2012 reports and financial statements

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Bremer Landesbank management report

I. Business and general conditions

Economic situation and financial markets

After a good start to 2012, global economic growth slowed significantly. The IMF forecast that the global economy would grow by 3.2% in 2012 as compared to 3.9% for 2011.

Growth was and remains unevenly distributed. The emerging economies performed better with an increase of 5.1% in 2012 after 6.3% for 2011.

Up to the autumn of 2012 the industrial nations were hampered by the burgeoning eurozone deficit. After a 1.6% increase in GDP for 2011, growth slowed to 1.3% in 2012.

International trade only rose by 3.2% in 2012 as compared to 5.8% previously. Up to autumn of 2012 the risks posed by the eurozone had a dampening effect.

The emerging economies remain the main drivers of growth for the global economy. However, they were unable to escape the consequences of the European deficit crisis, which was marked by increasing risk aversion up to September 2012.

China's growth rate was 7.8% in 2012 as compared to 9.2% in 2011. Both the consequences of the European deficit crisis and the move towards a more domestically-focused economy resulted in a slowdown in growth. In the 4th quarter activity in China's rate of economic growth increased slightly as the European deficit crisis eased. Compared to the prior year, growth in the 4th quarter of 2012 rose by 7.9% compared to 7.4% previously. In 2012 India only managed GDP growth 4.9% as compared to 6.8% previously. Domestic economic problems and the decline in global economic activity are resposible for the slowdown.

In 2012 Latin America's economy grew by 3.2% as compared to 4.5% in 2011. Brazil in particular exhibited a low level of economic growth of 1.5% against 2.7% in 2011. Mexico was stable with growth of 3.8% in 2012 as compared with 3.9% for 2011.

Russia's growth was less affected. After growth of 4.3% for 2011, GDP increased by 3.7% in 2012.

The eurozone's economic output shrank by -0.4% in 2012 as compared to +1.4% for 2011. A deepening of the crisis and withdrawal of capital from the real economy in the reform countries are mainly responsible for the contraction in the eurozone.

In the eurozone, Germany made its mark in 2012 with GDP growth of 0.9%. Germany's economic development only partially reflected the picture of global economic development and the deficit crisis. Germany benefited both from an undervalued euro for the German economy and also an extremely low interest rates. Both had a subsidising effect on the economy.

At the mid-year point, many large German companies pointed to an increase in uncertainties. Companies' assessments of how the economy will continue to develop were very negative in the period from March to September 2012. For instance, the IFO Institute's Business Climate Index fell from 102.7 points to 93.2 points between March and September 2012 , then picked up to 100.5 points by January 2013. The assessment of the current situation then fell from 116.3 to 107.1 points in the period between January and December 2012, marking its lowest value since June 2010.

The effect on Germany of increasing global risk aversion up to autumn 2012 was delayed in key initial stages. The German economy is dependent to a large degree on the global capital goods cycle, which kicks in later and lasts longer. The easing of the eurozone deficit crisis since autumn 2012 has therefore not yet trickled through to the global investment cycle, and consequently the German economy, in the 4th quarter of 2012.

In 2012 the United States expanded with growth of 2.3% compared to 1.8% for 2011 and thereby positively bucked the global trend, despite massive unresolved issues in the US budget. In 2012 growth in the USA was aided by the refusal to implement structural reforms. However, this refusal in turn poses questions as to the quality of the growth. The US economy also benefited from capital inflows into the real economy due to the European deficit crisis. Additionally, the Federal Reserve is acting with extreme measures to channel funds into the economy and the state. The fact that the USA offers the most attractive terms in terms of energy costs (electricity, gas, distillates) of any industrialised nation is starting to bear fruit in rebuilding industrial capital stocks.

The picture for the rest of the western industrial nations was mixed. Whilst Canada chalked up solid growth of 2.0%, the UK's GDP fell by -0.2%. At the turn of the year to 2013 , the fragile situation of the Japanese economy triggered a paradigm shift in Japanese politics with the aim of a devaluation of the overvalued JPY. Additionally, an inflation target of 2% was set.

The loss of momentum in the global economy since the end of the 1st quarter of 2012 was not due to saturation effects in the global economic cycle, but was reaction to the deepening of the European deficit crisis.

The drama in Greece was a depressive factor up to the autumn of 2012. This was a major catalyst that, in September 2012, triggered the peak of speculation about the collapse of the eurozone.

As well as setting up the ESM, the Fiscal Compact and a Growth and Stability Pact, a decisive factor was that the ECB proposed purchasing unlimited quantities of bonds over a timeframe of up to three years for those reform countries that submit to the terms of the ESM and stick to the Fiscal Compact. This step by the ECB, which to date has not required the ECB to act in terms of purchasing bonds, has clearly seen the intensity of the deficit crisis reduce notably.

The eurozone is on the road to fiscal recovery, but its efforts are not properly appreciated by the markets. The eurozone's new borrowing in 2011 was 4.1% of GDP, however, the IMF and the OECD expect a reduction to 3.0-3.2% for 2012. The eurozone is in a much better position as compared with the USA, Japan and Britain, whose 2012 figures are between 8% and 10%. That not only applies to new borrowing, but also total debt and reform policies.

The consequences of the strong economic start to 2012 and the increased risk aversion that then set in made themselves felt in the financial markets. After a strong start, rising from 5,900 to 7,194 points in March, the equity markets then fell to 5,914 in June, before rising again gradually. By the end of 2012 the German stock index DAX rose to 7,612 points.

Yields on the ten-year German government bond fell to a historic low of around 1.10%, and then hovered around the 1.40% mark at the end of the year. Following a tightening of refinancing terms up to September 2012, the reform countries of the eurozone enjoyed a marked improvement by the end of 2012.

Following an initially positive development and top rates of 1.3485 in February, the euro came under pressure. In July it recorded a record low of 1.2040. The euro stabilised in the remainder of the year and stood at 1.3200 by the end of 2012.

In 2012 the ECB felt it was necessary to cut the base rate to a new historic low of 0.75%.

The region

The Bremen Chamber of Commerce expects that the Bremen economy in 2012 will have exhibited stronger growth than the German economy as a whole, as was the case in 2011. Alongside strong results from industry, the construction and services sectors played a key role in this. According to current data, trade was a depressive factor for the Bremen economy in 2012. The positive development of the job market ground to a halt in the second half of 2012.

Over the course of 2012 both the business situation and the business expectations of Bremen’s companies gradually declined. The balance of positive and negative reports in terms of business expectations index fell from 14.2 to -5.6 in the 3rd quarter of 2012. The assessment of the current business situation dropped from 33.8 to 29.8 points.

Bremen’s economy is highly dependent on demand from abroad. Until autumn 2012 there was a pronounced scepticism in surveys surrounding ongoing overseas demand. The same was true of industry, the construction sector and trade. The transport and logistics industry remained stable in this environment. The hospitality sector exhibited slight growth.

As regards the development of the national indices (IFO, ZEW) and also the easing of the European deficit crisis, the fourth quarter of 2012 saw a low and a slight upturn in Bremen companies’ assessment of the economy, albeit without bearing long-term fruits in the real economy in the 4th quarter of 2012.

In the Oldenburg region, the recovery faltered in 2012. 2012 saw a marked slowdown of the economy, primarily in the second half of the year. A weaker economic position was particularly evident in industry and in the transport and logistics sector. Domestically-focused sectors such as construction, wholesale and the service sector, performed well in 2012. In retail the expectations for the end-of-year business were not met.

In the wake of the worsening of the eurozone deficit crisis, the economic climate index fell from 125 points in the first quarter of 2012 to 104 in the third quarter. Thus, for the first time since spring 2010, it fell to below the five-year average. In the fourth quarter the index rallied at a good 108 points due to the declining intensity of the European deficit crisis. The positive changes to the economic climate index had no lasting effect on the real economy in the 4th quarter.

The economy in East Frisia and Papenburg experienced a largely successful year in 2012. Over the course of the year a gradual decline was evident in line with the German and global economy. In the view of the Chamber of Industry and Commerce, the economic basis was and remains solid.

In the fourth quarter of 2012 a quarter of all companies participating in the Chamber of Industry and Commerce survey considered the situation to be good. Sixty percent of companies judged the position to be satisfactory. Retail, wholesale and the transport industry stood out positively.

The economic climate indicator, which reflects the situation and expectations of companies, rose by three points to 110.6 in the closing quarter of 2012.

Quarter-on-quarter companies' results of operations worsened at the end of 2012. At the same time, the number of companies reporting improved results of operations was up at 25% as compared to 20%.

Positive stimuli on the job market were few and far between. Readiness to take on new staff declined. The transport industry represented a positive exception. The willingness to invest was pronounced in 2012.

Bremer Landesbank

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: D+; Fitch Viability-Rating: bbb-). Its long-term ratings (Fitch: A; Moody's: A3) give Bremer Landesbank access to national and international capital markets. In 2012 the rating agencies downgraded the ratings of many European banks. Moody's also adjusted its financial strength rating for Bremer Landesbank from C- to D+, and its long-term rating to A3. To date, this adjustment has not had any appreciable effect on the Bank's refinancing.

The continued positive results of operations in the year under review were impacted by the situation on the shipping markets. The stimuli hoped for by the global economy failed to materialise in 2012 or were weaker than required to drag the shipping sector out of crisis mode. As a consequence, the continuing crisis, which was even more severe in 2012, meant that loan loss provisions considerably in excess of budget had to be made. 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. In the current market context this again proved its effectiveness.

In the context of the Basel III rules for regulatory capital that will successively come into force in future, the owners of the Bank converted the available "silent participations" into what is known as core capital over the course of 2012. In this context the owners' shares in Bremer Landesbank have changed and the Lower Saxony Association of Savings Banks is now a further owner.

Based on continual customer-driven revenue growth, Bremer Landesbank is still able to strengthen its capital base in the long term despite increased loan loss provisions and stricter regulatory requirements.

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. Central control instruments of the Bank are the income statement, the contribution margin statement structured along the lines of business segments and cost centres, the cost type report, the monthly report and the RBC report.

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).

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

Operating income includes interest and service income and net income from trading book positions. Administrative expenses comprise personnel expenses, other administrative expenses and depreciation and amortization of property and equipment and intangible assets.

Integrated bank management links the following management processes:

- Commercial law metrics such as the ongoing comparison of contribution margin statement and the income statement
- Regulatory metrics such as the monitoring and management 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 Managing 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 key 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 autumn. The final quantitative budget figures are significant inputs in the bank-wide target agreement 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 again developed well during the past year. The main source of income – net interest income – increased strongly, driven by business

[1] RoE: Profit/loss from normal activities less any capital transferred under a profit pooling agreement/sustainable capital (components: share capital; capital reserves; retained earnings). CIR: Administrative expenses including amortization of intangible assets and property and equipment/operating profit/loss excluding administrative expenses.

with customers as well as non-recurring effects. Net commission income was above last years' level. The net results of the trading book positions was lower than the prior year due to due to assessment practices in the trading business that factor in counterparty risk more strongly.

In the past 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 2012, real economic effects of the crisis on the financial and capital markets had a considerably stronger impact on the Bank's loan loss provisions than originally expected – especially in the shipping sector. The Bank continuously analysed its financing portfolio as part of its stringent risk management and allocated loan loss provisions considerably in excess of the original budget figures. Appreciable impairments to the Bank's own securities holdings were required in the prior year in connection with a credit event related to Greek government bonds.

General and administrative expenses rose as expected in 2012. While personnel expenses increased slightly due to the budgeted higher headcount and as a consequence of special effects related to pension costs, the increase in IT costs and project expenditure incurred for regulatory reasons were responsible for the anticipated increase in other administrative expenses.

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 satisfactory results of the financial year 2012 allow Bremer Landesbank to strengthen its liable capital by building up taxed reserves. No distribution to the owners is possible for 2012 due to commitments made by NORD/LB to the EU relating to the conversion of silent participations into core capital. The intention is to carry the accumulated profits forward to new account. As before, Bremer Landesbank does not require any government aid.

Below we report in detail on the business performance of Bremer Landesbank in 2012.

II. Results of operations

On the whole, the Bank's results of operations were again satisfactory in 2012.

Net interest income

For the Bank, net interest income is the balance of interest income and interest expense, including current income from investment securities, equity investments and shares in affiliates, as well as income from profit transfer agreements.

Net interest income rose sharply, up 17% from EUR 397m to EUR 463m. Contributions generated from operating activities with the Bank's customers were established at a high level, whilst special effects had a positive overall effect on net interest income. Several of these are described below.

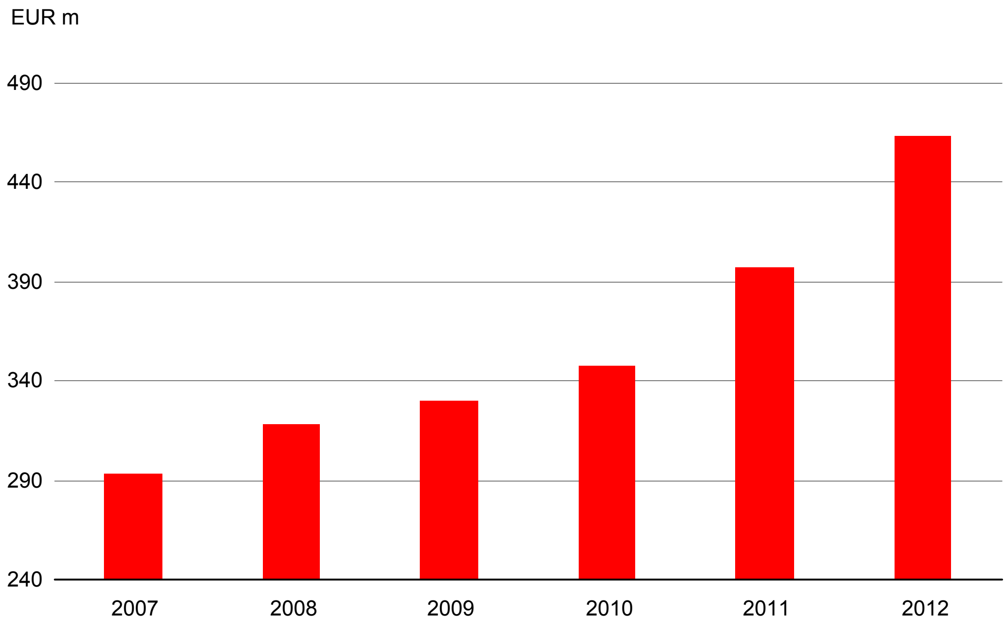
The key driver was again the Special Finance segment, while business transacted with regional corporate customers stabilized at a high level. The Bank was again able to absorb the negative effect that the maintenance of adequate liquidity had on its net interest income.

In connection with the conversion of the silent participations into core capital, the Bank realised one-off income of some EUR 51m reported in the net interest income from reversals of hedging transactions.

Additionally, comparatively high additional profit transfers from subsidiaries of some EUR 26m underpinned the net interest income.

In the next few years net interest income will fall once the special effects no longer apply. After that a continual increase is anticipated.

Net interest income



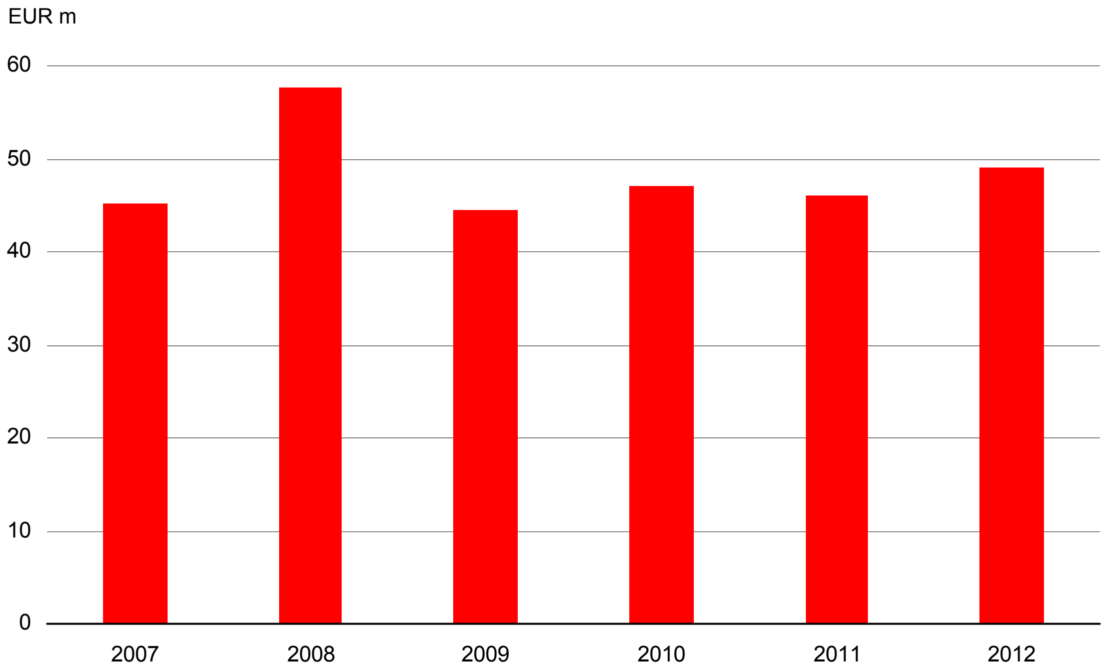
Net commission income

Net commission income rose from EUR 46m to EUR 49m, remaining above the prior-year level despite a difficult environment. The expected stabilisation was therefore not only achieved, but exceeded.

While guarantee commissions from lending business remained at a constantly good level, fees for designing finance arrangements for alternative energy sources improved again significantly on the prior year. Further, the one-off fees for structuring ship finance had a positive effect on the Bank's net commission income. Fees in the areas of account management, international business and brokerage fell slightly. Other contributions to profit and loss, for example from securities business and payment transactions, developed relatively stably or increased slightly.

In 2013 and 2014, it should be possible to stabilise net commission income at the level reached in 2012.

Net commission income



Net income from trading book positions

Net income from trading book positions (EUR 10m) for 2012 was down 38% on the prior-year figure of EUR 16m. A direct comparison is not possible for the reasons set out below.

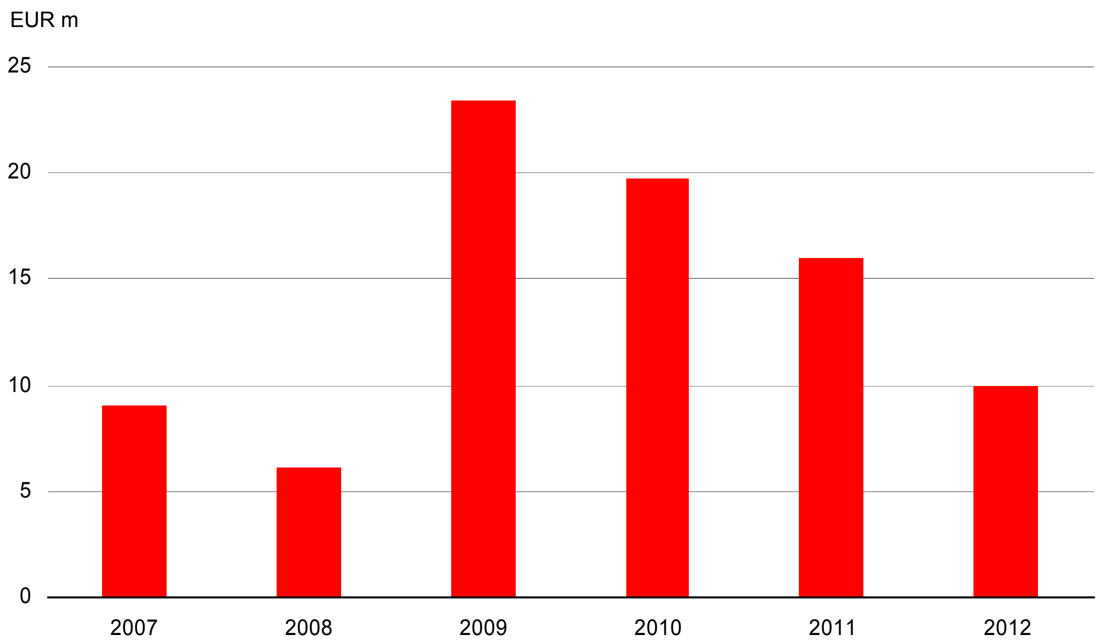
In 2010, the BilMoG ["Bilanzierungsrechtsmodernisierungsgesetz": German Accounting Law Modernization Act] introduced fair value accounting for Banks' trading book positions. In order to reduce the associated volatilities and avoid distributions of unrealized gains from the measurement of trading book positions, fair value accounting was combined with a risk adjustment (upward or downward) and a safety margin that is barred from distribution, which in 2012 together fell by EUR 2m.

The acute crisis in the financial and capital markets eased in 2012, but the continuing uncertainty surrounding the financing of the high sovereign debt of a number of countries is still causing sharp swings on the markets. The crisis caused the markets to factor in counterparty risk from trading business more strongly, subject it to a more differentiated valuation and secure it with collateral. In the past year Bremer Landesbank again operated successfully in the money and capital markets. The net income from trading book positions is on the whole positive.

While marginal profit and current profit made negative contributions on account of low short-term interest rates, the net valuation effect – particularly from interest rate derivatives – developed positively. In product terms the segments foreign exchange, shares and pension made positive contributions, whilst derivatives ended the year with a negative income contribution as a result of the assessment practices discussed above.

As expected, the introduction of fair value accounting for banks' trading book positions under the BilMoG increased the volatility of net income from trading book positions. Nevertheless, the outlook for successful dealing in the financial markets in 2013 and 2014 remains good.

Net income from trading book positions



Balance of other operating income/expenses

The balance of other operating income/expenses of –EUR 11m was an improvement of EUR 2m compared to 2011 (-EUR 13m).

Other operating expenses remained unchanged at EUR 22m. Interest effects contained in the pension provisions or some EUR 13m (prior year: EUR 13m) are on a par with the prior year. Further, costs from the bank levy of EUR 4m (prior year: EUR 5m) were reported. Interest effects from other personnel and miscellaneous provisions of EUR 1m (prior year: EUR 1m) are also reported under other operating expenses.

Other operating income rose from EUR 9m to EUR 11m. This includes income from the reversal of personnel and other provisions, rental income, VAT refunds and cost refunds from customers. Additionally, parts of provision set up for that purpose were reversed following the completion of a company tax audit.

It is difficult to forecast net other operating income and expenses. As long-term interest rates are expected to rise, the Bank anticipates moderately increasing interest effects on pension provisions and therefore expects a limited increase in the negative balance of net other operating income and expenses in the forecast period.

