Level 3), the fair values depend on the assumptions made, i.e., changes in the assumptions may lead to changes in fair value. Significant effects of such changes in value attributable to changes in assumptions are reviewed for the fair values recognized in the financial statements using a sensitivity analysis.

- During the analysis of sensitivity on Level 3 of the securities model, the internal rating is upgraded by one rating category and downgraded by one rating category, respectively. The sensitivity of the shift is indicated by the mean value of the two calculations and amounts to EUR 8.4m for the securities (prior year: EUR 6.4m).
- During the analysis of sensitivity on Level 3 of the CDS model, the internal rating is upgraded by one rating category and downgraded by one rating category, respectively. The sensitivity of the shift is indicated by the mean value of the two calculations and amounts to EUR 9.5m for the CDS model (prior year: EUR 2.2m).
- Adjusted beta is changed by -0.1 and +0.1 to analyze sensitivity on Level 3 of the financial assets model. The sensitivity of the shift is indicated by the mean value of the two calculations and amounts to EUR 4.3m for the financial assets (prior year: EUR 13.6m).

Transfers within the fair value hierarchy break down as follows:

(in EUR m)	From Level 1 to Level 2	From Level 1 to Level 3	From Level 2 to Level 1	From Level 2 to Level 3	From Level 3 to Level 1	From Level 3 to Level 2
31 Dec 2011						
Trading assets	–	–	–	0	–	6
Financial assets designated at fair value	–	–	–	–	–	–
Positive fair values from hedge accounting derivatives	–	–	–	–	–	–
Financial assets at fair value	21	391	0	10	101	–
Assets	**21**	**391**	**0**	**10**	**101**	**6**
Trading liabilities	–	–	–	5	–	40
Financial liabilities designated at fair value	–	–	–	–	–	–
Negative fair values from hedge accounting derivatives	–	–	–	–	–	–
Liabilities	**–**	**–**	**–**	**5**	**–**	**40**
31 Dec 2010						
Trading assets	–	–	–	3	–	–
Financial assets designated at fair value	–	–	–	–	–	–
Positive fair values from hedge accounting derivatives	–	–	–	–	–	–
Financial assets at fair value	–	100	47	–	228	–
Assets	**–**	**100**	**47**	**3**	**228**	**–**
Trading liabilities	–	–	–	34	–	16
Financial liabilities designated at fair value	–	–	–	–	–	–
Negative fair values from hedge accounting derivatives	–	–	–	–	–	–
Liabilities	**–**	**–**	**–**	**34**	**–**	**16**

As of the balance sheet date 2011, the instrument-specific price information for securities was rated as less reliable than on the prior-year balance sheet date so that mark-to-market valuation (Level 1) was used in more instances. This is attributable to the general market turmoil and led to a corresponding shift of securities from Level 1 to Level 3.

The development of financial assets and liabilities on Level 3 of the fair value hierarchy is as follows:

(in EUR m)	Trading assets	Financial assets at fair value	Total	Trading liabilities
Opening balance as of 1 Jan 2011	**12**	**875**	**887**	**–165**
P&L effect	1	19	**20**	–11
Effect of revaluation reserve	–	–29	**–29**	–
Purchases	–	43	**43**	–
Sales	–	–	**0**	–
Redemptions	0	–130	**–130**	36
Shift up from Levels 1 and 2	0	401	**401**	–5
Shift down from Levels 1 and 2	–6	–101	**–107**	40
Closing balance as of 31 Dec 2011	**7**	**1,078**	**1,085**	**–105**
Opening balance as of 1 Jan 2010	**2**	**996**	**998**	**–72**
P&L effect	7	–	**7**	–75
Effect of revaluation reserve	–	12	**12**	–
Purchases	–	–	**–**	–
Sales	–	–	**–**	–
Redemptions	–	–5	**–5**	–
Shift up from Levels 1 and 2	3	100	**103**	–34
Shift down to Levels 1 and 2	–	–228	**–228**	16
Closing balance as of 31 Dec 2010	**12**	**875**	**887**	**–165**

The P&L effects do not include any current profits and losses.

(55) Carrying amounts by measurement category

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Asset items			
Loans and receivables (LAR)	27,197	27,306	0
Available-for-sale assets (AFS)	5,220	5,674	–8
Held-for-trading financial assets (HFT)	1,267	999	27
Financial assets designated at fair value through profit or loss	82	88	–7
Positive fair values from hedges	531	338	57
Total asset items	**34,297**	**34,405**	**0**
Liability items			
Other liabilities (OL)	31,617	31,879	–1
Held-for-trading financial liabilities (HFT)	1,686	1,449	16
Negative fair values from hedges	124	106	17
Total liability items	**33,427**	**33,434**	**0**

The cash reserve is not included as a financial instrument as it is not allocated to any measurement category.

(56) Profit/loss by measurement category

The following contributions to profit and loss stem from the individual measurement categories:

	1 Jan 2011 – 31 Dec 2011 (in EUR m)	1 Jan 2010 – 31 Dec 2010 (in EUR m)	Change (in %)
Loans and receivables (LAR)	–115	–57	>100
Other liabilities (OL)	–2	–3	–33
Available-for-sale assets (AFS)	–3	12	–
Held-for-trading financial instruments (HFT)	13	–93	–
Financial instruments designated at fair value through profit or loss	0	0	–

The profits/losses do not contain any interest, commission or dividend income/expenses. They also do not contain the profit/loss from hedge accounting.

Valuation losses on available-for-sale financial assets of EUR 37m (prior year: valuation gains of EUR 16m) were recognized under equity in the revaluation reserve. In the same period, valuation gains of EUR 21m which were previously recognized under equity were reclassified from the revaluation reserve to the income statement (prior year: valuation losses of EUR 7m).

(57) Impairment losses/reversals of impairment losses by measurement category

	1 Jan 2011 – 31 Dec 2011 (in EUR m)	1 Jan 2010 – 31 Dec 2010 (in EUR m)	Change (in %)
Loan loss provisions			
Allocations to/reversals of loan loss provisions	3	–2	–
Total loan loss provisions	**3**	**–2**	**–**
Available-for-sale assets (AFS)			
Profit/loss from impairment of financial assets	–2	0	–
Write-downs/write-ups of other assets	–1	4	–
Total available-for-sale assets	**–3**	**4**	**–**
Loans and receivables (LAR)			
Impairment profit/loss from			
Profit/loss from specific allowances in the lending business			
Loans and advances to banks	–4	1	–
Loans and advances to customers	–104	–75	39
Profit/loss from portfolio allowances in the lending business	–7	17	–
Total loans and receivables[1]	**–115**	**–57**	**>100**
Total	**–115**	**–55**	**>100**

[1] excluding unwinding effects

The result from the valuation of loans and receivables (LAR) is stated under “Risk provisions in the lending business”. Changes in value recognized in profit or loss are shown under “Profit/loss from financial assets” for available-for-sale assets and under “Other operating profit/loss” for other assets.

(58) Fair values of financial instruments

The fair values of financial instruments recognized in the balance sheet at amortized cost or at their hedge fair value are compared with the carrying amounts in the following table.

(in EUR m)	31 Dec 2011 Fair value	31 Dec 2011 Carrying amount	31 Dec 2010 Fair value	31 Dec 2010 Carrying amount
Assets				
Cash reserve	214	214	74	74
Loans and advances to banks	4,969	4,851	5,600	5,513
Loans and advances to customers	23,387	22,685	22,654	22,060
Risk provisions	–	–378	–	–306
Financial assets at fair value through profit or loss				
Trading assets	1,267	1,267	999	999
Financial assets designated at fair value	82	82	88	88
Financial assets				
Financial assets in the LAR category	14	14	14	14
Financial assets in the AFS category	5,203	5,203	5,657	5,657
Financial assets in the AFS category (at cost)	17	17	17	17
Positive fair values from hedge accounting derivatives	531	531	338	338
Other assets				
in the LAR category	18	18	17	17
in the AFS category	7	7	8	8
Total	**35,709**	**34,511**	**35,466**	**34,479**
Liabilities				
Liabilities to banks	10,924	11,009	11,603	11,600
Liabilities to customers	10,782	10,604	10,161	10,155
Securitized liabilities	8,380	8,692	8,911	8,939
Adjustment item for financial instruments included in the portfolio fair value hedge	–	142	–	22
Financial liabilities at fair value through profit or loss				
Trading liabilities	1,686	1,686	1,449	1,449
Negative fair values from hedge accounting derivatives	124	124	106	106
Subordinated capital				
Silent participations	701	664	652	663
Subordinated liabilities	538	506	532	500
Other liabilities				
in the other liabilities (OL) category	0	0	1	1
Total	**33,135**	**33,427**	**33,415**	**33,435**
Additional classes				
Irrevocable loan commitments	68	2,643	30	2,821
Financial guarantees	4	607	3	741

The fair values of loans and advances to banks and customers include risk provisions.

