BREMER LANDESBANK

Consolidated financial statements and group management report of Bremer Landesbank as of 31 December 2012 in accordance with IFRSs

The Bremer Landesbank Group at a glance

	1 Jan 2012 – 31 Dec 2012	1 Jan 2011 – 31 Dec 2011	Change	
	(in EUR m)	(in EUR m)	(in EUR m)	(in %)
Net interest income	417	375	42	11
Provisions for lending business	-228	-108	-120	>100
Net commission income	27	26	1	4
Profit/loss from financial instruments at fair value through profit or loss (including hedge accounting)	115	24	91	>100
Other operating profit/loss	8	1	7	>100
Administrative expenses	186	159	27	17
Profit/loss from financial investments	9	-5	14	—
Profit/loss from investments accounted for using the equity method	6	10	-4	-40
Earnings before taxes	**168**	**164**	**4**	**2**
Income taxes	46	34	12	35
Consolidated profit	**122**	**130**	**-8**	**-6**
Cost-income ratio (CIR)	32.0%	36.8%	—	-13
Return on equity (after taxes)	10.2%	15.7%	—	-35
	31 Dec 2012	**31 Dec 2011**	**Change**	
Reported equity	1,675	1,047	628	60
Regulatory equity	2,004	1,895	109	6
- thereof core capital	1,776	1,710	66	4
Risk-weighted assets	17,588	17,897	-309	-2
Reported equity ratio	9.52%	5.85%	—	63
Overall ratio	11.40%	10.59%	—	8
Core capital ratio	8.79%	9.09%	—	-3
Loans and advances to banks	3,803	4,825	-1,022	-21
Loans and advances to customers	23,687	22,685	1,002	4
Risk provisions	-522	-370	-152	41
Financial assets at fair value through profit or loss	1,707	1,349	358	27
Financial assets	5,818	5,252	566	11
Investments accounted for using the equity method	87	84	3	4
Other assets	1,004	1,038	-34	-3
Total assets	**35,584**	**34,863**	**721**	**2**
Liabilities to banks	11,815	11,009	806	7
Liabilities to customers	10,436	10,604	-168	-2
Securitized liabilities	8,446	8,692	-246	-3
Financial liabilities at fair value through profit or loss	1,573	1,688	-115	-7
Provisions	418	319	99	31
Other liabilities	490	334	156	47
Subordinated capital	731	1,170	-439	-38
Reported equity including non-controlling interests	1,675	1,047	628	60
Total liabilities	**35,584**	**34,863**	**721**	**2**
Number of employees				
Total	1,121	1,092	—	—
Current ratings (long-term rating)				
Moody's	A3	A2	—	—
Fitch Ratings	A	A	—	—

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1. Group management report

In the following text the terms “Bank” and “Bremer Landesbank” are used. In all cases they refer to the Bremer Landesbank Group. The development of the Group is almost exclusively determined by the parent company. The companies of the Bremer Landesbank Group are included and consolidated in the consolidated financial statements of the NORD/LB Group and are a significant part of the latter.

A. Business and general conditions

Economic situation and financial markets

After a 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 growth of 5.1% in 2012 after 6.3% for 2011.

Up to the autumn of 2012 the industrial nations were hampered by the increasing 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 continue to remain the major driver of 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 output expanded by 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 economy increased slightly accompanied by an easing of the European deficit crisis. Compared to the prior year, growth in the 4th quarter of 2012 was 7.9% as compared to 7.4% previously. In 2012 India’s GDP grew by just 4.9% as compared to 6.8% previously. Domestic economic problems and the decline in global economic activity are responsible for the decline.

The Latin American economy grew by 3.2% in 2012, after expanding by 4.5% in 2011. The heavyweight Brazil in particular exhibited a lower level of economic growth, falling from 2.7% in 2011 to 1.5% in 2012. Mexico was stable with growth of 3.8% in 2012 as opposed to 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 after growing by +1.4% in 2011. The deepening of the crisis and withdrawal of capital from the real economy in the reform countries are largely responsible for the contraction in the eurozone.

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

At the mid-year point, many large German companies pointed to growing levels of uncertainty. The companies' assessments of how the economy would 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 in the period from March to September 2012, before picking up again to 100.5 in January 2013. The evaluation of the current situation then fell from 116.3 to 107.1 points in the period January to December 2012, marking its lowest value since June 2010.

The increasing global risk aversion up to autumn 2012 had a delayed effect in Germany in key 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 from autumn 2012 therefore has not yet been felt in 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% over 1.8% for 2011 and in so doing bucked the global trend, despite massive unresolved issues in the US budget. The refusal to undergo structural reforms saved growth in the USA in 2012. However, this refusal conversely poses questions as to the quality of the growth. Further, the US economy 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 as regards energy costs (electricity, gas, distillates) of any industrialized nation is starting to bear fruit in the rebuilding of 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%. The fragile situation of the Japanese economy resulted at the start of 2013 in 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, rather, a reaction to the deepening of the European deficit crisis.

The drama in Greece was a stress factor through to the autumn of 2012. That was a major catalyst that, in September 2012, triggered the height of the speculations about the collapse of the eurozone.

As well as setting up the ESM, the fiscal pact and an economic 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 pact. This step by the ECB, which to date has not required any activity on the part of the ECB as regards bond purchase, has resulted in a clear reduction of the virulence of the deficit crisis.

While the Eurozone's return to fiscal health is under way, it has not been adequately discounted 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 to total debt and political reform.

The consequences of the strong economic start to 2012 and the increased risk aversion that set in at that point were noticeable in the financial markets. After a strong start, the stock market rose from 5900 to 7194 points in March, then fell to 5,914 in June, before rising again gradually. By the end of 2012 the German share index DAX rose to 7,612.

The returns on ten-year German government bonds fell to an all-time low of around 1.10%, and then hovered around the 1.40% mark at the end of the year. Following a deterioration in refinancing terms up to September 2012, the situation for the reform countries of the eurozone eased noticeably 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 a record low of 1.2040 was recorded. The euro stabilised over time and at the end of 2012 stood at 1.3200.

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 in 2012 the Bremen economy will have exhibited stronger growth than the German economy as a whole, as it did in 2011. Alongside good results from industry, the construction and services sectors were key factors in this. According to current data, trade was a stress 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 position and the business expectations of Bremen’s companies gradually declined. The balance of positive and negative reports in terms of the business expectations index fell from 14.2 to -5.6 in the 3rd quarter of 2012. The assessment of the current business position dropped from 33.8 to 29.8.

Bremen's economy is highly dependent on demand from overseas. Until autumn 2012 there was marked scepticism surrounding future 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 recorded 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 nadir 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 cooling of the economic situation, primarily in the second half of the year. A weaker economic position was particularly apparent in industry and in the transport and logistics sector. More 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 a good 108 points due to the declining virulence of the European deficit crisis. The positive changes in 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 economic situation. In the view of the Chamber of Industry and Commerce, the economic basis was and remains solid.

In the fourth quarter of 2012 a third 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.

Companies' earnings deteriorated at the end of 2012 as compared to the previous quarter. At the same time, the number of companies reporting improved earnings was up at 25% as compared to 20%.

Positive impulses in the job market were few and far between. Companies were slightly less willing to take on new staff. The transport industry represented a positive exception. The willingness to invest was pronounced in 2012.

Bremer Landesbank

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

Parent company:

- Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen

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

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

The following associates are accounted for using the equity method in accordance with IAS 28:

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

There were no changes to the basis of consolidation in fiscal year 2012.

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

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

Bremer Landesbank is included and fully consolidated in the consolidated financial statements of the NORD/LB Group and is a significant part of the latter. Bremer Landesbank also prepares its own subgroup 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's viability rating: bbb-). Its long-term ratings (Fitch: A; Moody's: A3) give Bremer Landesbank access to the 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 reporting year were impacted by the significant improvement in credit derivatives and in particular the situation on the shipping markets. The hoped-for stimuli by the global economy failed to materialise in 2012 or were less than required to haul the shipping sector out of crisis mode. As a consequence, the continuing crisis, which was even more severe in 2012, therefore meant that loan loss provisions considerably in excess of the planned figure 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 environment this has again been proven to be right.

In the context of the Basel III rules for regulatory capital that in future will gradually come into force, the owners of the Bank converted the available “silent participations” into what is known as hard core capital over the course of 2012. In this context the owners’ shareholdings in Bremer Landesbank have changed and the Lower Saxony Association of Savings Banks has joined as a further owner.

Based on continual customer-driven revenue growth, Bremer Landesbank will still be 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 well positioned for success.

Integrated Bank Management

Bremer Landesbank’s integrated bank management is value and risk based. It fulfils the legal requirements and provides decision-makers with key information for management purposes. Central control instruments of the Bank are P&L, direct costing, which is structured along the lines of business segments and cost centres and the RBC report.

Key metrics for the internal management of business segments are earnings before taxes (EBT) and the RORAC (return on risk-adjusted capital).

Key metrics for profitability management at an integrated bank level are return on equity (ROE) and the 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:

- Statutory metrics such as the ongoing comparison of direct costing 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

[1] RoE: Earnings before taxes / Sustainable capital. CIR: Administrative expenses / Total income before risk provisions + other profit.

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 the 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 developed extremely well during the past year. The main source of income – net interest income – again increased strongly, driven by business with customers as well as non-recurring effects. Net commission income was slightly above the prior year's level. Trading profit improved significantly as a result of valuation effects on account of the now uncritical classification of debt in some European countries and was therefore very positive.

In the fiscal year, Bremer Landesbank strengthened its position as a notable lender in the region and as a leading bank in the North-West of Germany. In 2012, real economic effects of the crisis in the financial and capital markets had a considerably stronger impact on the Bank's risk 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 budget figures.

Impairments to the Bank's own securities holdings were necessary in the prior year in the context of Greek government bonds received from a credit event.

Administrative expenses rose in 2012. Expenses for wages and salaries and social security contributions rose in the expected range due to the budgeted increased headcount. Deviations to the budgeted increase in personnel expenses are primarily a result of higher salary payments and higher benefits for early retirement in line with collective wage agreements as compared to the prior year. The anticipated increase in other administrative expenses was primarily due to the increase in expenses for information technology and regulation-related project expenses.

The subsidiaries operating in the real estate sector managed to hold their own depite the persistently difficult conditions by concentrating on certain market segments.

BLB Leasing mainly generates new business through the customer consultants of Bremer Landesbank. This business strategy continued to be successful and once again resulted in a considerable volume of new business. As a financial services company, BLB Leasing's activities are subject to control and it makes appropriate allowance for this.

The satisfactory results of fiscal year 2012 in accordance with German accounting standards enable the Bremer Landesbank AöR to strengthen its liable capital by building up taxed reserves. No distribution to the owners is possible for 2012 due to the commitments made by NORD/LB to the EU relating to the conversion of silent participations into hard 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 the Bremer Landesbank Group in 2012.

B. Results of operations

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

Income statement

	Note	1 Jan – 31 Dec 2012 (in EUR m)	1 Jan – 31 Dec 2011 Adjusted (in EUR m)	Change (in %)
Interest income		2,036	2,262	-10
Interest expenses		1,619	1,887	-14
Net interest income	18	**417**	**375**	**11**
Provisions for lending business	19	-228	-108	>100
Net interest income after risk provisions		**189**	**267**	**-29**
Commission income		36	51	-29
Commission expenses		9	25	-64
Net commission income	20	**27**	**26**	**4**
Trading profit/loss		108	12	>100
Profit/loss from designated financial instruments		-1	0	—
Profit/loss from financial instruments at fair value through profit or loss	21	**107**	**12**	**>100**
Profit/loss from hedge accounting	22	8	12	-33
Profit/loss from financial assets	23	9	-5	—
Profit/loss from investments accounted for using the equity method	24	6	10	-40
Administrative expenses	25	186	159	17
Other operating profit/loss	26	8	1	>100
Earnings before taxes		**168**	**164**	**2**
Income taxes	27	46	34	35
Consolidated profit		**122**	**130**	**-6**
thereof: attributable to shareholders of the parent company		122	130	-6
thereof: attributable to non-controlling interests		—	—	—

Net interest income

Net interest income increased by 11% from EUR 375m to EUR 417m. Contributions generated from operating activities with the Bank's clients were established at a high level, whilst special effects had a positive overall effect on net interest income.

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 hard core capital, the Bank realized one-off income of some EUR 28m reported in the net interest income from the reversal of hedging transactions.

In the next few years, after the elimination of special effects, net interest income is expected to remain flat for some time before increasing steadily afterwards.

Provisions for lending business

Provisions for lending business rose substantially to EUR 228m in 2012 (prior year: EUR 108m).

In 2012, the negative effects of the ongoing crisis in the shipping sector had a stronger impact on the Bank's risk provisions than originally expected. The renewed over-capacity of shipping 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 increase in 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.

The Bank accounts for risks which may have already occurred but which were not known on the balance sheet date by making general loan loss provisions. In the fiscal year, an allocation of EUR 34m was required here (prior year: EUR 7m). EUR 10m was utilized to make specific valuation allowances (prior year: EUR 6m). A stress margin of EUR 4m (prior year: EUR 5m) was again added to the general loan loss provisions in light of the special situation in some sub-segments of the shipping sector.

The level of loan loss provisions in 2013 and 2014 is expected to remain shaped by the gradual lessening of the impact of the financial market crisis and the ongoing difficulties in the shipping markets. Since 2010, risk provisions at Bremer Landesbank have been determined largely by developments in the merchant shipping sector. If the market does not recover in 2013, risk provisions are likely to be on a par with those for 2012.

Net commission income

The net commission income rose by 4% from EUR 26m to EUR 27m.

While guarantee commission in lending business remained at a constantly positive level, other commission income, e.g. from the securities and lending business, as well as payment transactions continued to rise at a moderate rate. Fees in the areas of account management, foreign business and brokerage fell slightly.

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

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

The acute crisis in the financial and capital markets eased in 2012, but the continuing uncertainty surrounding the financing of the high sovereign debt in a number of countries continues to cause sharp swings in the markets, which overall had a positive impact on the trading profits of the Bremer Landesbank in the past year, particularly with regard to changes in value. In 2012, a profit of some EUR 107m was reported from the fair value measurement of financial instruments, while a profit of only EUR 12m was generated in the prior year.

With its active trading to support customer-driven business, Bremer Landesbank again acted successfully in the financial markets in 2012.