Administrative expenses

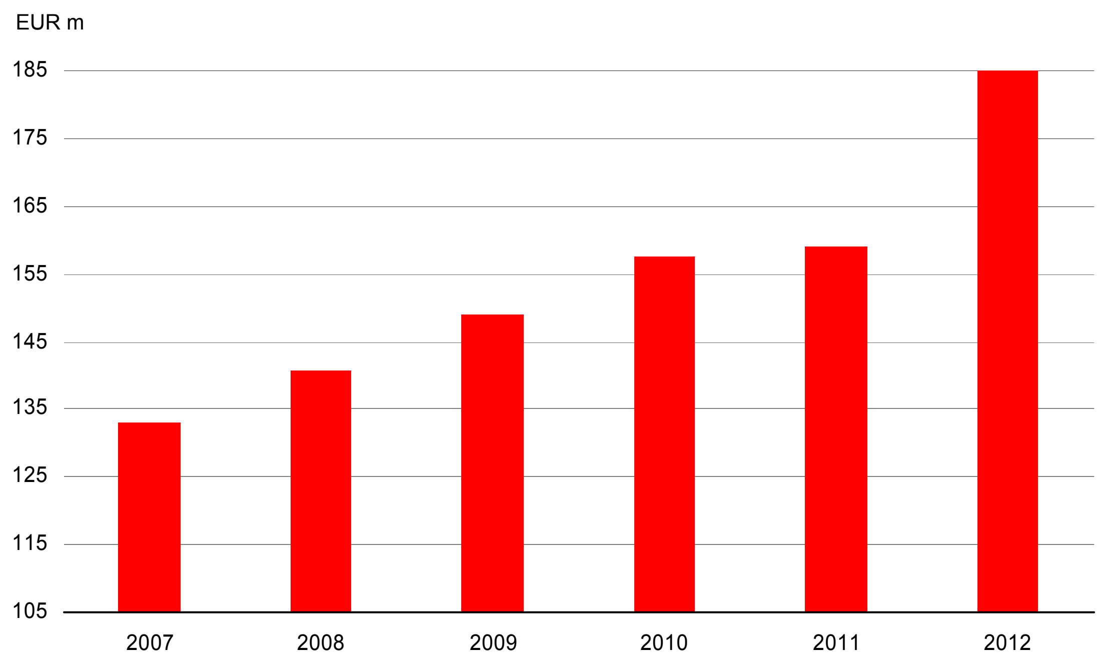
General and administrative expenses rose as expected by EUR 26m, or 16%, from EUR 159m to EUR 185m.

In 2012 personnel expenses are around EUR 103m and have hence risen by EUR 16m or 18%. Expenses for wages and salaries and social security contributions rose in line with expectations due to the budgeted increase in headcount. Deviations to the budgeted increase of personnel expenses are primarily a result of higher allocations to the pension reserves and higher benefits for early retirement in line with collective wage agreements as compared to the prior year.

Other administrative expenses rose again, by around EUR 10m or 14%. Increases occurred in particular in the area of information technology and project-related expenditure. Other expenses such as building costs fell only slightly. On the whole, other administrative expenses nevertheless remained below budget.

For 2013 a considerable decrease in personnel expenses is anticipated as a collective wage agreement will have no impact on the expenses for pensions and other benefits. The Bank anticipates a further increase due to a collective wage agreement in 2014. It is expected that other administrative expenses will consolidate successively in the next few years.

Administrative expenses



Amortization, depreciation and impairment

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

The net valuation effect in the lending and securities business and from Bremer Landesbank's equity investments led to a net expense of EUR 198m. Only a limited comparison of this figure with the net expense of EUR 119m reported in 2011 is possible for the following reasons:

In 2012, the negative effects of the ongoing crisis in the shipping sector had a stronger impact on the Bank's loan loss provisions than originally expected. The renewed excess supply of tonnage resulted in falling charter rates. In 2012 declining growth rates in China and the recession in parts of the eurozone were met by a relatively high level of surplus tonnage. In the fourth year of the crisis numerous shipping companies could no longer support their ships. The Bank continuously analysed its financing portfolio as part of its stringent risk management and allocated loan loss provisions considerably in excess of the original budget figures. These assumed a sideways movement of the markets.

Appreciable impairments to the Bank's own securities holdings were required in the prior year in connection with a credit event related to Greek government bonds. Bremer Landesbank was the protection seller in a credit default swap on Greek risk of an equivalent nominal value of around EUR 58m. As a consequence of Greece's haircut in the spring of 2012, the Bremer Landesbank received various long-term government bonds which were consistently written off at the corresponding market values. The reserves built up in the 2011 financial statements in view of the Greek crisis in accordance with Sec. 340f of the German Commercial Code were reversed. Over the further course of the year the value of Greek government bonds recovered. Further, in December the Bank decided to accept an offer of conversion into short-term zero-coupon bonds from the EFSF (European Financial Stability Facility) to recover value and remove the existing long-term Greek risk from the books. Overall this had a negative impact of some EUR 39m on the Bank's profits.

Adjustments to the carrying amounts of equity investments led to no appreciable net expenses (prior year: -EUR 2m)

The level of loan loss provisions in 2013 and 2014 is expected to be influenced by the only slowly lessening impact of the financial market crisis and the continuing difficulties in the shipping markets. Since 2010, loan loss provisions at Bremer Landesbank have been determined largely by developments in the merchant shipping sector. Unless the market in this segment recovers in 2013, loan loss provisions are likely to reach a similar level to that of 2012.

Fund for general banking risks

The fund for general banking risks pursuant to Sec. 340g of the German Commercial Code, which is part of the regulatory core capital, is EUR 490m. An allocation of EUR 50m was made in the 2012 financial year.

Additionally, in accordance with the BilMoG, 10% of the net income from trading book positions (EUR 1m; prior year: EUR 2m) was allocated to a separate sub-item which is barred from distribution in accordance with Sec. 340g of the German Commercial Code.

This fund now amounts to EUR 495m.

Profit/loss from ordinary activities

The profit from ordinary activities in 2012 is EUR 73m, compared with EUR 164m in the prior year, representing a fall of 55%.

Extraordinary result

In 2012, the extraordinary result came to approximately –EUR 6m (prior year: -EUR 6m). For 2012 this item only comprises the conversion effects relating to pension provisions.

Tax expense

In comparison to the prior year Bremer Landesbank's tax expense fell considerably to EUR 15m (prior year: EUR 48m), reflecting the lower profit for the year and fall in taxable income.

Interest expense for silent participations

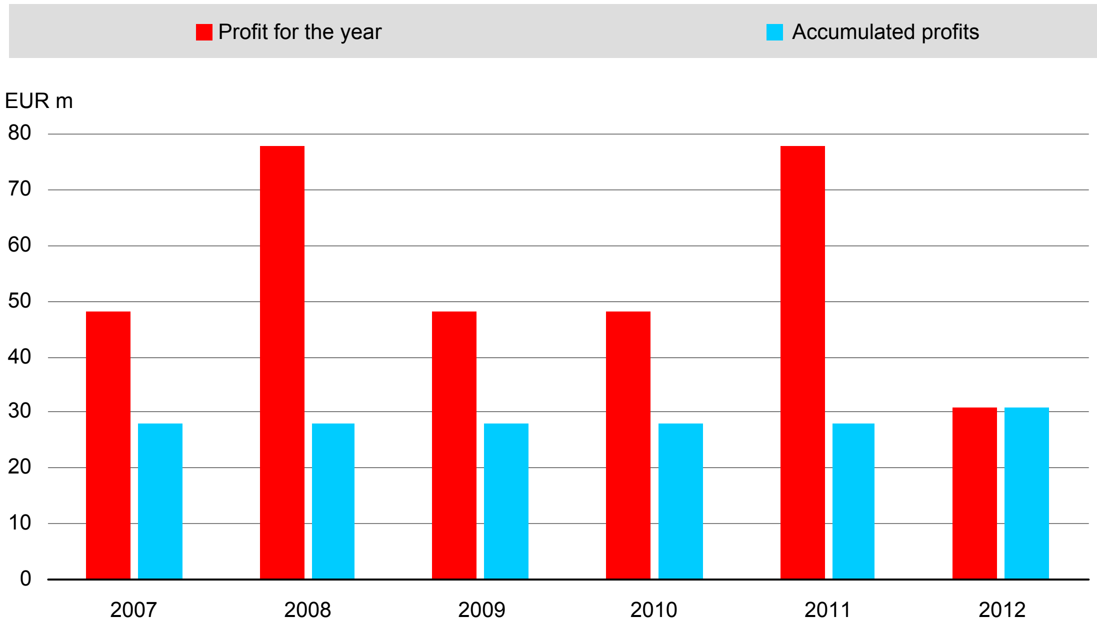
Interest expense for silent participations comes to EUR 21m, compared with EUR 32m in the prior year. The decrease is due to the conversion of silent participations into share capital and capital reserves undertaken in the summer as interest was only incurred up to the conversion date.

Profit for the year and appropriation of profit

Profit for the year stood at EUR 31m against EUR 78m at the end of 2011. The Bank opted to strengthen its liable capital by building up taxed reserves and, unlike in prior years (2011: EUR 50m) not to allocate it to retained earnings. No distribution to the owners is possible for 2012 due to commitments made by NORD/LB to the EU relating to the conversion of silent participations into core capital. The intention is to carry forward the accumulated profits of EUR 31m (prior year: EUR 28m) to new account.

The Bank expects profit to rise in 2013 and 2014. It also expects to be able to strengthen its capital base. The payment of a dividend is not possible for 2013 on account of the aforementioned commitments made by NORD/LB to the EU. A reasonable dividend is anticipated for 2014.

Profit for the year and accumulated profits

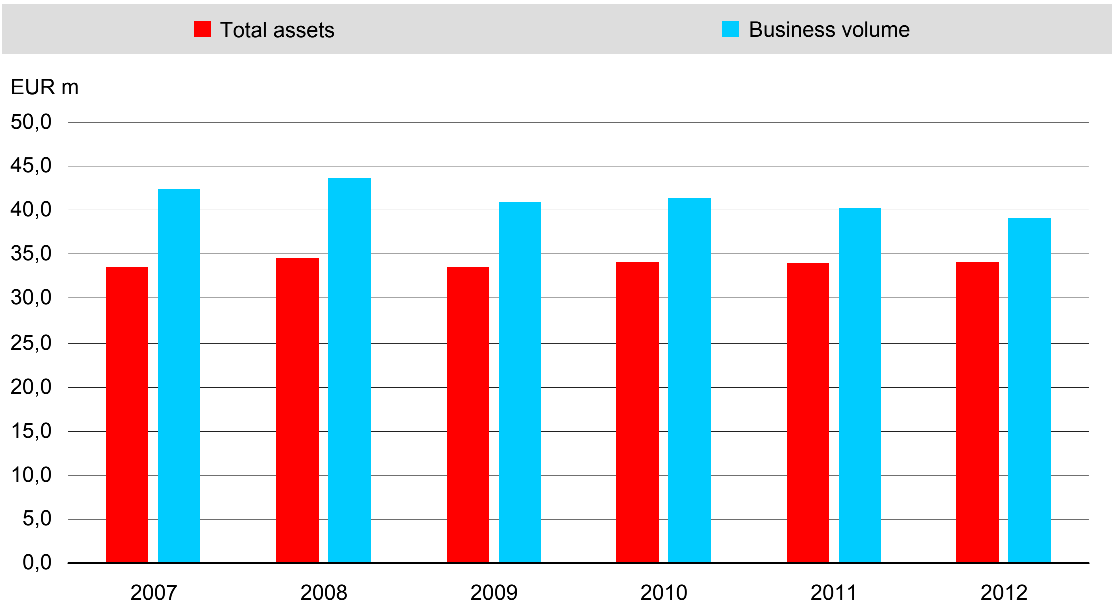


III. Net assets and financial position

Total assets and business volume

As in prior years, the Bank focused on transacting high-yield business. As a consequence of the crisis in the financial and capital markets in connection with the downgrading of certain countries' credit ratings, interbank business was gradually decreased whilst loans and advances to customers increased further. Overall, total assets stabilised at 34.1% (prior year: EUR 33.9b). The volume of business decreased more sharply due to the expiry of contingent liabilities and a reduced volume of open credit commitments, down EUR 1.0b, or 2%, to EUR 39.2b.

Total assets and business volume



Loans and advances to banks

As a consequence of the financial and capital market crisis combined with the downgrading of a number of countries' credit ratings, interbank business was gradually reduced in the 2012 financial year. Public-sector loans also fell slightly. Loans and advances to banks therefore dropped by a total of EUR 1.0b to EUR 3.8b.

Loans and advances to customers

Loans and advances to customers increased – thanks to a moderate level of new business in some areas of the Special Finance and Corporate Customers segments – by some EUR 0.9b to EUR 23.3b. Loans and advances to customers account for 68.3% of total assets (prior year: 65.9%). Please see the notes on the development of the business segments for a more detailed analysis of this balance sheet item.

Debt securities and shares

The Bank incrementally increased its portfolio of debt securities and other fixed-income securities over the reporting period by EUR 0.5b to EUR 5.7b. This focused on listed instruments from public issuers with a comparatively low risk. At EUR 17m, shares and other variable-yield securities (prior year: EUR 25m) only play a minor role.

Trading book positions

With the implementation of the provisions of the BilMoG, banks have been obliged to account for their trading book positions at fair value since 2010. The trading book position of Bremer Landesbank with positive market values is EUR 527m (prior year: EUR 620m) as of the balance sheet date.

Equity investments and shares in affiliates

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.

There were no significant acquisitions or sales of equity investments in 2012. At the end of the year the portfolio remains unchanged at EU 101m.

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.

Liabilities to banks

The Bank also uses liabilities to banks as a means of refinancing. Over the financial year these increased by EUR 0.8b to EUR 11.8b (2011: EUR 11.0b). Whilst registered mortgage covered bonds and public registered securities in circulation declined somewhat in value, the assets of associated savings banks and affiliates rose, especially those payable on demand.

Liabilities to customers

The Bank's refinancing through liabilities to customers almost remained at the prior year's level at EUR 10.3b (against EUR 10.5b in 2011). Deposits payable on demand rose to EUR 3.1b (prior year: EUR 2.3b), whilst the other time bands exhibited slight falls. The issued public registered securities fell marginally to EUR 2.7b (prior year: EUR 2.9b). Savings deposits remained almost constant at EUR 194m (prior year: EUR 191m).

Securitized liabilities

Securitized liabilities are one of the Bank's major sources of finance and decreased by 4% to EUR 8.4b, compared with EUR 8.8b in the prior year. A differentiated presentation of refinancing at the Bank via the various issuing programmes is shown in the notes on financial markets and in the financing section.

Trading book positions

With the implementation of the provisions of the BilMoG, banks have been obliged to account for their trading book positions at fair value since 2010. The trading book position of Bremer Landesbank with negative market values is EUR 358m (prior year: EUR 448m) as at the balance sheet date.

Total

At year-end 2012, Bremer Landesbank's provisions (EUR 268m) are slightly below the prior year (EUR 259m).

Provisions for pensions and similar obligations, which are based on actuarial reports, increased by a total of EUR 22m to EUR 194m.

Due to the change in the measurement of pension provisions under the BilMoG in fiscal year 2010, Bremer Landesbank's provisions for pensions need to be increased by making a total allocation of EUR 93m. At least one-fifteenth of the allocation amount resulting from the remeasurement of the pension provisions has to be accrued in each fiscal year by 31 December 2024 (Art. 67 (1) of the Introductory Act of the German Commercial Code (EGHGB). Therefore one-fifteenth (EUR 6m) of the total allocation calculated as of 1 January 2010 was allocated to pension provisions in fiscal year 2012.

Further information on pension provisions can be found in the notes to the financial statements.

At EUR 16m, tax provisions are considerably below the prior year (EUR 32m). This is because of the utilization of provisions built up in prior years. Other remaining provisions rose by EUR 3m to EUR 58m in 2012. Large portions of the other provisions are related to personnel expenses, such as early retirement obligations (down EUR 14m) and bonuses (up EUR 8m). The loan loss provisions also contained therein remained largely constant at EUR 18m.

Subordinated liabilities

Subordinated liabilities stood at EUR 700m at the end of the year (prior year: EUR 500m). To replace medium-term maturities and strengthen regulatory capital, a total of EUR 200m in subordinate funds was taken on in 2012.

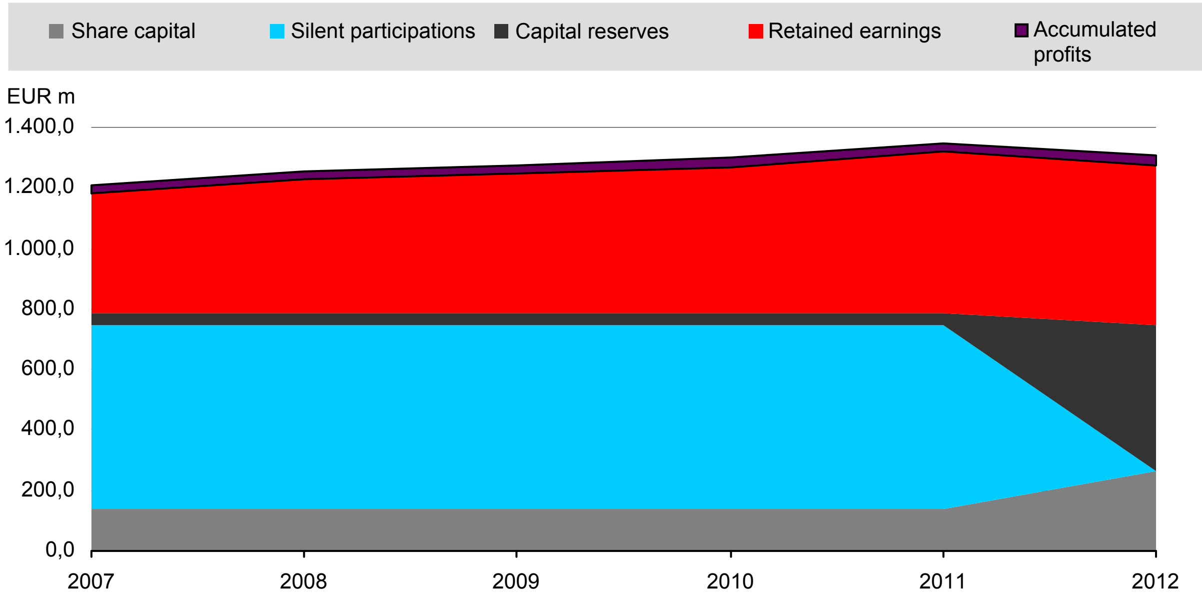
Equity

In the context of the Basel III rules for regulatory capital that will successively come into force in future, the owners of the Bank converted the available “silent participations” into what is known as core capital over the course of 2012. In this context both the components of reported equity as well as the shares of the owners of Bremer Landesbank have changed (NORD/LB now 54.8343% [previously: 92.5 %]; Federal State of Bremen now 41.2% [previously: 7.5%]) and the Lower Saxony Association of Savings Banks (now 3.9657%) is now a further owner.

Reported equity amounts to EUR 1,307m, compared with EUR 1,349m in the prior year. Of this EUR 265m (prior year: EUR 140m) is attributable to share capital and EUR 478m (prior year: EUR 40m) to capital reserves. Retained earnings remain at EUR 533m. The Bank opted to strengthen its liable capital by building up taxed reserves and, unlike in prior years (2011: EUR 50m) not to allocate it to retained earnings. No distribution to the owners is possible for 2012 due to EU restrictions relating to the conversion of silent participations into core capital. The intention is to carry forward the accumulated profits of EUR 31m (prior year: EUR 28m) to new account.

At year-end, after appropriation of profit and the impairment losses recognized in the financial statements, the core capital ratio was 8.8% (prior year: 9.1%). As before, Bremer Landesbank does not require any government aid.

Components of equity



Contingent liabilities

Guarantees amount to EUR 3.4b (prior year: EUR 3.6b).

While contingent liabilities from traditional off-balance sheet business remained more or less unchanged, the volume of credit default swaps (CDSs) for which Bremer Landesbank is the protection seller decreased as swaps matured. Bremer Landesbank engaged in such structured lending business to utilize available equity to generate commission income and to diversify its loan portfolio, notably with regard to regions/countries and rating categories. The Bank only sold protection to prime counterparties and always used recognized standard agreements. Due to the difficulties which have arisen on the international financial and capital markets since 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.

Bremer Landesbank was the protection seller in a credit default swap on Greek risk of an equivalent nominal value of around EUR 58m. As a consequence of Greece's haircut in the spring of 2012, the Bremer Landesbank received various long-term government bonds which were consistently written off at the corresponding market values. The reserves built up in the 2011 financial statements in view of the Greece crisis in accordance with Sec. 340f of the German Commercial Code were reversed. Over the further course of the year the value of Greek government bonds recovered. Further, in December the Bank decided to accept an offer of conversion into short-term zero-coupon bonds from the EFSF (European Financial Stability Facility) to recover value and remove the existing long-term Greek risk from the books.

There have been no changes as regards the credit events of the Irish bank Permanent TSB (formerly Irish Life and Permanent) already described in the 2011 annual financial report. No credit event notices have as yet been issued to the Bank for the existing CDS contracts in the amount of EUR 45m.

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 subordinated bonds. Bremer Landesbank held CDSs of EUR 30m as a protection seller and EUR 10m as a protection buyer. In 2012 a termination agreement was signed with the counterparty of the protection seller contracts so the Bank was not required to purchase any securities at nominal value under this contract. Bremer Landesbank was able to meet its delivery obligation under the protection buyer agreement using securities it already has on its books.

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

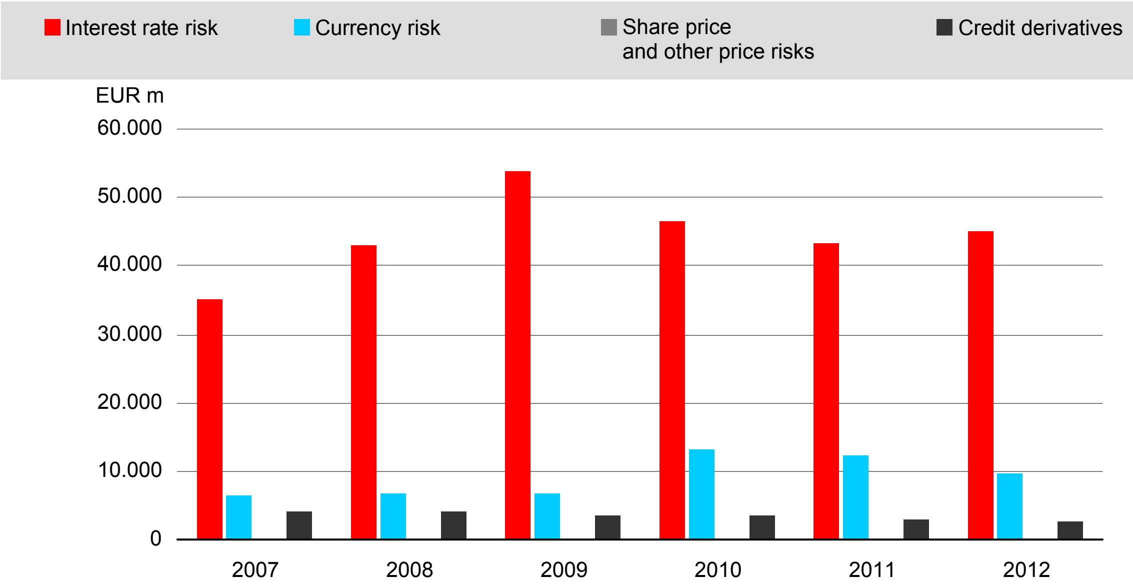
Other obligations

Irrevocable loan commitments which were not taken up amounted to EUR 1.8b on the balance sheet date (prior year: EUR 2.6b).

Off-balance sheet financial instruments

Bremer Landesbank enters into derivative transactions mainly for the purpose of managing and hedging interest rate and foreign currency risks. The nominal volume at year-end 2012 amounted to EUR 57.1b, compared with EUR 58.8b in the prior year, i.e., approximately 1.7 times (prior year: 1.7 times) total assets. Compared with 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 financial statements of Bremer Landesbank.