The fair value of the adjustment item for financial instruments included in the portfolio fair value hedge is stated under the balance sheet items of the designated underlying contracts.

Investments in entities of EUR 17m (prior year: EUR 17m) were recognized at amortized cost. These shares are not listed in an active market. In the absence of forecast figures, it was not possible to reliably value these investments in entities. The Group does not plan any changes in relation to these shares.

(59) Maximum exposure to credit risk and available collateral

The following table shows the maximum exposure to credit risk and the available collateral, broken down by financial instrument classes:

(in EUR m)	Carrying amount before risk provisions	Risk provisions	Maximum exposure to credit risk	Fair value of available collateral
31 Dec 2011				
Loans and advances to banks	4,851	–8	4,843	–
Loans and advances to customers	22,685	–300	22,385	7,114
Irrevocable loan commitments	2,643	0	2,643	63
Financial guarantees	607	–17	590	137
Total	**30,786**	**–325**	**30,461**	**7,314**
31 Dec 2010				
Loans and advances to banks	5,513	–5	5,508	–
Loans and advances to customers	22,060	–232	21,828	6,741
Irrevocable loan commitments	2,821	0	2,821	10
Financial guarantees	741	–19	722	739
Total	**31,135**	**–256**	**30,879**	**7,490**

The available collateral breaks down as follows:

(in EUR m)	Commercial real estate	Guarantees	Other physical collateral	Other collateral	Total
31 Dec 2011					
Loans and advances to customers	1,983	2,810	1,245	1,076	**7,114**
Irrevocable loan commitments	12	0	50	1	**63**
Financial guarantees	66	3	59	9	**137**
Total	**2,061**	**2,813**	**1,354**	**1,086**	**7,314**
31 Dec 2010					
Loans and advances to customers	1,860	2,690	1,385	806	**6,741**
Irrevocable loan commitments	2	7	0	1	**10**
Financial guarantees	67	3	79	590	**739**
Total	**1,929**	**2,700**	**1,464**	**1,397**	**7,490**

As in the prior year, no collateral has been provided for loans and advances to banks.

(60) Derivative financial instruments

The Bremer Landesbank Group employs derivative financial instruments for hedging purposes in asset/liability management. It also trades in derivative financial instruments.

Derivative financial instruments in foreign currencies are chiefly concluded as forward exchange contracts, currency swaps, cross-currency interest rate swaps and currency options. Interest rate derivatives primarily comprise interest rate swaps, forward rate agreements as well as interest rate futures and interest rate options; in a few cases, forward contracts for fixed-income securities are also entered into. Equity derivative agreements are mainly concluded as equity options and equity index futures.

Nominal values are the gross volume of all purchases and sales. This value is a reference figure for calculating mutual compensation payments; it does not refer to loans and advances and liabilities which can be recognized in the balance sheet. The fair values of the individual contracts were measured on the basis of recognized valuation models without taking into account any netting agreements.

Derivative financial instruments break down as follows:

(in EUR m)	Nominal values		Positive fair values		Negative fair values	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Interest rate risk	**43,757**	**46,455**	**1,578**	**1,125**	**1,174**	**924**
Interest rate swaps	41,419	44,867	1,558	1,112	1,131	910
FRAs	0	0	0	0	0	0
Interest rate options	**202**	**186**	**0**	**0**	**11**	**6**
Purchases	35	18	0	0	0	0
Sales	167	168	0	0	11	6
Caps, floors	1,718	1,184	19	13	17	8
Stock exchange contracts	358	168	1	0	0	0
Other forward interest rate transactions	60	50	0	0	15	0
Currency risk	**12,377**	**13,235**	**175**	**200**	**372**	**386**
Forward exchange contracts	341	777	6	5	11	23
Currency swaps/cross-currency interest rate swaps	11,456	11,993	159	186	353	354
Currency options	**391**	**275**	**9**	**8**	**7**	**8**
Purchases	201	145	9	8	0	0
Sales	190	130	0	0	7	8
Other exchange contracts	189	190	1	1	1	1
Equity price and other price risks	**0**	**0**	**0**	**0**	**0**	**0**
Equity forward contracts	0	0	0	0	0	0
Equity options	**0**	**0**	**0**	**0**	**0**	**0**
Purchases	0	0	0	0	0	0
Sales	0	0	0	0	0	0
Stock exchange contracts	0	0	0	0	0	0
Credit derivatives	**2,950**	**3,416**	**20**	**12**	**265**	**245**
Protection buyer	212	272	20	12	0	0
Protection seller	2,738	3,144	0	0	265	245
Total	**59,084**	**63,106**	**1,773**	**1,337**	**1,811**	**1,555**

The residual terms to maturity of the derivative financial instruments, based on their nominal values, break down as follows. The period between the balance sheet date and the contractual due date of the receivable or liability is the residual term to maturity.

(in EUR m)	Interest rate risk		Currency risk		Equity price and other price risks		Credit derivatives	
	2011	2010	2011	2010	2011	2010	2011	2010
Residual maturities								
Up to 3 months	7,059	6,490	2,547	2,029	0	0	110	20
More than 3 months up to 1 year	7,191	9,253	4,608	5,042	0	0	150	315
More than 1 year up to 5 years	17,226	18,413	4,230	4,741	0	0	2,350	2,458
More than 5 years	12,281	12,298	992	1,421	0	0	340	624
Total	**43,757**	**46,455**	**12,377**	**13,235**	**0**	**0**	**2,950**	**3,416**

The following table contains an analysis of the maturities of derivative financial liabilities on the basis of the remaining contractual terms:

(in EUR m)	Up to 1 month	More than 1 month up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years	Total
31 Dec 2011						
Negative fair values from trading derivatives	37	61	357	714	315	**1,484**
Negative fair values from hedge accounting derivatives	17	8	4	87	9	**125**
Total	**54**	**69**	**361**	**801**	**324**	**1,609**
31 Dec 2010						
Negative fair values from trading derivatives	73	68	351	575	197	**1,264**
Negative fair values from hedge accounting derivatives	15	6	20	61	5	**107**
Total	**88**	**74**	**371**	**636**	**202**	**1,371**

The following table shows the positive and negative fair values of derivative transactions broken down by counterparty.

(in EUR m)	Nominal values		Positive fair values		Negative fair values	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Banks in the OECD	53,541	57,981	1,553	1,186	1,772	1,507
Public institutions in the OECD	34	10	1	1	0	0
Other counterparties (including stock exchange contracts)	5,509	5,115	219	150	39	48
Total	**59,084**	**63,106**	**1,773**	**1,337**	**1,811**	**1,555**

(61) Disclosures about selected countries

The following table shows the reported values of financial assets with counterparties in selected countries. The sovereign exposure figures refer to transactions with sovereigns, regional governments, local authorities and government-related entities.

(in EUR m)	Held-for-trading financial instruments		Available-for-sale assets		Loans and receivables	
	2011	2010	2011	2010	2011	2010
Portugal	0	0	0	0	0	0
Sovereign exposure	0	0	0	0	0	0
Financial institutions/insurance companies	0	0	0	0	0	0
Corporates/other	0	0	0	0	1	1
Total Portugal	**0**	**0**	**0**	**0**	**1**	**1**
Italy	0	0	0	0	0	0
Sovereign exposure	0	0	0	0	0	0
Financial institutions/insurance companies	0	0	277	287	16	33
Corporates/other	0	0	0	0	0	0
Total Italy	**0**	**0**	**277**	**287**	**16**	**33**
Ireland	0	0	0	0	0	0
Sovereign exposure	0	0	0	0	0	0
Financial institutions/insurance companies	0	0	141	40	60	98
Corporates/other	0	0	0	0	0	0
Total Ireland	**0**	**0**	**141**	**40**	**60**	**98**
Greece	0	0	0	0	0	0
Sovereign exposure	0	0	0	0	0	0
Financial institutions/insurance companies	0	0	0	0	0	0
Corporates/other	0	0	0	0	0	0
Total Greece	**0**	**0**	**0**	**0**	**0**	**0**
Spain	0	0	0	0	0	0
Sovereign exposure	0	0	0	0	0	0
Financial institutions/insurance companies	0	0	169	214	18	3
Corporates/other	2	0	0	0	0	23
Total Spain	**2**	**0**	**169**	**214**	**18**	**26**
Total	**2**	**0**	**587**	**541**	**95**	**158**

For available-for-sale financial instruments with a cost of EUR 618m (prior year: EUR 551m), the net valuation effect in other comprehensive income relating to the above countries totals EUR 44m (prior year: EUR 16m). As in the prior year, no impairment losses were charged to the income statement.