The volume of credit default swaps for which Bremer Landesbank is the protection seller decreased slightly as swaps matured. Bremer Landesbank engaged in structured credit business to utilize available equity to generate commission income reported in trading profit and to diversify its loan portfolio, notably with regard to regions/countries and rating categories. The Bank only ever sold protection to prime counterparties and always used recognized standard agreements (ISDA protocol before the “Big Bang Protocol”). Due to the difficulties which have arisen in the international financial and capital markets since 2007 and the related widening of credit spreads, the Bank has stopped taking on 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 for a nominal amount of around EUR 58m. Following Greece’s haircut in the spring of 2012, the Bremer Landesbank received various long-term Greek government bonds, which were entered in the Bank’s books with the corresponding fair value at the time of their delivery and were written down to the corresponding market values. Over the further course of the year the Greek government bonds appreciated in value. 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) in order to realise the appreciation in value and to remove the existing long-term Greek risk from the books. The Bank’s trading profit dropped by roughly EUR 15m due to the conversion. It led to profits of roughly EUR 9m in the profits from financial assets. In total, the Bank’s profit fell by around EUR 6m due to the conversion.

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 junior 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.

The profit/loss from financial instruments at fair value through profit or loss improved considerably from EUR -30m to EUR 95m, while the realized profit stood at EUR 2m, compared with a loss of EUR 24m in the prior year. Trading profit/loss continues to be dominated by the profit/loss from credit default swaps (EUR 132m; prior year: EUR -50m). The Bank had built up these positions in recent years as a substitute for lending business; because it intends to hold them to maturity, they are mostly kept in the regulatory banking book. As the markets for credit derivatives became inactive in 2008 – and are still inactive for some credit derivatives – these financial instruments were measured using a valuation model in conformity with the standards. The estimation parameters for the model were aligned with IAS 39 in 2012. 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. This also impacted the net valuation effect.

Bremer Landesbank's foreign exchange profit was unchanged at EUR 6m (prior year: EUR 12m).

The profit/loss from financial instruments measured at fair value was EUR -1m (prior year: EUR 0m) in 2012 and thus only minor importance. This category is only rarely used by Bremer Landesbank.

It is still difficult to predict how the international financial markets will develop. Since the beginning of the financial crisis, the markets have reacted extremely sensitively to bad news. The Bank expects the uncertainties surrounding the financial situation of certain countries to continue in 2013. However, it is confident that the global efforts to contain the situation will ultimately stabilise the markets overall. For these reasons, it is not possible to completely rule out further fluctuations in net valuation effects. Nevertheless, the outlook for successful dealing in the financial markets in active, customer-driven trading operations is good for 2013 and 2014.

Profit/loss from hedge accounting

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

The hedges designated by Bremer Landesbank generated a profit of EUR 8m in 2012, compared with EUR 12m in 2011. The negative change in the fair value of the underlying transactions was outweighed by the positive change in the fair value of the hedging transactions, both for the micro fair value hedges and for the portfolio fair value hedge.

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

Profit/loss from financial assets

The profit/loss from available-for-sale (AFS) securities and equity investments amounts to EUR 9m, after EUR -5m in 2011. While the profits/loss in 2011 was significantly affected by the impairments of an equity interest held by the Bank and a silent participation, the result in 2012 is primarily affected by disposals and the value at profit or loss of securities and company shares in the financial asset portfolio (also see Section “Profit/loss from financial instruments at fair value through profit or loss”).

Profit/loss from investments accounted for using the equity method

The profit from investments accounted for using the equity method stood at EUR 6m, compared with EUR 10m in 2011. The profit from such investments attributable to Bremer Landesbank and included in the consolidated financial statements was lower than in the prior year.

Administrative expenses

As expected, administrative expenses rose by 17%, from EUR 159m to EUR 186m.

Personnel expenses rose by 8% from EUR 91m to EUR 98m due to the planned higher level of staff compared to the prior year, the collective wage agreement and higher benefits for early retirement.

Other administrative expenses increased by EUR 17m, or 27%, to EUR 79m. The anticipated increase in other administrative expenses was primarily due to the increase in expenses for information technology and project-related expenses.

Amortization, depreciation and impairment of intangible assets and property and equipment increased by EUR 3m, from EUR 6m to EUR 9m. This increase is attributable to higher depreciation on buildings and long-lived assets after the completion of conversion work in Oldenburg.

In 2013, a decrease in personnel expenses is expected; in 2014, the Bank is assuming there will be another increase due to the collective wage agreement. In respect of the other administrative expenses a gradual consolidation of the cost level in the next few years is envisaged.

Other operating profit/loss

Other operating profit amounted to EUR 8m, compared with EUR 1m in 2011. In addition to reversals of provisions, this item also contains expenses and income from buying back own issues. Other operating income mainly includes interest income from tax reimbursements in the amount of EUR 4m. Other operating expenses are due to interest expenses related to the payment of tax arrears in the amount of EUR 2m and the bank levy of EUR 4m (prior year: EUR 5m).

Earnings before taxes

Earnings before taxes in the Bremer Landesbank Group amounted to EUR 168m for 2012; this represents an increase of EUR 4m from 2011. Higher net interest income and the significantly improved trading profit (stemming largely from the valuation of credit default swaps) outweighed higher risk provision expenses.

Income taxes

Bremer Landesbank's current income taxes decreased by EUR 31m compared with the prior year, to EUR 16m, due to the reduction in the parent company's taxable income.

Deferred taxes, for which income of EUR 13m was recognised in 2011, totalled EUR 30m in 2012, thus, overall income taxes rose by EUR 12m to EUR 46m. As compared to the prior year, the pre-tax profit for the year is more than the taxable profit.

Consolidated profit

The consolidated profit totalled EUR 122m (prior year: EUR 130m).

The basis for the appropriation of profits is the parent's profit of EUR 31m for the year in accordance with German accounting regulations (prior year: EUR 78m). The Bank opted to strengthen its liable capital by building up taxed reserves and, unlike in prior years (2011: EUR 50m), did not allocate it to retained earnings. No distribution to the owners is possible for 2012 due to the commitments made by NORD/LB to the EU relating to the conversion of silent participations into hard core capital. The intention is to carry the accumulated profits of EUR 31m (prior year: EUR 28m) forward to new account.

In 2012, the difficulties in the shipping markets and the Greek haircut had a not insignificant impact on Bremer Landesbank's consolidated profit. However, the Bank was able to cushion the effects well on account of its good results of operations. The Bank expects that its results of operations will also remain positive in 2013 and 2014. It also expects that it will have the opportunity 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.

C. Net assets and financial position

Total assets

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. Total assets rose from EUR 34.9b to EUR 35.6b and were therefore slightly above the level in 2011.

Loans and advances to banks

As a consequence of the crisis in the financial and capital markets in connection with the downgrading of certain countries' credit ratings, interbank business successively decreased so loans and advances to banks fell overall by EUR 1.0b to EUR 3.8b. Other loans and advances to banks were on a similar level to that of the prior year.

Loans and advances to customers

Loans and advances to customers increased – thanks to a moderate level of new business in some areas of the Special Finance and Corporate Customers segments – by some EUR 1.0b to EUR 23.7b. Loans and advances to customers account for 66.6% of total assets (prior year: 65.1%). Please see the notes on the development of the business segments in the segment report for a more detailed analysis of this item.

Risk provisions

The risk provisions of the Bremer Landesbank Group, deducted from the asset side of the balance sheet, increased substantially again in the fiscal year, by 41.1%, or EUR 152m, to EUR 522m, and now represent 1.9% of total loans and advances (prior year: 1.34%).

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

This item comprises the fair values of held-for-trading financial instruments. Instruments with a positive fair value are reported in assets and those with negative fair values in liabilities. Financial instruments with a positive fair value increased in 2012 by EUR 358m to EUR 1,707m, while financial instruments with negative fair values decreased by EUR 115m to EUR 1,573m.

Bremer Landesbank enters into derivative transactions mainly for the purpose of managing and hedging interest rate and foreign currency risks. Bremer Landesbank also utilized available equity to conclude credit derivative transactions to generate commission income reported in trading profit/loss and to diversify its loan portfolio, particularly with regard to regions/countries and rating categories. The nominal volume at year-end 2012 amounted to EUR 57.1b, compared with EUR 58.8b in the prior year, i.e. approximately 1.6 times (prior year: 1.7 times) total assets. Compared to other institutions in the sector, Bremer Landesbank only engages in such transactions to a relatively minor extent. Almost all counterparties are banks located in OECD member countries and therefore may be assumed to have a sound financial background. For detailed information on volumes, maturities and counterparty classification please refer to the information in the notes to the consolidated financial statements of Bremer Landesbank.

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

In 2012, fair values from hedge derivatives changed as shown in the notes under (33) and (46). The portion of the change in value that relates to the hedged interest rate risk is offset by changes in value for the underlying transactions.

Financial assets/investments accounted for using the equity method

Financial assets increased from EUR 5.3b in 2011 to EUR 5.8b in 2012. This item mainly comprises available-for-sale securities, silent participations and investments in non-consolidated entities at fair value. The volume of debt securities issued fell on account of maturities, while listed instruments for the public sector with comparatively low risk increased.

Investments in shares of entities accounted for using the equity method increased by EUR 3m to EUR 87m in the reporting period. The change is due in full to write-ups.

Securities are either allocated to the Managing Board’s strategic position or the Financial Markets segment’s credit investment portfolio. In 2012 changes in the portfolio resulted from additions and disposals of financial assets as well as from changes in the value of securities still held. Such changes are reflected in the revaluation reserve, shown under equity.

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

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

There were no significant acquisitions or sales of equity investments in 2012.

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

Property and equipment/investment property/intangible assets

Property and equipment, which covers furniture, fixtures and office equipment and buildings and parts of buildings used for operations, increased by EUR 28m to EUR 66m due to the reclassification of investment property from non-bank usage to bank usage as of the balance sheet date and additions for interim areas during the conversion phase and other advanced payments made for the reconstruction of the building at Domshof.

Real estate owned by the Group and intended for use by or leased to third parties is reported as "Investment property". The increase in the portfolio by EUR 1m to EUR 69m results from the purchase of a building at Teerhof and reclassifications to property and equipment.

Intangible assets decreased by EUR 1m to EUR 10m. The is due to the capitalization from the implementation of the integration architecture (SPOT) as an internally developed intangible asset and regular amortization.

Current income tax assets/deferred tax assets/other assets

Potential future income tax relief stemming from temporary differences between figures stated in the IFRS consolidated balance sheet for assets and liabilities and the tax values stated by group companies is reported as deferred tax assets and amounted to EUR 122m in 2012 (prior year: EUR 143m). Furthermore, in the HGB financial statements, current income tax claims of EUR 9m (prior year: EUR 6m) are recognized in other assets. This resulted in total income tax claims of EUR 131m, against EUR 149m in 2011.

Other assets amounted to EUR 50m as of 31 December 2012 (prior year: EUR 27m). In addition to inventories, tax refund claims and capitalized reimbursements for claims under guarantee obligations, this item contains loans and advances to non-consolidated subsidiaries of EUR 15m (prior year: EUR 14m) and receivables from cancelled securities issued by Icelandic banks of EUR 8m (prior year: EUR 7m).

Liabilities to banks

The Bank also uses liabilities to other banks as a means of refinancing. They rose in fiscal year 2012 by 7.4%, from EUR 11.0b to EUR 11.8b. While liabilities from money market transactions remained on a similar level to the prior year, other liabilities to German banks - particularly associated savings banks - rose considerably.

Liabilities to customers

Bank refinancing through liabilities to customers fell by some 1.5% to EUR 10.4b. Liabilities from money market business to German customers decreased substantially, but increased slightly from other business. Savings deposits only play a minor role in Bremer Landesbank's refinancing.

Securitized liabilities

Securitized liabilities at the Bank include Pfandbriefe, municipal debt securities and other debt securities and money market instruments such as commercial papers. The volume of such liabilities decreased by 2.8% in 2012 to EUR 8.4b.

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

Provisions

Provisions in the Bremer Landesbank Group totalled EUR 418m at year-end 2012 (prior year: EUR 319m) and have therefore risen by EUR 99m.

Provisions for pensions and similar obligations account for the largest share, amounting to EUR 374m for the Group, compared with EUR 281m in the previous year. The present value of the defined benefit obligation is calculated actuarially using specific parameters, such as a group-wide discount rate based on the yield of senior corporate bonds of the same maturity. Other parameters are salary, career and pension trends and employee turnover rates (please also see the following overview). The assets invested by the Bremer Landesbank pension fund (plan assets) are offset at fair value (EUR 34m, compared with EUR 35m in 2011) against the present value of the obligation. In addition, the actuarial gains or losses resulting from a change in the discount rate are recognized under other comprehensive income. Cumulatively, this item totalled EUR -2m in the reporting period (prior year: EUR 56m).

Parameter	31 Dec 2012	31 Dec 2011
Employee turnover (excl. retirement/early retirement)	1.5%	1.5%
Discount rate	3.6%	5.1%
Pension trend:		
Managing Board/permanent employees p.a.	2.5%	2.5%
Total benefits p.a.	3.5%	3.5%
Add-on benefits p.a.	2.0%	2.0%
New pension scheme	1.0%	1.0%
Calculated on the basis of:		
Collective wage increases p.a.	2.0%	2.0%
Premiums based on years of service	—.—*	—.—*
Individual salary increases (pensionable) p.a.	0.4%	0.4%
Increases in statutory pensions	0.5%	0.5%
Increases in ÖLV pensions	1.0%	1.0%
BVV	0.0%	0.0%

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

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

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

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

Provisions for lending business amounted to EUR 22m at year-end, compared with EUR 21m at the end of the prior year.

Provisions for uncertain liabilities amounted to EUR 22m at the end of 2012, compared to EUR 17m in 2011. This mainly involves personnel obligations such as early retirement provisions in the amount of EUR 14m (prior year: EUR 13m) or anniversary provisions in the amount of EUR 4m (prior year: EUR 3m).

Current income tax liabilities/deferred tax liabilities / other liabilities

Potential future income tax burdens stemming from temporary differences between figures stated for assets and liabilities in the IFRS consolidated balance sheet and the tax values stated by group companies are reported as deferred tax liabilities and came to EUR 2m (prior year: EUR 2m).

Furthermore, in the HGB financial statements, current income tax liabilities of EUR 16m (prior year: EUR 32m) are recognized. Income tax liabilities therefore totalled EUR 18m (prior year: EUR 34m).