Derivative volume



Financing

In 2012, 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 2.5b (excluding the European Commercial paper (ECP) programme and EIB loans), compared with EUR 2.3b in 2011.

The volume of debt securities outstanding at year-end 2012 was EUR 17.0b (prior year-end: EUR 17.4b).

The total outstanding volume of refinancing loans from the European Investment Bank (EIB loans) was approximately EUR 0.8b as at 30 December 2012 (prior year-end: EUR 1.0b).

As part of refinancing and liquidity management during the year, in 2012 Bremer Landesbank has also continually made use of the various instruments of the European Central Bank, in addition to the interbank and repo markets.

In 2012, the ECP programme was used in the currencies EUR, USD, CHF and JPY. As of 30 December 2012, the outstanding volume had an equivalent value of EUR 0.2b (prior year-end: EUR 0.5b).

For more details, please see the opportunities and risk section and the business and general conditions section.

Key ratios

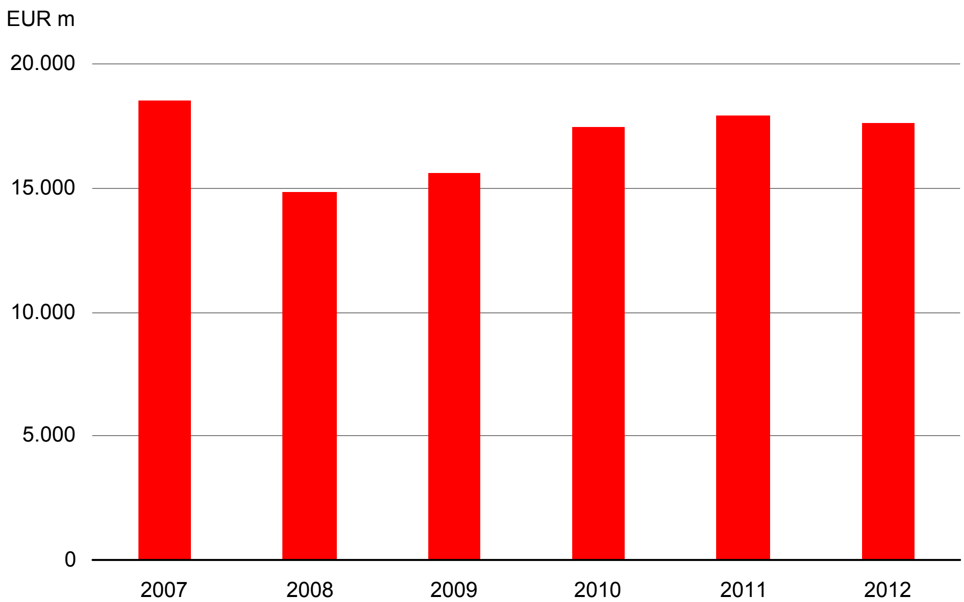
The return on equity (ROE) for fiscal year 2012, calculated using the valuation formula defined above, is 4%, compared with 23% in the prior year. The decrease is due to the reduced operating result after loan loss provisions as a result of the significant increase in loan loss provisions. Additionally, the increased capital base following the conversion of silent participations reduced the ratio.

The cost-income-ratio (CIR) of 37% against 37% in 2011 is unchanged and therefore remains constantly under 40%. The operating income of Bremer Landesbank has therefore risen in line with the rise in administrative expenses in 2012.

As of 31 December 2012, the risk ratio (defined as the ratio of loan loss provision expenditure in the lending business (excluding changes in the fund for general banking risks pursuant to Sec. 340f of the German Commercial Code) to risk assets) is 1.07% (prior year: 0.52%). This increase is primarily due to the higher loan loss provisions for ship finance.

Capital requirements under the German Solvency Regulation total approximately EUR 1.4b (prior year: approximately EUR 1.4b), equivalent to risk assets of approximately EUR 17.1b (prior year: approximately EUR 17.9b). The overall ratio is 11.4%, compared with 10.6% at the prior year-end. The Bank prepared audited interim financial statements pursuant to Sec. 10 (3) of the German Banking Act by 30 September 2012 and was thereby able to take reduced account of the allowances for IRBA commitments created up to that point in the shortfall allowance comparison.

Exposures/risk assets[1]



[1)] up to 2007 according to Principle I, since 2008 according to Basel II

Investing activities

Bremer Landesbank still intends to invest substantially in modernizing and redesigning its buildings. Building work in Oldenburg was completed in 2010 and the new premises are now being used for banking operations. Bremen is still at the logistical preparation stage for the demolition and construction work.

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. This is reflected, for example, in its public and social engagement initiatives, in its sponsorship of the “NordWest Award”, as well as the fact that the Bremer Landesbank employs, on average, 1,067 employees (prior year: 1,036), and is thus 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 1.5% (prior year: 1.4%), which is low for the industry, and a relatively high average length of service of 16.2 years (previous year: 16.2 years).

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 with the “berufundfamilie” [work and family] audit certificate issued by berufundfamilie GmbH in 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. In the course of 2012, the Bank decided to actively integrate sustainability management into its corporate strategy and is now developing goals and measures for fields of action that have already been identified.

Information on the business segments

A differentiated analysis of the customer segments in the commercial lending business shows diverging developments.

Corporate Customers

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

In 2012 sales activities continued at a high level. The economic framework conditions appeared positive in the first half-year, and in the second half-year development was somewhat more modest due to the economic downturn. Conversely, lending business was again a driver of positive developments, and increased volumes were achieved through the use of public credit programmes and working capital facilities.

For 2013, the Corporate Customers business segment generally expects 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.

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

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, photovoltaics and biogas.

Bremer Landesbank's Special Finance segment continued to develop on the whole positively in 2012 given the ongoing challenges of the shipping crisis and exceeds the income forecast before loan loss provisions. Economic growth has been more moderate since the financial and economic crisis, whereby renewable energies in particular are a growing part of the portfolio by means of leveraging existing business potential and could counteract future falls in income from shipping finance. The loan loss provisions of the business sector were corrected substantially upwards on account of the continuing crisis in shipping.

The crisis in the shipping segment entered its fourth year. In 2012 declining growth rates in China and the recession in parts of the eurozone were met by a relatively high level of surplus tonnage. The renewed excess supply of tonnage resulted in falling charter rates, which in part did not cover principal repayments. Historically low shipping rates also caused a deterioration of the portfolio across all key ship types. As a consequence, numerous shipping companies were unable to support their ships on account of the ongoing crisis, which has lasted for longer than expected. Nonetheless, close customer support has shown itself to be prudent and viable; new business is only undertaken very selectively in the context of crisis management. No appreciable market recovery is anticipated for 2013. The reduction of the excess supply of tonnage is only envisaged in the medium term. In some cases increased loan loss provisions are offset by increased income.

In the refinancing of vehicle and equipment leasing companies, Bremer Landesbank maintained its position as a leading financer of medium-sized leasing companies in 2012. Whilst new business developed in line with the budget, the income forecast was exceeded. The competence centre function within the Nord/LB Group and the broad customer base promise further potential for growth – including as a reliable partner for leasing companies with bank functions. The refinancing of factoring companies rounds off the portfolio.

In the community interest properties sector, Bremer Landesbank specializes in the financing of nursing homes and is the competence centre for the Nord/LB Group in this field. Despite modest new business in 2012, the income forecast was achieved and demand for credit is expected to gather momentum. Demographic trends and the growing need for in-patient nursing highlight the strategic importance of this segment.

In the renewable energies segment the areas of onshore wind energy in Germany, including increasingly repowering and photovoltaics, were the main drivers for the high level of new business that exceeded expectations. However, the amendment of the German Renewable Energies Act (EEG) would mean a reduction in demand for photovoltaics finance in 2013. Bremer Landesbank is the competence centre for biogas and photovoltaics in Germany within the Nord/LB Group. It also supports experienced customers in selected ventures in other European countries. The shift in energy policy represents a foundation for further positive growth potential.

With its various subsegments and its consistent focus on long-term, reliable customer relationships, Bremer Landesbank's Special Finance segment considers itself to be well positioned with a clientele dominated by mid-cap companies and enables moderate growth. The portfolio will increasingly shift towards renewable energies and away from shipping.

The difficulties in the shipping markets had a not inconsiderable influence on the results of the segment in 2012. However, the overall effects were readily absorbed. Unless the market in this segment recovers in 2013, loan loss provisions are likely to reach a similar level to that of 2012.

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 own 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, the Financial Markets segment contributes significantly to positions relevant to the Bank's balance sheet.

As part of refinancing and liquidity management during the year, in 2012 Bremer Landesbank has also continually made use of the various instruments of the European Central Bank, in addition to the interbank and repo markets.

Capital market operations took place in a market again shaped by the effects of the euro crisis and international and multi-institutional efforts to contain its impact in the financial and real markets in 2012.

The treasury, trading and sales activities of the Financial Markets units developed favourably despite the difficult market environment. The management of liquidity risks and interest rate risks, ensuring that the bank has continuous liquidity and providing the above-mentioned customer groups with money market and capital market products are the focus of the trading unit.

In 2012, the segment's sales units once again recorded sustained intensive demand for consulting and support services for money, currency and derivative products in the face of a slightly lower volume of trade caused by wider economic factors.

Overall the operations of Bremer Landesbank's Financial Markets segment were successfully deployed to achieve the final segment result.

Bremer Landesbank's business with associated banks, which it also conducts in the Financial Markets segment, was successfully continued in 2012 and included comprehensive support services for the associated savings banks. Despite the testing economic environment with strong competitive structures, earnings were again kept steady.

In syndicate 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. Further, Bremer Landesbank enabled the associated savings banks to participate in its successful special/project financing business through syndications.

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.

Against the backdrop of the euro crisis, distortions on the financial and real markets cannot be ruled out in 2013 despite all cross-border and cross-institutional attempts to contain its consequences in these markets. The Financial Markets segment, however, is well positioned to support bank management and provide long-term customer care on account of its many years of market experience and the customer relationships it has built up.

Private Customers

The effects of the global financial crisis are still being felt in private customer business. The discussion on the debt position in the euro countries, linked to the anomaly of interest rate trends, is causing severe and ongoing uncertainty among private investors. As a consequence, customers have an increased need for information, which Bremer Landesbank is actively catering for through its professional customer management. Bremer Landesbank's business strategy remains unchanged: it is a premium provider of banking services for all private customer groups, specialising in freelancers. Its focus is on the consolidation and expansion of market share in the private banking segment. Bremer Landesbank's private banking has confirmed its ability to perform even in times of crisis.

A cornerstone of the Bank's success in this business segment is its stringent adherence to providing comprehensive advice. In private banking this is guaranteed by means of a strictly defined and constantly quality-assured consultation process and methodically supported with a wealth concept developed with a view to financial planning.

Alongside the personal living circumstances, the social aspect is also considered as part of the comprehensive advice. Here the Private Customers business unit cooperates very closely with the Bank's other front office units. The consultation approach dubbed "entrepreneur banking" was successfully expanded for entrepreneurs and the existing customer relationships with Bremer Landesbank were consolidated.

In the asset and portfolio management unit Bremer Landesbank has a competence centre for professional wealth management. The results of the SIP® investment process devised here are noticeable in particular in asset management, the SIP® fund family and in the consultation process. The risk-averse investment strategy derived from the resulting SIP® investment process performed particularly well this year and produced substantial volume growth in the target segments.

The extensive consumer protection requirements continued this year, for example through the introduction of the German Investor Protection and Function Improvement Act (AnSFuG).

Against the backdrop of the economic developments and the restricted range of secure investments on offer, it is assumed that private customer business will continue to face difficult conditions.

Conclusion

The very satisfactory 2012 result, in spite of the difficult position in the shipping markets, validates Bremer Landesbank's strategic focus on regional banking – with a national Special Finance segment – 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 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 2013 and 2014.

IV. Subsequent events

There were no events of special significance for the economic situation of the Bank between the end of fiscal year 2012 and the preparation of the financial statements that have not been accounted for in the financial statements.

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

V. Outlook

Economic situation and financial markets

At the end of 2012, a year marked by the slowdown of growth in the global economy, the leading international economic institutes forecast moderate growth for the global economy for 2013. The IMF is anticipating an increase of 3.5% in global output for 2013 as compared to 3.2% for 2012. In the current year, 2013, the emerging economies will remain the main driver of economic growth, with more than a 50% share of the global economy. The IMF forecasts growth of around 5.5% (compared with 5.1% in 2012) for this segment. According to the current IMF analysis, the industrialised countries can expect an increase of 1.4% after 1.3% in 2012.

An analysis of key global cyclical forces – be it the inventory cycle or the capital goods cycle – does not indicate any politically-influenced under-saturation. The deficit crisis in the eurozone, which peaked in September, was the catalyst for the slowdown in the global economy. The measures taken by the political elites of the eurozone, be that the imposition of the ESM, the Growth and Stability Pact or the Fiscal Compact, but also especially the ECB's independently-announced bond purchase programme, have laid the foundation for an easing of the political risks to the world economy emanating from the eurozone in the long run.

The under-saturation in the 2012 inventory and capital goods cycle caused by the political risk of the possible collapse of the eurozone points to corresponding potential for a stronger global economy in 2013 due to the requisite recovery effects currently assumed in forecasts.

At the start of 2013 the financial markets appear confident as regards the valuation of the reforming countries and risk assets. Early indicators and purchasing manager indices are rallying around the world and the amplitude of their increases is on the whole surprising. The homogeneity at global level is striking, that is, the convergence of international economic trends. In the investment sector decisions regarding the real economy require different lead times than financial investments that can be revised at the press of a button. Typical timeframes are six to twelve months depending on the scope of the investment. Accordingly, the key impact of the easing of the deficit crisis in the eurozone in the real economy should be expected from the 2nd quarter of 2013.

In its monthly report for December 2012 the Bundesbank wrote that the economic prospects in Germany deteriorated in the winter period. The Bundesbank expects that the weak phase will not last too long and that Germany will again return to growth. The fundamental requirements for this are a revival of the global economy, a continuation of the reform process in the eurozone and the absence of any major negative surprises.

For 2013 the Bundesbank anticipates only very modest GDP growth of 0.4%. In its monthly report, the Bundesbank refers to the high level of uncertainties. It expressly does not rule out a considerably better economic outlook for the world, the eurozone and Germany.

Germany’s public reserves are looking increasingly healthy following the growth of recent years, the consequences of Agenda 2010, the very low euro exchange rate in 2012 and extremely favourable refinancing terms for Germany on the capital markets. As 2011 surprised on the upside in terms of the German government's forecast for public finances, tax revenue was significantly higher than budgeted, with the consequence of a low public budget surplus of 0.1% of GDP. In 2013 the budget position is largely dependent on the economic situation. According to its monthly report of December 2012, the Bundesbank is expecting a budget deficit of 0.75% of GDP on the basis of a very moderate growth forecast.

At the beginning of 2013, the financial markets appear to be showing a relaxed attitude towards the European reforming countries. This trend has been apparent since September 2012 and, thanks to the attitude of the ECB and the political decision-makers of the eurozone, has the quality of a lasting re-evaluation that is objectively justified given the reform success achieved by the periphery states.

The ongoing zero-interest policy of the Federal Reserve, the monthly Federal Reserve bond purchase programme at a volume of USD 85b, the monetary policy and the interest policy of the Bank of England, the ambitious British bond purchase programme and the aggressive realignment of the Bank of Japan in terms of interest rate, monetary and bond purchase policy underline the will of the key central banks to provide a basis for economic stability and expansion. They are creating underlying incentives for taking up positions in risk asset classes with the goal of reviving and assuring the functionality of these markets for the real economy. Conversely, they are creating risks. Over-valuation of economic assets with a resulting bubble or jeopardising price stability are potential problem areas in 2013.

Against this background, the valuation of German government bonds is ambitious. Shares (DAX) are undervalued both by historical comparison and considering cyclical aspects. The potential for inflation is seen as being muted and is based on moderate growth forecasts. A pick-up in the global economy gives rise to higher inflation risks than are currently assumed.

The region

According to the economic survey of the Bremen Chamber of Industry and Commerce, the fourth quarter of 2012 saw an improvement of the economic climate after falls leading up to autumn 2012. The correlation with the easing of the European deficit crisis and associated declining political risks that weighed upon the global economy is marked.

At the end of 2012 the current business situation is largely classed as good. Business expectations have improved slightly.

Risk assessments of the companies surveyed are lower than in the prior quarter. Recruitment plans are stable. The industrial sector in particular is on the rise again. A slight rise in the willingness to invest is noticeable. Here mainly substitute investments play a prominent role. This tendency underpins the theory that the capital goods cycle is under-saturated and needs to be made up for.

The close link between Bremen's economy and the global economy points to stronger growth for 2013 than 2012.

The reversal of the trend in the economic survey implies a positive start for 2013 and lasting potential for a continued economic expansion.

Given the minor, but still ongoing, political risks regarding the European deficit crisis and international imbalances, economic setbacks cannot be ruled out. Accordingly, the economic expansion will follow political developments and gradually gain ground.

According to the economic survey by the Oldenburg Chamber of Commerce, the Oldenburg economy was more optimistic than in the prior quarter on account of economic development.

Optimism for 2013 is paired with unchanged difficult framework conditions on the part of companies. Rising energy prices alongside the easing but still ongoing sovereign debt crisis as well as risks to the world economy remain critical issues in the perception of the economy.

From the 2nd quarter of 2013 companies expect the economy to recover. Improved export prospects, stronger investment activity and growth in the service sector are likely to be the key catalysts for economic development in this Chamber of Commerce region. According to the survey, there will be no lasting changes to the job market in 2013.

At the start of 2013 the Chamber of Industry and Commerce of East Frisia and Papenburg confirmed the robust state of the economy in this region, which compared positively with other regions even in the economic downturn of 2012. In the fourth quarter the economic climate index rallied again after two falls.

According to the Chamber of Industry and Commerce the starting position of the regional economy is excellent. Key sectors of regional economic development for 2013 are expected to be wholesale, retail and and the transport industry. The willingness to invest in this Chamber of Commerce region is pronounced. Further prospects for growth lie in a strengthened export business. The positive stimuli for the job market are clear at the start of the year.

Detached from the robust overall position and positive expectations, the ongoing global clustering of political risks is highly significant for further economic development.

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 2013 and 2014. The acute crisis in the financial and capital markets eased in 2012, but the continuing uncertainty surrounding the financing of the high sovereign debt of a number of countries is still causing sharp swings on the markets. In 2012 the negative consequences of the crisis again had an impact on the real economy in the shipping sector. It is expected that this will continue to play a role in the next few 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 decision-making channels, 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 decision-making channels and quick response times create a promising environment for further sound earnings growth in the Bank's core segments.

Integrated Bank Management

The Integrated Bank Management unit is responsible for the ongoing enhancement of value and risk-based management. In 2012 a range of activities was successfully completed to support the top decision-makers, the ongoing optimisation of management and to satisfy regulatory requirements. Examples of this are the intensive support of the capital conversion and preparation for new reporting procedures under the Basel III regulations.

Results of operations, net assets and financial position

The Bank expects profit to rise in 2013 and 2014. It also expects to be able to strengthen its capital base. The payment of a dividend is not possible for 2013 due to the commitments made by NORD/LB to the EU. A reasonable dividend is anticipated for 2014. 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 will fall once the special effects no longer apply. After that a continual increase is anticipated. In 2013 and 2014, it should be possible to stabilise net commission income at the level reached in 2012. The outlook for successful trading in the financial markets in 2013 and 2014 remains good. For 2013 a considerable decrease in personnel expenses is anticipated as a collective wage agreement will have no impact on the expenses for pensions and other benefits. The Bank anticipates a further increase due to a collective wage agreement in 2014. It is expected that other administrative expenses will consolidate successively in the next few years. The level of loan loss provisions in 2013 and 2014 is expected to be influenced by the only slowly lessening impact of the financial market crisis and the continuing difficulties in the shipping markets. Since 2010, loan loss provisions at Bremer Landesbank have been determined largely by developments in the merchant shipping sector. Unless the market in this segment recovers in 2013, loan loss provisions are likely to reach a similar level to that of 2012.

After the satisfactory result for 2012, the return on equity is expected to again increase in the reporting period. In 2013 and 2014 the cost-income ratio will be somewhat higher than in 2013 and 2014. The risk ratio is expected to decrease gradually in the forecast period. According to the Bank’s forecasts, the risk assets will initially increase substantially in the forecast period before falling continually.

Conclusion

In 2012 the difficulties in the shipping markets and the Greek haircut had a not insignificant influence on Bremer Landesbank’s result in accordance with German Commercial Code. However, the Bank was able to cushion the effects well on account of its good results of operations. The Bank assumes that its results of operations will also remain positive in 2013 and 2014.

VI. Opportunities and risks

Integrated Bank Management

Strategy and 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. The major risks for the Bank are counterparty risks (credit and investment risks), market price risks, liquidity risks and operational risks.

Bremer Landesbank embraces an open risk culture and thereby a conscious approach to risks. The competencies and responsibilities in the Bank are clearly set out. The Managing Board bears overall responsibility for risk management, including the methods and procedures for risk measurement, management and monitoring to be used.

The Managing Board has set out a sustainable business strategy and a consistent risk strategy. The latter is based on the Minimum Requirements for Risk Management (MaRisk) and on the NORD/LB Group's group risk strategy. The strategy reflects Bremer Landesbank's sustainable risk policy and its business model. It is a guideline for Bremer Landesbank and contains statements on risk policy and the organization of the risk management process specific to the main banking risks. The risk strategy is reviewed at least once a year and presented to and discussed with the Supervisory Board of Bremer Landesbank.

The Managing 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 risk management process is subject to ongoing review and development in terms of its structures and procedures, the method of risk quantification and the relevance of respective parameters.

The Bank has implemented a risk management process spanning all of its activities. In the process "risk identification" (risk inventory), the risk types relevant to the Bank are identified and analyzed for materiality at least once a year and as required. The material risks then pass through the further process steps "risk assessment", "risk reporting" and "risk management and monitoring". The process steps 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 handbook published across the Bank serves as an umbrella document and combines the three dimensions of strategies, methods and processes. It contributes to a uniform understanding of risk within the Bank, is the basis for the further development of risk awareness and creates the necessary transparency. Specification and details are dealt with in risk handbooks, master documents and working instructions for specific risk types and enhanced by resolutions of the Managing Board. As part of the requirements for written rules of procedure, the documents of the risk management system are regularly updated.

The Bank has installed early warning systems specific to the types of risk that enable potential risks to be identified and analysed at an early stage and passed to the relevant decision-makers.

Structures

Fundamentally the Managing Board and the organisational units involved in the risk management system are involved in group-wide committees to comply with the specifications of the NORD/LB Group's risk strategy. This ensures and develops group-wide methodical standards and enables any deviating rues for specific institutes to be agreed.

At overall bank level, the risk control function is responsible for identifying the various risks, making them measurable, and evaluating them communicating them. In consultation with the NORD/LB Group the Market Price Risk Control and Integrated Bank and Credit Risk Control units develop methods, implement the requisite systems, monitor the overall risk management process and report on risks. Risk management is handled in the four business segments and the area of Back Office Financing within specified framework conditions.