As in the prior year, no notable specific or portfolio allowances were recognized for loans and receivables in relation to the above countries. The fair value of the exposure in the loans and receivables category totals EUR 98m (prior year: EUR 157m).

Credit derivatives on counterparties in selected countries break down as follows:

(in EUR m)	Nominal values		Market values	
	2011	2010	2011	2010
Portugal	0	0	0	0
Sovereign exposure	0	0	0	0
Financial institutions/insurance companies	225	225	–44	–59
Corporates/other	0	0	0	0
Total Portugal	**225**	**225**	**–44**	**–59**
Italy	0	0	0	0
Sovereign exposure	77	75	–6	–6
Financial institutions/insurance companies	575	615	–52	–20
Corporates/other	0	0	0	0
Total Italy	**652**	**690**	**–58**	**–26**
Ireland	0	0	0	0
Sovereign exposure	0	0	0	0
Financial institutions/insurance companies	45	230	–8	–46
Corporates/other	0	0	0	0
Total Ireland	**45**	**230**	**–8**	**–46**
Greece	0	0	0	0
Sovereign exposure	59	57	–33	–19
Financial institutions/insurance companies	0	0	0	0
Corporates/other	0	0	0	0
Total Greece	**59**	**57**	**–33**	**–19**
Spain	0	0	0	0
Sovereign exposure	0	0	0	0
Financial institutions/insurance companies	400	400	–36	–32
Corporates/other	0	0	0	0
Total Spain	**400**	**400**	**–36**	**–32**
Total	**1,381**	**1,602**	**–179**	**–182**

The nominal values of CDSs concluded as protection seller and protection buyer were aggregated, with positive and negative fair values netted.

The following table shows the application of the fair value hierarchy for the financial assets and credit derivatives recognized at fair value through profit or loss or in other comprehensive income for selected countries:

(in EUR m)	Level 1		Level 2		Level 3		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Portugal	0	0	0	0	0	0	**0**	**0**
Sovereign exposure	0	0	0	0	0	0	**0**	**0**
Financial institutions/insurance companies	0	0	–37	–53	–7	–6	**–44**	**–59**
Corporates/other	0	0	0	0	0	0	**0**	**0**
Total Portugal	**0**	**0**	**–37**	**–53**	**–7**	**–6**	**–44**	**–59**
Italy	0	0	0	0	0	0	**0**	**0**
Sovereign exposure	0	0	0	0	–6	–6	**–6**	**–6**
Financial institutions/insurance companies	114	237	–45	0	156	30	**225**	**267**
Corporates/other	0	0	0	0	0	0	**0**	**0**
Total Italy	**114**	**237**	**–45**	**0**	**150**	**24**	**219**	**261**
Ireland	0	0	0	0	0	0	**0**	**0**
Sovereign exposure	0	0	0	0	0	0	**0**	**0**
Financial institutions/insurance companies	98	40	0	0	35	–46	**133**	**–6**
Corporates/other	0	0	0	0	0	0	**0**	**0**
Total Ireland	**98**	**40**	**0**	**0**	**35**	**–46**	**133**	**–6**
Greece	0	0	0	0	0	0	**0**	**0**
Sovereign exposure	0	0	–33	–19	0	0	**–33**	**–19**
Financial institutions/insurance companies	0	0	0	0	0	0	**0**	**0**
Corporates/other	0	0	0	0	0	0	**0**	**0**
Total Greece	**0**	**0**	**–33**	**–19**	**0**	**0**	**–33**	**–19**
Spain	0	0	0	0	0	0	**0**	**0**
Sovereign exposure	0	0	0	0	0	0	**0**	**0**
Financial institutions/insurance companies	22	95	2	–7	111	94	**135**	**182**
Corporates/other	0	0	0	0	0	0	**0**	**0**
Total Spain	**22**	**95**	**2**	**–7**	**111**	**94**	**135**	**182**
Total	**234**	**372**	**–113**	**–79**	**289**	**66**	**410**	**359**

(62) Underlying contracts in effective hedges

IAS 39 allows the use of hedge accounting to (partially) eliminate economically unjustified profit and loss distortions resulting from different methods of measuring derivatives and non-derivatives in hedges.

Financial assets and liabilities used as underlying contracts in micro fair value hedges are still reported together with unhedged transactions in the respective balance sheet items since the hedging transaction has no effect on the nature and function of the underlying contract. However, the carrying amount of financial instruments (OL category) which would otherwise be recognized at amortized cost is adjusted by the change in fair value attributable to the hedged risk.

The following table therefore lists the total amounts of financial assets and liabilities which are part of an effective micro fair value hedge for information purposes:

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Assets			
Financial assets	914	902	1
Total	**914**	**902**	**1**
Liabilities			
Liabilities to banks	595	673	–12
Liabilities to customers	1,371	1,462	–6
Securitized liabilities	1,456	1,829	–20
Subordinated capital	406	395	3
Total	**3,828**	**4,359**	**–12**

Apart from the underlying contracts included in micro fair value hedges, fixed-income underlying contracts were also designated as portfolio fair value hedges. As of the balance sheet date, cash flows from available-for-sale financial assets of EUR 639m (prior year: EUR 554m) were designated as a portfolio fair value hedge. As of the balance sheet date, cash flows from liabilities in the “Other liabilities” category (liabilities to banks and customers, securitized liabilities and subordinated capital) were designated in an amount of EUR 2,583m (prior year: EUR 813m).

(63) Residual maturities of financial liabilities

(in EUR m)	Up to 1 month	More than 1 month up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years	Total
31 Dec 2011						
Liabilities to banks	685	1,399	1,125	5,085	3,205	**11,499**
Liabilities to customers	3,709	456	973	3,552	3,531	**12,221**
Securitized liabilities	653	454	1,705	6,100	748	**9,660**
Financial liabilities at fair value through profit or loss (excluding derivatives)	0	0	0	0	0	**0**
Subordinated capital	0	–1	45	601	975	**1,620**
Other liabilities (financial instruments only)	0	0	0	–	–	**0**
Irrevocable loan commitments	463	11	200	436	1,533	**2,643**
Financial guarantees	209	0	55	86	704	**1,054**
Total	**5,719**	**2,319**	**4,103**	**15,860**	**10,696**	**38,697**
31 Dec 2010						
Liabilities to banks	1,619	1,691	473	3,425	4,392	**11,600**
Liabilities to customers	2,794	1,232	657	3,021	2,451	**10,155**
Securitized liabilities	150	681	1,003	6,316	789	**8,939**
Financial liabilities at fair value through profit or loss (excluding derivatives)	0	0	0	0	0	**0**
Subordinated capital	36	0	77	309	741	**1,163**
Other liabilities (financial instruments only)	0	1	–	–	–	**1**
Irrevocable loan commitments	301	15	30	103	2,372	**2,821**
Financial guarantees	873	12	51	136	103	**1,175**
Total	**5,773**	**3,632**	**2,291**	**13,310**	**10,848**	**35,854**

Residual maturity is defined as the period between the balance sheet date and the contractual due date.

(64) Disclosures on the fair value option

The Bremer Landesbank Group applies the fair value option in order to avoid accounting mismatches. Securities designated at fair value are hedged against interest rate risk with interest rate swaps.

If they had not been designated at fair value, the securities would have had to be allocated to the AFS category and measured at fair value with changes recognized in other comprehensive income, while interest rate swaps are measured at fair value through profit or loss in any case.

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Assets			
Debt securities and other fixed-income securities	82	88	–7

(65) The BLB Group as a protection seller

Assets pledged as collateral to third parties:

(in EUR m)	31 Dec 2011	31 Dec 2010
Loans and advances to customers	5,196	4,240
Financial assets	4,900	5,379
Total	**10,096**	**9,619**

Transactions were conducted in accordance with standard terms for loan transactions.

(66) Genuine securities sale and repurchase agreements

(in EUR m)	31 Dec 2011	31 Dec 2010
Securities sold under sale and repurchase agreements:		
Nominal value	–	787
Carrying amount	–	787
thereof liabilities to affiliates	–	314

Significant risks and rewards incidental to the financial assets sold under sale and repurchase agreements are borne by the pledgor. The securities are therefore not derecognized and continue to be accounted for by the Bremer Landesbank Group.

Regulations for securities sold under sale and repurchase agreements are laid down in a standard German master agreement.