As of 31 December 2012, other liabilities total EUR 82m, against EUR 34m at the prior year-end. EUR 2m (prior year: EUR 2m) relate to outstanding taxes and social security contributions. This item also contains outstanding employee remuneration of EUR 10m (prior year: EUR 9m) and liabilities from outstanding invoices of EUR 5m (prior year: EUR 4m). Other liabilities relate to the allocation to the cover fund of the pension fund (EUR 1m), the reporting of the special fee for the owners in the amount of EUR 45m and Bremer Landesbank liabilities to third parties of EUR 17m.

Subordinated capital

At year-end 2012, the Bremer Landesbank Group had subordinated capital of EUR 0.7b (prior year: EUR 1.2b).

In the context of the Basel III rules for regulatory capital that in future will successively come into force, the owners of the Bank converted the available silent participations of EUR 0.6b, which had been reported under this item previously, into what is known as hard core capital over the course of 2012.

To replace the medium-term maturities of the other subordinate debt securities and strengthen regulatory capital, a total of EUR 0.2b in subordinate funds was taken on in 2012.

Equity

In the context of the Basel III rules for regulatory capital that in future will gradually come into force, the owners of the Bank converted the available “silent participations” into what is known as hard 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 holds 54.8343% [previously: 92.5%]; Federal State of Bremen 41.2% [previously: 7.5%]) and the Savings Banks Association of Lower Saxony (now 3.9657%) has also become an owner.

The equity of the Bremer Landesbank Group totalled EUR 1,675m at the end of 2012, which represents an increase of EUR 628m or 60%. Disregarding the conversion of silent participations, the Group’s equity increased by EUR 223m or 25% since reporting in accordance with international accounting standards at the beginning of 2006.

As, under IFRSs, some items affecting the Group's net assets are recognized in other comprehensive income (i.e. changes in the fair value of available-for-sale assets) and not in the income statement, the change in equity is more significant than under the provisions of the German Commercial Code, which were applied for group financial reporting until 2006.

The conversion of silent participations increased the issued capital of the parent company to EUR 265m (prior year: EUR 140m). In this connection, capital reserves rose to EUR 478m (prior year: EUR 40m).

Retained earnings in the Bremer Landesbank Group rose 4% from EUR 865m at the end of 2011 to EUR 900m. The profit for the prior year less distributions to the sponsors of the parent company will be transferred to retained earnings in the current year.

The profit for the year in the Bremer Landesbank Group amounts to EUR 122m in 2012 (prior year: EUR 130m). No distribution of the profit to the owners of Bremer Landesbank AöR is possible for 2012 due to the commitments made by NORD/LB to the EU relating to the conversion of silent participations into hard core capital. It is intended to carry forward the accumulated profits of EUR 31m (prior year: EUR 28m) to new account.

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

The actuarial gains from provisions for pensions are now EUR -1m (prior year: EUR 56m) after the decline in the discount rate from 5.1% to 3.6%.

The revaluation reserve in which the changes in value of the assets available for sale are reflected increased by EUR 30m to EUR 32m in 2012. The rise mainly results from the recovery of available for sale assets.

At year-end, after the appropriation of profits and the impairment losses recognized in the financial statements, the parent company's core capital ratio was 8.8% (prior year: 9.1%).

Contingent liabilities and other obligations

The volume of Bremer Landesbank's traditional off-balance sheet business, reported as guarantees, was unchanged in 2012 at EUR 1.1b (prior year: EUR 1.1b).

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

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

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 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: EUR 17.4b)

The total outstanding volume of refinancing loans raised from the European Investment Bank was approximately EUR 0.8b as of 31 December 2012 (prior year: EUR 1.0b).

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

In 2012, the ECP programme was used as and when needed in the currencies EUR, USD, CHF and JPY. As of 31 December 2012, the outstanding volume had an equivalent value of EUR 0.181b (prior year: EUR 0.524b).

Key ratios

The return on equity (ROE) for financial year 2012, calculated using the valuation formula defined above, is 10.2%, compared with 15.7% in the prior year. The significant decline primarily results from the considerable increase in the risk provision for lending business – particularly for ship financing.

The cost-income ratio (CIR) is 32.0%; it was 36.8% in 2011. In 2012 Bremer Landesbank's operating income therefore rose more than its administrative expenses.

As of 31 December 2012, the risk ratio (defined as the ratio of provisions for lending business to risk assets) is 1.30% (prior year: 0.62%). This increase is attributable to higher provisions for lending business, particularly 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 Bremer Landesbank AöR prepared audited interim financial statements in accordance with Section 10 (3) of the German Banking Act]as of 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.

No condensed report in accordance with Sec. 10a of the German Banking Act is required due to the exemption granted under Sec. 10a (10) of the German Banking Act.

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 initiatives, in its sponsorship of the “NordWest Award” prize, as well as the fact that the Bremer Landesbank Group employs, on average, 1,121 employees (prior year: 1,092), 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) for Bremer Landesbank AöR.

As the leading regional bank in the North-West, Bremer Landesbank is committed to setting a good example, not least as a family-friendly employer, enabling a better work-family balance for its employees. Its efforts were rewarded 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.

Conclusion

The good result of 2012, in spite of the difficult position in the shipping markets, validates Bremer Landesbank's strategic focus of regional banking – with a national special finance business – 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.

D. Segment report

Information on the business segments

A differentiated analysis of the customer segments in the commercial lending business shows mixed 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 were continued at a high level. The economic conditions appeared positive in the first half-year, and in the second half of the 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 loans 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 power, photovoltaics and biogas.

Bremer Landesbank's Special Finance segment continued to develop well in 2012 overall in view of the ongoing challenges of the shipping crisis and exceeds the income forecast before loan loss provisions. The economic growth has been more moderate since the financial and economic crisis, whereby renewable energies in particular represent a growing part of the portfolio and, by exploiting existing business potential, could compensate for 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 increase in tonnage. The renewed over-capacity of shipping 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 due to the ongoing crisis, which has lasted longer than expected. Nonetheless, close customer support has proven itself to be prudent and viable; new business is only undertaken very selectively against the background of crisis management. No appreciable market recovery is anticipated for 2013. A reduction in the over-capacity of shipping 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 stood its ground as a leading financier 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 provide further potential for growth in this context – 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 loans 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 strong new business that exceeded expectations. The amendment of the German Renewable Energies Act (EEG) would mean a reduction in demand for photovoltaics finance in 2013. Within the NORD/LB Group, Bremer Landesbank is the competence centre for biogas and photovoltaics in Germany. It also supports experienced customers in selected ventures in other European countries. The change in energy policy also provides further potential for growth.

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 customers 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.

Private Customers

The effects of the global financial crisis are still being felt in private customer business. The discussion regarding the debt position in the euro countries, together with the the anomaly of interest rate trends, is resulting in high 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 segement 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 an integrated advisory approach. 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 holistic consultation. 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 business operators and the existing customer relationships with Bremer Landesbank shored up.

In the Asset and Portfolio Management unit Bremer Landesbank has a centre of excellence 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 difficult conditions will continue for private customer business.

Financial Markets

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

With the volume of business generated in the customer and counterparty portfolio, 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 on 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 operating activities 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 operates 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 remained steady.

In the syndicated transactions business with corporate customers of the associated savings banks, sales activities again focused on traditional financing as well as interest and currency management and foreign documentary business. Further, Bremer Landesbank enabled the associated savings banks to participate in its successful special/ and 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 in 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.

E. 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 consolidated financial statements that have not been accounted for in the consolidated financial statements.

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

F. Outlook

Economic situation and financial markets

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 in the vicinity of 5.5% in 2013 (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 effects. 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 leaders of the eurozone, be that the imposition of the ESM, the economic pact or the fiscal pact, 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 opens up corresponding potential for a stronger global economy for 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. What is striking is the homogeneity at global level, that is, the equalisation of the international economic trend. Decisions in the investment sector regarding the real economy require different lead times than financial investment 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.

The Bundesbank wrote in its monthly report for December 2012 that the economic prospects in Germany had dampened in the winter period. The Bundesbank believes that the weak phase will not last too long and that Germany will again return to growth. The fundamental prerequisite for this is on the one hand a revival of the global economy, a continuation of the reform process in the eurozone and the absence of any large, 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. A considerably better economic outlook for the world, the eurozone and also Germany is expressly not ruled out.

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 position. 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 have 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, 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. Overvaluation 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 bv 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. Higher inflation risks than currently assumed result from a pick-up in the global economy.

The region

According to the economic survey of the Bremen Chamber of Industry and Commerce, the fourth quarter of 2012 saw an improvement in the economic climate after falls leading up to the autumn of 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 position 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 continued economic expansion.

Given the minor, but still existing 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, companies in Oldenburg are more optimistic about the economy than in the prior quarter.

The optimism for 2013 is coupled with in the view of the companies unchanged difficult conditions. Rising energy prices alongside the easing but still ongoing sovereign debt crisis as well as risks to the world economy remain critical issues for the companies.

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 foreseeably 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 stood out positively compared to other areas, including 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 impetus for the job market is 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 further in 2012, but the continuing uncertainty surrounding the financing of the high sovereign debt of a number of countries still caused sharp swings on the markets. In 2012 the negative consequences of the crisis again had real economic effects in the shipping sector. This is also expected to play a role in the coming years.

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

Competition in lending business is set to increase further. Major banks have now also turned their attention to small and medium-sized enterprises, which have often been neglected in the past. However, given the competitive edge offered by its local advisors, short 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 lines of decision and quick response times create a promising environment for further sound earnings growth in the Bank’s core segments.

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

BLB Leasing GmbH expects that new business and income will match the 2012 figures. The resurgent economic power of businesses in the region will lay the foundations for BLB Leasing GmbH’s activities, in collaboration with Bremer Landesbank, as a financier of investments for their joint customers. The most important line of business, which is being developed, remains direct business with Bremer Landesbank customers initiated by Bremer Landesbank’s account officers.

Integrated Bank Management

The Integrated Bank Management unit is responsible for the ongoing enhancement of value and risk-based management. In 2012 a range of activities was successfully implemented 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 its consolidated profit in 2013 to decrease due to the ongoing difficult situation on the shipping markets in order to rise again with their gradual improvement from 2014 on. It also expects that it will have the opportunity 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, after the elimination of special effects, net interest income is expected to remain flat for some time before increasing steadily afterwards.

The level of loan loss provisions in 2013 and 2014 is expected to remain shaped by the gradual lessening of the impact of the financial market crisis and the ongoing difficulties in the shipping markets. Since 2010, risk provisions at Bremer Landesbank have been determined largely by developments in the merchant shipping sector. If the market does not recover in 2013, risk provisions are likely to be on a par with those for 2012.

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

It is still difficult to predict how the international financial markets will develop. Since the beginning of the financial crisis, the markets have reacted extremely sensitively to bad news. The Bank expects the uncertainties surrounding the financial situation of certain countries to continue in 2013. However, it is confident that the global efforts to contain the situation will ultimately stabilise the markets overall. For these reasons, it is not possible to completely rule out further fluctuations in net valuation effects. Nevertheless, the outlook for successful dealing in the financial markets in active, customer-driven trading operations is good for 2013 and 2014.

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

In 2013, a decrease in personnel expenses is expected; in 2014, the Bank is assuming there will be another increase due to the collective wage agreement. In respect of the other administrative expenses a gradual consolidation of the cost level in the next few years is envisaged.

It is expected that the return on equity will stabilize in the coming year in order to continuously increase afterwards. The cost-income ratio will be above the level from 2012 in the coming years, but remain at a comfortable level. The risk ratio is expected to decrease moderately in the forecast period. According to the Bank's forecasts, risk assets will increase further during the same period.

Conclusion

In 2012 the difficulties in the shipping markets and the Greek haircut had a not insignificant impact on Bremer Landesbank's profits. However, the Bank was able to cushion the effects well on account of its good results of operations. The Bank expects that its results of operations will also remain positive in 2013 and 2014.

G. Opportunities and risks

The risk report of Bremer Landesbank and the Bremer Landesbank sub-group as of 31 December 2012 was drawn up on the basis of IFRS 7, taking into account the national provisions of the German Commercial Code and the more specific German Accounting Standards DRS 5 and DRS 5-10.

Scope

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

Integrated Bank Management

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 responsibilities in the Bank are clearly specified. 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 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 on 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 lest 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 continually 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. Specifications and details are laid out in risk handbooks, master documents and working instructions for specific risk types and supplemented 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 which 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 rules for specific institutes to be agreed.

At overall bank level, the risk control function is responsible for identifying the various risks, making them measurable, evaluating them and 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 Audit reviews the effectiveness and appropriateness of the whole risk management process and the internal control system as well as the regularity of business operations in a risk-orientated and process-independent manner. It retains its independence and avoids conflicts of interest, supports key projects and acts in an advisory capacity.

The Bank's Internal Control System (ICS) creates process and risk-oriented 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 point of advice and monitoring 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 decides whether to commence the new business activity.

For further information on the organisation of risk management, refer to the following sub-sections 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, which also includes the financial reporting processes of the companies included in the consolidated financial statements.

The internal control and risk management system relating to the 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 PS [Audit Standard] 261 Section 19 et seq.) and of the risk management system (IDW PS 340 Section 4). According to the IDW, an internal control system comprises the policies, procedures and measures installed within the organization by management which are aimed at implementing management's decisions

- To secure the effectiveness and efficiency of operations (including the protection of assets and preventing and detecting misappropriations of assets)
- To ensure the 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 consolidated financial statements.

Functions of the group 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 Group's financial reporting process, the following structures and processes have been implemented at Bremer Landesbank:

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

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

Bremer Landesbank prepares its consolidated financial statements in accordance with IFRSs as they are applied in the EU. The national regulations in Sec. 315a of the German Commercial Code and the German accounting standards were also observed.

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

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

- Monitoring changes in the law
- Preparing and updating financial statement instructions
- Compiling the consolidated financial statements and the group management report
- Providing the information for the segment report
- Providing specific disclosures for the notes to the financial statements

- Providing the information to be disclosed about market price, credit, liquidity and operational risk

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

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

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

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

Bremer Landesbank's Internal Audit department also has a process-independent monitoring function. On behalf of the Managing Board it conducts audits in all parts of the organization and all of the subsidiaries, 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 consolidated financial statements and the group management report must be audited by the auditor appointed by the Supervisory Board.