Internal auditing reviews the effectiveness and appropriateness of the whole risk management process and the internal control system as well as the propriety of business operations in a risk-orientated and process-independent manner. Remaining independent and avoiding conflicts of interest, it supports key projects and acts in an advisory capacity.

The Bank's Internal Control System (ICS) creates uniform process-led and risk-orientated structures and procedures and thus promotes process security, the optimisation of business processes and risk awareness in the company.

The Compliance area acts as a central consultation and monitoring point for complying with the requirements on the Bank, including in the areas of securities compliance, prevention of money laundering, financial sanctions and prevention of other punishable acts and outsourcing in accordance with the Minimum Requirements for Risk Management. It reports directly to the Managing Board.

The new product process governs dealings with new products, new markets, new sales channels and new services. The main objective of the new product process is to display, analyse and evaluate all effects of new business activity on the risk profile and risk management prior to commencing business. The Managing Board then takes the decision on whether to commence business.

For further information in the organisation of risk management, refer to the following subsections per risk type.

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 of the German Commercial Code, it is required by Sec. 289 (5) of the German Commercial Code to describe the main features of its internal control and risk management system relating to the financial reporting process.

The internal control and risk management system relating to the 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 Sec. 19 et seq.) and of the risk management system (IDW AuS 340 Sec. 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 regularity and reliability of internal and external financial reporting
- To conform with the legal provisions relevant to the organization

Bremer Landesbank considers information to be significant for the purposes of Sec. 289 (5) of the German Commercial Code if its omission could materially affect the economic decisions made by users on the basis of the annual 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 financial statements.

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

Bremer Landesbank has high quality standards 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 accounting-related internal control and risk management system

The Managing Board is responsible for preparing the financial statements and the 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 financial statements in accordance with the provisions of the German Commercial Code . The provisions specific to banks of Sec. 340 of the German Commercial Code and those of the German Accounting Regulation for Credit and Financial Services Institutions (RechKredV), the German Accounting Standards (DRS) and supplementary provisions in the statutes are also observed.

Integrated Bank Management is primarily responsible for managing and implementing the preparation of the 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 financial statements and management 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 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 valuation allowances on German and foreign loans
- Provision of relevant information for the notes to the financial statements and the management report

The Supervisory Board oversees the Managing Board. In the financial reporting process the Supervisory Board approves the 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 Managing Board it conducts audits in all parts of the organization, reporting directly to the Managing Board. Apart from assessing the regularity 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 financial statements and 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 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 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 accounts and on the overall picture conveyed by the financial statements together with the 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 in operating processes which generate key information for preparing the financial statements and management report, including functional segregation and predefined approval processes in relevant areas
- Measures to ensure the orderly computer-assisted processing of accounting transactions and data
- Measures to monitor the accounting-related internal control and risk management system

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

One component of the accounting-related internal control and risk management system is Bremer Landesbank's control environment, 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 favourable 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.

Appropriate instructions in the policies mitigate the risk of non-compliant preparation of the financial statements. 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 financial statements comprises functional transaction support, data entry and processing, reporting and publication of the elements of the financial reporting.

The entire financial reporting process is supported by IT applications – both standard programmes and customized software. Based on Bremer Landesbank's IT strategy and risk strategy, policies and procedures exist governing programme development and change, data backups and access rights, to ensure the regularity 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 risk reporting system ensures that risks are identified at an early stage and provides the Managing 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.

The monthly report on risk-bearing capacity monitors the allocation of risk capital and the RWA (risk weighted assets) ceilings decided in the risk strategy. In the scope of risk reporting the Managing Board is provided with further risk-specific reports regularly and as required.

The risk situation is reported to the General Working and Credit Committee, a committee of the supervisory board, five times a year.

The relevant sections contain more details about these reports.

Risk-bearing capacity

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 material and non-material risks. Material risks are all types of risk which could have a material 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="5">Risk/sub-risk (risk universe)</th><th>relevant</th><th>material</th></tr>
<tr><td rowspan="7">Counterparty risk</td><td rowspan="6">Credit risk</td><td colspan="3">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="2">Default risk from trading</td></tr>
<tr><td colspan="2">Replacement risk</td></tr>
<tr><td rowspan="2">Settlement risk</td><td>Pre-settlement risk</td></tr>
<tr><td>Actual settlement risk</td></tr>
<tr><td colspan="2">Issuer risk</td></tr>
<tr><td colspan="4">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="2">General interest rate risk</td><td rowspan="7">x</td><td rowspan="7">x</td></tr>
<tr><td colspan="2">Specific interest rate risk</td></tr>
<tr><td colspan="3">Currency risk</td></tr>
<tr><td colspan="3">Share price risk</td></tr>
<tr><td colspan="3">Fund price risk</td></tr>
<tr><td colspan="3">Volatility risk</td></tr>
<tr><td colspan="3">Credit spread risk in the banking book</td></tr>
<tr><td colspan="3">Commodity risk</td><td>—</td><td>—</td></tr>
<tr><td rowspan="3">Liquidity risk</td><td colspan="3">Traditional liquidity risk</td><td rowspan="3">x</td><td rowspan="3">x</td></tr>
<tr><td colspan="3">Refinancing risk</td></tr>
<tr><td colspan="3">Market liquidity risk</td></tr>
<tr><td rowspan="6">Operational risk</td><td colspan="3">Legal risk</td><td rowspan="6">x</td><td rowspan="6">x</td></tr>
<tr><td colspan="3">Reputational risk as consequential risk</td></tr>
<tr><td colspan="3">Compliance risk</td></tr>
<tr><td colspan="3">Outsourcing risk</td></tr>
<tr><td colspan="3">Fraud risk</td></tr>
<tr><td colspan="3">Dilution risk</td></tr>
<tr><td rowspan="8">Other risks</td><td colspan="3">Business and strategic risks, including group risks</td><td>x</td><td>—</td></tr>
<tr><td colspan="3">Reputational risk</td><td>x</td><td>—</td></tr>
<tr><td colspan="3">Syndication risk</td><td>x</td><td>—</td></tr>
<tr><td colspan="3">Model risk</td><td>x</td><td>—</td></tr>
<tr><td colspan="3">Real estate risk</td><td>x</td><td>—</td></tr>
<tr><td colspan="3">Residual value risk</td><td>—</td><td>—</td></tr>
<tr><td colspan="3">Actuarial risk</td><td>—</td><td>—</td></tr>
<tr><td colspan="3">Collective risk</td><td>—</td><td>—</td></tr>
</table>

The risk potential arising from Bremer Landesbank's material risks have to be covered at all times by available risk capital. Monitoring takes place on the basis of the risk-bearing capacity model (RBC model).

Against the background of the discussion 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 of the NORD/LB Group is currently being critically reviewed order to ensure that it will also satisfy the Minimum Requirements for Risk Management in future. The switch to the revised risk-bearing capacity model took place on 31 March 2012. Further changes will take place on 31 December 2012.

The RBC model consists of three pillars:

- The first pillar represents the "going concern" view and assumes continued operations on the basis of the existing business model, even if all available cover funds have been depleted. Risks are measured using a defined confidence level of 90% and the total economic risk potential is compared with risk capital. The risk capital is determined from the free regulatory capital pursuant to the German Solvency Regulation at specified minimum rates (total capital and core capital) during a bottleneck analysis and adjusted subject to a range of factors. The new model focuses on this first pillar. Since the switch, this pillar has been significant for assessing the risk bearing capacity in accordance with the Minimum Requirements for Risk Management. This used to be the second pillar, the economic capital adequacy.

- The second pillar was devised from a "gone concern" view (liquidation scenario; previously economic capital adequacy). It will continue as a secondary requirement. The gone concern pillar includes a higher confidence level of 99.9% for determining risk potential. 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 as well as hidden liabilities. Effects on risk capital arising during the year are also taken into account. On depletion of the capital required to cover the risks, continued operation of the Bank on the basis of otherwise unchanged assumptions would no longer be possible.

- In the third pillar, regulatory measures, the risk bearing capacity is assessed on the basis of regulatory provisions. On the capital side, the tests include all regulatory capital components. This perspective must be complied with as a strict condition.

Whilst the risk bearing capacity was previously defined by the coverage ratio, since 31 March 2012 risk-bearing capacity has been monitored by the level of capacity utilization (quotient of the sum of the risk potentials and total risk capital).

In terms of the shortfall, and in line with the other risk risk potentials, the first column has no longer considered the regulatory factor, but the economic factor in the “Others” item since 31 December 2012.

Stress analyses supplement all three columns. The stress tests are based on Bremer Landesbank’s key business areas and risks. All stress scenarios are designed to cover all types of risk and affect risk capital and 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 type. These are integrated into the risk-bearing capacity model via the internal credit risk model. Concentrations across all kinds of risk are regularly monitored with targeted stress tests and reported on.

The Bank’s Managing Board sets the Bank’s risk acceptance after deduction of a buffer. Operational limits are specified for each risk type. Parallel to that capital is allocated to the Bank’s Business Segments in the form of upper limits for risk-weighted assets. The above ratios and limits are monitored as part of the monthly reporting.

Development in 2012

Potential utilization rate of available risk capital in the economic capital adequacy

	Risk-bearing capacity			
million EUR	**31 Dec 2012**		**31 Dec 2011**	
Risk capital	**553.4**	**100.0%**	**557.9**	**100.0%**
Credit risk	147.9	26.8%	124.1	22.2%
Investment risk	3.9	0.7%	4.3	0.8%
Market price risk	55.1	10.0%	30.9	5.5%
Liquidity risk	17.0	3.1%	22.2	4.0%
Operational risk	7.7	1.4%	7.2	1.3%
Others	-127.3	-23.0%	-132.4	-23.7%
Total risk potential	**104.3**		**64.6**	
Capacity utilization		**19.0%**		**11.6%**

[1] As of 31 December 2011 the risk potential calculation includes, for methodological reasons, a maximum of the credit risk sum (-124,1 Mio. €) as a deduction under "Others". This produces the risk potential sum and the capacity utilization as of 31 December 2011 reported in the table.

As of 31 December 2012 the capacity utilization is 19.0%. The comparison values as of 31 December 2011 are reported taking retrospective account of the revison of the RBC model.

In 2012, too, the rating agencies were critical in their assessment of the ratings of banks. In February Moody's announced that it was assessing the economic evironment and the earnings position of 116 European banks on account of the potential negative impacts of the ongoing European sovereign debt crisis with a view to a possible downgrade. In this context Moody's also downgraded the rating of Bremer Landesbank to A3 (long-term) and P-2 (short-term) with a stable outlook. Fitch has confirmed its long-term A rating (stable outlook) (short-term F1).

In 2012 two measures for increasing equity affected the Bank's risk capital position. On 28 August 2012 silent participations of EUR 607.9m were converted. The new capital structure enables the Bank to satisfy the requirements under Basel III in one go. On 16 November 2012 EUR 150m and on 6 December 2012 a further EUR 50 of subordinated capital was taken on. The capacity utilization in the going concern view of the risk bearing capacity model was 19.0% on 31 December 2012. By 31 December 2012 the overall ratio improved from 10.6% to 11.4% year-on-year.

The debt crisis of many euro nations, in particular of those termed the PIIGS nations, deepened in the first half of 2012, combined with the rise of the Itraxx Financial 5y Senior, which peaked at 305 BP in May. With the announcement by ECB president Draghi that everything would be done to ensure the stability of the euro nations and the renewed commitment of the European governments to retain the euro, the markets stabilised and in particular the returns on the capital market for Spanish and Italian bonds fell drastically. The Itraxx Financial 5y Senior fell to 141 BP by year-end. Despite massive capital-raising measures, trust in the banking system did not return in 2012. The banking system remains dependent on refinancing by the ECB.

However, stabilisation did occur and in the 2nd half-year unsecured bonds were increasingly being placed on the capital market.

After the securities supplied after the Greek credit event were sold, only Italy represents a direct sovereign risk in the form of credit derivatives in the Bank's credit-investment portfolio. 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.

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 a borrower'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 a debtor's or counterparty's failure to pay or deterioration in a debtor's or counterparty's credit rating. It is broken down into default risk from trading, replacement, settlement and issuer risk.
    - Default risk from trading is the risk of loss stemming from a debtor's failure to pay or deterioration in a debtor'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 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 Managing 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. The Back Office unit independently monitors the risks at individual borrower or sub-portfolio level independently of the market sectors. 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 of the German Banking Act.

Decisions are made by the Managing 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 reports are made to the Managing Board: 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, quarterly, 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 covered bond report is included in the credit portfolio report.

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

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 taking account of 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 uses the master scale of the German Savings and Giro Bank Association (DSGV).

DSGV master scale

Initiative for Germany as a Financial Location ["Initiative Finanzstandort Deutschland"].	DSGV master scale	Mean probability of default	Customer category
Very good to good	1 (AAAA)	0.00%	Normal
	1 (AA)	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%	
	5	0.12%	
	3	0.17%	
	4	0.26%	
good/adequate	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 internal rating in accordance with the German Solvency Regulation. 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 of the German Solvency Regulation 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 particular expertise. 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.

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; however, rating improvements are only possible to a limited extent. 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 2013, cooperation with NORD/LB, the Landesbanken that are members of RSU and with the DSGV to improve the rating methods will be continued. A focus will be on overcoming the segment-specific impacts of the financial market and shipping crisis.

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 Managing 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 taking into account 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 valuation allowance. These exposures must all be re-rated, with the default reason for making the specific valuation allowance being 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 Managing Board is informed immediately via the head of the back office.

4. 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) of the German Banking Act, 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 (grey 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 grey 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, care is taken to ensure that the costs and benefits are in proportion.

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 covered bond 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 Limited in a securitization transaction. As these loans are senior loans, the resulting risks are very limited. The item was reduced from EUR 54.5m as of 31 December 2011 to EUR 12.0m as of 31 December 2012. It was reduced by a further EUR 6m in January 2013. The last maturity is expected in April 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 the 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 2012

The Bank’s credit exposure came to approximately EUR 38,708m as of 31 December 2012, a decrease of some 1.3% 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] million EUR	Loans[3]	Securities[4]	Derivatives[5]	Others[6]	Total 31 Dec 2012	Total 31 Dec 2011
	31 Dec 2012					
Very good to good	11,893	5,289	2,921	4,780	**24,883**	**26,336**
Good / satisfactory	2,851	436	339	869	**4,495**	**4,039**
Still good/adequate	3,089	20	94	776	**3,979**	**3,917**
Increased risk	1,308	4	18	79	**1,409**	**1,530**
High risk	681	—	9	58	**748**	**1,075**
Very high risk	1,326	—	21	20	**1,367**	**1,137**
Default (= NPL)	1,806	—	11	10	**1,827**	**1,181**
Total	**22,953**	**5,749**	**3,414**	**6,592**	**38,708**	**39,214**

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 2012, as is shown by the rising probabilities of default and a significant increase in non-performing loans.

Lending business by region

The table below shows the Bank's credit exposure by region:

Regions[1) 2)] million EUR	Loans	Securities	Derivatives	Others	Total 31 Dec 2012	Total 31 Dec 2011
	31 Dec 2012					
Euro countries	21,691	5,395	2,581	6,588	**36,255**	**36,469**
- of which Germany	20,264	4,084	1,082	6,389	**31,819**	**31,704**
Rest of EU	214	147	685	3	**1,049**	**1,157**
Rest of Europe	55	108	18	0	**181**	**274**
North America	74	99	129	0	**302**	**361**
Latin America	102	—	—	—	**102**	**148**
Middle East/Africa	126	—	0	1	**126**	**197**
Asia	691	—	5	0	**694**	**608**
Other	—	—	—	—	**—**	**—**
Total	**22,953**	**5,749**	**3,414**	**6,592**	**38,708**	**39,214**

1) The definition of the regions has changed slightly since the prior year (in particular, 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.

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 32 % (prior year: 35 %), 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	Others	Total	
million EUR		**31 Dec 2012**			**31 Dec 2012**	**31 Dec 2011**
Financial institutions/ insurance companies	3,507	3,562	3,006	2,430	**12,505**	**13,841**
Service industries/other	7,788	2,177	163	728	**10,856**	**10,207**
- of which real estate and housing	1,320	—	34	175	**1,529**	**1,463**
- of which public admini-stration	3,753	2,160	91	54	**6,058**	**5,331**
Transport/communications	7,417	9	108	103	**7,637**	**7,916**
- of which shipping	6,823	0	99	44	**6,966**	**7,197**
Manufacturing	679	—	21	102	**801**	**904**
Energy, water and mining	1,938	—	57	2,827	**4,821**	**4,336**
Trade, maintenance and repairs	1,157	—	58	187	**1,402**	**1,333**
Agriculture, forestry and fishing	139	—	2	158	**298**	**294**
Construction	328	—	1	58	**387**	**384**
Other	—	—	—	—	**—**	**—**
Total	**22,953**	**5,749**	**3,414**	**6,592**	**38,708**	**39,214**

[1] Differences between totals are due to rounding.

The Bank recognizes specific valuation allowances for acute default risks if there are objective indications of such risks. The level of loan loss 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 valuation allowances and loan loss provisions rose significantly yet again in 2012, above all because of the ongoing crisis in ship finance. The specific valuation allowance ratio, expressed as the ratio of specific allowances to the aggregate exposure, is 1.13 % (prior year: 0.79 %). The percentage of non-performing loans in the aggregate exposure is 4.58% (prior year: 3.01%). Before deducting collateral, 24.68 % of non-performing loans are covered by specific valuation allowances (prior year: 26.08%).

Charter rates, which had been falling fast since late summer 2008, reached their first low in the first half of 2010. However, they started to pick up in some important sub-markets later on in 2010. However, the crisis has worsened since mid-2011. In crude oil and bulk shipping, the (spot) charter rates were only enough to cover operating costs, while in the container and multi-purpose and product tanker shipping, it was possible to pay interest and in some cases make redemption payments. As expected, the low charter rates were reflected in the prices for new builds and even more strongly in the prices for used vessels.

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. In 2012 declining growth rates in China and the recession in parts of the eurozone were met by a relatively high level of surplus tonnage. In the fourth year of the crisis numerous shipping companies could no longer support their ships. For this reason, the risk provisions exceeded the forecasts, which anticipated a sideways movement in the markets. However, due to the granularity of the portfolio, Bremer Landesbank's results of operations were only affected to a limited extent. In accordance with the medium-term planning, EUR 162m are planned for risk provisions.

The good market and results in renewable energies largely compensated for the problem in shipping. Wind energy continues to be the most significant sub-segment in the area of finance for renewable energies, with strong growth in recent years. The framework conditions for wind energy financing have been attractive and reliable to date in the wake of the amendments to the German Renewable Energies Act (EEG) as of 1 January 2012. Furthermore the historically low level of interest rates contributes to an improvement in returns. The risks in wind park project financing have been manageable to date. There were no specific valuation allowances or provisions for wind park project financing. The political discussion on the implementation of the shift in energy policy pursued by all parties, among others, by increasing the EEG levy, is also reflected in the need to refine the EEG. Since an adjustment is anticipated before the periodic evaluation in 2014, the political discourse is being followed closely in order to implement a need for an adjustment of the financing parameters in due time.

Risk provision requirement by industry group

Industry group[1]	Impaired credit exposures		Specific valuation allowances		Loan loss provisions		Changes in specific valuation allowances/provisions	
million EUR	2012	2011	2012	2011	2012	2011	2012	2011
Financial institutions/insurance companies	1	3	10	10	—	0	—	2
Service industries/others	84	143	35	55	3	1	-19	-5
Transport/communications	1,229	695	311	188	0	1	123	91
Manufacturing	17	29	9	12	1	2	-4	4
Energy, water and mining	41	64	33	9	5	3	26	7
Trade, maintenance and repairs	31	16	16	12	0	0	5	-3
Agriculture, forestry and fishing	4	5	2	3	1	1	-1	-1
Construction	31	53	21	20	9	11	0	-1
Other	—	—	—	—	—	—	—	—
Total	**1,438**	**1,008**	**438**	**308**	**18**	**19**	**130**	**95**

[1] Explanatory information: Gross book value of non-performing loans with a need for valuation allowances (explanation of possible differences)
Definition of gross book value: Gross loan portfolio before impairment (specific valuation allowances/lumpsum loan loss provisions) including owed and outstanding interest and benefits (BIS value).

Risk provision requirement by region

Regions	Impaired credit exposures		Specific valuation allowances		Loan loss provisions		Changes in specific valuation allowances/provisions	
million EUR	2012	2011	2012	2011	2012	2011	2012	2011
Euro countries	1,352	948	417	282	18	18	135	75
Rest of EU	28	27	13	11	0	0	2	5
Rest of Europe	0	7	0	6	—	—	-5	5
North America	—	—	—	0	—	—	0	-1
Latin America	13	11	9	2	—	—	6	2
Middle East/Africa	—	—	—	—	—	—	—	—
Asia	44	14	0	8	0	—	-8	8
Other	—	—	—	—	—	—	—	—
Total	**1,438**	**1,008**	**438**	**308**	**18**	**18**	**130**	**95**

Past due exposures by industry group

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

Industry groups	Past due[1], unimpaired exposures[2]	
million EUR	2012	2011
Financial institutions/insurance companies	111	9
Service industries/others	41	88
Transport/communications	704	947
Manufacturing	31	11
Energy, water and mining	59	147
Trade, maintenance and repairs	49	30
Agriculture, forestry and fishing	2	1
Construction	3	2
Other	—	—
Total	**1,001**	**1,235**

1) The term “impaired” refers here exclusively to specific valuation allowances and lumpsum specific loan loss provisions. General loan loss provisions are not considered.
2) Receivables past due > 0 days that have not been impaired.

Past due exposures by region

Regions	Past due[1], unimpaired exposures[2]	
million EUR	2012	2011
Euro countries	975	1,069
Rest of EU	9	51
Rest of Europe	1	1
North America	—	11
Latin America	—	20
Middle East/Africa	—	—
Asia	16	83
Other	—	—
Total	**1,001**	**1,235**

1) The term “impaired” refers here exclusively to specific valuation allowances and lumpsum specific loan loss provisions. General loan loss provisions are not considered.
2) Receivables past due > 0 days that have not been impaired.

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

Days past due[1)] million EUR	Past due, unimpaired exposures 31 Dec 2012	31 Dec 2011
< 30 days	619	537
30-90 days	126	628
90-180 days	47	7
> 180 days	209	62
Total	**1,001**	**1,235**

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.

The exposure to the PIIGS countries (mainly securities and credit derivatives) is set out in note 7.5. This has fallen considerably as compared to 31 December 2011. In the fourth quarter of 2012 the credit spreads narrowed considerably. Given the substantial political will to keep the eurozone together, the international measures introduced (bond purchases by the ECB, loans from the EFSF/ESM and IWF, regulatory measures, such as the ban on short selling CDSs of sovereigns) and steps taken in individual countries (other savings and reform programmes), the risk of a break-up of the eurozone was substantially reduced. The scaling back of the portfolio will continue as scheduled by means of scheduled repayments in 2013.

Outlook

The Bank will continue to enhance its credit risk control system in 2013. 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, loan loss provisions at Bremer Landesbank have been determined largely by developments in the merchant shipping sector. 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.

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), 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-West 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 subsidiary BLB Immobilien GmbH is included in the Bank's strategy process and takes part in the Group-wide risk control process in accordance with Section 25a of the German Banking Act.

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 Managing 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 Managing 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) of the German Banking Act. 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 are quantified.