Other notes

(67) Equity management

Equity is managed by the parent company for the Group. The aim is to ensure adequate equity in terms of quantity and quality, to achieve a reasonable return on equity at group level and to comply with the regulatory capital adequacy requirements. Significant capital metrics for equity management are

- Reported equity
- Regulatory core capital
- Regulatory capital

For most of these capital metrics, target capital ratios are specified for the Group. The numerator is the respective capital metric and the denominator is risk-weighted assets in accordance with the SolvV. Regulatory minimum capital ratios, which must be maintained at all times, are also in place (regulatory core capital: 4.0%; regulatory capital: 8.0%). Target ratios for regulatory core capital and regulatory capital far exceed the regulatory minimum capital ratios. The actual development of capital metrics and the related capital ratios is regularly determined and reported to the management and supervisory bodies of the Bank. Where required, budgets and forecasts are prepared for these capital metrics and capital ratios. If they indicate that the defined target capital ratios are at risk, alternative or additional adjustments are made to risk-weighted assets or – in agreement with the owners of the Bank – procurement measures are taken for individual capital metrics.

There have been no changes since the prior year in the objectives, methods and processes of equity management.

In 2011 and 2010, the Bank maintained the regulatory minimum capital ratios at group level at all times. The regulatory core capital ratio and the regulatory capital ratio (= overall ratio) at the end of each year are reported in Note (68).

(68) Regulatory data

The following regulatory data for the Group were calculated in accordance with the SolvV.

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Risk-weighted assets	**17,897**	**17,449**	3
Capital requirements for credit risk	1,322	1,288	3
Capital requirements for market risk	47	50	–6
Capital requirements for operational risk	63	58	9
Capital requirements under the SolvV	**1,432**	**1,396**	**3**

The following table shows the composition of regulatory capital for the Bank in accordance with Sec. 10 KWG:

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Paid-in capital	140	140	–
Contributions from silent partners	608	608	–
Other reserves	523	501	4
Special item for general banking risks pursuant to Sec. 340g HGB	442	330	34
Other components (intangible assets)	–3	–3	–
Core capital	**1,710**	**1,576**	**9**
Deduction from core capital	172	122	41
Core capital for solvency purposes	**1,538**	**1,454**	**6**
Non-current subordinated liabilities	500	500	–
Liabilities from profit participation rights	–	–	0
Other components	29	80	–64
Supplementary capital	**529**	**580**	**–9**
Deduction from supplementary capital	172	121	42
Supplementary capital for solvency purposes	**357**	**459**	–22
Modified available equity	**1,895**	**1,913**	**–1**
Tier three capital	–	–	–
Eligible capital pursuant to Sec. 10 KWG	**1,895**	**1,913**	**–1**

The Free Hanseatic City of Bremen holds a 7.5% share and Norddeutsche Landesbank – Girozentrale – holds a 92.5% share in the Bank's share capital (the shares do not have a nominal value due to the Bank's legal form).

Core capital (overall) for solvency purposes after the deduction of EUR 172m pursuant to the KWG amounts to EUR 1,538m.

	31 Dec 2011 (in %)	31 Dec 2010 (in %)	Change (in %)
Overall ratio according to Sec. 2 (6) SolvV	10.59	10.96	–3
Core capital ratio (before appropriation of profit)	8.59	8.34	3
Core capital ratio (after appropriation of profit)	9.09	9.33	–3

(69) Foreign currency volume

The Bremer Landesbank Group reports the following assets and liabilities in foreign currencies as of 31 December 2011.

(in EUR m)	USD	GBP	JPY	Other	Total
Cash reserve	0	0	0	0	**0**
Loans and advances to banks	49	5	9	66	**129**
Loans and advances to customers	4,066	19	386	477	**4,948**
Financial assets at fair value	137	3	5	23	**168**
Financial assets	17	0	0	29	**46**
Total assets	**4,269**	**27**	**400**	**595**	**5,291**
Liabilities to banks	1,357	320	0	7	**1,684**
Liabilities to customers	409	2	1	24	**436**
Securitized liabilities	19	0	10	110	**139**
Financial liabilities at fair value	253	3	28	30	**314**
Total liabilities	**2,038**	**325**	**39**	**171**	**2,573**

The open balance sheet items are matched by corresponding forward exchange contracts or currency swaps with matching maturities.

(70) Non-current assets and liabilities (realized in more than 12 months)

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Assets			
Loans and advances to banks	3,213	3,240	–1
Loans and advances to customers	18,282	15,499	18
Financial assets at fair value through profit or loss			
Trading assets	1,006	859	17
Financial assets designated at fair value	80	84	–5
Positive fair values from hedge accounting derivatives	462	266	74
Loans and receivables (LAR) financial assets	14	14	–
Available-for-sale (AFS) financial assets	4,611	4,621	0
Investments accounted for using the equity method	84	77	9
Total	**27,752**	**24,660**	**13**
Liabilities			
Liabilities to banks	8,289	7,818	6
Liabilities to customers	7,082	5,472	29
Securitized liabilities	6,536	7,105	–8
Financial liabilities at fair value through profit or loss			
Trading liabilities	1,281	1,199	7
Negative fair values from hedge accounting derivatives	93	69	35
Subordinated capital	1,137	1,050	8
Total	**24,418**	**22,713**	**8**

(71) Contingent liabilities and other obligations

Contingent liabilities are obligations arising from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Group's control. This also includes current obligations arising from past events which are not recognized as liabilities because it is not probable that an outflow of resources will be required to settle these obligations or because the amount of the obligations cannot be measured with sufficient reliability.

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Contingent liabilities			
Guarantees	447	434	3
Other obligations			
Irrevocable loan commitments	2,643	2,821	–6
Financial guarantees	607	741	–18
Total	**3,697**	**3,996**	**–7**

Of the total amount, EUR 4m (prior year: EUR 3m) relates to associates.

For transactions between the BLB Group and the following related entities, NORD/LB ensures that obligations can be met:

- Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover
- Nieba GmbH, Hanover
- Norddeutsche Landesbank Luxembourg S.A., Luxembourg, Luxembourg
- NORD/LB Asset Management Holding GmbH, Hanover
- NORD/LB COVERED FINANCE BANK S.A., Luxembourg, Luxembourg
- Skandifinanz AG, Zurich, Switzerland

(72) Leases

The Bremer Landesbank Group is a lessor in connection with finance leases.

These leases covered movable assets (e.g., motor vehicles, machines and IT equipment) on the balance sheet date.

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Outstanding lease payments	20	26	–23
+ Guaranteed residual values	5	6	–17
= Minimum lease payments	**25**	**32**	**–22**
+ Unguaranteed residual values	–	–	0
= Gross investment	**25**	**32**	**–22**
– Unearned finance income	3	3	0
= Net investment	**22**	**29**	**–24**
– Present value of unguaranteed residual values	–	–	0
= Present value of minimum lease payments	**22**	**29**	**–24**

Minimum lease payments comprise the total lease payments due from the lessee under the lease plus the guaranteed residual value.

Unearned finance income is the interest implicit in the lease between the balance sheet date and the expiry of the lease.

The above average resale value of the financed capital goods allows greater scope for assuming credit risk. Nonetheless, credit risk is already limited by defining target customers, capital goods and contract configurations. However, the approval of Bremer Landesbank's corporate accounts manager who deals with the customer over a sustained period remains an important element of the loan decision. With this approach, there was only an insignificant volume of defaults in the fiscal year, such that no accumulated allowances were recognized for uncollectible outstanding minimum lease payments.

Gross investments and present values of the minimum lease payments relating to non-cancelable finance leases break down as follows:

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Gross investments			
Up to 1 year	8	9	–11
More than 1 year and up to 5 years	15	19	–21
More than 5 years	2	4	–50
Total	**25**	**32**	**–22**
Present value of minimum lease payments			
Up to 1 year	7	8	–13
More than 1 year and up to 5 years	13	18	–28
More than 5 years	2	3	–33
Total	**22**	**29**	**–24**

Agreements concluded by the Bremer Landesbank Group as an operating lessee are of little significance.

(73) Other financial obligations

The following significant other financial obligations exist:

- As guarantors, Bremer Landesbank and the other owners of DekaBank Deutsche Girozentrale are jointly liable for the latter.
- An obligation to contribute to M CAP Finance Deutsche Mezzanine Fonds Zweite GmbH & Co. KG, Leipzig, amounts to EUR 4m (prior year: EUR 4m).
- Another obligation to make additional contributions and additional joint liability for other shareholders relating to Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, amounts to EUR 3m.
- Contributions to the security reserve of the Landesbanken and girobanks were re-calculated on the basis of risk principles, resulting in obligations to make additional contributions of EUR 54m. These additional contributions can be called in when support is required.

- In connection with the redemption of shares in FinanzIT GmbH, the withdrawing shareholders NORD/LB, Bremer Landesbank and Landesbank Saar have undertaken to cover the company's risks from the period up to their withdrawal jointly with the remaining FinanzIT shareholders provided these risks actually occur and are not covered by provisions already established.
- Securities amounting to EUR 20m (prior year: EUR 26m) were deposited as collateral for transactions on forward markets.