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

As regards the Group's financial reporting process, Bremer Landesbank considers 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 consolidated 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 consolidated financial statements and the group management report, including functional segregation and pre-defined approval processes in relevant areas
- Measures to ensure the orderly computer-assisted processing of accounting transactions and data
- Measures to monitor the accounting-related internal control and risk management system

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

As one component of the Group's accounting-related internal control and risk management system, Bremer Landesbank's control environment provides the framework within which existing regulations are introduced and applied at Bremer Landesbank. It is shaped by attitudes, awareness of problems and management's conduct in relation to the internal control system. The control environment has a substantial effect on employees' awareness of the significance of control. A 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 consolidated financial statements. The group reporting packages are audited for conformity with the group accounting handbook. The quality of the consolidated financial statements is assured by Integrated Bank Management. Procedures relating to the consolidated financial statements are explained and changes to IFRSs are communicated at regular information events for subsidiaries.

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 technical and/or organizational dual control.

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

The entire financial reporting process is supported by IT applications – both standard 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.

Risk /sub-risk (risk universe)					Relevant	Material
Counterparty risk	Credit risk	Traditional credit risk			x	x
		Counterparty risk from trading	Default risk from trading			
			Replacement risk			
			Settlement risk	Pre-settlement risk		
				Actual settlement risk		
			Issuer risk			
	Investment risk				x	x
	Market price risk	Interest rate risk	General interest rate risk[1]		x	x
			Specific interest rate risk			
		Currency risk				
		Share price risk				
		Fund price risk				
		Volatility risk				
		Credit spread risk in the banking book				
		Commodity risk			—	—
	Liquidity risk	Traditional liquidity risk			x	x
		Refinancing risk				
		Market liquidity risk				
	Operational risk	Legal risk			x	x
		Reputational risk as consequential risk				
		Compliance risk				
		Outsourcing risk				
		Fraud risk				
		Dilution risk				
	Other risks	Business and strategic risks, including group risks			x	—
		Reputational risk			x	—
		Syndication risk			x	—
		Model risk			x	—
		Collective risk			—	—
		Technical risk			—	—
		Residual value risk			—	—
		Real estate risk			x	—

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

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).

Prompted partly by discussions between the industry and the German supervisory authorities concerning the assessment of internal risk-bearing capacity concepts and the requirements formulated by the supervisory authorities for such concepts, the risk-bearing capacity model was critically reviewed in the NORD/LB Group in order to ensure that it satisfies the Minimum Requirements for Risk Management. The switch to the revised risk-bearing capacity model took place on 31 March 2012. Further changes took 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 capital in accordance with 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 conversion this column has been significant for assessing the risk bearing capacity in accordance with Minimum Requirements for Risk Management. This used to be the second column, 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 constraint. 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 via the coverage ratio, since 31 March 2012 risk-bearing capacity has been monitored via the 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 pillars. 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

million EUR	Risk-bearing capacity 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%. The comparison values as of 31 December 2011 are reported taking retrospective account of the overhauling 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 environment 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 of subordinated capital was taken on, and on 6 December 2012 a further EUR 50m was taken on. The utilization of risk capital in the going concern view of the risk bearing capacity model was 19% on 31 December 2012. The overall ratio improved from the prior year's figure of 10.6 % to 11.4 % as of 31 December 2012.

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 workout 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, the following reports are prepared for the Managing Board: a monthly report on close watch and problem exposures and on the development of risk provisions, a monthly report on the monitoring of concentration risks in borrower groups and a quarterly 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).

Risk reporting follows the management approach with IFRS 7 (International Financial Reporting Standard). Internal and external risk reporting is fundamentally based on the same terms, methods and dates.

Credit exposure is a significant parameter in managing credit risk. This figure reflects the value of all the transactions bearing credit risk concluded with a counterparty. Credit exposure is calculated based on outstandings (in the case of guarantees, the nominal value, and in the case of securities, the carrying amount) and the credit equivalent resulting from derivatives (including add-ons and after netting). Irrevocable and revocable loan commitments are included in the credit exposure on a transaction-specific basis; collateral is not taken into account.

Analysis

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

With the help of these rating methods, the probability of default of borrowers and counterparties is calculated and allocated to a rating category. Bremer Landesbank 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%	
	2	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%	Debt rescheduling
	12	6.67%	
Very high risk	13	10.00%	
	14	15.00%	
	15	20.00%	
Default (= non-performing loans)	16	100.00%	
	17	100.00%	
	18	100.00%	Work-out

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

The rating methods are validated by the two central rating service agencies of the Sparkasse Financial Group, Sparkassen Rating und Risikosysteme GmbH (S Rating), a subsidiary of the German Savings and Giro Bank Association (DSGV), and Rating Service Unit GmbH & Co. KG (RSU), a company founded with other Landesbanken. The two rating service agencies ensure an internal rating 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 met 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 homogeneous 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 with a view to costs and benefits. If necessary, collateral is improved, terms are adjusted and the customer's reporting duties are intensified. The front office unit remains responsible for managing the exposure, while the back office unit previously responsible for processing continues to process it. The new exposure strategy must be discussed with and approved by Back Office Debt Rescheduling.

2. From a rating of 12 or higher, an exposure is transferred to Back Office Debt Rescheduling for management and processing. This unit is part of Back Office Financing. It examines the viability and feasibility of debt rescheduling, consulting external advisors if need be. A re-evaluation 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 reason for default recorded as "specific valuation allowance made". The steps mentioned above are triggered by this classification.

If considerable new or additional risk provisions are required (of EUR 1m or more in the current year), the entire Managing Board is informed immediately via the head of the back office.

4. Terminated exposures are handled by the Unwinding unit. 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, it is ensured that cost and benefit 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 Landesbanken bailout of the former Sachsen LB led by the German Savings and Giro Bank Association [Deutsche Sparkassen- und Giroverbandes e.V. : DSGV], extending loans to the special purpose entity Sealink Funding Limited. 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. A further EUR 6m was reduced 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 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, down 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]	Loans[3]	Securities[4]	Derivatives[5]	Others[6]	Total	
million EUR		31 Dec 2012			31 Dec 2012	31 Dec 2011
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. The global financial market and economic crisis had a particularly negative impact on the ship finance portfolio.

Lending business 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)] million EUR	Loans	Securities	Derivatives	Others	Total 31 Dec 2012	Total 31 Dec 2011
	31 Dec 2012					
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 adminis-tration	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 makes specific valuation allowances for acute default risks if there are objective indications of such risks. The level of risk provisions is based on a present value analysis of expected interest and redemption payments as well as on proceeds from the realization of collateral.

Specific 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 valuation 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%). Non-performing loans are covered to 24.68% against the deduction of collateral 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. The crisis has come to a head again since mid-2011. In the crude oil and bulk shipping, the (spot) charter rates were solely sufficient to cover operating costs, while in the container and multipurpose 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 increase in 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 hurt to a limited extent. In accordance with the medium-term planning, EUR 162m are planned for risk provisions in 2013. The general loan loss provisions for the ship finance portfolio (EUR 49.1m in 2011) increased by EUR 25.5m to EUR 74.6m.

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 finance. 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	0	2
Service industries/others	84	143	35	54	3	2	-19	-8
Trans-port/communications	1,229	695	311	188	0	1	122	68
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	-3
Other	—	—	—	—	—	—	—	—
Total	**1,438**	**1,008**	**438**	**308**	**18**	**19**	**130**	**67**

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	19	135	47
Rest of EU	28	27	13	11	0	0	2	5
Rest of Europe	0	7	0	6	—	0	-5	5
North America	—	—	—	0	—	—	0	-1
Latin America	13	11	9	2	—	0	6	2
Middle East/Africa	—	—	—	—	—	—	—	—
Asia	44	14	0	8	0	0	-8	8
Other	—	—	—	—	—	—	—	—
Total	**1,438**	**1,008**	**438**	**308**	**18**	**19**	**130**	**67**

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 million EUR	Past due[1], unimpaired exposures[2] 2012	 2011	General loan loss provisions 2012	 2011	Net allocations/ reversals of general loan loss provisions 2012	 2011
Financial institutions/ insurance companies	111	9	1	2	-1	1
Service industries/others	41	88	9	10	-1	-3
Transport/ communications	704	947	76	51	25	2
Manufacturing	31	11	2	1	1	-1
Energy, water and mining	59	147	3	4	-1	2
Trade, maintenance and repairs	49	30	3	2	0	0
Agriculture, forestry and fishing	2	1	1	1	0	0
Construction	3	2	1	1	0	0
Other	—	—	—	—	—	—
Total	**1,001**	**1,235**	**96**	**72**	**23**	**0**

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 million EUR	Past due[1], unimpaired exposures[2] 2012	 2011	General loan loss provisions 2012	 2011	Net allocations/ reversals of general loan loss provisions 2012	 2011
Euro countries	975	1,069	91	69	22	4
Rest of EU	9	51	0	0	0	0
Rest of Europe	1	1	0	0	0	0
North America	—	11	1	1	-1	1
Latin America	—	20	0	0	0	0
Middle East/Africa	—	—	0	0	-0	0
Asia	16	83	4	2	2	-4
Other	—	—	—	—	—	—
Total	**1,001**	**1,235**	**96**	**72**	**23**	**0**

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. We make reference to the disclosures in the notes under section 59 with regard to the risk types resulting from the use of financial instruments and a detailed description of the hedges applied.

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, risk 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 fulfils 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 share 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 Treasury Committee and proposes action to be undertaken. The Treasury Committee votes on the further strategic treasury activities. This committee, which meets fortnightly, is an advisor to the 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 front office. Its tasks include checking to ensure that the transactions have been completely and correctly entered and assessing them for deviations from specified standards. The Market Price Risk Control unit verifies the market compliance of the transactions.

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, stock prices/indices and volatility in value) over the last twelve months. The model implicitly considers correlation effects between the risk factors (incl. 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 was also a strategic reduction of EUR 160m as a contribution to the RWA reduction. Greece's debt buyback led to an extraordinary decrease 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 assistance) 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 junior creditors had to make a contribution that could lead to a credit event in the case of credit derivatives. Since the 2ndhalf 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):

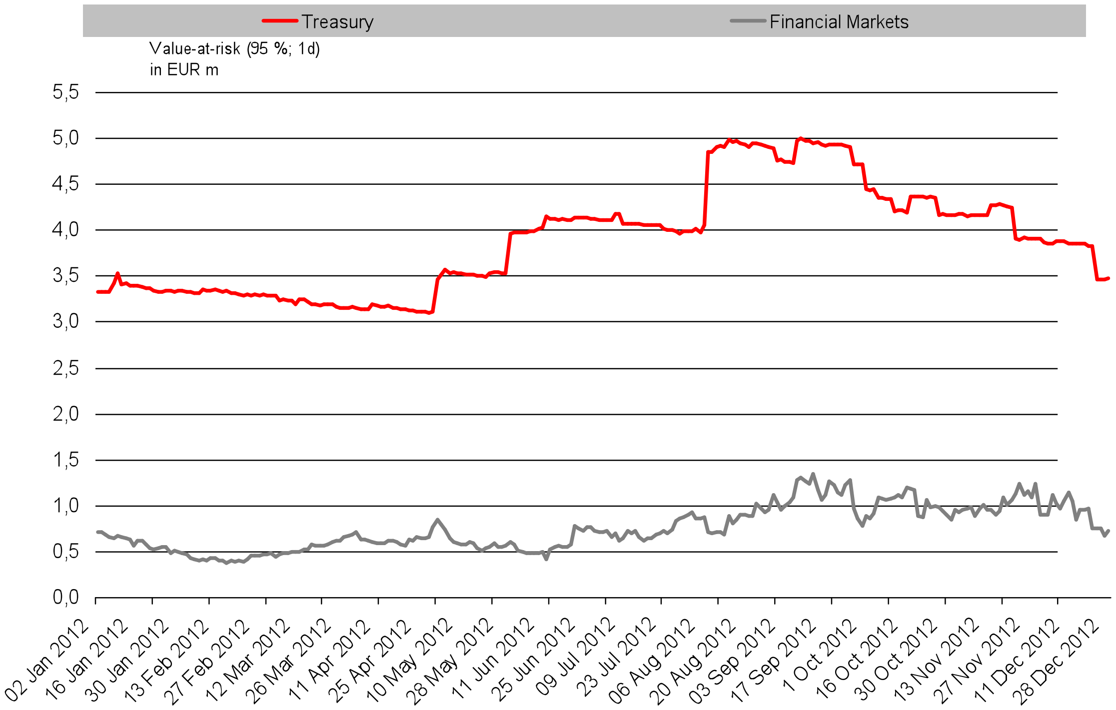
Market price risks – overview:

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 Bank's value at risk (confidence level of 95% and a holding period of one day) was EUR 3.43m. In the reporting year 2012, the average utilization of the risk limit for the Financial Markets unit was 24%, and that of Treasury 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.

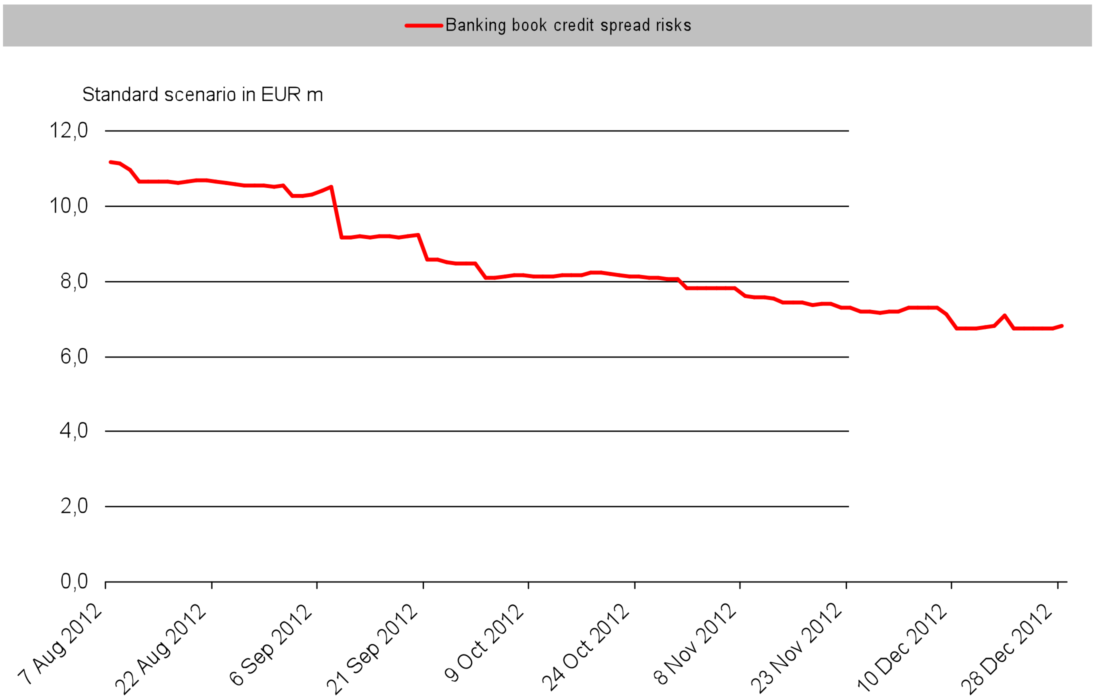
Market price risk value-at-risk



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 entire Bank's stress test value 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 from a change in the credit spreads in the credit investment portfolio totalled EUR 6.8m on 28 December 2012 according to the value at risk approach. A separate risk limit is available for this position and this limit is significant for the controlling process. 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 increased 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 part of liquidity risk. Placement risk is the risk that the Bank's own issues cannot be placed on the market at the desired conditions.