Development in 2012

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 2012. As in prior years, in 2012, no equity investments are deemed material as defined by the Minimum Requirements for Risk Management.

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, share 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.

- Share 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, share 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 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, share price and exchange rate risks were of lesser strategic significance in 2012.

The risk concentrations are minimized by means of limits for the various risk categories.

Structures

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

The Credit Investments unit presents to the Credit Investment Board the market development and the Bank's investments in securities refinanced with matching maturities and in credit derivatives in the banking book and proposes, in coordination with the Back Office Financial

Markets, strategies for managing the risks inherent in the portfolio. The Board usually meets once a fortnight. It advises the Managing Board on management activities and presents the economic impact of such activities. The members of the Managing 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 / Counterparty Management unit implements the measures resolved by the Managing Board.

The Operations and Financial Markets Business Segment Management perform the services. In accordance with the Minimum Requirements for Risk Management, 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. Corporate Service is responsible for processing and reviewing trade transactions concluded by the market division. 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.

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

Reporting

In accordance with the Minimum Requirements for Risk Management, Market Price Risk Control reports to the Managing Board on Bremer Landesbank's market price risks on a daily basis with regard to value at risk and the profits from the assumption of market price risks by Bremer Landesbank. The report on credit spread risks in the banking book is included in the daily market price risk report.

The Managing 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.

A report on the credit investment portfolio is also prepared once a month, containing information about spread risks and about the market and model values of the credit derivatives and securities in this portfolio.

In accordance with the German Solvency Regulation, 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 switched to the process of historical simulation in August of the year under review 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. For the purposes of the risk-bearing capacity report, the value-at-risk is also calculated on the basis of historical simulation.

The basis for the calculation of the value at risk consists of the historical changes in the risk factors (interest rates / spreads, exchange rates, share prices/indices and volatility in value) over the last twelve months. The model implicitly considers correlation effects between the risk factors (including the valuation volatility of option positions), the risk types, the currencies and the (sub)portfolios.

The value at risk models are primarily suited for the measurement of market price risks in normal market environments. 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.

Limits derived from the loss limits specified by the Managing 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.

The banking book credit spread risks are also limited and managed by using the value at risk process.

The daily value at risk calculations are checked in the market price risk controlling on the basis of backtesting analyses. In the backtesting, the daily fluctuations in the results of the trading desk are compared with the value at risk forecast from the previous day. Forecast models and parameters used for quantifying market price risk are regularly reviewed and adapted to current market developments if necessary.

Development in 2012

The credit investment portfolio developed largely in accordance with expectations in 2012. Besides the scheduled maturities of EUR 453m, there were also a strategic reduction of EUR 160m as a contribution to the RWA reduction. Greece's debt buyback led to an extraordinary reduction of EUR 58m in this exposure. The remaining portfolio of EUR 6.1b, which is largely concentrated primarily on Landesbanken (with Gewährträgerhaftung / public guarantee with owners' joint and several liability) and western European, mostly system-relevant banks with the exception of EUR 76m in Italian government risk, will fall below EUR 1b by the end of 2015 due to repayments.

The implementation of the capital measures required by the EU in 2012, the extensive supply of liquidity by the ECB and the ongoing willingness and ability of governments (partially with EU support) to support their banks make a significant contribution to risk reduction in the portfolio. In the restructuring of banks with government support – as took place at the end of 2012 in

Spain – the subordinated creditors had to make a contribution that could lead to a credit event in the case of credit derivatives. Since the 2nd half of 2012, the financial markets have stabilised and the risk of credit events has fallen.

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):

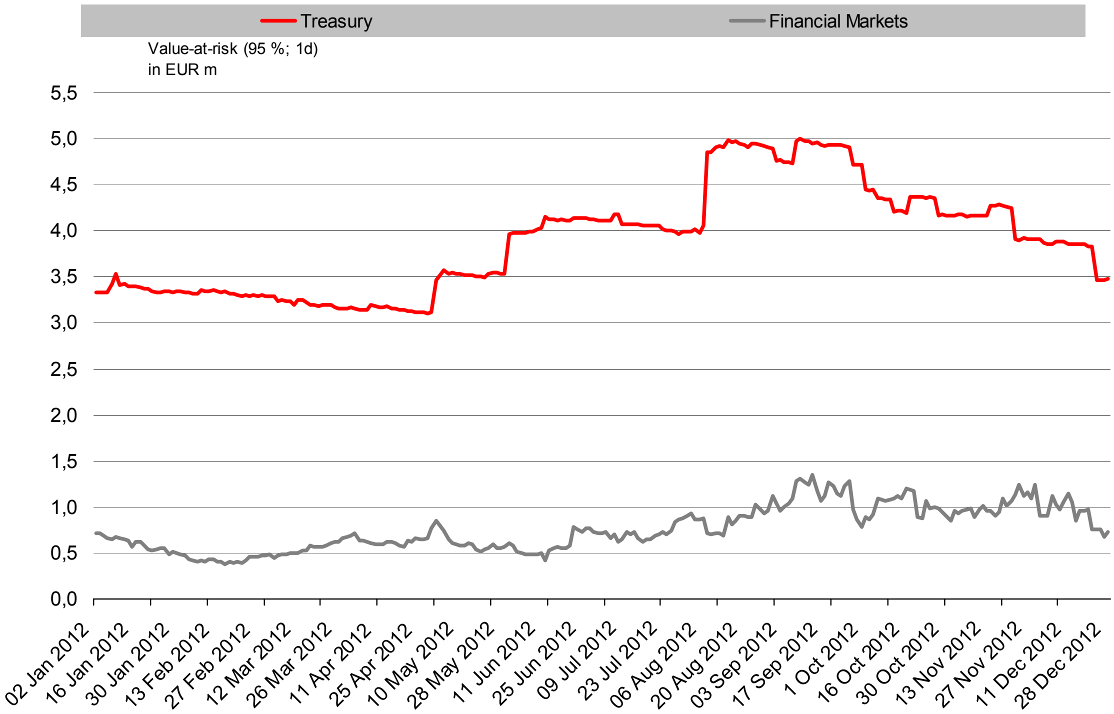
Market price risks – overview

million EUR	Maximum		Average		Minimum		Year-end	
	1 Jan 2012 – 31 Dec 2012	1 Jan 2011 – 31 Dec 2011	1 Jan 2012 – 31 Dec 2012	1 Jan 2011 – 31 Dec 2011	1 Jan 2012 – 31 Dec 2012	1 Jan 2011 – 31 Dec 2011	31 Dec 2012	31 Dec 2011
Interest rate risk (VaR)	5.22	4.65	4.43	3.71	3.50	2.45	3.50	4.55
Currency risk (VaR)	0.30	0.31	0.12	0.11	0.00	0.04	0.03	0.11
Share price and fund price risk (VaR)	0.37	0.32	0.18	0.22	0.03	0.10	0.03	0.31
Volatility risk (VaR)	0.03	—	0.02	—	0.02	—	0.02	—
Total risk (VaR)	**5.13**	**4.10**	**4.18**	**3.12**	**3.43**	**1.88**	**3.43**	**4.03**

The average utilization of the market price risk limit for the overall Bank was 58% (maximum 70% and minimum 47%). As of 31 December 2012, the value-at-risk (confidence level of 95% and a holding period of one day) at the Bank amounted to EUR 3.43m. In the 2012 reporting period, average utilization of the risk limit in Financial Markets was 24%; in Treasury it was 71%.

The development of value-at-risk at the Bank in 2012 is shown in the following chart. Again, this chart does not include banking book credit spread risks.

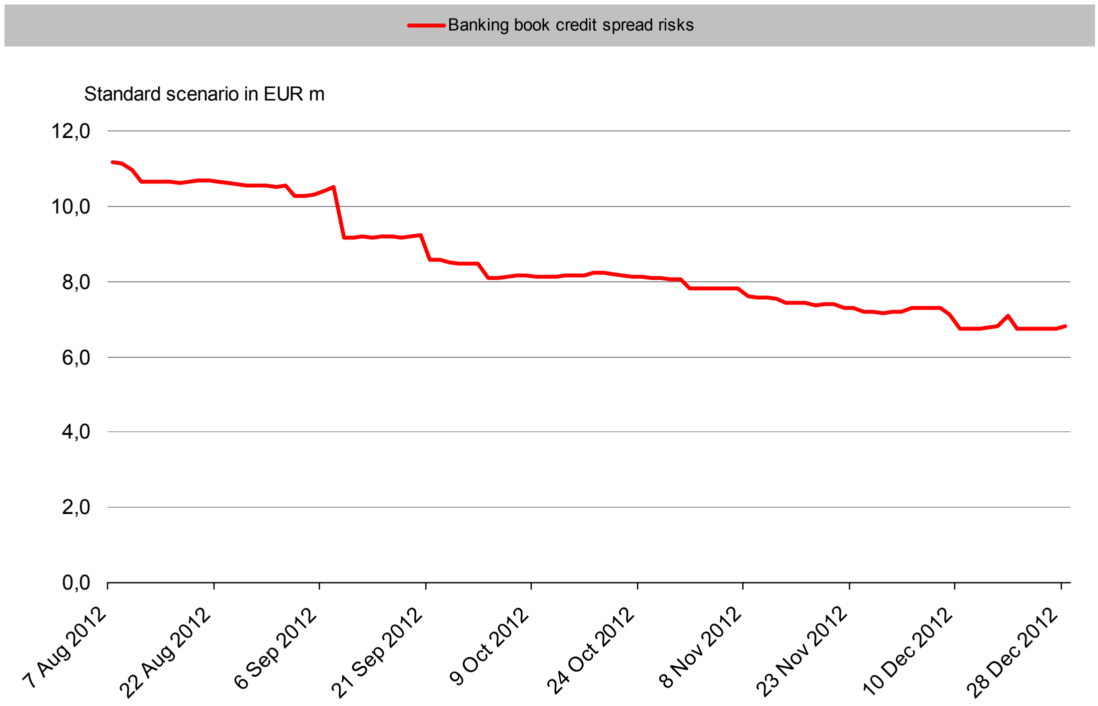
Market price risk value-at-risk



In fiscal year 2012, the stress tests performed for the Bank as a whole showed a maximum risk of EUR 89m and an average of EUR 57m, with a minimum of EUR 37m. As of 31 December 2012, the stress tested value for the Bank as a whole was EUR 87m.

In August, Bremer Landesbank fully integrated the positions relevant for the credit spread risk into the internal market price risk measurement according to the value at risk. The market price risk relating to the change in credit spreads in the credit investment portfolio was, based on the value-at-risk approach, EUR 6m on 28 December 2012. A separate risk limit used in the management process is in place for this position. In fortnightly meetings, the Credit Investment Board and the Managing Board continued to scrutinize market and risk developments; the entire portfolio was closely and regularly examined and selected positions were reduced in 2012.

Development of the credit spread risk in the banking book as of August 2012



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 the German Federal Financial Supervisory Authority (BaFin), the interest rate shock entails a parallel shift of the yield curve by 200 BP upward and downward. 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.

In fiscal year 2012, the average interest rate risk in relation to liable equity was 5.5%. The results show that the Bank is far from being classified as a "bank with elevated risks from a change in interest rates". 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 German Solvency Regulation. The Regulatory Reporting/ Financial Reporting Systems unit reports the month-end figure to the Bundesbank once a month.

Outlook

For 2013, the Bank plans to handle the limiting of banking book credit spread risks through the integrated observation with other risk types.

Furthermore, other methodical developments, among others in the area of basic risks, for the historical simulation process introduced in 2012 are planned for the coming year.

Bremer Landesbank also plans optimizations in the market data process for 2013.

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 a component 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. This risk is limited on the basis of the analysis of a dynamic stress scenario, which is characterized by the most likely crisis situation. 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 in 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 handbook. The LRC (liquidity risk control) handbook 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 Planning 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 German Liquidity Regulation and performs service and control functions.

The main tasks of the Liquidity Management Working Group are to optimize liquidity management and clarify related issued promptly, with an emphasis on the fast-reacting management of new business and funding activities. The enhancements developed in the liquidity management 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 Planning Committee and the Liquidity Working Group.

The Managing 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 Managing Board about the risks related to covered bond business.

Market Price Risk Control reports to the Managing 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 scenarios of traditional liquidity management.

Analysis

In addition 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 materiality of foreign currencies is regularly validated.

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

In accordance with the German Liquidity Regulation, 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 2012. 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 German Liquidity Regulation far exceeded the minimum of 1.00 required by regulatory law; the liquidity ratio as of 31 December 2012 was 2.01.

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.

Bremer Landesbank has implemented a limit system to mitigate traditional liquidity risk. A traffic light system (number of days of liquidity surplus) triggers the necessary management measures if the simulated liquidity surplus in the dynamic stress scenario is due to last for less than 90 days.

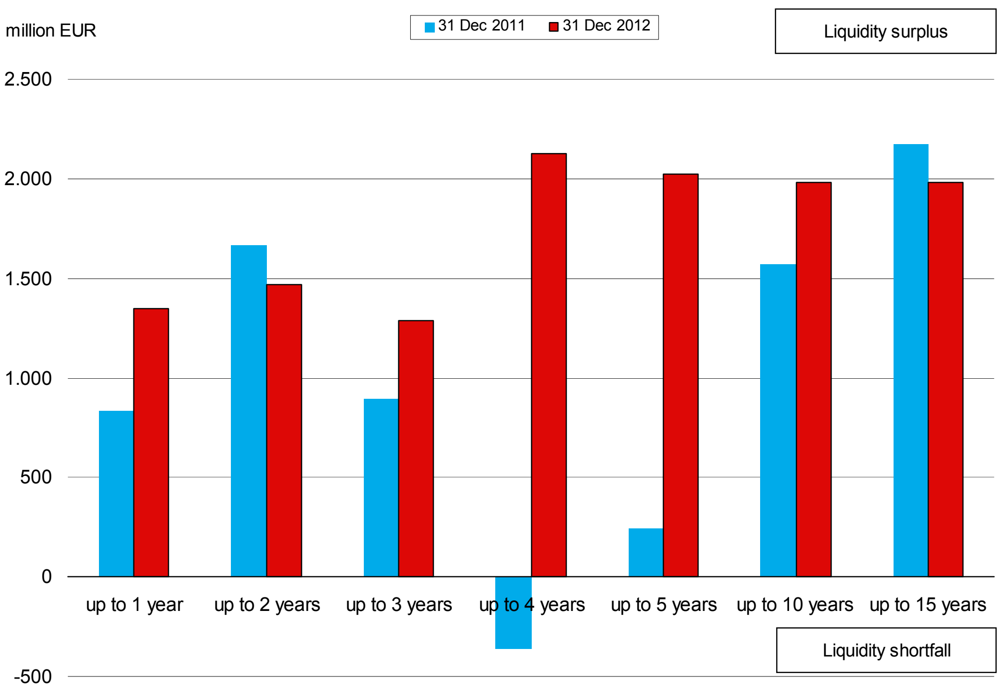
In 2012, there was no signal of a potential bottleneck in the liquidity situation for the bank. At the Bank, management control signals from the static stress test do not automatically trigger countermeasures, prompting instead a more in-depth analysis of the present liquidity situation and a factoring-in of the key drivers based on the current probability of the crisis stress scenario.

The utilization of the liquidity buffer for a week, according to the minimum requirements for Risk Management, was 50 % on the reporting date (as of 31 December 2011: 23 %). The utilization of the liquidity buffer for a month was also 50 % on the reporting date (as of 31 December 2011: 28%).

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 liquidity maturity balance sheet as of 31 December 2012 shows that the liquidity situation remains comfortable. For this instrument there was an adjustment in the way roll-over credits are represented as of 29 June 2012, these are now shown under the term of the margin commitments agreed with the customer. The change in method concerns around one third of the total roll-over credit volume. Liquidity limits employed for management purposes were maintained at all times in the fiscal year.

Refinancing with covered bonds is very significant for the Bank. Statutory requirements of the German Covered Bond Act (PfandBG) are fully met for all the Bank's issues.

The Covered Bond Act sets high standards for the quality of loans to be taken to cover covered bonds. 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 modelled for managing the forward liquidity exposure, liquidity stress testing and collateral allocation management.

Development in 2012

The effects of the financial market crisis can still be observed in 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 in 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 2012.

As a result of the financial crisis, the regulatory and legal requirements were tightened in fiscal year 2012. 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.

Outlook

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

Its development work in 2013 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 systematically including liquidity costs and liquidity risk costs in integrated bank management instruments at an early stage of the preliminary and actual costing process for the lending business.

In 2015, the last refinancing funds that were issued under Anstaltslast (liability assumed by public sector owners for economic viability of a corporation incorporated under public law) and Gewährträgerhaftung (public guarantee under which the owners of savings banks are jointly and severally liable to the bank’s creditors) will run out. The Bank has already ensured that it has liquidity for constant operations.

The Bank does not expect that the situation in the money and capital markets will ease in the foreseeable future. For this reason, the developments between the banks and the liquidity provided by the central bank will continue to be closely observed.

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 being 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 punishable 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 intended to prepare and handle contingencies. A significant element here is avoiding the interruption of critical business processes and/or the limiting of possible effects. This also includes the preparation for events that result in risks which cannot be reduced or cannot be sufficiently reduced by preventive measures.

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 respective 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 of the German Banking Act 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 Managing Board considers any attempt at fraudulent, dishonest and/or other criminal acts to be a serious and intolerable offence ("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 Managing 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 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 Minimum Requirements for Risk Management 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 Managing Board, Integrated Bank and Credit Risk Control and all other units are involved in the process of managing operational risk. The Managing 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 catalogue 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. 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 as part of the RBC model.

Reporting

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

Development in 2012

The losses arising in 2012 are deemed insignificant overall from the perspective of the Bank as a whole. All reported losses (including credit risk cases) came to EUR 2.4m (gross) in 2012 (2010: EUR 15.6m). To minimize losses, among others with the reversal of a specific valuation allowance made in 2011 for EUR 13.5m, there was a net loss total of EUR -11.3m.

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

Loss database	Share 2012	Share 2011
External events	6.9 %	2.5%
Internal processes	2.7 %	5.3%
Employees	89.4 %	92.2%
Technology	1.0%	0.0%

Given the risk assessment results, the risk indicators 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.

Of the trial risks listed in the risk report in the prior year, a total of roughly EUR 7.8m was resolved by settlment; in the second case, the Bank was required on appeal to make an additional payment of EUR 2.18m (12 % of the original amount in dispute); this case has not been legally enforced yet, since the opposition filed a complaint at the German Federal Court of Justice (BGH) against the denial of appeal. 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 2012.

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

Against the background of the discussion 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 of the NORD/LB Group is currently being critically reviewed order to ensure that it will also satisfy the Minimum Requirements for Risk Management in future. The switch to the revised risk-bearing capacity model took place on 31 March 2012. Further changes will take place on 31 December 2012.

In 2012 two measures for increasing equity affected the Bank's risk capital position. On 28 August 2012 silent participations of EUR 607.9m were converted. The new capital structure enables the Bank to satisfy the requirements under Basel III in one go. On 16 November 2012 EUR 150m and on 6 December 2012 a further EUR 50 of subordinated capital was taken on. The utilisation of risk capital in the going concern view of the risk bearing capacity model was

19% on 31 December 2012. The going concern view has been authoritative for the assessment of the risk bearing capacity in accordance with the Minimum Requirements for Risk Management since the conversion of the risk bearing capacity model. The overall ratio improved from the prior year's figure of 10.6 % to 11.4 % as of 31 December 2012.

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. Exposure to the so-called PIIGS countries is being reduced roughly proportionately to the remaining exposure. As a result, the possible impact that an ongoing sovereign debt crisis in the so-called PIIGS countries will have on the Bank's portfolio is successively reduced. Apart from Italy, the Bank has no direct sovereign exposure to the PIIGS countries, only exposures to financial institutions in these countries. The significantly higher requirements imposed by the EU with regard to bank capital were met on time by the banks in 2012. 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.

On 14 December 2012, the German Federal Financial Supervisory Authority (BaFin) published the final version of the revised Minimum Requirements for Risk Management (MaRisk). In the most important adjustments and additions (capital planning process, risk controlling function, compliance function, settlement system for liquidity costs, benefits and risks), the Bank did not see any need for action or has already made substantial progress in the development process. Overall, the implementation of the requirements from the 4th amendment of MaRisk will be handled in coordination with the NORD/LB Group until 31 December 2013.

The Bank will also continue to refine its credit risk control system and the RWA management process in 2013. The inverse stress testing, which is to be developed, 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.

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. The forward-looking statements contain risks and uncertainties. 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.

Supervisory Board report

The Bank's Managing Board regularly informed the Supervisory Board and its General Working and Credit Committee and Audit and Sponsorship Committees about the Bank's performance and situation. 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.

Following the revision of the statutes in the wake of the changes to the ownership structure and participating interests due to the conversion of silent participations into share capital of the Bremer Landesbank, the Supervisory Board was re-constituted on 1 November 2012. The first meeting took place on 15 November 2012.

KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, audited the financial statements of Bremer Landesbank for fiscal year 2012. They comply with legal requirements. The auditors issued an unqualified audit opinion on the financial statements. The auditors also attended the Supervisory Board's financial statements meeting on 26 April 2013 and reported on the results of the audit.

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 on 26 April 2013, the Supervisory Board approved the management report and the financial statements as of 31 December 2012, which have thus been endorsed.

The Supervisory Board proposes to the Owners' Meeting that the acts of the Managing Board be ratified and the profit of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – be carried forward to new account.

The Supervisory Board would like to thank the Bank's Managing Board for the constructive working relationship based on mutual trust and expresses its thanks for the work performed in 2012 by the Managing Board and by all of the Bank's employees.

Bremen, 26 April 2013

The Chairwoman of the Supervisory Board

Mayoress Karoline Linnert

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.

Further, in 2012 the Owners’ Meeting passed the requisite resolutions to increase the share capital by converting silent participations. The capital measure resulted in a new ownership structure, a new shareholder structure and a revision of the statutes, effective from 28 August 2012. The composition of the owners’ meeting was altered accordingly. The constituent meeting took place on 15 November 2012. The capital measure supports Bremer Landesbank with a view to the future requirements undr Basel III.

On 26 April 2013, the Owners’ Meeting approved the proposal of the Supervisory Board on the appropriation of the profit for 2011 and ratified the actions of the Bank’s Managing Board. The owners likewise ratified the actions of the Supervisory Board.

The Owners’ Meeting wishes to thank the Supervisory Board, the Managing Board and employees of the Bank for their work in 2012.