(74) Subordinated assets

Assets are subordinated if they may only be settled after the claims of other creditors have been satisfied in the event of the debtor's liquidation or insolvency. The following subordinated assets are included in the balance sheet:

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Loans and advances to banks	27	21	29
Financial assets	14	14	0
Total	**41**	**35**	**17**

(75) Trust activities

Trust activities break down as follows:

	31 Dec 2011 (in EUR m)	31 Dec 2010 (in EUR m)	Change (in %)
Loans and advances to customers	36	40	–10
Financial assets	46	47	–2
Other trust assets	5	9	–44
Trust assets	**87**	**96**	**–9**
Liabilities to banks	36	40	–10
Liabilities to customers	0	0	0
Other trust liabilities	51	56	–9
Trust liabilities	**87**	**96**	**–9**

(76) Events after the balance sheet date

The Management Board and Supervisory Board of Bremer Landesbank will propose to the Owners' Meeting of Bremer Landesbank to pay a dividend of EUR 28m (prior year: EUR 28m).

Given the current situation, Bremer Landesbank must now expect claims due to its protection seller position for the credit derivatives on Greece contained in its exposure to Greece. The trading loss for 2012 resulting from the fair value measurement of CDSs on Greece (equivalent to EUR 58.6m) could be as much as EUR 14m.

As in the prior year, there are no risks to the Bank's ability to continue as a going concern.

Companies and individuals linked to the Group

(77) Number of employees

The Group's average headcount in the fiscal year broke down as follows:

	2011			2010		
	Male	Female	Total	Male	Female	Total
Bremer Landesbank Anstalt des öffentlichen Rechts1)	514	525	1,039	500	509	1,009
Other	32	21	53	34	18	52
Group[1)2)]	**546**	**546**	**1,092**	**534**	**527**	**1,061**

[1)] The male headcount includes the members of the Management Board.
[2)] In fiscal year 2010, investments accounted for using the equity method had a headcount of 271 (fiscal year 2009: 189).

Breakdown of headcount by levels of authority:

	2011	2010
Management Board	3	3
Executives	111	103
Other	978	955
Total	**1,092**	**1,061**

(78) Related party relationships

Related legal entities are all consolidated and non-consolidated subsidiaries, associates and joint ventures; associates include subsidiaries of the associates, joint ventures include subsidiaries of the joint ventures. In addition, the owners of NORD/LB and the pension funds, as well as entities pursuant to IAS 24.9(b)(iv) and (vi) are related parties of the BLB Group.

Related party transactions are concluded at arm's length terms. The volume of such transactions is shown below.

Related party transactions

The following transactions were conducted by Bremer Landesbank with related parties:

31 Dec 2011 (in EUR m)	Owners	Subsidiaries	Associates	Other related parties
Outstanding loans and advances				
To banks	589	–	20	–
To customers	–	–	142	137
Other outstanding assets	–	–	–	–
Total assets	**589**	**–**	**162**	**137**
Outstanding liabilities				
To banks	319	–	83	52
To customers	–	2	39	5
Other outstanding liabilities	–	–	–	–
Total liabilities	**319**	**2**	**122**	**57**
Guarantees received	2	0	5	–
Guarantees granted	3	–	4	1

1 Jan 2011 – 31 Dec 2011 (in EUR m)	Owners	Subsidiaries	Associates	Other related parties
Interest expenses	8	0	5	1
Interest income	11	–	7	6
Commission expenses	–	–	–	1
Commission income	0	–	0	0
Other expenses and income	–	–	–	–
Total contributions to profit and loss	**3**	**0**	**2**	**4**

As of the balance sheet date and in the prior year, there were no impairment losses on loans and advances to associates.

31 Dec 2010 (in EUR m)	Owners	Subsidiaries	Associates	Other related parties
Outstanding loans and advances				
To banks	439	–	23	–
To customers	–	–	154	–209
Other outstanding assets	–	–	–	–
Total assets	**439**	**–**	**177**	**209**
Outstanding liabilities				
To banks	357	–	72	55
To customers	–	2	43	22
Other outstanding liabilities	–	–	–	–
Total liabilities	**357**	**2**	**115**	**77**
Guarantees received	3	0	5	–
Guarantees granted	3	–	6	–

1 Jan 2010 – 31 Dec 2010 (in EUR m)	Owners	Subsidiaries	Associates	Other related parties
Interest expenses	6	0	5	2
Interest income	6	0	7	5
Commission expenses	–	–	–	–
Commission income	0	–	0	0
Other expenses and income	–	–	–	–
Total contributions to profit and loss	**0**	**0**	**2**	**3**

Following the amendment to IAS 24 (Revised 2009) the prior-year figures have been restated.

Transactions with affiliates

Call money and time deposits receivable

The following call money and time deposits were deposited within the respective quotas:

	Number of transactions	Currency	Volume (in EUR m)
Call money			
Norddeutsche Landesbank	40	USD	719
	5	EUR	285
Norddeutsche Landesbank Luxembourg S.A.	1	USD	25
	1	CHF	4
Time deposits			
Norddeutsche Landesbank	9	EUR	650
Norddeutsche Landesbank Luxembourg S.A.	1	EUR	75

Syndicated loans

Norddeutsche Landesbank

NORD/LB participated with other syndicate partners in 82 long-term loans and ship loans granted by us, contributing a total volume of EUR 371m.

The Bank participated in five syndicated loans under the lead management of NORD/LB, contributing EUR 25m.

Securities positions

Norddeutsche Landesbank

NORD/LB purchased securities of EUR 298m from Bremer Landesbank and sold securities of EUR 403m to Bremer Landesbank.

Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH

The Bremer Landesbank pension fund acquired Bremer Landesbank securities of EUR 2m and securities issued by third parties of a nominal value of EUR 12m. It redeemed securities issued by third parties of a nominal value of EUR 16m.

Current account liabilities

Based on balances at the end of each quarter, the Bremer Landesbank pension fund had average current account liabilities of EUR 1m for the year.

Liabilities relating to borrowed funds, credits and loans

Norddeutsche Landesbank

There are nine loan accounts totaling EUR 41m.

Guarantees

Norddeutsche Landesbank

NORD/LB has liability discharges dating back to prior years relating to various exposures of EUR 3m.

The Bank has assumed liability discharges of EUR 53m in relation to NORD/LB.

	Number of transactions	Currency	Volume (in EUR m)
Call money			
Norddeutsche Landesbank	79	EUR	9,880
	84	USD	1,793
	1	JPY	12
	1	CHF	1
Norddeutsche Landesbank Luxembourg S.A.	16	EUR	1,205
	4	USD	185
Time deposits			
Norddeutsche Landesbank	9	EUR	818
Norddeutsche Landesbank Luxembourg S.A.	1	EUR	107
	1	USD	30
	1	CHF	16

Currency transactions

	Number of transactions	Currency	Volume (in EUR m)
Norddeutsche Landesbank	199	EUR	24,656
Spot purchase	192	EUR	23,623
Spot sale	2	EUR	91
Forward sale	10	EUR	1,198

Derivative transactions

	Number of transactions	Currency	Volume (in EUR m)
Norddeutsche Landesbank			
Asset swap	9	EUR	328
	27	USD	721
	2	JPY	22
	1	GBP	29
	5	CHF	36
Norddeutsche Landesbank Luxembourg S.A.	4	EUR	55

Other transactions

Norddeutsche Landesbank

In 2011, Bremer Landesbank paid allocated NORD/IT development costs of EUR 7m.

Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH

Bremer Landesbank transferred EUR 4m to the pension fund's cover fund in 2011.

Relationships with other related parties

Remuneration of EUR 58k was paid to key management personnel (for the management board and supervisory board of NORD/LB) (prior year: EUR 53k).

Please see the section "Remuneration of and loans to governing bodies" for overall remuneration and loans to the Management Board and Supervisory Board. Ongoing remuneration for employee representatives on the Supervisory Board totaled EUR 385k (prior year: EUR 379k).

All transactions were concluded on arm's length terms.

(79) List of mandates

Members of the Bremer Landesbank Group exercised the following mandates in accordance with Sec. 340a (4) No. 1 HGB as of 31 December 2011. Banks are considered to be large corporations for the purposes of this disclosure.