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

- Traditional liquidity risk is the risk that payment obligations cannot be met in due time. 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 planning 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 issues promptly, with an emphasis on the fast-acting 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 Pfandbrief operations.

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

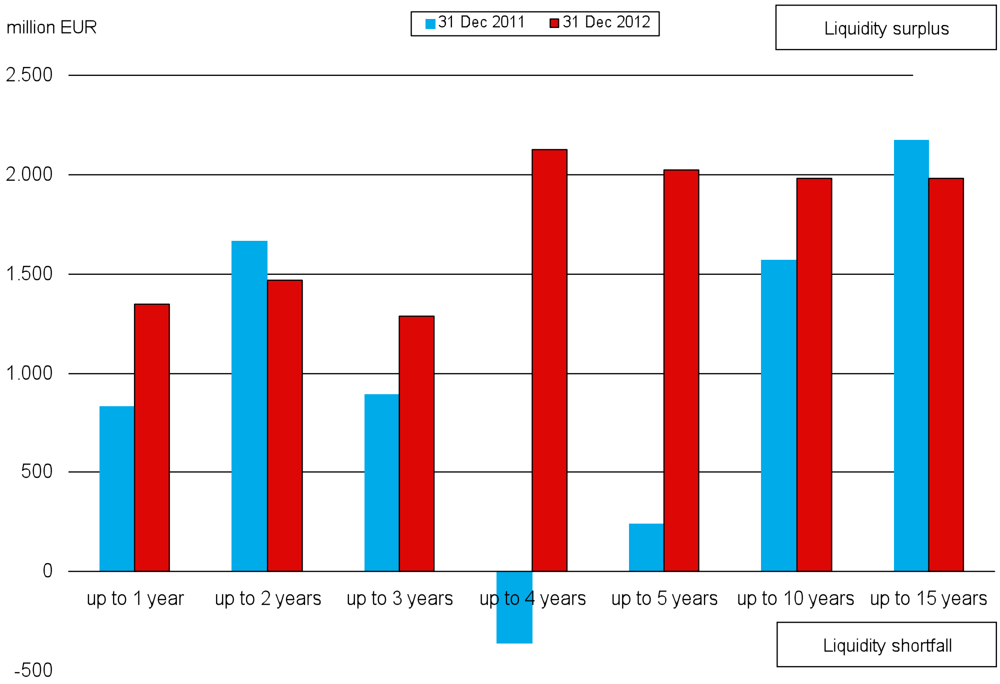
In 2012, there was no signal of a potential bottleneck in the liquidity situation for the bank. At the Bank, management signals from the static stress test do not automatically trigger countermeasures, prompting instead a more in-depth analysis of the present liquidity situation and a factoring-in of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

The utilization of the liquidity buffer for a week, in accordance with 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 forward liquidity exposure 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 in 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 on the money and capital markets. The Bank continued to have sufficient access to the money and capital markets through reasonably diversified investor groups and products, evident in the fact that it was able to refinance at comparatively good terms on these markets. Long-term refinancing on both a collateralized and unsecured basis is primarily provided by long-term issues and customer deposits. Close observation o f 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 off. The Bank has already ensured the 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 Cornelius penalties imposed by courts or authorities or disciplinary measures resulting from non-compliant procedures, processes, etc. (due to failure to comply with laws, regulations, rules of conduct and standards) within the Bank.

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

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

Fraud risk is the risk of an avoidable pecuniary loss or damage to the Bank’s reputation resulting from 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) and the taking out 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 material 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 (prior year: EUR 15.6m). To minimize losses, among others with the reversal of a specific valuation allowance created 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 adopts an appropriate risk policy. It has taken measures to mitigate all material 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 gleaned are being used to enhance the risk management systems used for all risk types.

Prompted partly by discussions between the industry and the German supervisory authorities concerning the assessment of internal risk-bearing capacity concepts and the requirements formulated by the supervisory authorities for such concepts, the risk-bearing capacity model was critically reviewed in the NORD/LB Group in order to ensure that it satisfies the Minimum Requirements for Risk Management. The switch to the revised risk-bearing capacity model took place on 31 March 2012. Further changes took 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 of subordinated capital was taken on, and on 6 December 2012 a further EUR 50m was taken on. The capacity utilization 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. The exposure to the PIIGS countries will decrease roughly in line with the overall exposure, thus gradually lessening the potential impact of a long-lived debt crisis in the PIIGS countries on the Bank's portfolio. Apart from Italy, the Bank has no direct 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, 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 revision of the Minimum Requirements for Risk Management 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 the 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.

2. Consolidated Income Statement

Income statement

	Note	1 Jan – 31 Dec 2012 (in EUR m)	1 Jan – 31 Dec 2011 Adjusted (in EUR m)	Change (in %)
Interest income		2,036	2,262	-10
Interest expenses		1,619	1,887	-14
Net interest income	18	**417**	**375**	**11**
Provisions for lending business	19	-228	-108	>100
Net interest income after risk provisions		**189**	**267**	**-29**
Commission income		36	51	-29
Commission expenses		9	25	-64
Net commission income	20	**27**	**26**	**4**
Trading profit/loss		108	12	>100
Profit/loss from designated financial instruments		-1	0	—
Profit/loss from financial instruments at fair value through profit or loss	21	**107**	**12**	**>100**
Profit/loss from hedge accounting	22	8	12	-33
Profit/loss from financial assets	23	9	-5	–
Profit/loss from investments accounted for using the equity method	24	6	10	-40
Administrative expenses	25	186	159	17
Other operating profit/loss	26	8	1	>100
Earnings before taxes		**168**	**164**	**2**
Income taxes	27	46	34	35
Consolidated profit		**122**	**130**	**-6**
thereof: attributable to shareholders of the parent company		122	130	-6
thereof: attributable to non-controlling interests		—	—	—

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

3. Statement of comprehensive income

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

	Note	1 Jan – 31 Dec 2012 (in EUR m)	1 Jan – 31 Dec 2011 Adjusted (in EUR m)	Change (in %)
Consolidated profit		**122**	**130**	**-6**
Change from available for sale (AfS) financial instruments				
Unrealized gains/losses		50	-36	—
Reclassifications due to realized gains/losses		-3	-21	-86
Changes in value of investments accounted for using the equity method		0	0	—
Actuarial gains/losses on defined benefit obligation		-85	1	—
Deferred taxes	27	9	12	-25
Other comprehensive income		**-29**	**-44**	**-34**
Total comprehensive income		**93**	**86**	**8**
thereof: attributable to shareholders of the parent company		93	86	8
thereof: attributable to non-controlling interests		—	—	—

The prior-year figures have been restated for some items; see Note (2). You will find explanations on the comprehensive income statement under Note (51).

4. Consolidated balance sheet

Assets

	Note	31 Dec 2012 (in EUR m)	31 Dec 2011 Adjusted (in EUR m)	Change (in %)
Cash reserve	28	76	214	-64
Loans and advances to banks	29	3,803	4,825	-21
Loans and advances to customers	30	23,687	22,685	4
Risk provisions	31	-522	-370	41
Financial assets at fair value through profit or loss	32	1,707	1,349	27
Positive fair values from hedge accounting derivatives	33	602	531	13
Financial assets	34	5,818	5,252	11
Investments accounted for using the equity method	35	87	84	4
Property and equipment	36	66	38	74
Investment property	37	69	68	1
Intangible assets	38	10	11	-9
Current income tax assets	39	9	6	50
Deferred income taxes	39	122	143	-15
Other assets	40	50	27	85
Total assets		**35,584**	**34,863**	**2**

Liabilities

	Note	31 Dec 2012 (in EUR m)	31 Dec 2011 Adjusted (in EUR m)	Change (in %)
Liabilities to banks	41	11,815	11,009	7
Liabilities to customers	42	10,436	10,604	-2
Securitized liabilities	43	8,446	8,692	-3
Adjustment item for financial instruments included in the portfolio fair value hedge	44	241	142	70
Financial liabilities at fair value through profit or loss	45	1,573	1,688	-7
Negative fair values from hedge accounting derivatives	46	149	124	20
Provisions	47	418	319	0
Current income tax liabilities	48	16	32	-50
Deferred income taxes	48	2	2	—
Other liabilities	49	82	34	>100
Subordinated capital	50	731	1,170	-38
Equity	52	1,675	1,047	60
Issued capital		265	140	89
Capital reserves		478	40	>100
Retained earnings		900	865	4
Revaluation reserve		32	2	>100
Equity attributable to BLB shareholders		1,675	1,047	60
Non-controlling interests		—	—	—
Total liabilities		**35,584**	**34,863**	**2**

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

5. Statement of changes in equity

Changes in equity:

(in EUR m)	Note	Issued capital	Capital reserves	Retained earnings	Re-valuation reserve	Equity before minority interests	Minority interests	Consoli-dated equity
Equity as of 1 Jan 2011		**140**	**40**	**763**	**46**	**989**	**—**	**989**
Adjustments in accordance with IAS 8		—	—	0	—	**0**	—	**0**
Restated equity as of 1 Jan 2011		**140**	40	**763**	46	**989**	—	**989**
Change in the fair value of AFS financial instruments		—	—	—	-57	**-57**	—	**-57**
Profit/loss from investments accounted for using the equity method	24	—	—	0	—	**0**	—	**0**
Change in actuarial profits/losses		—	—	1	—	**1**	—	**1**
Deferred taxes on changes in value recognized directly in equity	27	—	—	-1	13	**12**	—	**12**
Other comprehensive income		**0**	**0**	**0**	**-44**	**-44**	**0**	**-44**
Consolidated profit		—	—	130	—	**130**	—	**130**
Total comprehensive income		**0**	**0**	**130**	**-44**	**86**	**0**	**86**
Distributions		—	—	-28	—	**-28**	—	**-28**
Change in the basis of consolidation		—	—	—	—	**—**	—	**—**
Equity as of 31 Dec 2011		**140**	**40**	**865**	**2**	**1,047**	**0**	**1,047**
Equity as of 1 Jan 2012		**140**	**40**	**865**	**2**	**1,047**	**—**	**1,047**
Change in the fair value of AFS financial instruments		—	0	**0**	47	**47**	—	**47**
Profit/loss from investments accounted for using the equity method	24	—	—	**0**	—	**—**	—	**—**
Change in actuarial profits/losses		—	—	**-85**	—	**-85**	—	**-85**
Deferred taxes on changes in value recognized directly in equity	27	—	—	**26**	-17	**9**	—	**9**
Other comprehensive income		**—**	**0**	**-59**	**30**	**-29**	**—**	**-29**
Consolidated profit		—	—	**122**	—	**122**	—	**122**
Total comprehensive income		**—**	**0**	**63**	**30**	**93**	**—**	**93**
Distributions		—	—	**-28**	—	**-28**	—	**-28**
Capital increase		125	438	**0**	—	**563**	—	**563**
Equity as of 31 Dec 2012		**265**	**478**	**900**	**32**	**1,675**	**0**	**1,675**

The prior-year figures have been restated for some items; see Note (2). Please see Note (52) for explanations on the statement of changes in equity.

6. Cash flow statement

(in EUR m)	Note	2012	2011 Adjusted
Consolidated profit		**122**	**130**
Adjustment for non-cash items			
Depreciation/amortization, allowances and write-up/appreciation of property and equipment, intangible assets and financial assets	25	3	2
Change in provisions		32	22
Profits/losses from the sale of financial assets and property and equipment as well as intangible assets		-12	-19
Change in other non-cash items		297	223
Other adjustments (net)		-306	-474
Subtotal		**136**	**-116**
Change in assets and liabilities from operating activities after adjustment for non-cash items			
Loans and advances to banks and customers	29+30	5	44
Trading book positions and hedge accounting derivatives		-474	-11
Other assets from operating activities		-79	-169
Liabilities to banks and customers	41+42	620	-209
Securitized liabilities		-266	-274
Other liabilities from operating activities		35	-18
Interest received		1,874	2,223
Dividends received		12	32
Interest paid		-1,544	-1,833
Income tax paid		-34	-47
Cash flow from operating activities	**27**	**285**	**-378**
Cash receipts from the disposal of			
financial assets	23	665	974
Property and equipment and intangible assets	9+12	5	0
Cash payments for the acquisition of			
financial assets		-1,137	-363
Property and equipment and intangible assets		-38	-16
Cash receipts from the disposal of consolidated companies and other business units		0	0
Cash payments from the disposal of consolidated companies and other business units			0
Cash flow from investing activities		**-505**	**595**
Cash receipts from equity capital contributions		563	0
Cash receipts from the raising of subordinated capital		200	—
Cash payments to shareholders and minority shareholders (Dividends)		-28	-28
Repayment of subordinated capital		-608	—
Interest paid for subordinated capital		-45	-49
Cash flow from financing activities		**82**	**-77**
Cash and cash equivalents at the end of the prior period		**214**	**74**
Cash flow from operating activities		285	-378
Cash flow from investing activities		-505	595
Cash flow from financing activities		82	-77
Cash and cash equivalents at the end of the period	**28**	**76**	**214**

The prior-year figures have been restated for some items; see Note (2). You will find explanations on the cash flow statement under Note (53).