Bremen, 26 April 2013

The Chairman of the Owners’ Meeting

Dr. Gunter Dunkel

Balance sheet as of 31 December 2012

Assets

million EUR				31 Dec 2011
1. Cash reserve			**76**	**214**
a) Cash on hand		**5**		**4**
b) Balances at central banks		**71**		**210**
thereof: at Deutsche Bundesbank		**(71)**		**(210)**
2. Public-sector debt instruments and bills of exchange eligible for refinancing with central banks			**20**	**0**
a) Treasury bills and treasury discount notes as well as similar public-sector debt instruments		**20**		**0**
thereof: eligible for refinancing with Deutsche Bundesbank		**(20)**		**(0)**
3. Loans and advances to banks			**3,834**	**4,857**
b) Public sector loans		**3,130**		**3,301**
c) Other loans and advances		**704**		**1,556**
thereof: payable on demand		**(274)**		**(480)**
against securities		**(0)**		**0**
4. Loans and advances to customers			**23,266**	**22,356**
a) Mortgage loans		**1,628**		**1,586**
b) Public sector loans		**5,059**		**5,013**
c) Other loans and advances		**16,579**		**15,757**
thereof: against securities		**(0)**		**(0)**
5. Debt securities and other fixed-income securities			**5,710**	**5,230**
b) Bonds and debt securities		**5,710**		**5,230**
ba) Issued by the public sector	**2,160**			**1,382**
including: eligible for collateral with Deutsche Bundesbank	**(2,160)**			**(1,362)**
bb) Issued by other borrowers	**3,550**			**3,848**
including: eligible for collateral with Deutsche Bundesbank	**(3,279)**			**(3,612)**
6. Shares and other variable-yield securities			**17**	**25**
6a. Trading book positions			**527**	**620**
7. Equity investments			**20**	**20**
thereof: in banks			**(5)**	**(5)**
in financial services institutions			**(0)**	**(0)**
8. Shares in affiliates			**81**	**81**
thereof: in banks			**(0)**	**(0)**
in financial services institutions			**(1)**	**(1)**
9. Trust assets			**40**	**88**
thereof: trust loans			**(4)**	**(36)**
11. Intangible assets			**2**	**2**
b) Purchased franchises, industrial and similar rights and assets and licenses in such rights and assets		**2**		**2**
12. Property and equipment			**50**	**39**
14. Other assets			**405**	**386**
15. Prepaid expenses			**13**	**14**
a) From issuing and loan business		**12**		**13**
b) Other		**1**		**1**
Total assets			**34,061**	**33,931**

Liabilities and equity

million EUR				31 Dec 2011
1. Liabilities to banks			**11,775**	**10,973**
a) Issued registered mortgage covered bonds		396		472
b) Issued registered public sector covered bonds		894		1,083
c) Other liabilities		10,485		9,418
thereof: payable on demand		(1,867)		(780)
mortgage covered bonds surrendered to the lender to secure loans raised		(—)		(—)
public sector covered bonds surrendered to the lender to secure loans raised		(159)		(208)
2. Liabilities to customers			**10,288**	**10,493**
a) Issued registered mortgage covered bonds		318		305
b) Issued registered public sector covered bonds		2,658		2,871
c) Savings deposits		194		191
ca) with an agreed period of notice of three months	186			174
cb) with an agreed period of notice of more than three months	8			17
d) Other liabilities		7,118		7,126
thereof: payable on demand		(3,088)		(2,333)
mortgage covered bonds surrendered to the lender to secure loans raised		(—)		(—)
mortgage covered bonds surrendered to the lender to secure loans raised		(—)		(—)
3. Securitized liabilities			**8,442**	**8,771**
a) Debt securities issued		8,442		8,771
aa) Mortgage covered bonds	498			633
ab) Public sector covered bonds	1,866			2,203
ac) Other debt securities	6,078			5,935
3a. Trading book positions			**358**	**448**
4. Trust liabilities			**40**	**88**
thereof: trust loans			(4)	(36)
5. Other liabilities			**367**	**590**
6. Prepaid expenses			**21**	**17**
a) From issuing and loan business		21		17
b) Other		0		0
7. Total			**268**	**259**
a) Provisions for pensions and similar obligations		194		172
b) Tax provisions		16		32
c) Other provisions		58		55
9. Subordinated liabilities			**700**	**500**
11. Fund for general banking risks			**495**	**444**
thereof: for trading book positions			(5)	(4)
12. Equity			**1,307**	**1,349**
a) Subscribed capital		265		748
aa) Share capital	265			140
ab) Other capital contribution	0			608
b) Capital reserves		478		40
c) Retained earnings		533		533
cb) Reserves required by the statutes	—			229
cc) Other retained earnings	533			304
d) Accumulated profits		31		28
Total liabilities and equity			**34,061**	**33,931**

Contingent liabilities and other obligations

million EUR			31 Dec 2011
1. Contingent liabilities		**3,360**	**3,620**
b) Guarantees	3,360		3,620
2. Other obligations		**1,804**	**2,643**
c) Irrevocable loan commitments	1,804		2,643

Income statement

for the period from 1 January to 31 December 2012

million EUR			1 Jan – 31 Dec 2011
1. Interest income from		**1,212**	**1,209**
a) Lending and money market business	1,106		1,082
b) Fixed-income securities and debt register claims	106		127
2. Interest expenses		**790**	**829**
		422	**380**
3. Current income from		**9**	**12**
a) Shares and other variable-yield securities	0		0
b) Equity investments	4		10
c) Shares in affiliates	5		2
4. Income from profit pooling and profit and loss transfer agreements		**32**	**5**
5. Commission income		**56**	**54**
6. Commission expenses		**7**	**8**
		49	**46**
7. Net income from trading book positions		**10**	**16**
thereof: allocations to the fund for general banking risks		(1)	(2)
8. Other operating income		**11**	**9**
10. Other administrative expenses		**185**	**159**
a) Personnel expenses		103	88
aa) Wages and salaries	76		71
ab) Social security, pension and other benefit costs	27		16
thereof: for old-age pensions	(14)		(4)
b) Other administrative expenses		82	72
11. Amortization, depreciation and impairment of intangible assets and property and equipment		**5**	**4**
12. Other operating expenses		**22**	**22**
12a. Allocations to the fund for general banking risks		**50**	**0**
13. Impairment of and valuation allowances on loans and advances and certain securities as well as allocations to loan loss provisions		**201**	**118**
15. Impairment of and valuation allowances on equity investments, shares in affiliates and investment securities		**0**	**1**
16. Income from write-ups of equity investments, shares in affiliates and investment securities		**3**	**0**
19. Profit/loss from ordinary activities		**73**	**164**
21. Extraordinary expenses		**6**	**6**
22 Extraordinary result		**-6**	**-6**
23. Income taxes		**15**	**48**
24. Other taxes not disclosed in item 12		**0**	**0**
		15	**48**
26. Profits transferred under profit pooling and profit and loss transfer agreements		**21**	**32**
27. Profit for the year		**31**	**78**
32. Allocations to retained earnings		**0**	**50**
c) To the reserves required by the statutes	0		25
d) To other retained earnings	0		25
34. Accumulated profits		**31**	**28**

Notes to the financial statements

I. General information on the accounting and valuation methods and the basis of currency translation into euros

1. Basis of preparation of the financial statements

The annual financial statements of Bremer Landesbank as of 31 December 2012 were prepared in accordance with the provisions of the German Commercial Code (HGB), last amended on 20 December 2012, and the German Accounting Regulation for Credit and Financial Services Institutions (RechKredV).

The format of the balance sheet and income statement is based on the RechKredV. The comparative figures from 2011 are the figures published and audited in the prior year. The balance sheet was prepared in accordance with Sec. 268 (1) of the German Commercial Code assuming a partial appropriation of the profit for the year.

2. Accounting policies applied – banking book

Loans and advances to customers and banks are accounted for at nominal value. If the nominal amounts of mortgage loans and other loans and advances differ from the amounts paid out and such differences represent interest, they are recognized at their full value in accordance with Sec. 340e (2) of the German Commercial Code. Such differences are recorded as prepaid expenses or deferred income and released systematically.

Low-interest or interest-free loans and advances are carried at present value, adjusting for specific valuation allowances and lumpsum loan loss provisions if necessary.

Specific valuation allowances and provisions are recognized to cover identifiable risks in the lending business. Risks relating to contingent liabilities are assessed on a case-by-case basis applying the principles used for specific valuation allowances. The accounting for country risks includes checking compliance with country limits (rating procedure for country and transfer risks). Specific valuation allowances are calculated on a case-by-case basis. Provisions for country risks are calculated using consistent principles. Reasonable lumpsum loan loss provisions are made for other general credit risks. Lumpsum loan loss provisions continue to be calculated on the basis of the Banking Technical Committee (BFA) pronouncement 1/1990 and the Federal Ministry of Finance pronouncement of 10 January 1994.

Securities in the liquidity reserve are valued at the strict lower of cost or market. Investment securities are valued at acquisition cost except when they are permanently impaired. Investment securities are, as a rule, held to maturity. The issuers of such securities pose no identifiable credit risk and no acute deterioration in their credit rating is expected in the future.

Custody accounts are used to keep investment securities and liquidity reserve - all marketable instruments - securities separate.

Option premiums and futures margin payments on transactions not yet due and accrued interest on interest rate swaps are shown under other assets or under other liabilities. Amounts not yet amortized from interest rate caps, floors and collars and up-front payments from interest rate swaps not yet amortized are included in prepaid expenses or deferred income.

Credit default swaps for which the Bank acts as protection seller are accounted for in the same way as contingent assets and liabilities from guarantees. Provisions are recognized if a claim under the CDS is expected. Income components resulting from CDSs for which the Bank is the protection seller are reported as commission income.

Equity investments and shares in affiliates are recognized at acquisition cost or at lower net realizable value if they are permanently impaired. The net realizable value is determined on the basis of the present value of the future net cash flows to the owners from their share in 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 2012 and a detailed budget for 2013 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. The Bank uses an adjusted beta for valuing equity investments. Unlike the traditional beta, the adjusted beta takes into account future trends as well as historical data. Adjusted beta (adjusted beta = raw beta x 0.67 + 0.33) is used to smooth out the volatility of the valuation over the course of time.

Non-current assets with a limited life are depreciated at the maximum rates allowed for tax purposes. Assets costing between EUR 150 and EUR 1,000 are recognized in a collective item and depreciated over 5 years at a rate of 20% p.a. In the fiscal year this depreciation came to EUR 1m (prior year: EUR 1m). Low-value assets costing less than EUR 150 are written off completely in the year of acquisition.

Liabilities to customers and banks are recognized at their settlement value. Differences between the amount borrowed and the settlement value that represent interest are shown as prepaid expenses or deferred income and released systematically.

Zero bonds are stated at the issue price plus interest accruing based on the yield upon issue.

Structured issues in the liabilities to customers and banks as well as securitized liabilities are treated in line with the principles for uniform or separate accounting of structured financial instruments from the IDW RS HFA 22. If the prerequisites for uniform accounting are not in place, the structured issues are divided into their components base contract and embedded derivatives.

Provisions are made following the principle of prudence for uncertain liabilities and potential losses from pending transactions, as well as for contingent liabilities and other obligations.

The principle of prudence enshrined in German commercial law (proof that the banking book is valued at its net realizable value) must be applied for all financial instruments in the banking book (interest ledgers) by recognizing a provision pursuant to Sec. 249 of the German Commercial Code ("provision for potential losses") for any net obligation from the valuation of the entire interest position. A net obligation exists when the value of Bremer Landesbank's obligation exceeds the value of its claim to consideration. To provide evidence of valuation at net realizable value as per IDW RS BFA 3, Bremer Landesbank uses the present value approach ("present value method").

To test whether a provision is required, the Bank compares the sum total of the interest-induced present values of all interest- bearing reported and off-balance sheet transactions outside the trading book positions taking into account the anticipated refinancing, risk and administrative costs with the sum total of the carrying amounts of all interest-bearing transactions. As of 31 December 2012 no provision was required.

3. Hedge accounting

In the event of interest rate hedges of fixed-income securities in the liquidity reserve in the form of interest rate swaps for individual transactions, Bremer Landesbank generally applies hedge accounting to economic hedges.

In addition to the aforementioned hedging relationships for which hedge accounting is applied, the following economic hedges are accounted for as follows:

- Currency hedges in the banking book: the economic hedge is accounted for by translating foreign currency assets, foreign currency liabilities and pending currency transactions in accordance with Sec. 256a of the German Commercial Code in conjunction with Sec. 340h of the German Commercial Code (see “Currency translation principles”).

- Hedges of the general interest rate risk in the banking book as part of asset/liability management (integrated bank management): the economic hedge is accounted for by including all interest-bearing banking book assets and liabilities and all interest rate derivatives of the banking book in determining the provision required to value interest rate risks in the banking book at the net realizable value.

When hedge accounting is applied, Bremer Landesbank uses the “frozen value method”, i.e., changes in the value of underlying and hedging transactions that offset each other are not recognized. In order to apply hedge accounting, a conscious and documented decision to enter into the underlying and hedging transaction in each case is required in addition to the risk management decision.

All of Bremer Landesbank’s hedges are effective micro hedges, i.e., hedges in which the cash flow-determining parameters of the underlying and hedging transaction are a perfect match (nominal amount, maturity, currency, coupon date and fixed interest rate of underlying and hedging instrument are all identical). When the hedge is first accounted for and during its term, a back office function checks that the cash flow-determining parameters of the underlying and hedging transaction match. As the hedges are perfect matches, their effectiveness is tested prospectively using the critical terms match method. The critical terms match method is also used to retroactively test for historical hedge ineffectiveness. In addition, the relevant changes in value due to unhedged risks are calculated. Bremer Landesbank chooses whether to apply hedge accounting in each case, ensuring consistency of measurement. If it chooses not to apply hedge accounting, the interest rate risks associated with the transactions in question are fully included in the valuation of the banking book at net realizable value.

4. Accounting policies applied – trading book positions

In accordance with Sec. 340e (3) Sentence 1 of the German Commercial Code, trading book positions are valued at their risk-adjusted fair value. The change in fair value compared with the last balance sheet date or compared with cost – the net valuation effect – is recorded in “Net income or net expense from trading book positions”. In addition to the risk adjustment, income and expenses from the allocation to and reversal of the special item “Fund for general banking risks” are included in this item in accordance with Sec. 340e (4) of the German Commercial Code. See the section “Calculation of fair values” for more information on the calculation of fair values.

During the financial year the Bank's internally specified criteria for including financial instruments in the trading book positions were applied unchanged.

Current income (interest income and dividends) from financial instruments in the trading book and interest costs for refinancing trading activities are reported in net expense or net income from trading book positions.

The risk adjustment and value-at-risk are determined for the trading book positions as defined in accordance with German commercial law applying the parameters stipulated by the banking supervisory authorities. Bremer Landesbank is not required to calculate value-at-risk in accordance with the German Solvency Regulation. For internal management purposes (daily market price reports), the internal value-at-risk is applied to trading book positions and deducted from the trading assets for the risk adjustment pursuant to Sec. 340e (3) Sentence 1 of the German Commercial Code. The value-at-risk parameters used (and thus also relevant for accounting in accordance with German commercial law) are:

- Using a VaR on the basis of the historical simulation to which historical changes in the risk factors to the current exposure are applied and the potential profit or loss calculated. The value-at-risk can then be taken from the list of profits and losses. This method is also used for Bremer Landesbank's internal market price risk management.
- Supplementary information: types of risk considered by Bremer Landesbank:
    - General interest rate risk
    - Specific interest rate risk (issuer-specific risk)
    - Currency risk
    - Share price risk
    - Option price risk
- Confidence level: 99 %;
- Holding period: 10 days;
- Observation period: 1 year.

The method for determining the risk adjustment was changed in the 3rd quarter of 2012. To date the risk adjustment was determined using the variance-covariance method and is now calculated on the basis of historical simulation. Switching the method produced a return of EUR 0.4m at the point of the changeover. The adjustment was made in the course of deploying a simplified valuation method and to ensure that this is identical with the internal risk management method pursuant to pronouncement 2 of the Banking Technical Committee (BFA).

5. Accounting policies applied – internal transactions

In cases where risks from the non-trading book are transferred to the trading book, internal transactions are always examined from a commercial law perspective within the scope of the deputisation principle in the same way as external transactions.

6. Calculation of fair values

Fair values must be calculated for accounting purposes (valuation of primary and derivative financial instruments in the trading book at fair value) and for disclosure purposes (disclosure of fair value of derivative financial instruments in the banking book). Fair values for both purposes are calculated in the same way, as follows:

For financial instruments traded in an active market the fair value is the market price, i.e. without any adjustments or present value calculations. If publicly listed market prices are available, these are used. If not, alternative price sources are used (e.g. quotes by market makers). Examples of financial instruments traded in an active market are, in the case of Bremer Landesbank, exchange-traded securities, exchange-traded options and futures.

In all other cases, the fair value of financial instruments is determined by applying generally accepted valuation methods. The generally accepted valuation methods applied by Bremer Landesbank include the following:

Valuation method	Scope	Key input parameters
Discounted cash flow method	Illiquid interest-bearing securities	Swap curves, credit information
	Credit default swaps	Swap curves, credit spreads,credit information, if applicable
	Interest rate swaps, FRAs	Swap curves
	Forward transactions in securities	Contract data, actual securities forward prices, swap curves
	Cross-currency interest rate swaps, forward exchange contracts	Swap curves in the swapped currencies, basis swap spreads, exchange rates
Hull & White model for options	Bermudan swaptions	Volatility of the underlying market price, risk-free interest rate
Black-Scholes model	Foreign exchange options	Exchange rates, volatility of the underlying market price, risk-free interest rate
	OTC equity options	Volatility of the underlying market price
Black-76 model	Caps and floors, swaptions, bond options	Exchange rates, volatility of the underlying market price, risk-free interest rate

7. Currency translation principles

The acquisition process itself should have no effect on profit or loss. The different methods applied for subsequent valuation of foreign exchange in the trading book (Sec. 340e (3) and (4) of the German Commercial Code) and that in the non-trading book (Sec. 340h in conjunction with Sec. 256a of the German Commercial Code) call for a strict separation of foreign exchange positions.

In the banking book, the criterion of special coverage pursuant to Sec. 340h of the German Commercial Code has consequences for the recognition of revenue. Special coverage requires identical currencies, i.e. special coverage only ever exists in a specific currency in the amount in which positions or transactions in that currency offset each other. Currency risks resulting from the banking book are transferred to the trading desk in the form of trading reports. The trading desk refinances such transactions in the same currency using appropriate instruments. Short-term net foreign currency short or long positions on the foreign currency clearing account are eliminated on a daily basis.

Profits or losses from currency translation in the banking book have the following effects on profit or loss:

- Income from the translation of specially covered transactions must be recognized in profit or loss in accordance with Sec. 340h of the German Commercial Code.

- In accordance with Sec. 256a Sentence 2 of the German Commercial Code, income from the translation of foreign currency positions with a residual term of one year or less must also be recognized in profit or loss.

Foreign currency transactions which are not specially covered, which have a residual term of more than one year and which are neither allocated to the trading book nor included in a currency risk hedge for the purposes of Sec. 254 of the German Commercial Code are valued in accordance with the imparity principle.

German generally accepted accounting principles require the forward rate on the balance sheet date to be used to translate forward transactions in the banking book. If forward exchange contracts are used to hedge interest-bearing balance sheet items, under German generally accepted accounting principles, the forward rate is split and its two elements (spot rate and swap rate) are considered separately in calculating profit or loss. Swap amounts are apportioned on pro rata temporis basis. Positive or negative spot rate differences are netted within the same currency and reported under “Other assets” or “Other liabilities”. Valuation of the residual position determines whether losses can be expected on the balance sheet date when the position is closed at maturity and whether provisions have to be recognized.

The euro acquisition cost of assets and liabilities is calculated as the acquisition cost in the foreign currency translated into euros on the acquisition date (acquisition has no effect on profit or loss). All foreign currency assets and liabilities are valued on the balance sheet date (subsequent valuation) in the respective currency in accordance with the general principles. In accordance with Sec. 256a of the German Commercial Code, the value thus obtained is translated into euros using the mean spot exchange rate of the balance sheet date. Outstanding spot transactions in foreign currencies are also translated at the mean spot exchange rate. Foreign currency assets of EUR 5,028m (prior year: EUR 5,122m) and liabilities of EUR 1,394m (prior year: EUR 2,276m) were translated at the mean spot exchange rate of 31 December 2012.

Foreign currency transactions in the trading book are accounted for and valued using the rules applicable to the trading book. The profit or loss from currency translation is reported in “Net income from trading book positions”.

8. Information on the pension provisions

Pension obligations were calculated using actuarial methods applying the projected unit credit method. The provisions for pensions and similar obligations were discounted using the average market interest rate of the last seven years for the assumed residual term of 15 years, as published by Deutsche Bundesbank (Sec. 253 (2) Sentence 2 of the German Commercial Code). As of 31 December 2012 this interest rate was 5.04% (prior year: 5.14%).

When determining the provisions for pensions and similar obligations, the following valuation parameters were also used:

Parameter	2012	2011
Employee turnover (excluding retirement/early retirement)	1.500%	1.500%
Pension trend:		
Managing Board/permanent employees p.a.	2.500%	2.500%
Total benefits p.a.	3.500%	3.500%
Add-on benefits p.a.	2.000%	2.000%
Defined contribution benefits p.a.	1.000%	1.000%
Salary trend:		
Collective wage increases p.a.	2.000%	2.000%
Individual salary increases (pensionable) p.a.	0.375%	0.375%

The “2005 G Mortality Tables” by Klaus Heubeck were used as the biometric basis for calculation. Calculations were based on the earliest possible pensionable age under the German pension reform implemented in 2007 [”RV-Altersgrenzenanpassungsgesetz”, RVAGAnpG] to adjust pensionable ages.

The allocation amount remaining as a result of the change in the valuation of pension obligations totalled EUR 75m as of 31 December 2012 (Art. 67 (2) EGHGB) (prior year: EUR 81m). Indirect benefit obligations in accordance with Art. 28 (2) EGHGB amount to EUR 18m (prior year: EUR 18m).

9. Deferred taxes

Deferred taxes were calculated using the current corporate income tax rate in Germany of 15% with the solidarity surcharge of 5.5% and an average trade tax rate of approximately 15.77% (prior year: 15.31%). Deferred taxes were therefore determined using a domestic income tax rate of 31.59% (prior year: 31.14%).

Deferred tax liabilities on differences in carrying amounts between the statutory accounts and the tax accounts were offset against deferred tax assets from differences in carrying amounts of pension provisions and other provisions.

The net deferred tax assets remaining after offsetting of deferred tax assets and liabilities are not recognized in the balance sheet, exercising the option in Sec. 274 (1) Sentence 2 of the German Commercial Code.