Members of the Management Board of Bremer Landesbank	Company
Dr. Stephan-Andreas Kaulvers	NORD Holding Unternehmensbeteiligungsgesellschaft mbH, Hanover
	DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen
	BREMER LAGERHAUS-GESELLSCHAFT – Aktiengesellschaft von 1877, Bremen
	GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen
	DekaBank Deutsche Girozentrale, Frankfurt am Main (until 8 June 2011)
	EWE Aktiengesellschaft, Oldenburg
	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hanover
Heinrich Engelken	BREBAU GmbH, Bremen
	GSG Oldenburg Bau- und Wohngesellschaft, Oldenburg
Dr. Guido Brune	BREBAU GmbH, Bremen
	DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen
Employees of Bremer Landesbank	
Mathias Barghoorn	GSG OLDENBURG Bau- und Wohngesellschaft, Oldenburg
Harald Groppel	GSG OLDENBURG Bau- und Wohngesellschaft, Oldenburg

(80) Remuneration of and loans to governing bodies

(in EUR m)	2011	2010
Remuneration of active members of governing bodies		
Payments due in the short term	2	2
Payments due in the long term	5	4
Remuneration of former members of governing bodies and their dependants		
Post-employment benefits	2	2
Termination benefits	0	0

A total of EUR 2m (prior year: EUR 2m) was granted to members of governing bodies in advance payments, loans and contingent liabilities.

(in EUR m)	2011	2010
Total remuneration of governing bodies		
Management Board	2	2
Supervisory Board	0	0
Advisory Board	0	0
Total remuneration of former members of governing bodies and their dependants		
Management Board	2	2
Supervisory Board	0	0
Advisory Board	0	0

Provisions for pensions to former members of governing bodies and their dependants amounted to EUR 22m (prior year: EUR 24m).

(81) List of shareholdings pursuant to Sec. 313 (2) and Sec. 340a (4) No. 2 HGB

List of companies and investment funds in the basis of consolidation

Company name and registered office	Shares (%) indirect	Shares (%) direct	Equity[1] (in EUR k)	Profit/ loss (in EUR k)
Companies included in the consolidated financial statements				
Subsidiaries				
BLB Immobilien GmbH, Bremen[2]	–	100.00	–	–
BLB Leasing GmbH, Oldenburg[2]	–	100.00	–	–
Bremische Grundstücks-GmbH, Bremen	–	100.00	–	–
NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen	100.00	–	–	–
NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen	90.00	10.00	–	–
Investments included in the consolidated financial statements using the equity method				
Associates				
Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede	32.26	–	–	–
BREBAU GmbH, Bremen	48.84	–	–	–
DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen	–	16.50	–	–
GSG OLDENBURG Bau- und Wohngesellschaft mbH, Oldenburg	–	22.22	–	–
Investment funds				
Lazard-Sparkassen Rendite-Plus-Fonds, Frankfurt am Main	–	49.18	–	–
Companies not included in the consolidated financial statements				
BGG Bremen GmbH & Co. KG, Bremen	100.00	–	2,090[4]	174[4]
BGG Oldenburg GmbH & Co. KG, Bremen	100.00	–	8,615[4]	914[4]
BLB I Beteiligungs-GmbH, Bremen	100.00	–	51[4]	8[4]
Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen	–	49.00	[3]	[3]
Bremer Toto und Lotto GmbH, Bremen	–	33.33	4,283	3
Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen	100.00	–	4,980[4]	790[4]
Bremische Grundstücks-GmbH & Co., Wohnanlagen Gross-Bonn, Bremen	100.00	–	150[4]	52[4]
BREMER LAGERHAUS-GESELLSCHAFT -Aktiengesellschaft von 1877-, Bremen	–	12.61	16,043	1,300
Deutsch-Indonesische Tabak Handelsgesellschaft mit beschränkter Haftung, Bremen	–	24.53	435	2
GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen	7.75	–	307,848	30,610
Gewobau Gesellschaft für Wohnungsbau Vechta mbH, Vechta	–	20.46	9,602	561
Grundstücksgemeinschaft Escherweg 5 GbR, Bremen	50.00	–	–1,564[4]	–382[4]
Grundstücksgemeinschaft Escherweg 8 GbR, Bremen	50.00	–	–197[4]	–287[4]
Interessengemeinschaft KATHARINENKLOSTERHOF GbR, Bremen	30.70	–	706[4]	–64[4]
Öffentliche Versicherung Bremen, Bremen	–	20.00	6,020	360
Schiffsbetriebs-Gesellschaft Bremen mbH, Bremen	–	100.00	1,082	12
Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen	–	100.00	35,513	2,796
WLO Wirtschaftsförderungsgesellschaft für den Landkreis Oldenburg mbH, Wildeshausen	–	23.84	41	–
Wohnungsbaugesellschaft Wesermarsch mbH, Brake	–	21.71	18,266	225

[1] Equity as defined in Secs. 266 and 272 HGB; there are no unpaid contributions.
[2] Domination and profit and loss transfer agreement concluded with the company.
[3] No information provided in accordance with Sec. 313 (2) No. 4 Sentence 3 HGB.
[4] Figures are from the most recent, but as yet unapproved, financial statements for 2010.

Bremer Landesbank exercises a significant influence under IAS 28.37(d) over DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. although the Bremer Landesbank sub-group holds less than 20% of the voting rights. Bremer Landesbank appoints one or more supervisory board members of the aforementioned company and, together with NORD/LB, safeguards its interests in the supervisory bodies for the Group as a whole.

(82) Group auditor's fees

The following fees were recognized as expenses in the fiscal year:

(in EUR m)	2011	2010
Audit services	1.1	1.0
Audit-related services	0.5	0.4
Tax services	–	–
Other services	0.0	–
Total	**1.6**	**1.4**

Bremen, 28 March 2012

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –
The Management Board

Dr. Stephan-Andreas Kaulvers

Heinrich Engelken

Dr. Guido Brune

8. Responsibility statement

We confirm that, to the best of our knowledge and in accordance with the applicable financial reporting framework, the consolidated financial statements provide a true and fair view of the net assets, financial position and results of operations of the Group and that the group management report gives a true and fair view of the development of business, including the operating result and the state of the Group, and also describes the principal opportunities and risks relating to the expected future development of the Group.

Bremen, 28 March 2012

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –
The Management Board

Dr. Stephan-Andreas Kaulvers

Heinrich Engelken

Dr. Guido Brune

9. Audit opinion[1]

“We have audited the consolidated financial statements prepared by Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen, comprising the consolidated income statement, the statement of comprehensive income, the consolidated balance sheet, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements (including the group segment report), together with the group management report for the fiscal year from 1 January 2011 to 31 December 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs [International Financial Reporting Standards] as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB [“Handelsgesetzbuch”: German Commercial Code] is the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

[1] This is a translation of the audit opinion issued in German. The latter is the sole authoritative version.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Hamburg, 30 March 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Frank Bühring
Wirtschaftsprüfer
[German Public Auditor]

Lutz Meyer
Wirtschaftsprüfer
[German Public Auditor]

10. Supervisory Board report

The Bank's Management Board regularly informed the Supervisory Board and its General Working and Credit Committee and Audit and Sponsorship Committees about the performance and situation of Bremer Landesbank AöR and the Bremer Landesbank Group. At its meetings, the Audit Committee also heard reports from Internal Audit and Compliance about their findings. In the two meetings of the Supervisory Board, the five meetings of the General Working and Credit Committee, the three meetings of the Audit Committee and the three meetings of the Sponsorship Committee, fundamental issues relating to business policy and operations were discussed in detail. The bodies adopted resolutions on the transactions and other matters presented to them which, according to the statutes and the rules issued under these statutes, require a decision by these bodies.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, audited the financial statements and the consolidated financial statements of Bremer Landesbank for fiscal year 2011. They comply with legal requirements. The auditors issued unqualified audit opinions on the financial statements and the consolidated financial statements. The auditors also attended the Supervisory Board's financial statements meeting on 20 April 2012 and reported on the results of the audits.

The Supervisory Board approved the results of the audit conducted by the auditors and did not raise any objections on the basis of its own review. In its meeting of 20 April 2012, the Supervisory Board approved the group management report and consolidated financial statements as of 31 December 2011, which have thus been endorsed.

The Supervisory Board approves the Management Board's proposal for the appropriation of Bremer Landesbank AöR's profit for the year. The Supervisory Board proposes to the Owners' Meeting that the Management Board be exonerated.

The Supervisory Board would like to thank the Bank's Management Board for the constructive working relationship based on mutual trust and expresses its thanks for the work performed in 2011 by the Management Board and by all of the employees.

Bremen, 20 April 2012

The Chairwoman of the Supervisory Board

Mayoress Karoline Linnert

11. Owners' Meeting report

The Owners' Meeting convened twice during the reporting period in order to discharge its duties under the law and the Bank's statutes.

On 20 April 2012, it approved the proposal of the Supervisory Board on the appropriation of the profit for 2011 and exonerated the Management Board of the Bank. The owners likewise exonerated the Supervisory Board.