7. Notes to the consolidated financial statements

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen, Oldenburg (Bremer Landesbank) (Domshof 26, 28195 Bremen) has its registered office in Bremen (local court of Bremen; HRA no. 22159), Germany, and has branches in Bremen and Oldenburg. NORD/LB Norddeutsche Landesbank - Girozentrale holds 54.8343% of the share capital, the state of Bremen holds 41.2000% and the Savings Banks Association of Lower Saxony holds 3.9657%. NORD/LB is the direct and ultimate parent company of Bremer Landesbank.

Accounting policies

(1) Basis for preparation of the consolidated financial statements

The consolidated financial statements of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen, Oldenburg (Bremer Landesbank) as of 31 December 2012 were prepared on the basis of Regulation (EC) No. 1606/2002 of the European Parliament and the Council of 19 July 2002 (IAS Regulation) in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and endorsed by the EU. The standards published and adopted by the European Union as of the date of preparing the financial statements were applied. The national provisions of the German Commercial Code (HGB) were also observed in accordance with Sec. 315a of the HGB.

The consolidated financial statements as of 31 December 2012 comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the statement of changes in equity, the cash flow statement and the notes. The segment report is contained in the notes (Note (17)). Risk reporting in accordance with IFRS 7 is chiefly contained in a separate report on the opportunities and risks relating to future development as part of the group management report.

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

Estimates and judgements by management required under IFRS accounting are made in accordance with the respective standard, are continuously reviewed and are based on experience and other factors, including expectations as to future events which appear reasonable under prevailing circumstances. Estimates and judgements are made with regard to the following matters, in particular: determining the fair values of Level 2 and Level 3 financial assets and liabilities, including assessing the existence of an active or inactive market (Notes (7) and (54)), measurement of pension provisions in terms of determining the underlying parameters, gauging risk provisions in relation to future cash flows, determining deferred tax assets with regard to the recoverability of unused tax losses (Notes (13) and (47)).

Where estimates were required on a larger scale, the assumptions made are presented. The estimates and judgements themselves and the underlying judgement factors and estimation methods are reviewed regularly and compared with actual events. Provided that a change refers to a single period only, changes in estimates are only taken into account for this period; if a change refers to the current and the following reporting periods, it is considered in this and in the following periods.

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

These consolidated financial statements were signed by the Managing Board and released for distribution to the Supervisory Board on 26 March 2013.

(2) Restatement of prior-year figures

Furthermore, in the financial report as of 31 December 2011, derivatives embedded in structured issues were not reported separately from the base contract. As a result, as of 31 December 2011, financial liabilities at fair value through profit or loss were understated by EUR 2m and the trading profit/loss as well as retained earnings shown under equity were overstated by EUR 1m. The deferred tax claims were understated by EUR 1m as a result. The figures from the prior year were retroactively restated in accordance with IAS 8.41 et seqq. for this reason.

On account of a change in the interpretation of the criteria for an allocation to the loans and receivables category, silent participations with involvement in the losses are no longer classified in the loans and receivables category, but rather as available for sale assets (AFS). For this reason, in accordance with IAS 8.14 et seq., silent participations retroactively measured at amortized cost as of 31 December 2011 were removed from loans and advances to banks (EUR 26m) and financial assets under the loans and receivables category (EUR 14m), taking into account a risk provision of EUR 8m, and recognized under other financial assets in the AFS category at their fair value of EUR 32m in total. This also results in the reclassification of the effects from an adjustment of loan loss provisions in 2011 for one of the silent participations from interest income (EUR -1m) and provisions for lending business (EUR 4m) to profit/loss from financial assets (EUR -3m).

If the previously applicable interpretation of the criteria for the assignment to the loans and receivables category had also continued to be applicable in 2012, loans and advances to banks would have been reported EUR 26m higher and the loan loss provision EUR 9m higher as of 31 December

2012. In contrast, financial assets would have been EUR 18m lower and the revaluation reserve EUR 1m lower.

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

(in EUR m)	31 Dec 2011 Before adjustment	Adjustment	After adjustment
Loans and advances to banks	4,851	-26	4,825
Risk provisions	-378	8	-370
Financial assets	5,234	18	5,252
Deferred income tax claims	142	1	143
Financial liabilities at fair value through profit or loss	1,686	2	1,688
Equity	1,048	-1	1,047
Retained earnings	866	-1	865
Interest income	2,263	-1	2,262
Provisions for lending business	-112	4	-108
Trading profit/loss	13	-1	12
Profit/loss from financial assets	-2	-3	-5
Earnings before taxes	**165**	**-1**	**164**
Consolidated profit	**131**	**-1**	**130**
Change from AFS financial instruments			
Unrealized gains/losses	-37	1	-36
Reclassifications due to realized gains/losses	-20	-1	-21
Total comprehensive income	**87**	**-1**	**86**

The respective adjustments were also taken into account in the following items explained in Notes (18), (19), (21), (23), (27), (29), (31), (34), (39), (45), (51), (54), (55), (56), (57), (58), (59), (60), (70) and (74).

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

(3) Applied IFRSs

All IFRSs, interpretations and amendments which were endorsed by the EU and are relevant for the Bremer Landesbank Group in fiscal year 2012 have been applied in these consolidated financial statements.

The following amendments to standards, effective from **1 January 2012**, were applied by the Bremer Landesbank Group for the first time:

- **Amendments to IFRS 7 - Disclosures - Transfers of Financial Assets (first-time adoption as of 1 July 2011)** relate to the extended disclosures for the transfer of financial assets. The relationships between financial assets that are not to be written off in full and the corresponding financial liabilities should be clearer as a result. Furthermore, the type and particularly the risks of continuing involvement in written-off financial assets can be judged better. The changes also require additional disclosures if a disproportionately large number of transfers are reported with "continuing involvement" e.g. around the end of a reporting period. The Bremer Landesbank Group has met the extended disclosure requirements.

We did not prematurely apply the following standards and amendments which do not have to be implemented by the Bremer Landesbank Group **until after 31 December 2012**:

- **IAS 19 (rev. 2011) Employee Benefits**

  The revised IAS 19 was published in June 2011 and is effective for fiscal years beginning on or after 1 January 2013.

  Besides the more comprehensive disclosure requirements on employee benefits, there are also the following changes due to the revised standard:

  There is currently an option with regard to how unanticipated fluctuations in pension commitments, so-called actuarial profits and losses, can be reported in financial statements. They can either be reported

  a) at profit or loss on the income statement

  b) in other comprehensive income (OCI) or

  c) delayed according to the so-called corridor method.

  The new version of IAS 19 eliminates this option for a more transparent and comparable picture so that in future only a direct and comprehensive recognition in other comprehensive income is permitted.

  The actuarial gains and losses at the Bremer Landesbank Group have been reported previously in full under retained earnings so there is no impact from the elimination of the aforementioned option for the Bank.

  The past service cost in accordance with the amended IAS 19 is to be recognized directly in profit or loss in the year of its occurrence. Furthermore, the anticipated income from the plan asset is currently calculated at the beginning of the calculation period on the basis of management's expectation of the asset portfolio's performance. In future, the categorized returns on the plan asset will be calculated at the discount interest rate for pension obligations at the beginning of the period under the adoption of IAS 19 (revised 2011). The Bremer Landesbank Group will not see any significant impact from the accelerated recognition of the past service cost and the future calculation of the anticipated income from the plan asset.

The amended definition of termination benefits will have an impact on the reporting of the top-up amounts promised in early retirement agreements. To date, the top-up amounts have been classified as termination benefits and consequently recognized at the time of an early retirement agreement for the entire amount. Due to the change in the definition of termination benefits, the top-up amount no longer meets the requirements for the presence of termination benefits under the adoption of IAS 19 (revised 2011). Rather, it fundamentally involves other benefits owed to the employee over the long term, which are to be collected proportionately over the employee's period of employment.

As a result of the change in the definition for termination benefits, the top-up amounts which are promised as part of early retirement agreements now represent benefits owed to employees over the long term. On account of the pro-rata accumulation of the top-up amounts for the concerned active employment years of employees benefiting from early retirement, there are no significant effects for the Bremer Landesbank Group.

- **IFRS 10 Consolidated Financial Statements**

IFRS 10, published in May 2011, changes the definition of control and creates a single set of rules for determining control applicable to both subsidiaries and structured entities (special purpose entities) as a basis for assessing the requirement to consolidate. Control is present when the potential parent company has the power to make decisions on the potential subsidiary on account of voting rights or other rights, participates in the positive and negative variable returns of the potential subsidiary and can influence these returns through its decision-making power. The standard replaces the relevant rules in the previous IAS 27 and SIC-12 and, after endorsement by the EU, is effective for fiscal years beginning on or after 1 January 2014.

All of the Bremer Landesbank Group's entities which must potentially be consolidated – especially special purpose entities – are currently being analyzed with respect to the new definition of control in IFRS 10. The Group is currently assessing the potential impact of the adoption of this standard on the consolidated financial statements.

- **IFRS 11 Joint Arrangements**

IAS 31 Interests in Joint Ventures will be replaced by IFRS 11, which was published in May 2011 and is effective as of 1 January 2014. This addresses the accounting for cases in which an entity has joint control over a joint venture or conducts a joint operation. There are two major changes compared with the previous standard. The option to account for joint ventures using proportionate consolidation has been removed, i.e. joint ventures must now be accounted for using the equity method as in IAS 28. A new category "joint operation" has also been introduced. Groups now have to account for the assets and liabilities of such joint operations attributable to them. The first-time adoption of IFRS 11 does not result in any need for adjustments to the Bremer Landesbank consolidated financial statements.

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

  The new IFRS 12 combines the disclosure requirements relating to subsidiaries, joint ventures, associates and unconsolidated structured entities. The goal is to provide information about the nature of the reporting entity's ability to influence the aforementioned entities and the risks connected with this as well as the effects that may result from this influence with regard to the balance sheet, income statement and the cash flow statement. IFRS 12 is effective for fiscal years beginning on or after 1 January 2014. IFRS 12 will lead to enhanced disclosure requirements for Bremer Landesbank's consolidated financial statements. This relates in particular to the disclosures on non-consolidated structured companies (special purpose entities).

- **Consolidated financial statements, joint arrangements and disclosures on shares in other companies: Transition guidelines (Amendments to IFRS 10, IFRS 11 and IFRS 12)**

  IASB published amendments in June 2012, which will lead to a specification and clarification of the transition requirements in IFRS 10 Consolidated Financial Statements. It will also provide easement options by limiting the restated reference figures to the comparable period immediately preceding the first-time adoption and by eliminating the disclosure obligation of comparable information on unconsolidated special purpose entities for the first-time adoption of IFRS 12. The changes will take effect – subject to the still outstanding adoption into European law – for reporting periods beginning on or after 1 January 2013. A simplification for the first-time adoption of the new consolidation requirements is anticipated for the BLB Group based on the transition guidelines.

- **IFRS 13 Fair Value Measurement**

  This standard regulates the fair value measurement uniformly for IFRS financial statements. All fair value measurements required by other standards are to be in adherence with the uniform requirements of IFRS 13 in future; there are only individual rules for IAS 17 and IFRS 2.

  The fair value according to IFRS 13 is defined as the exit price, i.e. as the price that would have to be obtained through the sale of an asset or as the price that would have to be paid in order to transfer a liability. As is currently known from the fair value measurement of financial assets, a three-step hierarchy system has been introduced and graded with regard to the independence of observable market prices. The new fair value measurement can lead to deviating values compared to the previous requirements. The new standard is to be applied for the first time in fiscal years that begin on or after 1 January 2013.

In particular, the introduction of IFRS 13 has an impact on the application of the fair value hierarchy for measurement purposes, the fair value measurement on the portfolio level, the calculation of the counterparty risk on the basis of a net risk position, the measurement of financial instruments at average prices and the determination of the relevant markets for financial instruments. Furthermore, the publication requirements with regard to the fair value calculation are expanded. The Group is currently assessing the potential impact of the adoption of this standard on the consolidated financial statements.

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

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

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

  In December 2011, the IASB clarified its requirements for offsetting financial instruments when it published amendments to IAS 32 Financial Instruments – Presentation. The amendments, which are designed to eliminate inconsistencies in the application of offsetting criteria, explain in particular the significance of the “currently enforceable legal right of set-off” and the conditions under which a gross settlement system is deemed equivalent to net settlement for the purposes of the standard. These amendments are retrospectively effective for fiscal years beginning on or after 1 January 2014. No significant impact from the changes to IAS 32 is anticipated for the consolidated financial statements of the Bremer Landesbank.

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

  In connection with the publication of the amendments to IAS 32 Financial Instruments – Presentation, an addition was also made to the disclosure requirements of IFRS 7 with regard to the offsetting in December 2011. As a result, the users of financial statements have the option of estimating the impact of offsetting agreements, including the rights to the offsetting of financial assets and liabilities, on the financial position of a company. The amendments are retrospectively effective for the Bremer Landesbank Group’s fiscal years beginning on or after 1 January 2013. The amendments result in expanded disclosure requirements that are to be reported in the consolidated financial statements of Bremer Landesbank for the first time as of

31 December 2013. The new information facilitates a better assessment of the potential effects from existing offsetting agreements. Comparative figures are to be provided. No significant impact from the amendments to IFRS 7 is anticipated for the consolidated financial statements of Bremer Landesbank.

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

- IAS 27 (revised 2011) Separate Financial Statements
- IAS 28 (revised 2011) Investments in Associates and Joint Ventures
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets
- Improvements in IFRS (cycle 2009-2011) as part of the annual improvement process of IASB

No significant impact on the BLB's consolidated financial statements is anticipated from the amendments to IAS 27, IAS 28 and the amendments to IAS 12 as well as the annual improvements of IFRS (cycle 2009-2011).

While all of **the standards below have been adopted by the IAS**, they have yet to be **incorporated into European law** by the EU. The Group is currently checking the possible impact of these standards:

- Improvements to IFRS 2009 – 2011 (first-time adoption as of 1 January 2013):

  Amendments were made to five standards as part of the annual improvement project. With the adjustment of the formulations in individual IFRSs, a clarification of the existing rules should be achieved. There are also changes with an impact on the accounting, valuation, measurement and information in the notes to the financial statements. The standards IAS 1, IAS 16, IAS 32, IAS 34 and IFRS 1 are affected. The amendments are – subject to still outstanding adoption into EU law – applicable for the first time in fiscal years that begin on or after 1 January 2013.