II. Notes on the items of the balance sheet and income statement

The following explanatory notes on the items of the balance sheet and the income statement are in the order as presented in the financial statements:

1. Balance sheet

Balance sheet – assets

million EUR		31 Dec 2012	31 Dec 2011
Item 3:	**Loans and advances to banks**		
	Loans and advances to affiliates	138	452
	Loans and advances to other investees and investors	17	20
	Subordinated loans and advances	26	27
	Loans and advances to associated savings banks	3,139	3,246
	Loans and advances designated as coverage for issued debt securities in accordance with Sec. 28 of the Covered Bond Act	1,318	1,305
	Old loans and advances designated as coverage for issued debt securities	684	1,017
Item 4:	**Loans and advances to customers**		
	Loans and advances to affiliates	58	55
	Loans and advances to other investees and investors	109	125
	Loans and advances designated as coverage for issued debt securities in accordance with Sec. 28 of the Covered Bond Act	4,578	4,263
	Old loans and advances designated as coverage for issued debt securities	1,289	1,710
Item 5:	**Debt securities and other fixed-income securities**		
	b) Bonds and debt securities		
	ba) Issued by the public sector		
	Marketable and listed bonds	2,160	1,382
	Marketable and unlisted bonds	—	—
	bb) Issued by other borrowers		
	Marketable and listed bonds	3,520	3,642
	Marketable and unlisted bonds	30	206
	Of affiliates	237	237
	Of other investees and investors	—	—
	Sum total of marketable securities not valued at the strict lower of cost or market	3,751	4,160
	Omitted write-downs to the lower net realizable value		
	Marketable		
	Carrying amount	1,902	2,959
	Fair value	1,859	2,859
	Hidden reserves		
	Marketable		
	Carrying amount	3,170	2,132
	Fair value	3,280	2,226
	Loans and advances designated as coverage for issued debt securities in accordance with Sec. 28 of the Covered Bond Act	200	110
	Loans and advances designated as coverage for issued debt securities	525	418

million EUR		31 Dec 2012	31 Dec 2011
Item 6:	**Shares and other variable-yield securities**		
	Hidden reserves		
	Carrying amount	1	0
	Fair value	1	0
	Marketable and listed	1	0
	Marketable and unlisted	0	0
Item 6a:	**Trading book positions**		
	Derivative financial instruments	379	439
	Debt securities and other fixed-income securities	149	185
	Of affiliates	10	10
	Less risk adjustment	1	-4
Item 7:	**Equity investments**		
	Marketable and listed shares	3	3
	Marketable and unlisted shares	—	—
Item 8:	**Shares in affiliates**		
	Marketable and listed shares	—	—
	Marketable and unlisted shares	—	—
Item 9:	**Trust assets**		
	Loans and advances to customers	4	2
	Equity investments	31	47
	Property and equipment	5	5
Item 12:	**Property and equipment**		
	Used in the Bank's own activities		
	- Land and buildings	33	27
	- Furniture, fixtures and office equipment	9	7
Item 14:	**Other assets**		
	Accrued interest for financial swaps	296	363
	Other claims against foreign banks	8	7
	Claims to tax refunds	12	5
Item 15:	**Prepaid expenses**		
	Premiums and discounts	12	13

Statement of changes in non-current assets

million EUR	Acquisition/ manufacturing costs	Changes: Additions	Disposals	Reclassifications	Accumulated amortization, depreciation and impairment	Net carrying amount 31 Dec 2012	Net carrying amount 31 Dec 2011	Amortization, depreciation and impairment in the fiscal year	Write-ups in the fiscal year
Equity investments	25	0	1	0	4	20	20	—	—
Shares in affiliates	81	0	0	0	0	81	81	—	—
Investment securities	4,160	0	409	0	0	3,751	4,160	—	—
Intangible assets	14	1	0	0	13	2	2	1	—
Property and equipment	119	15	1	0	83	50	39	4	—

The asset items shown are classified by residual terms to maturity as follows:

Loans and advances to banks

million EUR	Total	Payable on demand	Up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years
31 Dec 2012						
b) Public sector loans	3,130	5	33	228	1,235	1,629
c) Other loans and advances	704	274	131	125	139	2
Total	**3,834**	**279**	**164**	**352**	**1,374**	**1,665**
31 Dec 2011						
b) Public sector loans	3,301	12	53	198	1,445	1,593
c) Other loans and advances	1,556	480	327	569	159	21
Total	**4,857**	**492**	**380**	**767**	**1,604**	**1,614**

Loans and advances to customers

million EUR	Total	Payable on demand	Up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years
31 Dec 2012						
a) Mortgage loans	1,628	1	60	68	378	1,121
b) Public sector loans	5,059	1	135	358	1,618	2,947
c) Other loans and advances	16,579	947	2,097	1,208	4,220	8,108
Total	**23,266**	**949**	**2,292**	**1,634**	**6,216**	**12,176**
31 Dec 2011						
a) Mortgage loans	1,586	—	54	68	371	1,093
b) Public sector loans	5,013	0	135	358	1,618	2,902
c) Other loans and advances	15,757	947	1,996	849	4,040	7,925
Total	**22,356**	**947**	**2,185**	**1,275**	**6,029**	**11,920**

Of the loans and advances payable on demand, EUR 792k (prior year: EUR 715k) have an indefinite term.

Debt securities and other fixed-income securities

Debt securities and other variable-yield securities which will mature next year amount to EUR 404m (prior year: EUR 486m).

The hidden liabilities specified in the explanatory table to balance sheet item 5 “Debt securities and other fixed-income securities” of EUR 43m (prior year: EUR 100m) result from the difference of fair value and carrying amount without accounting for the effects from hedges. Further, any securities or guarantees are not taken into account in determining the hidden liabilities.

Any impariments to securities were not permanent, but are likely to be temporary and thus not due to changes in credit quality, with the result that there was no depreciation of the fair value.

Balance sheet – liabilities and equity

million EUR		31 Dec 2012	31 Dec 2011
Item 1:	**Liabilities to banks**		
	Liabilities to affiliates	578	250
	Liabilities to other investees and	26	2
	Liabilities to associated savings banks	771	436
Item 2:	**Liabilities to customers**		
	Liabilities to affiliates	10	15
	Liabilities to other investees and	22	30
Item 3:	**Securitized liabilities**		
	Liabilities to affiliates	365	160
	Liabilities to other investees and	—	—
Item 3a:	**Trading book positions**		
	Derivative financial instruments	358	448
Item 4:	**Trust liabilities**		
	Liabilities to banks	4	36
	Liabilities to customers	36	52
Item 5:	**Other liabilities**		
	Interest on silent participations	21	32
	Interest on subordinated liabilities	2	1
	Accrued interest from financial swap transactions	234	307
	Option premiums received	16	6
	Tax liabilities	0	2
	Currency translation of foreign exchange derivatives	30	232
Item 6:	**Prepaid expenses**		
	Premiums and discounts	21	17
Item 9:	**Subordinated liabilities**		
	Liabilities to affiliates	150	—
	Liabilities to other investees and	—	—
	Expenses for subordinated liabilities	14	14

Specification of the subordinated liabilities pursuant to Sec. 35 (3) German Accounting Regulation for Credit and Financial Services Institutions (RechKredV):

Currency	Amount 31 Dec 2012 million EUR	Interest cost 2012 million EUR	Interest rate % p.a.	End of term
EUR	200	4	Variable	28 Jun 2030
EUR	85	1	Variable	21 Mar 2031
EUR	65	1	Variable	5 Apr 2041
EUR	150	7	4.875	15 Dec 2015
EUR	50	0	Variable	6 Dec 2027
EUR	150	1	Variable	16 Nov 2027
Total	**700**	**14**		

An obligation to make premature repayment cannot arise for these borrowed funds. The subordinated liabilities fulfill requirements for subordination in accordance with Sec. 10 (5a) of the German Banking Act. The original term in each case is not less than 10 years. There are no other subordinated liabilities.

The following liability items are classified according to residual terms to maturity as follows:

Liabilities to banks

million EUR	Total	Payable on demand	Up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years
31 Dec 2012						
a) Issued registered mortgage securities	396	0	1	42	318	35
b) Issued registered public securities	894	0	79	33	722	60
c) Other liabilities	10,485	1,866	381	476	2,709	5,053
Total	**11,775**	**1,866**	**461**	**551**	**3,749**	**5,148**
31 Dec 2011						
a) Issued registered mortgage securities	472	0	1	103	333	35
b) Issued registered public securities	1,083	0	90	146	767	80
c) Other liabilities	9,418	780	1,042	492	2,423	4,681
Total	**10,973**	**780**	**1,133**	**741**	**3,523**	**4,796**

Liabilities to customers

million EUR	Total	Payable on demand	Up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years
31 Dec 2012						
a) Issued registered mortgage securities	318	1	2	5	111	199
b) Issued registered public securities	2,658	0	60	174	1,345	1,079
c) Savings deposits	194	0	4	184	5	1
d) Other liabilities	7,118	3,088	1,181	366	869	1,614
Total	**10,288**	**3,089**	**1,247**	**729**	**2,330**	**2,893**
31 Dec 2011						
a) Issued registered mortgage securities	305	0	4	42	101	158
b) Issued registered public securities	2,871	1	79	274	1,490	1,027
c) Savings deposits	191	0	4	181	6	0
d) Other liabilities	7,126	2,333	1,726	351	1,155	1,561
Total	**10,493**	**2,334**	**1,813**	**848**	**2,752**	**2,746**

Securitized liabilities

Debt securities listed under securitized liabilities which will mature next year amount to EUR 1,678 (prior year EUR 2,189m).

Equity

The increase in the share capital and the capital reserves results from the conversion of the silent participations (other capital contribution) into hard core capital. In addition, the reserves required by the statutes were reclassified to the other retained earnings as the basis under the statutes ceased to apply.

2. Income statement

Disclosures and notes to the income statement

million EUR		2012	2011
Item 7:	**Net income from trading book positions**		
	Risk adjustment pursuant to Sec. 340 e (3) of the German Commercial Code (income from reversals in 2012)	-3	2
	Allocations to the fund for general banking risks	1	2
Item 8:	**Other operating income**		
	Sales of loans and advances	—	—
	Write-ups of cancelled securities recognized under other assets	1	—
	Reversal of provisions	2	5
	Cost refunds	1	1
	Rental income	1	1
Item 12:	**Other operating expenses**		
	Contribution to the bank restructuring fund (“bank levy”)	4	5
	Allocations to other provisions	0	0
	Unwinding of discount on pension provisions	13	13
	Unwinding of other discounts	1	1
Item 21:	**Extraordinary expenses**		
	BilMoG adjustment for pension provisions	6	6

Income taxes

Almost all income tax is tax on the profit from ordinary activities.

III. Other disclosures

1. Contingent liabilities and other financial obligations

For the contingent liabilities from guarantees of EUR 3.6b (prior year: EUR 3.6b), the credit risk relating to the guarantee bonds drawn on is assessed during general loan processing. Most of the guarantees (EUR 2.3b; prior year: EUR 2.6b) relate to credit derivatives. Contingent liabilities to affiliates run to EUR 3m (prior year: EUR 3m).

The other financial obligations of EUR 1.8b. (prior year: EUR 2.6b) are attributable to loan commitments to customers, of which approximately EUR 0.1b (prior year: EUR 0.5b) relate to the strategic business unit of ship finance and EUR 1.5b (prior year: EUR 1.9b) to corporate customers.

The following significant other financial obligations include the following sums:

- 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 (prior year: EUR 3m).
- Contributions to the security reserve of the landesbanks and girobanks were re-calculated on the basis of risk principles. This resulted in obligations to make additional contributions of EUR 59m (prior year: EUR 54m). These additional contributions can be called in when support is required.
- In connection with the redemption of shares in FinanzIT GmbH, Hanover, 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.
- Independent of the disposal of the equity investment in DekaBank Deutsche Girozentrale, Frankfurt am Main, held indirectly through GLB GmbH & Co. OHG, Frankfurt am Main, and the related reduction in the capital of GLB GmbH & Co. OHG, Bremer Landesbank, as a guarantor, is still jointly liable with the other owners for certain liabilities of DekaBank Deutsche Girozentrale.
- No securities were deposited as collateral for transactions on forward markets (prior year: EUR 20m). Instead, a cash security of EUR 15m was deposited at Eurex Deutschland, Frankfurt am Main (prior year: EUR 0m).

2. Employees

Annual average number of employees

	2012	2011
Male	514	511
Female	553	525
Total	**1,067**	**1,036**

3. Remuneration, advances, loans and contingent liabilities of or to members of governing bodies

3.1 Total remuneration of governing bodies

EUR k	2012	2011
The Managing Board	2,246	2,228
Supervisory Board[1]	164	165
Advisory Board[1]	71	71

1) Sec. 5a of the Senate Law [Senatsgesetz] of the Free Hanseatic City of Bremen provides for a duty of surrender relating to remuneration for activities on Supervisory and Advisory Boards

3.2 Total remuneration of former members of governing bodies and their dependants

EUR k	2012	2011
The Managing Board	1,786	1,999
Supervisory Board	—	—
Advisory Board	—	—

Provisions for pensions to this group of people amounting to EUR 17,447k (prior year: EUR 16,342k) were recognized. The allocation amount remaining as a result of the change in the valuation of pension obligations totalled EUR 5,030k as of 31 December 2012 (Art. 67 (2) EGHGB) (prior year: EUR 5,449k).

There are no indirect pension obligations in accordance with Art. 28 (2) EGHGB for this group of people.

3.3 Advances, loans and contingent liabilities

EUR k	Loans and advances	Liabilities
Advances and loans as of 31 December 2012		
The Managing Board	490	545
Supervisory Board	1,246	1,542
Owners' Meeting	38	88
Advances and loans as of 31 December 2011		
The Managing Board	633	128
Supervisory Board	1,514	1,722
Owners' Meeting	38	36

4. Other disclosures

Non-arm's length transactions

No non-arm's length transactions were entered into with related parties in fiscal year 2012.

Services provided to third parties

Services provided to third parties relating to administration and brokerage are insignificant.

Offsetting of assets and liabilities from pension obligations

The liabilities from pension obligations are not matched by any assets that would have to be offset in accordance with Sec. 246 (2) Sentence 2 of the German Commercial Code.

Restrictions on distribution of assets

No assets were recognized in accordance with Sec. 268 (8) of the German Commercial Code which are subject to restrictions on distribution in fiscal year 2012.

5. Forward contracts

Forward contracts which had not been settled on the balance sheet date primarily concern the following:

million EUR	Nominal values	Fair values positive	Fair values negative
Forward contracts, non-trading			
Forward exchange contracts	5,911	73	56
Forward interest rate contracts	10,739	38	132
	16,650	**111**	**188**
Forward contracts in the trading book			
Forward exchange contracts	3,161	70	74
Forward interest rate contracts	34,691	2,003	1,375
	37,852	**2,073**	**1,449**

Non-trading forward contracts are used to hedge currency, liquidity and interest rate risks. In the trading book, forward contracts are used to manage interest rate and currency risks; open positions are entered into within the defined limits.

The forward interest rate contracts in the trading book are outstanding futures and forward rate agreements with a nominal volume of EUR 381m (prior year: EUR 358m).

6. Derivative transactions

The value of the derivative instruments listed in the following tables, which serve to transfer market price and credit risk between various parties, depends on interest rates, indices and exchange rates. Bremer Landesbank's derivative products are interest rate and cross-currency interest rate swaps, forward rate agreements, caps and floors, exchange-traded futures and options, currency options, forward exchange contracts and credit derivatives.

Derivative transactions are concluded as standardized stock exchange contracts or off-exchange (OTC) in the form of bilateral contracts.

Bremer Landesbank primarily employs derivatives to manage trading positions and the banking book through asset/liability management.

The valuation distinguishes between exchange-traded and off-exchange products. A daily cash settlement (variation margin) is made for exchange-traded futures.

The market values shown in the following sections are the actual values on the balance sheet date (market prices) or the fair values based on valuation methods generally accepted by the market.

The positive and negative fair values were determined as of the balance sheet date for each of the product groups.

6.1 External derivatives not reported at fair value by risk and transaction type (non-trading)

Derivative transactions allocated to the non-trading portfolio are presented below:

million EUR	Nominal values	Positive Fair values	Negative Fair values	Carrying amount	Recorded in balance sheet item
Interest rate risk					
Interest rate swaps	8,987	30	78		
FRA	1,200	0	0		
Caps, floors	47	0	2		
Forward issue	50	—	18		
Swaptions (purchases)	120	5	0	6	Others Assets
Interest rate risk – total –	**10,404**	**35**	**98**	**6**	
(prior year)	**(9,413)**	**(34)**	**(107)**	**(6)**	
Currency risk					
Currency swaps	1,481	34	3		Others Liabilities
Cross-currency interest rate swaps	4,760	42	88	2	
Foreign currency caps and floors	5	0	0		
Currency options (purchases)	1	0	0		
Currency risk – total –	**6,247**	**76**	**90**	**2**	
(prior year)	**(6,348)**	**(36)**	**(242)**	**(232)**	
Credit risk	2,276	0	76	—	
Credit derivatives – total –	**2,276**	**0**	**76**	**—**	
(prior year)	**(2,606)**	**(0)**	**(253)**	**(-)**	

The nominal values refer to the gross volume of all purchases and sales and long and short positions. Fair values and carrying amounts are shown for all contracts without accrued interest. Positive and negative fair values of contracts with the same counterparty were not offset. The above table also contains those derivatives designated as hedges in accordance with Sec. 254 of the German Commercial Code. In connection with foreign currency translation in accordance with Sec. 340h of the German Commercial Code in conjunction with Sec. 256a of the German Commercial Code, as of 31 December 2012, EUR 2m was recognized on the liabilities side for derivatives with currency risks (prior year: EUR 212m). All fair values could be reliably determined. See the chapter “Calculation of fair values” for more information on the valuation methods applied.

6.2 External derivatives reported at fair value by risk and transaction type (trading book)

The nominal values refer to the gross volume of all purchases and sales and long and short positions. They break down as follows:

million EUR	Nominal values	Positive Fair values	Negative Fair values
Interest rate risk			
Interest rate swaps	32,304	1,979	1,341
Swaptions	300	0	17
Purchases	3	0	—
Sales	297	—	17
Caps, floors	1,619	21	18
Futures	381	—	—
Interest rate risk – total –	**34,604**	**2,000**	**1,376**
(31 Dec 2011)	**(34,022)**	**(1,549)**	**(1,067)**
Currency risk			
Forward exchange contracts	267	3	5
Currency swaps	355	9	1
Cross-currency interest rate swaps	2,390	56	64
Caps, floors	139	0	0
Currency options	97	5	3
Purchases	60	5	—
Sales	37	—	3
Currency risk – total –	**3,248**	**73**	**73**
(31 Dec 2011)	**(6,028)**	**(139)**	**(129)**
Credit risk	324	12	11
Credit derivatives – total –	**324**	**12**	**11**
(31 Dec 2011)	**(344)**	**(19)**	**(19)**

6.3 Maturities of derivatives (trading book)

Trading book derivatives (nominal values) break down by maturity as follows:

	31 Dec 2012			**31 Dec 2011**		
million EUR	**Interest rate risks**	**Currency risks**	**Credit derivatives**	**Interest rate risks**	**Currency risks**	**Credit derivatives**
Residual maturities						
Up to 3 months	1,875	745	—	2,018	2,367	—
More than 3 months up to 1 year	3,688	663	4	3,601	1,130	20
More than 1 year up to 5 years	16,369	1,617	260	16,205	2,262	184
More than 5 years	12,672	223	60	12,198	269	140
Total	**34,604**	**3,248**	**324**	**34,022**	**6,028**	**344**

There were no equity or other price risks as of the balance sheet date of either the fiscal year or the prior year.

6.4 Counterparties of derivatives (trading book)

Trading book derivatives break down by external counterparty as follows:

million EUR	31 Dec 2012			31 Dec 2011		
	Nominal values	Fair values		Nominal values	Fair values	
		positive	negative		positive	negative
Banks in the OECD	33,969	1,849	1,448	35,489	1,492	1,191
Public institutions in the OECD	20	1	0	10	1	—
Other counterparties (including stock exchange contracts)	4,187	235	12	4,895	214	24
Total	**38,176**	**2,085**	**1,460**	**40,394**	**1,707**	**1,215**

6.5 Information on hedges

Bremer Landesbank has included the following assets in micro hedges for the purposes of its statutory accounts (assets stated at their carrying amounts without accrued interest):

million EUR	31 Dec 2012	31 Dec 2011
Assets		
Fixed-income securities in the liquidity reserve	281	75
Total	**281**	**75**

There are seven micro hedges of securities in the liquidity reserve of EUR 283m which hedge the interest rate with interest rate swaps in the same amount. The term of each hedging relationship coincides with the maturity of the underlying transaction. The relevant underlyings will mature in 2018-2020.

The securities in the liquidity reserve are valued applying the strict lower of cost or market principle. Due to the perfect micro hedging relationships, no interest rate-induced negative changes in value are taken into account. The non-interest rate-induced hidden reserves for the underlyings amount to EUR 1m. Non-interest rate-induced impairment losses had to be recognized on hedged securities in the liquidity reserve for the first time in the amount of EUR 0.3m for this fiscal year.

7. Other disclosures

7.1 Open market transactions

Bonds with a carrying amount of EUR 2,190m (prior year: EUR 2,294m) were deposited with Deutsche Bundesbank in open market transactions.

7.2 Repurchase agreements

As in the prior year, there were no genuine repurchase agreements for securities and other assets as of the balance sheet date.

7.3 Transfer of collateral for the Bank's own liabilities

Loans and advances to customers of EUR 5,970m (prior year: EUR 5,196m) were assigned as collateral for the Bank's own liabilities to banks.

7.4 Auditor's fees

On 20 April 2012, the Supervisory Board of Bremer Landesbank passed a resolution to engage KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG) as the auditor for the financial statements and the consolidated financial statements of Bremer Landesbank for fiscal year 2012 and thereby to replace Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (E&Y), which had previously performed this duty.

The following table shows, on an aggregate basis, the services rendered by the auditors KPMG and E&Y in fiscal year 2012 and the fees paid to E&Y in fiscal year 2011:

EUR k	2012	2011
a) Services for the audit of the financial statements	555	956
b) Other confirmation services	466	511
of which Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	168	511
c) Tax services	—	—
d) Other services	46	43

7.5 Financial transactions with selected European states

The following tables show our exposure to European states for which an elevated economic risk is assumed.

31 Dec 2012 million EUR	Nominal	Historical acquisition costs	Carrying amount accounted	Impairment losses In P&L	Fair value
Portugal	**0**	**0**	**0**	**0**	**0**
State	0	0	0	0	0
Financial institutions/insurance companies	0	0	0	0	0
Companies/other	0	0	0	0	0
Ireland	**197**	**194**	**197**	**0**	**193**
State	0	0	0	0	0
Financial institutions/insurance companies	171	171	174	0	169
Companies/other	26	23	23	0	24
Italy	**266**	**266**	**266**	**0**	**262**
State	0	0	0	0	0
Financial institutions/insurance companies	266	266	266	0	262
Companies/other	0	0	0	0	0
Greece	**0**	**0**	**0**	**0**	**0**
State	0	0	0	0	0
Financial institutions/insurance companies	0	0	0	0	0
Companies/other	0	0	0	0	0
Spain	**132**	**132**	**133**	**0**	**121**
State	0	0	0	0	0
Financial institutions/insurance companies	132	132	133	0	121
Companies/other	0	0	0	0	0
Total	**595**	**592**	**596**	**0**	**576**

31 Dec 2011 million EUR	Nominal	Historical acquisition costs	Carrying amount accounted	Impairment losses In P&L	Fair value
Portugal	**1**	**1**	**1**	**0**	**1**
State	0	0	0	0	0
Financial institutions/insurance companies	0	0	0	0	0
Companies/other	1	1	1	0	1
Ireland	**237**	**237**	**238**	**0**	**199**
State	0	0	0	0	0
Financial institutions/insurance companies	237	237	238	0	199
Companies/other	0	0	0	0	0
Italy	**311**	**311**	**311**	**0**	**293**
State	0	0	0	0	0
Financial institutions/insurance companies	311	311	311	0	293
Companies/other	0	0	0	0	0
Greece	**0**	**0**	**0**	**0**	**0**
State	0	0	0	0	0
Financial institutions/insurance companies	0	0	0	0	0
Companies/other	0	0	0	0	0
Spain	**238**	**190**	**194**	**0**	**189**
State	0	0	0	0	0
Financial institutions/insurance companies	238	190	194	0	189
Companies/other	0	0	0	0	0
Total	**787**	**738**	**744**	**0**	**682**

[1)] Including accrued interest, premium, discount, etc.