The Owners' Meeting wishes to thank the Supervisory Board, the Management Board and employees of the Bank for their work in 2011.

Bremen, 20 April 2012

Owners' Meeting

Dr. Gunter Dunkel

12. Corporate governance report

Declaration of compliance with the German Corporate Governance Code by Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –

The German Corporate Governance Code was adopted in 2002 by a government commission appointed by the German Federal Ministry of Justice. The current version was last amended on 26 May 2010. The Code aims to make the rules for governing companies in Germany more transparent. It includes nationally and internationally recognized standards of good corporate governance, in particular in relation to the management and organization of a company, control mechanisms and the cooperation between the management board and supervisory board.

The Corporate Governance Code is designed for listed companies and is not therefore legally binding for banks incorporated under public law. However, together with its Management Board, Bremer Landesbank is particularly concerned with positioning itself as a reliable partner and fostering the confidence of investors, customers, employees and the general public through transparency. For this reason, the Bank has decided to voluntarily commit itself to observing the principles of the Code as far as is possible and appropriate for its legal form and ownership structure and to disclose its corporate governance system.

General

Bremer Landesbank is a corporation under public law incorporated by the Free Hanseatic City of Bremen and the State of Lower Saxony. It is a public lending and Pfandbrief (covered bond) institution. Bremer Landesbank has its registered office in Bremen and has branches in Bremen and Oldenburg.

The Bank’s governing bodies are the Management Board, the Supervisory Board and the Owners’ Meeting. While the Management Board manages the Bank’s business, the Supervisory Board and its committees (General Working and Credit Committee, Audit Committee and Sponsorship Committee) appoint, advise and monitor the Management Board. The Owners’ Meeting is responsible for making decisions on fundamental issues.

Management Board

The Management Board manages the Bank’s business in accordance with the legal requirements, the Bank’s statutes and the policies and principles adopted by the Supervisory Board and Owners’ Meeting for the Bank’s business and its own rules of procedure. It is bound by the Bank’s interests and committed to increasing the Bank’s sustainable value.

In particular, the Management Board ensures that effective risk management systems are established to recognize any risks to the Bank’s ability to continue as a going concern at an early stage. The risk management system must conform to the respective regulatory requirements of the KWG [“Kreditwesengesetz”: German Banking Act] and BaFin [“Bundesanstalt für Finanz-dienstleistungsaufsicht”: German Federal Financial Authority]. Moreover, the Bank’s risk management system must be compatible with the group-wide risk management and credit risk monitoring systems established by its parent and owner Norddeutsche Landesbank – Girozentrale –.

The Management Board is composed of the chairman, deputy chairman, if one has been appointed, and other members and deputy members. The chairman of the Management Board manages the allocation of functions in consultation with the other members of the Management Board. The Supervisory Board must be informed of the allocation of functions. Each member of the Management Board must be allocated at least one separate area of business for which he or she independently decides on matters in the ordinary course of business subject to the authority granted and can delegate some of his or her decision-making powers to employees. At the same time, one member of the Management Board must be appointed as a deputy. For specific transactions, the Management Board can transfer its decision-making authority to a member of the Management Board or allow the participation of a further member of the Management Board, generally the deputy.

The Management Board regularly meets once a week. The chairman of the Management Board can convene special meetings; he is obliged to convene a meeting if requested by a member of the Management Board, provided that the reasons are stated. Minutes are taken of the meetings if the Management Board regards this as necessary in the interests of proper management.

The Management Board discusses the Bank's strategy with the Supervisory Board and its committees and regularly reports on the status of strategy implementation. Based on its specific information and reporting duties, the Management Board also reports on significant matters of the Bank, especially regarding the intended business policy and other fundamental issues of corporate planning, the Bank's profitability and, in particular, equity, the course of business and the Bank's situation. In addition, it reports on transactions which may have a significant impact on profitability, the Bank's liquidity as well as its net assets, financial position and results of operations and on the Bank's risk situation and compensation systems. Moreover, the Management Board reports to the Supervisory Board immediately when there is good cause, particularly if risks are involved, and this is of special significance for the Bank's situation, and involves the Supervisory Board in fundamental decisions.

The remuneration of members of the Management Board is determined by the General Working and Credit Committee set up by the Supervisory Board. The remuneration comprises fixed and variable components and is reviewed on a regular basis.

Supervisory Board

The Supervisory Board advises the Management Board and monitors its management. It decides on the appointment and removal of members of the Management Board, the general policies for the Bank's operations, the corporate planning proposal made to the Owners' Meeting, the rules of procedure for the Management Board, policies governing the employment of staff, the election and engagement of the auditor, the approval of the financial statements, the acquisition and sale of equity investments within the meaning of Sec. 271 HGB ["Handelsgesetzbuch": German Commercial Code], as well as the establishment and dissolution of branches. The Supervisory Board may determine that further transactions and measures which are of particular significance for the Bank require its approval.

The Supervisory Board has 18 members, including 12 owner representatives and six employee representatives, who are directly elected by the Bank's employees in accordance with the provisions of the Bremen Staff Representation Act. The term of office is four years. The Finance Senator of the Free Hanseatic City of Bremen chairs the Supervisory Board. Every two years, the deputy chair alternates between the Lower Saxony Finance Minister and the chairman of the Lower Saxony Savings and Giro Bank Association (DSGV).

The General Working and Credit Committee, the Audit Committee and the Sponsorship Committee were formed to support the Supervisory Board.

The General Working and Credit Committee has eight members. It is chaired by the chairman of the management board of Norddeutsche Landesbank – Girozentrale –. The Committee includes another three members for Norddeutsche Landesbank – Girozentrale –, the Finance Senator of the Free Hanseatic City of Bremen and three employee representatives. In regular meetings, the General Working and Credit Committee monitors, in particular, the Management Board's ongoing management in accordance with the Supervisory Board's instructions and prepares the Supervisory Board meetings. The General Working and Credit Committee is also responsible for specifying the employment conditions for the Management Board.

The Audit Committee comprises three to five members and, in each case, at least one representative of the owners, one of the Bank's employees who sits on the Supervisory Board and is elected by the Supervisory Board on the employee representatives' nomination and up to two further members to be elected by the Supervisory Board. At least one member of the Audit Committee must be independent and have specialist knowledge of accounting or auditing. The Audit Committee reports to the Supervisory Board on the findings of the audit of the financial statements on the basis of the auditors' reports. The Audit Committee is also responsible for monitoring the financial reporting process and the effectiveness of the internal control system, the internal audit system and the risk management system, monitoring the audit of the annual and the consolidated financial statements, reviewing and monitoring auditor independence and the additional services provided to the Bank by the auditors.

The Sponsorship Committee comprises the chairperson of the Supervisory Board, a member elected from within the Supervisory Board from the business area of the Bank as well as a member nominated by the chairman of General Working and Credit Committee. It advises the Management Board on the Bank's sponsorship through donations and sponsoring within the scope assigned to it by the Owners' Meeting.

Owners' Meeting

The owners of Bremer Landesbank are NORD/LB Norddeutsche Landesbank – Girozentrale – (92.5%) and the Federal State of Bremen (7.5%). Each owner may appoint up to three representatives to the Owners' Meeting. Voting rights are in proportion to the owners' shares in capital. The representatives of each owner may only cast block votes.

The Owners' Meeting decides on the general principles of business policy, changes to the statutes, the amount and changes to share capital, changes in ownership, the raising and setting of the amount and conditions of other liable equity, the conclusion, amendment and termination of profit and loss transfer and domination agreements, the exoneration of the Management Board, approval for branches, the corporate planning for the following fiscal year and the multiple-year forecast, the determination of remuneration for members of the Supervisory Board, committees and advisory boards as well as all other matters which are assigned to the Owners' Meeting by the statutes.

Conflicts of interests

The members of the Management Board are bound by a comprehensive non-compete agreement during their work for the Bank.

The members of the Supervisory Board have the function of advising and monitoring the Management Board. Members of the Supervisory Board are not bound by orders or instructions.

Members of governing bodies and employees may not demand or accept any inducements or other benefits from third parties for themselves or others or grant any unjustified advantages to third parties in connection with their work. Moreover, no member of a governing body may pursue personal interests in his/her decisions or use any business opportunities open to the Company for themselves. Potential conflicts of interests must be reported to the Supervisory Board immediately.

All transactions between the Company on the one hand and the Management Board, the Supervisory Board and its committees, related parties or enterprises in which the member has personal interests on the other hand must be conducted on arm's length terms.

The assumption of sideline activities by its members, in particular membership of governing bodies or advisory boards of other companies, requires the approval of the entire Management Board. The Management Board regularly informs the Supervisory Board of the sideline activities of its members.