- IFRS9 – Financial Instruments (first-time adoption as of 1 January 2015) –

  Accounting and Valuation of Financial Instruments in accordance with IFRS 9 and IAS 39.

  In future, financial assets will only be classified and measured in two groups: amortized cost and fair value. The group of financial assets at amortized cost consists of those financial assets which only involve a claim to interest payments and repayment at a specified time and which are held as part of a business model where the objective is the holding of assets. All other financial assets are reported in the group at fair value. Under certain conditions, it is possible to include financial assets from the first category – as before – in the fair value category ("fair value option"). Changes in the value of financial assets under the fair value category are fundamentally reported at profit or loss. For certain equity instruments, however, it is possible to use the option of reporting changes in value under other comprehensive income; dividend claims from these assets are, however, reported at profit or loss.

The requirements for financial liabilities are fundamentally taken from IAS 39. The most significant difference relates to the reporting of changes in value for financial assets measured at fair value. In future, these are to be divided: the part attributable to the independent credit risk is to be reported in other comprehensive income, the remaining part of the change in value is to be recognized at profit or loss. IFRS 9 is – subject to still outstanding adoption into EU law – to be applied for the first time in fiscal years that begin on or after 1 January 2015.

- Amendments to IFRS 9 and IFRS 7 Obligatory Date of Adoption and Disclosures on the Transition (first-time adoption as of 1 January 2015):

  The amendments let the reporting company omit the restated amounts from the prior year in the first-time application of IFRS 9. Originally, this easement was only possible with the early adoption of IFRS 9 prior to 1 January 2012. The easement requires additional information in the notes to the financial statements pursuant to IFRS 7 at the time of transition. These amendments – subject to still outstanding adoption into EU law – are to be applied for the first time in fiscal years that begin on or after 1 January 2015.

(4) Consolidation principles

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

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

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

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

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

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

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

Despite the significant influence of Bremer Landesbank on some associates, there was no consolidation in accordance with the equity method for reasons of materiality. Furthermore, there was no consolidation of some subsidiaries due to their insignificance. These companies are not included in the consolidated financial statements.

(5) Basis of consolidation

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

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

The following associates are accounted for using the equity method:

- DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen
- BREBAU GmbH, Bremen
- AMMERLÄNDER Wohnungsbau-Gesellschaft mbH, Westerstede

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

The associate Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede, was accounted for using the equity method with a different balance sheet date (31 December 2011) as the entity does not prepare its financial statements until after the balance sheet date of the reporting company.

Subsidiaries and associates as well as equity investments are shown in the list of shareholdings (Note (81)).

(6) Currency translation

Monetary assets and liabilities in foreign currencies and non-monetary items measured at fair value were translated using the ECB reference rates as of 31 December 2012. Non-monetary items measured at cost are recognized using historical rates. Expenses and income in foreign currencies are translated using market exchange rates. Currency differences relating to monetary items are reflected in the income statement; such differences relating to non-monetary items are recognized either through profit or loss or under profit/loss or under other comprehensive income depending on how changes in such items are reported.

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

(7) Financial instruments

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

Financial instruments include financial guarantees as defined in IAS 39.

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

Addition and disposal of financial instruments

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

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

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

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

Classification of financial assets and liabilities and their measurement

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

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

Loans and receivables (LAR)

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

Held to maturity (HTM)

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

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

This category comprises two sub-categories:

- **Held for trading (HFT)**

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

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

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

Available-for-sale financial assets (AFS)

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

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

Other liabilities (OL)

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

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

Measurement of fair value

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

Under the fair value hierarchy used in fiscal year 2012, a financial instrument is categorized as Level 1 if it is traded on an active market and publicly quoted market prices or prices effectively traded on the OTC market are employed to measure its fair value. If no market prices or prices effectively traded on the OTC market are available, prices quoted by dealers are used for Level 1 measurement. If price sources other than stock exchange prices are used, such sources are quotes by banks or other market makers.

In the event that no price quotes are available on active markets, fair value is measured using recognized valuation methods or models or using external pricing services, by applying parameters available on the market (Level 2).

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

Valuation models are employed primarily for OTC derivatives and for securities in inactive markets. Various inputs are used in the models, for example market prices and other market quotations such as volatility and market liquidity. If it is required in individual cases, possibly for the use of option price models, estimates are to be made. At all times, a standard method is to be applied.

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

As of the balance sheet date, no CDS spreads were available for the CDSs held, all of which follow the old CDS protocol. This is because, since the launch of the new CDS protocol, CDS prices are only quoted for CDSs under the new protocol. The fair values of the CDSs held are therefore determined on the basis of the spreads for comparable CDSs quoted under the new protocol. CDSs valued in this way are assigned to Level 2.

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

For financial instruments for which no active market existed on 31 December 2012 and which therefore cannot be valued using market prices, a discounted cash flow method is used to determine the fair value.

The financial instruments within the Bremer Landesbank Group that should be measured in this way are identified individually with a subsequent division into active and inactive markets. A change in the assessment of the market is continuously used for the measurement.

To measure the collateralized OTC derivatives, the Bremer Landesbank Group mainly switched to the current Overnight Index Swap Discounting (OIS discounting). To determine the fair value, the Bremer Landesbank includes the respective counterparty risks (credit valuation and debt valuation) in conformity with the prevailing market opinion.

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

Financial assets

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

The calculation of the fair value of the equity investment is therefore based on a forecast of the 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. As an alternative to using RAW beta, adjusted beta is an estimation of the future development of the beta factor. Adjusted beta (adjusted beta = RAW beta x 0.67 + 0.33) was used as part of a standardized approach within the NORD/LB Group in order to smooth out the volatility of the valuation over the course of time.

Hybrid (combined) products

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

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

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

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

Hedge accounting

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

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

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

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

In the portfolio fair value hedge, the bottom layer method is used for disposals from the hedged portfolio of underlying transactions in the retrospective effectiveness test.

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

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

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

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

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

Securities sale and repurchase agreements and securities lending

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

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

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

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

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

(8) Risk provisions

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

Given the current market situation, when calculating general loan loss provisions for the shipping portfolio the probabilities of default and losses given default resulting from ship stress tests are used. Stress was simulated in a stress test of the “ship finance” rating application. In view of the worsening conditions, the incurred loss potential for the ship finance portfolio was covered by additional general loan loss provisions for the container and bulk shipping and the multi-purpose segments.

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

An allowance for impairment needs to be recognized when observable criteria show that it is likely that not all the interest and repayment commitments or other obligations will be able to be met in due time. Such criteria includes, among others, a loss or default in interest payments or repayments of at least 90 days and significant financial difficulties for the debtor.

Objective indications of an impairment to a financial asset or a portfolio of assets satisfy the following list of **trigger events**:

- Significant financial difficulties by the issuer or debtor, e.g.:
    - Mathematical or actual inability to service capital
    - Losses over multiple fiscal years, negative equity/deficits, liquidation balance sheet
    - Long-term negative development of restructuring in progress / target/actual comparison

- A breach of contract such as loss or default (at least 90 days analogous to the criteria in accordance with Basel II) in interest payments or repayments;
- Concessions by the creditor to the borrower as a result of economic or legal matters in connection with the financial difficulties of the borrower which the creditor would not have granted otherwise, e.g.:
    - interest exemptions
    - waiver of receivables
    - postponements of repayment
- There is the possibility that the borrower will go bankrupt or there will be another type of restructuring process;
- the disappearance of an active market for this financial asset as a result of financial difficulties; or
- observable data that indicates a measureable reduction in the anticipated future cash flow from a group of financial assets since their initial disclosure, although the reduction cannot yet be assigned to individual financial assets of the group.

The disappearance of an active market as a result of the discontinuation of public trading in the securities of a company is not per se an indication of an impairment. A rating downgrade – viewed in isolation – is also not a trigger event. A rating downgrade is, however, justified by a reason. The downgrade could provide an indication along with the inclusion of additional information that there is an impairment (IAS 39.60).

A rating downgrade could be used, e.g. in connection with the debtor's increase in lines without qualified substantial justification and/or in connection with other indicators, e.g. a worsening of the collateral position, as an indicator of an impairment that is to be made.

A fair value that has dropped below the (amortized) acquisition costs is not necessarily an indicator of an impairment (IAS 39.60). Other factors that are to be considered in the decision are found in IAS 39 IG.E.4.1. They involve the following circumstances in particular:

- liquidity and solvency of the debtor or issuer,
- business and financial risk positions,
- default amount and trend in the event of a default on similar financial assets,

- national and local economic trends and conditions,
- fair value of securities and guarantees.

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

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

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

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

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

(9) Property and equipment

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

Property and equipment is depreciated over the following periods:

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

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

From 1 January 2009, borrowing costs have been capitalized in accordance with IAS 23 (revised 2007). No borrowing costs were capitalized in fiscal year 2012.

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

(10) Leases

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

Finance leases

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

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

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

Operating leases

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

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

(11) Investment property

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

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

Borrowing costs are capitalized in accordance with IAS 23 (revised 2007). There were no items which had to be capitalized in fiscal year 2012.

Government grants are deducted directly from the acquisition or production costs of the respective asset. No government grants were received in the fiscal year.

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

Investment property is depreciated over the following periods:

	Useful life in years
Investment property	25 to 50

The capitalization of earnings method is applied for measuring the fair value of investment property. In the calculation of the fair value, the Bank takes into account the income that is generated by a professional manager of real estate under the assumption of proper management and a normal course of business. Normal, unimpaired land is assumed for the determination of the value. It is also assumed that the technical facilities and other equipment in the building work. Furthermore, the formal and material legality with regard to the property and its usage is assumed. In the measurement, the Bank assumes that there are no other circumstances affecting the value. Furthermore, fair value is partially substantiated on the basis of market data. Valuation is carried out by a bank appraiser.

(12) Intangible assets

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

Intangible assets with a finite useful life are amortized straight-line over their economic lives. For intangible assets with a finite useful life, impairment losses are charged at the amount by which the carrying amount exceeds the higher of the asset's fair value less costs to sell and its value in use. If the reasons for applied impairment no longer apply, impairment losses are reversed up to a maximum of amortized cost. Regular depreciation is recognized in administrative expenses. Borrowing costs are capitalized in accordance with IAS 23 (revised 2007). There were no items which had to be capitalized in fiscal year 2012.

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

	Useful life in years
Software	3 to 5

There are no intangible assets with an indefinite useful life.

(13) Provisions for pensions and similar obligations

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

Provisions for future health insurance benefits (EUR 7m; prior year: EUR 5m) are also shown in provisions for pensions. This provision is calculated based on the average amount of health insurance benefits paid in the past few years and the assumption of a dynamic cost trend. A change in the cost trend of +1% would increase provisions for health insurance benefit obligations by EUR 2m. Effects on service and interest cost, on the other hand, would be insignificant.

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

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

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

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

Pension obligations from defined benefit plans are calculated by the independent actuary Mercer as of the balance sheet date in accordance with the projected unit credit method. For calculation purposes, the discount rate for first-class industrial bonds and anticipated future salary and pension increases are taken into account in addition to biometric assumptions. This discount rate was calculated according to the Mercer Pension Discount Yield Curve Approach (MDPYC) with a duration of 15 years. On account of market changes in the high-quality corporate bonds that serve as the basis for the calculation of the discount rate, Mercer expanded its underlying portfolio in the course of the fiscal year. Now it includes bonds that were rated AA by at least one rating agency. The minimum volume for consideration was also lowered by Mercer to EUR 50m and information on corporate bonds with a rating of A were considered, after the deduction of the spread, between AA and A. Since the calculation of the discount rate on the basis of the previous database will no longer be continued, the impact of this expansion cannot be calculated at the end of the fiscal year. If the expanded database had already been applied at the beginning of the fiscal year, the pension obligations at this time would be some 6% higher.

Valuation assumptions are shown in the following schedule:

	31 Dec 2012	31 Dec 2011
Discount rate	3.6%	5.1%
Employee turnover (excl. retirement/early retirement)	1.5%	1.5%
Expected long-term return on plan assets	3.7%	3.5%
Salary trend		
Pension obligations	2.4%	2.4%
Health insurance benefits	4.5%	4.5%
Pension trend:		
Pension obligations (contingent on the pension scheme)	1.0 – 3.5 %	1.0 – 3.5 %
Health insurance benefits	4.5%	4.5%

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

The employer's share of the statutory pension insurance or pension plan totalled EUR 7m in the year under review (prior year: EUR 6m).

(14) Other provisions

Other provisions in accordance with IAS 19 have been created for benefits owed to employees over the long term and for termination benefits. The amount of the corresponding provisions is determined by actuarial appraisals that are based on the length of service and/or the benefit plans provided by the Bank.

Other provisions in accordance with IAS 37 have been created for uncertain liabilities to third parties and anticipated losses from pending transactions if a current obligation results from an event in the past, usage is likely and its amount can be reliably determined. Provisions are measured using the best estimate. This is based on management's assessment in light of empirical values and, if necessary, expert reports or opinions. Risks and uncertainties are taken into account. Future events are only considered if there are sufficient objective indications that they will occur. Provisions are discounted if the impact is material.

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

(15) Income taxes

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

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

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

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

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

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

(16) Subordinated capital

The subordinated capital item comprises securitized subordinated liabilities and silent participations. The silent participations must be classified as borrowed capital in accordance with IAS 32 due to their contractual cancellation provisions; under the German Commercial Code, silent participations always constitute equity. For regulatory purposes under the German Banking Act, they are recognized as liable equity.