8. Cover calculation

8.1 Report pursuant to Sec. 28 of the Covered Bond Act as of 31 December 2012

8.1.1. Mortgage covered bonds

Mortgage covered bond cover in nominal and present values (Sec. 28 (1) No. 1 of the Covered Bond Act)

million EUR	Nominal value		Present value		Risk-adjusted present value, dynamic method at least +100bp		Risk-adjusted present value, dynamic method at least -100bp	
	2012	2011	2012	2011	2012	2011	2012	2011
Total amount of covered bonds outstanding	891	850	971	892	935	855	1,003	934
Total amount of covering assets	1,170	1,112	1,320	1,218	1,275	1,177	1,358	1,262
Capital surplus	279	262	349	326	340	322	355	328
Excess coverage in %	31	31	36	37	36	38	35	35

Term structure of the mortgage covered bond cover register (Sec. 28 (1) No. 2 of the Covered Bond Act)

million EUR	Mortgage covered bonds		Covering assets by fixed-interest periods	
	2012	2011	2012	2011
Up to 1 year	40	106	213	232
More than 1 year up to 2 years	231	40	115	135
More than 2 years up to 3 years	207	231	127	98
More than 3 years up to 4 years	180	207	132	109
More than 4 years up to 5 years	35	100	123	110
More than 5 years up to 10 years	105	84	419	383
More than 10 years	93	82	41	45

Share of derivatives (Sec. 28 (1) No. 3 of the Covered Bond Act)

No derivatives are included in the portfolio.

Other covering assets pursuant to Sec. 19 (1) Nos. 2 and 3 of the Covered Bond Act (Sec. 28 (1) No. 4 of the Covered Bond Act)

million EUR	Nominal values	
	2012	2011
Other covering assets	—	0

Breakdown of the mortgage register by size category (Sec. 28 (2) No. 1a of the Covered Bond Act)

Size categories	million EUR		in %	
	2012	2011	2012	2011
Up to EUR 0.3m	421	400	36	36
More than EUR 0.3m up to EUR 5.0m	590	515	50	46
More than EUR 5.0m	125	78	11	7
Excess coverage	34	119	3	11
Total	**1,170**	**1,112**	**100**	**100**

Breakdown of the mortgage register by type of use (Sec. 28 (2) No. 1b and c of the Covered Bond Act)

	million EUR		in %	
	2012	2011	2012	2011
Apartments	107	103	9	9
Detached houses	250	235	21	21
Apartment buildings	310	254	27	23
New buildings under construction, not yet profitable	—	—	—	—
Building sites	0	0	0	0
Total residential properties	**667**	**592**	**57**	**53**
Office buildings	88	48	7	4
Retail buildings	43	23	4	2
Industrial buildings	1	2	0	0
Buildings used for other commercial purposes	337	327	29	29
New buildings under construction, not yet profitable	—	—	—	—
Building sites	—	—	—	—
Total commercial properties	**469**	**400**	**40**	**36**
Total residential and commercial properties	1,136	992	97	89
Excess coverage, liquidity coverage pursuant to Sec. 4 (1a) of the Covered Bond Act, other coverage	34	120	3	11
Total	**1,170**	**1,112**	**100**	**100**

All residential and commercial properties are located in Germany.

Payments in arrears (> 90 days) (Sec. 28 (2) No. 2 of the Covered Bond Act)

Payments in arrears by more than 90 days amounted to EUR 0m as of 31 December 2012 (prior year: EUR 0m).

8.1.2 Public sector covered bonds

Public sector covered bonds cover in nominal and present values (Sec. 28 (1) No. 1 of the Covered Bond Act)

million EUR	Nominal value		Present value		Risk-adjusted present value, dynamic method at least +100bp		Risk-adjusted present value, dynamic method at least -100bp	
	2012	2011	2012	2011	2012	2011	2012	2011
Total amount of covered bonds outstanding	3,479	3,650	3,955	3,962	3,764	3,759	4,143	4,192
Total amount of covering assets	4,485	3,972	5,038	4,313	4,779	4,094	5,309	4,565
Capital surplus	1,006	322	1,083	351	1,015	335	1,166	373
Excess coverage in %	29	9	27	9	27	9	28	9

Term structure of the public sector covered bond cover register (Sec. 28 (1) No. 2 of the Covered Bond Act)

million EUR	Public sector covered bonds		Covering assets by fixed-interest	
	2012	2011	2012	2011
Up to 1 year	311	502	440	333
More than 1 year up to 2 years	668	311	348	316
More than 2 years up to 3 years	455	668	1,179	323
More than 3 years up to 4 years	425	455	293	1,148
More than 4 years up to 5 years	309	325	236	273
More than 5 years up to 10 years	550	674	1,168	889
More than 10 years	761	715	821	690

Share of derivatives (Sec. 28 (1) No. 3 of the Covered Bond Act)

No derivatives are included in the portfolio.

Other covering assets pursuant to Sec. 20 (2) No. 2 of the Covered Bond Act (Sec. 28 (1) No. 4 of the Covered Bond Act)

million EUR	Nominal values	
	2012	2011
Other covering assets	153	114

Breakdown of the public sector covered bond cover register (Sec. 28 (3) No. 1 of the Covered Bond Act)

million EUR	State		Regional authorities		Local authorities		Other debtors	
	2012	2011	2012	2011	2012	2011	2012	2011
Germany	—	—	420	347	2,219	1,991	1,518	1,419

Payments in arrears (> 90 days)

As of 31 December 2012 and 31 December 2011, there were no payments in arrears by more than 90 days.

8.1.3 Ship mortgage covered bonds

Ship mortgage covered bond cover in nominal and present values (Sec. 28 (1) No. 1 of the Covered Bond Act)

million EUR	Nominal value		Present value		Risk-adjusted present value, dynamic method at least +100bp		Risk-adjusted present value, dynamic method at least -100bp	
	2012	2011	2012	2011	2012	2011	2012	2011
Total amount of covered bonds outstanding	293	361	322	383	310	373	331	395
Total amount of covering assets	441	595	465	624	410	532	433	570
Capital surplus	148	234	143	241	100	159	102	175
Excess coverage in %	51	65	45	63	32	43	31	44

In addition to the stated nominal value of the total covering assets (EUR 441m), a time deposit of EUR 100m was entered in the cover register in the prior year (2012: EUR 0.0m) in accordance with Sec. 4 (1a) of the Covered Bond Act, exclusively to safeguard liquidity.

Term structure of the ship mortgage covered bond cover register (Sec. 28 (1) No. 2 of the Covered Bond Act)

million EUR	Ship mortgage covered bonds		Covering assets by fixed-interest periods	
	2012	2011	2012	2011
Up to 1 year	88	153	418	564
More than 1 year up to 2 years	58	42	9	5
More than 2 years up to 3 years	10	58	12	11
More than 3 years up to 4 years	46	0	2	6
More than 4 years up to 5 years	20	56	—	9
More than 5 years up to 10 years	69	49	—	0
More than 10 years	3	3	—	0

Share of derivatives (Sec. 28 (1) No. 3 of the Covered Bond Act)

No derivatives are included in the portfolio.

Other covering assets pursuant to Sec. 26 (1) Nos. 3 and 4 of the Covered Bond Act (Sec. 28 (1) No. 4 of the Covered Bond Act)

million EUR	Nominal values	
	2012	2011
Other covering assets	—	0

Breakdown of the ship register by size category (Sec. 28 (4) No. 1a of the Covered Bond Act)

Size categories	million EUR		in %	
	2012	2011	2012	2011
Up to EUR 0.5m	4	2	1	0
More than EUR 0.5m up to EUR 5.0m	277	324	63	54
More than EUR 5.0m	111	219	25	37
Excess coverage	49	50	11	8
Total	**441**	**595**	**100**	**100**

Breakdown of covering assets according to the countries in which the ships and ship constructions are registered (Sec. 28 (4) No. 1b of the Covered Bond Act)

Countries	Ocean-going vessels				Inland vessels				Excess coverage			
	million EUR		in %*)		million EUR		in %*)		million EUR		in %*)	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Germany	331	442	75	74	11	12	2	2	49	50	11	8
Gibraltar	6	7	2	1	—	—	—	—	—	—	—	—
Greece	—	22	—	4	—	—	—	—	—	—	—	—
Malta	5	13	1	2	3	3	1	1	—	—	—	—
Marshall Islands	26	13	6	2	—	—	—	—	—	—	—	—
Netherlands	6	15	1	3	—	—	—	—	—	—	—	—
Panama	4	4	1	1	—	—	—	—	—	—	—	—
Cyprus	0	14	0	2	—	—	—	—	—	—	—	—
Total	**378**	**530**	**86**	**89**	**14**	**15**	**3**	**3**	**49**	**50**	**11**	**8**

*) In relation to the total amount of covering assets of EUR 441m as of 31 December 2012 and of EUR 595m as of 31 December 2011.

8.2 Additional disclosures on mortgage and ship mortgage covered bonds

8.2.1 Mortgage covered bonds (Sec. 28 (2) Nos. 3a-c)

	Commercial properties		Residential properties	
	2012	2011	2012	2011
Number of pending foreclosure and sequestration proceedings as of 31 December 2012	—	—	—	—
Number of foreclosure sales in the fiscal year	—	—	—	—
Number of cases in which the covered bond bank had to repossess property in order to prevent mortgage losses in the fiscal year	—	—	—	—
Total interest in arrears due from mortgage debtors (EUR m)	—	—	—	0

8.2.2 Ship mortgage covered bonds (Sec. 28 (4) Nos. 2a-c)

	Ocean-going vessels		Inland vessels	
	2012	2011	2012	2011
Number of pending foreclosure proceedings for ships or ship constructions as of 31 December 2012	—	—	—	—
Number of foreclosure sales in the fiscal year	—	—	—	—
Number of cases in which the covered bond bank had to repossess ships or ship constructions in order to prevent ship mortgage losses in the fiscal year	—	—	—	—
Total interest in arrears due from loan debtors (EUR m)	—	—	0	—

8.3 Old loans cover calculation

The total volume of old covered bonds outstanding was separated off in accordance with Sec. 51 of the Covered Bond Act and is maintained separately in the hitherto existing cover register in accordance with the regulations valid until the Covered Bond Act came into force.

million EUR	Mortgage lending business		Public sector business	
Liabilities requiring cover		**14**		**1,998**
Covered bonds				
Bearer debt securities	—		202	
Registered debt securities	14		1,796	
covering assets		**193**		**2,305**
Loans and advances to banks	—		684	
Loans and advances to customers	192		1,097	
Securities issued by the public sector	1		524	
Excess coverage		**179**		**307**

9. Shareholdings

The following list names the shareholdings held by Bremer Landesbank in accordance with Sec. 285 No. 11 and Sec. 340a (4) No. 2 of the German Commercial Code. The most recently approved financial statements of each company were used.

No.	Company name and registered office	Share in capital held (%)	Equity[1)] EUR m	Profit/loss EUR m
1	Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede	32.26	29	1
2	BGG Bremen GmbH & Co. KG, Bremen	100.00	0[4)]	-0[4)]
3	BGG Oldenburg GmbH & Co. KG, Bremen	100.00	8[4)]	-0[4)]
4	BLB I Beteiligungs-GmbH, Bremen	100.00	0[4)]	0[4)]
5	BLB Immobilien GmbH, Bremen	100.00	25[4)]	0[2)4)]
6	BLB Leasing GmbH, Oldenburg	100.00	1[4)]	0[2)4)]
7	BREBAU GmbH, Bremen	48.84	49	5
8	BREMER LAGERHAUS-GESELLSCHFT- Aktiengesellschaft von 1877-, Bremen	12.61	17	2
9	Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen	49.00	—[3)]	—[3)]
10	Bremer Toto und Lotto GmbH, Bremen	33.33	4	0
11	Bremische Grundstücks-GmbH, Bremen	100.00	56[4)]	2[4)]
12	Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen	100.00	3[4)]	1[4)]
13	Bremische Grundstücks-GmbH & Co. Wohnanlagen Gross-Bonn, Bremen	100.00	0[4)]	0[4)]
14	Deutsch-Indonesische Tabak-Handelsgesellschaft mbH, Bremen	24.53	0	-0
15	GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen	7.75	327	35
16	Gewobau Gesellschaft für Wohnungsbau Vechta mbH, Vechta	20.46	10	1
17	Grundstücksgemeinschaft Escherweg 5 GbR, Bremen	50.00	-2[4)]	-0[4)]
18	Grundstücksgemeinschaft Escherweg 8 GbR, Bremen	50.00	-0[4)]	-0[4)]
19	GSG Oldenburg Bau- und Wohnungsgesellschaft mbH, Oldenburg	22.22	80	18
20	Interessengemeinschaft KATHARINENKLOSTERHOF GbR, Bremen	30.70	1[4)]	-0[4)]
21	NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen	100.00	5[4)]	4[4)]
22	NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen	100.00	1[4)]	0[4)]
23	Öffentliche Versicherung Bremen, Bremen	20.00	6	0
24	Schiffsbetriebs-Gesellschaft Bremen mbH, Bremen	100.00	1	0
25	Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen	100.00	35	4
26	WLO Wirtschaftsförderungsgesellschaft für den Landkreis Oldenburg mbH, Wildeshausen	23.84	0	—
27	Wohnungsbaugesellschaft Wesermarsch mbH, Brake	21.71	19	0

Notes:
1) Equity as defined in Secs. 266 and 272 of the German Commercial Code.
2) Profit and loss transfer agreement concluded with the company.
3) Not stated as allowed by Sec. 286 (3) Sentence 2 of the German Commercial Code.
4) Figures are from the most recent, but as yet unapproved, financial statements for 2012.

10. Information on investments in collective investment undertakings (CIUs)

The following table shows investment fund shares in accordance with Sec. 285 No. 26 of the German Commercial Code.

million EUR	2012	2011
“Lazard-Sparkassen Rendite-Plus-Fonds”, Frankfurt am Main, iShares DAX®		
Distribution	0	0
Market value	17	25
Carrying amount	17	25
Omitted write-downs	—	—

The “Lazard-Sparkassen Rendite-Plus-Fonds” and the “IShare Dax®”, sold in 2012, may invest in assets pursuant to Secs. 47 to 52 InvG. There are no restrictions on daily redemption.

IV. Governing bodies of Bremer Landesbank

1. Members of the Managing Board and General Agents

The Managing Board	Allocation of functions within the Managing Board	
Dr. Stephan-Andreas Kaulvers (Chairman)	Bank Management	Integrated Bank Management
		Communication and Marketing
		Human Resources Management
		Internal Audit
		Managing Board staff department
Heinrich Engelken (Deputy Chairman)	Risk management	Compliance/money launder-ing/fraud
		Back Office Financing
		Operations
		Risk Control
Dr. Guido Brune	Sales	Financial Markets
		Corporate Customers
		Private Customers
		Special Finance
		BLB Leasing GmbH
		BLB Immobilien GmbH

General Agent	
Mathias Barghoorn	
Matthias Hellmann (from 9 October 2012)	
Björn Nullmeyer (from 9 October 2012)	

2. Members of the Supervisory Board

Karoline Linnert
(Chairwoman)
Mayoress
Finance Senator of the
Free Hanseatic City of Bremen

Thomas Mang
(Deputy Chairman)
President of the Association of Savings Banks of Lower Saxony

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Hermann Bröring (until 15 March 2012)
Meppen

Dr. Claas Brons (until 31 October 2012)
General Manager of Y. & B. Brons,
Emden

Ursula Carl (from 01 November 2012)
Managing Director
ATLANTIC Grand Hotel, Bremen

Prof. Dr. Wolfgang Däubler,
retired professor
German and European labour law,
civil law and commercial law
Bremen University

Dr. Gunter Dunkel
Chairman of the Managing Board of
NORD/LB Norddeutsche Landesbank
– Girozentrale –

Heinz Feldmann (until 31 October 2012)
Chairman of the Managing Board of
Sparkasse LeerWittmund

Martin Grapentin
Chairman of the Managing Board of
Landessparkasse zu Oldenburg

Martin Günthner (from 1 November 2012)
Senator for Economics, Labour and Ports
of the Free Hanseatic City of Bremen

Elke Heinig (until 25 October 2012)
Qualified banker
Bremer Landesbank

Cora Hermenau
State Secretary of the
Lower Saxony Ministry of Finance

Dr. Olaf Joachim (from 1 November 2012)
State Councillor of Senate Chancellery
of the Free Hanseatic City of Bremen

Andreas Klarmann
Qualified banker
Bremer Landesbank

Hartmut Möllring
Lower Saxony Minister of Finance

Bernhard Reuter (from 29 March 2012)
District Administrator in Göttingen

Dr. Johannes-Jörg Riegler
Member of the Managing Board of
NORD/LB Norddeutsche Landesbank
– Girozentrale –

Michael Schlüter (from 1 November 2012)
Qualified banker
Bremer Landesbank

Lutz Stratmann (until 31 October 2012)
Lawyer
Oldenburg

Jörg Walde
Qualified banker
Bremer Landesbank

Doris Wesjohann
Member of the Managing Board of
Lohmann & Co. AG,
Visbek

Eike Westermann
Fully qualified lawyer
Bremer Landesbank

Markus Westermann
Trade union secretary
Vereinte Dienstleistungsgewerkschaft ver.di

3. Mandates in accordance with 340a (4) No. 1 of the German Commercial Code

Members of Bremer Landesbank exercised the following mandates in accordance with Sec. 340a (4) No. 1 of the German Commercial Code as of 31 December 2012. Banks are considered to be large corporations for the purposes of this disclosure.

Members of the Managing Board of Bremer Landesbank	Company
Dr. Stephan-Andreas Kaulvers	NORD Holding Unternehmensbeteiligungsgesellschaft mbH, Hanover
	DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen
	EUROGATE Geschäftsführungs-GMBH & Co. KGaA, Bremen (from 16 August 2012)
	BREMER LAGERHAUS-GESELLSCHAFT – Aktiengesellschaft von 1877 –, Bremen
	GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen (until 15 June 2012)
	EWE Aktiengesellschaft, Oldenburg
	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hannover (until 31 December 2012)
Heinrich Engelken	BREBAU GmbH, Bremen
	GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen (from 15 June 2012)
	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	Company
Mathias Barghoorn	GSG Oldenburg Bau- und Wohngesellschaft, Oldenburg
Harald Groppel	GSG Oldenburg Bau- und Wohngesellschaft, Oldenburg

4. Parent company

Norddeutsche Landesbank Girozentrale, Hanover/Braunschweig/Magdeburg, as the parent company of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – prepares consolidated financial statements for the largest group of companies, including the financial statements of the Bank. Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – also prepares its own consolidated financial statements. The consolidated financial statements are published in the elektronischer Bundesanzeiger [Electronic German Federal Gazette].

Bremen, 26 March 2013

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – The Managing Board

Dr. Stephan-Andreas Kaulvers

Heinrich Engelken

Dr. Guido Brune

Responsibility statement

“We confirm that, to the best of our knowledge and in accordance with the applicable accounting framework, the financial statements provide a true and fair view of the net assets, financial position and results of operations of the Company and that the management report gives a true and fair view of the development of business, including the operating result and the state of the Company, and also describes the principal opportunities and risks relating to the expected future development of the Company.”

Bremen, 26 March 2013

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – The Managing Board

Dr. Stephan-Andreas Kaulvers

Heinrich Engelken

Dr. Guido Brune

Audit opinion[2]

“We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen, for the fiscal year from 1 January to 31 December 2012. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Managing Board of Bremer Landesbank. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 of the German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of Bremer Landesbank and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on the basis of random sample testing within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Managing Board, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of Bremer Landesbank in accordance with generally accepted accounting principles.

[2] This is a translation of the audit opinion issued in German. The latter is the sole authoritative version.

The management report is consistent with the annual financial statements and provides on the whole a true and fair view of the position of Bremer Landesbank and accurately presents the opportunities and risks of future development."

Hanover, 28 March 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Leitz
Wirtschaftsprüfer (German Public Auditor)

Hering
Wirtschaftsprüfer (German Public Auditor)

Declaration of compliance with the German Corporate Governance Code by Bremer Landesbank

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 15 May 2012. The Code aims to make the rules for corporate governance and control 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 Managing Board and the Supervisory Board.

The Corporate Governance Code is designed for listed companies and is not therefore legally binding for banks incorporated under public law. However, Bremer Landesbank and its Managing Board wish to position the Bank as a reliable partner and foster 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's registered office is in Bremen. It has branch offices in Bremen and Oldenburg.

The Bank's governing bodies are the Managing Board, the Supervisory Board and the Owners' Meeting. While the Managing 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 Managing Board. The Owners' Meeting is responsible for making decisions on fundamental issues.

The Managing Board

The Managing 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 Managing 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 with the respective regulatory requirements of the German Banking Act and German Federal Financial Supervisory Authority (BaFin). 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 Managing Board is composed of the chairman, deputy chairman, if one has been appointed, and other members and deputy members. The chairman of the Managing Board manages the allocation of functions in consultation with the other members of the Managing Board. The Supervisory Board must be informed of the allocation of functions. Each member of the Managing 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. For specific transactions, the Managing Board can transfer its decision-making authority to a member of the Managing Board or allow the participation of a further member of the Managing Board, generally the deputy.

The Managing Board regularly meets once a week. The chairman of the Managing Board can convene special meetings; he is obliged to convene a meeting if requested by a member of the Managing Board, provided that the reasons are stated. Minutes are taken of the meetings if the Managing Board considers this to be necessary in the interests of proper management.

The Managing 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 Managing 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, compensation systems and the measures taken by the Group Management through NORD/LB as the parent company. Moreover, the Managing 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 Managing 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 Managing Board and monitors its management activities. It decides on the appointment and removal of members of the Managing Board, the general policies for the Bank's operations, the corporate planning proposal made to the Owners' Meeting, the rules of procedure for the Managing 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 of the 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 consists of ten members. It is chaired by the chairman of the Managing Board of Norddeutsche Landesbank – Girozentrale –. The Committee includes another two members for Norddeutsche Landesbank – Girozentrale –, the Finance Senators of the Free Hanseatic City of Bremen, two other members for the Free Hanseatic City of Bremen, the president of the Savings Bank Association of Lower Saxony and the employee representatives. In regular meetings, the General Working and Credit Committee monitors, in particular, the Managing 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 Managing Board in detail.

The Audit Committee consists of six members, namely two representatives of Norddeutsche Landesbank – Girozentrale – and the Free Hanseatic City of Bremen, the president of Savings Bank Association of Lower Saxony and an employee of the Bank who sits on the Supervisory Board who is proposed by the employee representatives on the Supervisory Board and elected by the Supervisory Board. At least one member of the Audit Committee must be independent and have specialist knowledge of accounting or auditing. At least one member of the Audit Committee must be independent and have specialist knowledge of accounting or auditing. 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 Managing 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 – (54.8343%) and the Federal State of Bremen (41.2%) and Lower Saxony Association of Savings Banks (3.9657%). 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 ratification of the actions of the Managing 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 Managing 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 Managing 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 Managing 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 acceptance of additional employment by its members, in particular membership of governing bodies or advisory boards of other companies, requires the approval of the entire Managing Board. The Managing Board regularly informs the Supervisory Board of the additional employment activities of its members.

Consultancy 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 Managing Board must exercise due care an diligence in their management activities. If members of the Managing 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.

Imprint

Issued by
Bremer Landesbank
Kreditanstalt Oldenburg – Girozentrale –

Concept, text and design
Bremer Landesbank
Gestalt und Form, Bremen

Dated: May 2013