Consultant agreements and other service and work agreements of a member of the Supervisory Board with the Bank require the Supervisory Board's approval.

The members of the Management Board must apply the diligence of a prudent and conscientious manager in their management activities. If members of the Management Board are in breach of their duties, they must compensate the Bank for the resulting loss. This applies accordingly to the due diligence and responsibility of members of the Supervisory Board.

13. Facts and figures

Established

26 April 1983

Predecessor institutions:
Staatliche Kreditanstalt
Oldenburg-Bremen (established 1883)
Bremer Landesbank (established 1933)

Legal basis

Interstate treaty between the Free Hanseatic City of Bremen and Lower Saxony, as amended on 17 May 2002
Statutes of 1 May 1983
(last amended on 26 November 2008, effective 1 January 2009)

Functions

Commercial bank
Landesbank
Central savings bank

Legal form

Corporation under public law
(AöR)

Owners

NORD/LB Norddeutsche Landesbank Girozentrale (NORD/LB) – 92.5%
Free Hanseatic City of Bremen – 7.5%

Governing bodies

Management Board
Supervisory Board
Owners' Meeting

Registered office

Bremen

Branches

Bremen
Oldenburg

Memberships

Deutscher Sparkassen- und Giroverband e.V.
Bundesverband öffentlicher Banken e.V.
Hanseatischer Sparkassen- und Giroverband

Also available to customers of Bremer Landesbank and its associated savings banks:
NORD/LB
Subsidiaries, associates, branches and representative offices:
NORD/LB Project Holding Ltd., London, UK
Norddeutsche Landesbank Girozentrale – London Branch, London, UK
NORD/LB Norddeutsche Landesbank Luxembourg S.A., Luxembourg, Luxembourg
NORD/LB COVERED FINANCE BANK, Luxembourg, Luxembourg
NORD/LB Moskau, Moscow, Russia
NORD/LB Norddeutsche Landesbank – Representative Office, Mumbai, India
Norddeutsche Landesbank Girozentrale – New York Branch, New York, USA
NORD/LB Paris, Paris, France
NORD/LB Beijing, Beijing, PR China
Norddeutsche Landesbank Girozentrale – Shanghai Branch, Shanghai, PR China
Norddeutsche Landesbank Girozentrale – Singapore Branch, Singapore, Singapore

14. Governing bodies of Bremer Landesbank

1. Members of the Management Board

Management Board	Allocation of functions within the Management Board	
Dr. Stephan-Andreas Kaulvers (Chairman)	Bank management	Integrated Bank Management
		Communication and Marketing
		Human Resources Management
		Internal Audit
		Management Board staff department
Heinrich Engelken (Deputy Chairman)	Risk management	Compliance
		Anti-Money Laundering
		Back Office Financing
		Organization/IT
		Risk Control
		Corporate Service
Dr. Guido Brune	Sales	Financial Markets
		Corporate Customers
		Private Customers
		Special Finance
		BLB Immobilien GmbH
		BLB Leasing GmbH
General agent		
Mathias Barghoorn		

2. Members of the Supervisory Board

Karoline Linnert
(Chairwoman)
Mayoress
Finance Senator of the Free
Hanseatic City of Bremen

Hartmut Möllring
(Deputy Chairman)
Lower Saxony Minister of Finance

Hermann Bröring
Meppen

Dr. Claas Brons
General Manager of Y. & B. Brons, Emden

Prof. Dr. Wolfgang Däubler, retired professor
German and European labor law,
civil law and commercial law
Bremen University

Annette Düring (until 30 June 2011)
Chairwoman of the German Trade Union
Federation for the Bremen/
Elbe-Weser region

Dr. Gunter Dunkel
Chairman of the Management Board of
NORD/LB Norddeutsche Landesbank
Girozentrale

Heinz Feldmann
Chairman of the Management Board of
Sparkasse LeerWittmund

Lars-Peer Finke (until 30 June 2011)
Qualified banker
Bremer Landesbank

Martin Grapentin
Chairman of the Management Board of
Landessparkasse zu Oldenburg

Elke Heinig
Qualified banker
Bremer Landesbank

Cora Hermenau
State Secretary of the Lower Saxony
Ministry of Finance

Andreas Klarmann
Qualified banker
Bremer Landesbank

Thomas Mang
President of the Lower Saxony Association
of Savings Banks

Dr. Johannes-Jörg Riegler
Member of the Management Board of NORD/LB
Norddeutsche Landesbank Girozentrale

Jürgen Scheller (until 30 June 2011)
Qualified banker
Bremer Landesbank

Lutz Stratmann
Lawyer
Oldenburg

Jörg Walde (since 1 July 2011)
Qualified banker
Bremer Landesbank

Doris Wesjohann
Member of the Management Board of
Lohmann & Co. AG, Visbek

Eike Westermann (since 1 July 2011)
Fully qualified lawyer
Bremer Landesbank

Markus Westermann (since 1 July 2011)
Trade union secretary
Vereinte Dienstleistungsgewerkschaft ver.di

3. Members of the Owners' Meeting

For Norddeutsche Landesbank
– Girozentrale –

Dr. Gunter Dunkel
Chairman of the Management Board
Norddeutsche Landesbank
Girozentrale

Thomas Mang
President of the Lower Saxony
Association of Savings Banks,
Hanover

Hartmut Möllring
Lower Saxony Minister of Finance

For the Free Hanseatic City of Bremen

Mayoress Karoline Linnert
Finance Senator of the
Free Hanseatic City of Bremen

Dr. Anke Saebetzki
Senate Director for the Finance Senator
of the Free Hanseatic City of Bremen

Bernhard Günthert
Senate Councillor for the Finance Senator
of the Free Hanseatic City of Bremen

4. Members of the Advisory Board

Mayoress Karoline Linnert
(Chairwoman)
Finance Senator of the
Free Hanseatic City of Bremen

Thomas Mang
(Deputy Chairman)
President of the Lower Saxony Association
of Savings Banks

Detthold Aden
Chairman of the Management Board of
BLG Logistics Group AG & Co. KG

Heiko Albers (since 1 November 2011)
President of Wasserverbandstag e.V.
(Association of Water Authorities)

Sven Ambrosy
District Administrator of the
Friesland District

Kai-Uwe Bielefeld
District Administrator of the
Cuxhaven District

Bernhard Bramlage
District Administrator of the Leer District

Rolf Brandstrup
Chairman of the Management Board of
Sparkasse Wilhelmshaven

Claus Brüggemann
Bremerhaven

Leenert Cornelius
(until 30 November 2011)
Ovelgönne

Günter Distelrath
General Manager of the Lower
Saxony Association of Savings Banks

Hans Eveslage
District Administrator of the
Cloppenburg District

Ralf Finke
Chairman of the Management Board of
Kreissparkasse Grafschaft Diepholz

Dr. Matthias Fonger
Chief Executive Officer and
First Legal Counsel of the
Bremen Chamber of Commerce

Günter Günnemann
(since 1 November 2011)
Chairman of the Management Board of
Sparkasse Rotenburg-Bremervörde

Dr. Karl F. Harms (until 31 March 2011)
President of the Oldenburg
Chamber of Industry and Commerce

Martin Hockemeyer
Managing Shareholder
of the Thiele Group

Reinhard Krüger
Chairman of the Management Board of
Sparkasse Rotenburg-Bremervörde

Bernd Meerpohl
Management Board member of Big
Dutchman Aktiengesellschaft, Vechta

Arendt Meyer zu Wehdel
President of the Lower Saxony
Chamber of Agriculture

Dieter Mützelburg
(until 30 November 2011)
State Councillor for the
Finance Senator Bremen

Dr. Götz Pätzold
Chairman of the Management Board of
Kreissparkasse Wesermünde-Hadeln

Angelika Saacke-Lumper
Shareholder
Saacke GmbH

Thomas Schneider
Undersecretary of the
Lower Saxony Ministry of Finance

Dietmar Schütz
President of the German Renewable
Energy Federation

Prof. Dr. Gerd Schwandner
Senior Mayor of the
City of Oldenburg

Dr. Carl-Ulfert Stegmann
Norden

Martin Steinbrecher
General Manager of
Martin Steinbrecher GmbH

Gerd Stötzel
Bassum

Dietmar Strehl
State Councillor for the
Finance SenatorBremen

Gert Struke
President of the Oldenburg
Chamber of Industry and Commerce

Michael Teiser
Mayor and Treasurer of the
City of Bremerhaven

Bernd Wagemann
(until 30 November 2011)
Chairman of the Management Board of
Kreissparkasse Syke

Manfred Wendt
General Manager of Johann Bunte
Bauunternehmung GmbH & Co. KG

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –

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Tel. 0049 441 237-01, Fax 0049 441 237-1333

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