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

Segment report

(17) Classification by Business Segment (primary reporting format)

(in EUR m)[1]	Corporate customers	Special finance	Private customers	Financial markets	Group manage-ment / Other	Reconcili-ation	Group Total
31 Dec 2012							
Net interest income	61	217	27	67	49	-5	**417**
Provisions for lending business	27	176	-1	-3	29	0	**228**
Net interest income after risk provisions	**33**	**41**	**28**	**70**	**21**	**-5**	**189**
Net commission income	13	23	7	5	4	-25	**27**
Profit/loss from financial instruments at fair value through profit or loss	3	4	0	139	-39	0	**107**
Profit/loss from hedge accounting	0	0	0	0	0	7	**8**
Profit/loss from financial assets	0	0	0	10	-1	0	**9**
Profit/loss from investments accounted for using the equity method	0	0	0	0	6	0	**6**
Total income	**49**	**69**	**35**	**224**	**-9**	**-22**	**346**
Administrative expenses	28	31	29	18	82	-4	**185**
Other operating profit/loss	0	1	0	0	11	-4	**8**
Earnings before taxes	**21**	**39**	**6**	**205**	**-80**	**-23**	**168**
Segment assets	4,162	14,155	1,590	12,669	2,148	860	**35,584**
Segment liabilities	2,020	4,907	1,225	14,869	189	10,699	**33,909**
Committed capital / Sustainable capital	182	1,167	79	177	144	-105	**1,643**
CIR[2]	37.3%	12.8%	86.0%	8.3%	0.0%	0.0%	**32.0%**
RoRaC[3]	9.4%	3.3%	6.8%	106.0%	—	—	**—**
ROE[4]	—	—	—	—	—	—	**10.2%**

[1] Differences between totals are due to rounding
[2] Administrative expenses / Total income before risk provisions + other profit
[3] Return on Risk-adjusted Capital
[4] Earnings before taxes / Sustainable capital

(in EUR m)[1]	Corporate customers	Special finance	Private customers	Financial markets	Group manage-ment / Other	Reconcili-ation	Group Total
31 Dec 2011							
Net interest income	59	200	33	70	31	-18	**375**
Provisions for lending business	0	100	4	2	1	0	**108**
Net interest income after risk provisions	**59**	**100**	**29**	**68**	**30**	**-18**	**267**
Net commission income	13	19	8	4	1	-17	**26**
Profit/loss from financial instruments at fair value through profit or loss	4	6	0	-32	-2	35	**12**
Profit/loss from hedge accounting	0	0	0	0	0	12	**12**
Profit/loss from financial assets	0	0	0	0	-5	0	**-5**
Profit/loss from investments accounted for using the equity method	0	0	0	0	10	0	**10**
Total income	**76**	**125**	**36**	**40**	**33**	**12**	**322**
Administrative expenses	26	27	27	18	60	0	**159**
Other operating profit/loss	0	0	0	0	3	-2	**1**
Earnings before taxes	**50**	**97**	**9**	**22**	**-24**	**9**	**164**
Segment assets	4,053	13,007	1,670	13,569	888	1,675	**34,862**
Segment liabilities	2,300	3,853	1,173	15,110	-591	11,970	**33,814**
Committed capital / Sustainable capital	140	711	57	132	107	-101	**1,046**
CIR[2]	33.8%	12.2%	66.8%	34.5%	0.0%	0.0%	**36.8%**
RoRaC[3]	34.1%	13.7%	15.0%	16.5%	—	—	**—**
ROE[4]	—	—	—	—	—	—	**15.7%**

[1] Differences between totals are due to rounding
[2] Administrative expenses / Total income before risk provisions + other profit
[3] Return on Risk-adjusted Capital
[4] Earnings before taxes / Sustainable capital

Reconciliation of the segment results to the consolidated financial statements

Classification by business segment:

The Group has five segments that make up its strategic structures and are subject to reporting requirements, as described below. The segments represent customer and product groups that reflect the organizational structures and thus the Group's internal management. The definitive criterion for the segmenting is the specific focus of the business or income, a largely uniform structure for the customers collected there in terms of finance and investment needs, product usage and customer support. On account of the business activity that solely takes place in the Federal Republic of Germany and the reduction in the sales channels to the branches in Bremen and Oldenburg, there was no segmenting according to regions or sales channels.

Corporate customers

The Corporate Customers segment handles the uniform customer group of companies in the North-West business region, which receive customer-specific product offers ranging from individual corporate finance, transaction management, the hedging of risk to company pension plans.

Special finance

The segmenting criterion for special finance is the customer sector and thus particularly the object of finance as the core business in customer relations. The products are geared on an industry-specific basis towards the projects that customers are focusing on and their financing.

Private customers

The private customers segment includes the uniform customer group of private customers, including freelancers. The product range is based on the finance concept of comprehensive consulting and includes all the usual bank services and products for account, credit, investment and transaction business.

Financial markets

The primary function of the Financial Markets segment is to provide access to the national and international financial markets for private and institutional customer groups as well as for Bremer Landesbank's own business. Along with standard products, alternative individual financial products not connected with standardized financial market transactions are also offered.

Group management / Other

Group management / Other includes all the other results that are directly connected with the operating activities. They include the results of all staff departments (including net interest income from sales of equity investments and administrative expenses of segments not directly allocated to sales), strategic measures (primarily net interest income from investments and the cost of liquidity maintenance), investment and financing results which are not directly allocated to the segments, the consolidation of subsidiaries in the sub-group and risk provisions other than specific valuation allowances. Information about additions to non-current assets other than financial instruments: The additions of furniture, fixtures and office equipment (property and equipment) are mainly attributable to IT equipment primarily acquired for regulatory purposes. Intangible assets relate to system and application software. Disclosure is made under Group management / Other.

Reconciliation

The items reconciling the management accounts to the overall group figures in the income statement, including the consolidation of subsidiaries, are shown in the reconciliation column.

Net interest income: The net interest income of the individual segments is determined using the market interest rate method. This includes, amongst others, interest income from the lending and deposit business as well as from the investment and financing business. The interest income and expenses are reported as a net amount under net interest income, since most of the sales revenue in the segment was generated on account of interest and the segment management is primarily based on the net interest income in order to assess profitability and make decisions on the allocation of resources. All directly allocable investment and financing income is allocated to the segments. Other components of investment and financing income are presented under “Group management / Other” instead of “Reconciliation”. The Group’s net interest income is calculated as actual interest income less interest expenses.

Provisions for lending business: In this item, specific valuation allowances are allocated to the business segments; other loan loss provisions are allocated to “Group management / Other”, the same as for management accounts purposes.

Net commission income: The classification of loan commissions to net interest income is handled via “Reconciliation”.

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

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

Profit/loss from financial assets: The profit/loss from financial assets is allocated to the business segments in accordance with the cause of the profit/loss.

Profit/loss from investments accounted for using the equity method: This item is allocated to “Group management / Other” rather than directly to the four sales-based segments.

Administrative expenses: Directly attributable administrative expenses and the results from internal service allocations are allocated to the business segments. In internal reporting, the internal types of costs are compared in detail with the income statement. Reconciliations are minimized.

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

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

Sustainable capital: The sustainable capital consists of share capital, capital reserves, retained earnings and the adjustment item for shares from other shareholders.

Segment profitability ratios: In line with the management accounts and group reporting, RoRaC is also stated in the external reporting.

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

Notes to the Consolidated Income Statement

(18) Net interest income

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

	1 Jan-31 Dec 2012 (in EUR m)	1 Jan-31 Dec 2011 (in EUR m)	Change (in %)
Interest income			
Interest income from lending and money market business	977	1,002	-2
Interest income from fixed-income securities and government-inscribed debt	111	128	-13
Interest income from financial instruments at fair value through profit or loss			
Trading book positions and hedge accounting derivatives	875	1,080	-19
Interest income from the use of the fair value option	3	3	—
Current income			
from shares and other variable-yield securities	0	0	—
from equity investments	15	24	-38
Interest income from other amortization			
from the adjustment item for the portfolio fair value hedge	34	8	>100
from hedge accounting derivatives	20	16	25
Expected return on plan assets	1	1	—
Total interest income	**2,036**	**2,262**	**-10**
Interest expenses			
Interest expenses from lending and money market business	562	597	-6
Interest expenses from securitized liabilities	203	218	-7
Interest expenses from financial instruments at fair value through profit or loss			
Interest expenses from trading book positions and hedge accounting derivatives	774	980	-21
Interest expenses from the use of the fair value option	0	—	—
Interest expenses from subordinated capital	8	47	-83
Interest expenses from other amortization			
Interest expenses from the adjustment item for the portfolio fair value hedge	7	1	>100
Interest expenses from hedge accounting derivatives	49	27	81
Interest expenses for provisions and liabilities	16	17	-6
Other interest expenses and interest-like expenses	0	—	-100
Total interest expenses	**1,619**	**1,887**	**-14**
Total	**417**	**375**	**11**

Current income from equity investments includes the valuation gains of EUR 5m from the sale of the indirect equity interest in DekaBank Deutsche Girozentrale (prior year: EUR 21m).

Interest income from the lending and money market businesses contains interest income from the unwinding of the discount related to impaired assets in the amount of EUR 17m (prior year: EUR 11m).

The loan commissions for new loans and loan restructuring is included in interest income and totalled EUR 16m (prior year: EUR 15m).

In connection with the conversion of the silent participations into hard core capital, the Bank realised one-off income of some EUR 28m reported in the net interest income from the reversal of hedging transactions.

Total interest income relating to financial instruments which are not measured at fair value through profit or loss amounted to EUR 1,170m (prior year: EUR 1,163m). Total interest expenses relating to financial instruments which are not measured at fair value through profit or loss amounted to EUR 811m (prior year: EUR 880m).

(19) Provisions for lending business

	1 Jan-31 Dec 2012 (in EUR m)	1 Jan-31 Dec 2011 (in EUR m)	Change (in %)
Income from provisions for lending business			
Reversal of specific valuation allowances for loans and advances	54	41	32
Reversal of loan loss provisions	22	6	>100
Recoveries on loans and advances previously written off	2	3	-33
Income from provisions for lending business	**78**	**50**	**56**
Expenses for provisions for lending business			
Allocation to specific valuation allowances for loans and advances	245	142	73
Allocation to portfolio allowances	34	7	>100
Allocation to loan loss provisions	23	3	>100
Direct write-offs of loans and advances	4	6	-33
Expenses for provisions for lending business	**306**	**158**	**94**
Total	**-228**	**-108**	**>100**

(20) Net commission income

	1 Jan-31 Dec 2012 (in EUR m)	1 Jan-31 Dec 2011 (in EUR m)	Change (in %)
Commission income			
Commission income from banking business			
Lending and guarantee business	10	9	11
Security and custodian business	8	8	—
Account management and payment transactions	10	10	—
Trust business	2	18	-89
Brokerage business	1	2	-50
Other standard bank commission income	4	3	33
Commission income from non-banking business			
Real estate business	1	1	—
Total commission income	**36**	**51**	**-29**
Commission expenses			
Commission expenses from banking business			
Security and custodian business	2	2	—
Trust business	2	18	-89
Brokerage business	1	1	—
Account management and payment transactions	—	—	—
Lending and guarantee business	3	3	—
Other standard bank commission expenses	1	1	—
Total commission expenses	**9**	**25**	**-64**
Total	**27**	**26**	**4**

All commission income/expenses represent income/expenses from financial instruments not measured at fair value.

The equivalent decline in commission income and expenses from the trust activities results from the modified contractual loan terms of a public sector development bank (Förderbank) whose special purpose loans to end borrowers are provided by Bremer Landesbank.

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

	1 Jan-31 Dec 2012 (in EUR m)	1 Jan-31 Dec 2011 (in EUR m)	Change (in %)
Trading profit/loss			
Realized profit/loss			
From debt securities and other fixed-income securities	2	1	100
From derivatives	—	23	-100
Total realized profit/loss	**2**	**24**	**-92**
Net valuation effect			
From derivatives	95	-30	—
Total net valuation effect	**95**	**-30**	**—**
Foreign exchange profit/loss	6	12	-50
Other comprehensive income	5	6	-17
Total trading profit/loss	**108**	**12**	**>100**
Profit/loss from the fair value option			
Realized profit/loss			
Debt securities and other fixed-income securities	—	0	—
Net valuation effect			
Debt securities and other fixed-income securities	-1	0	—
Total profit/loss from designated financial instruments (fair value option)	**-1**	**0**	**—**
Total	**107**	**12**	**>100**

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

The foreign exchange profit/loss includes all the income realized from disposals and the valuation of all the Bank's foreign currency positions in the current fiscal year. Currency translation profit/loss is also reported as part of foreign exchange profit/loss and came to EUR -224m as of 31 December 2012 (prior year: EUR 42m).

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

(22) Profit/loss from hedge accounting

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

	1 Jan-31 Dec 2012 (in EUR m)	1 Jan-31 Dec 2011 (in EUR m)	Change (in %)
Profit/loss from micro fair value hedges			
From hedged underlying transactions	66		
in the available-for-sale (AFS) category	10	17	-41
in the other liabilities (OL) category	-76	-103	-26
From derivative hedging instruments	66	89	-26
Total micro fair value hedges	**—**	**3**	**-100**
Profit/loss from portfolio fair value hedges			
From hedged underlying transactions	-111		
in the available-for-sale (AFS) category	22	11	100
in the other liabilities (OL) category	-133	-127	5
From derivative hedging instruments	119	125	-5
Total portfolio fair value hedge	**8**	**9**	**-11**
Total	**8**	**12**	**-33**

(23) Profit/loss from financial assets

Profit/loss from financial assets reports profits/losses on disposal and the net valuation effects from securities and company shares in the financial asset portfolio.

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

	1 Jan-31 Dec 2012 (in EUR m)	1 Jan-31 Dec 2011 (in EUR m)	Change (in %)
Profit/loss from the disposal of			
debt securities and other fixed-income securities	10	—	—
Shares and other variable-yield securities and investment	-1	—	—
Total from disposals	**9**	**—**	**—**
Profit/loss from allowances for			
investments in entities	—	-2	-100
Other financial assets in the AFS category	—	-3	-100
Total profit/loss from valuation allowances	**—**	**-5**	**-100**
Total	**9**	**-5**	**—**

The reclassification of measurement gains, which were previously reported in other comprehensive income, from the revaluation reserve to the income statement was not required in the fiscal year (prior year: EUR 21m).

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

	1 Jan-31 Dec 2012 (in EUR m)	1 Jan-31 Dec 2011 (in EUR m)	Change (in %)
Investments in associates			
Income	6	10	-40
Expenses	0	0	—
Total	**6**	**10**	**-40**

(25) Administrative expenses

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

The expenses break down as follows:

	1 Jan-31 Dec 2012 (in EUR m)	1 Jan-31 Dec 2011 (in EUR m)	Change (in %)
Personnel expenses			
Wages and salaries	80	74	8
Social security	12	11	9
Pension and other benefit costs (thereof service cost of EUR 5m; prior year: EUR 5m)	6	6	—
Total personnel expenses	**98**	**91**	**8**
Other administrative expenses			
IT and communication costs	42	31	35
Premises costs	9	7	29
Marketing, communication and entertainment costs	6	7	-14
Person-related other administrative expenses	4	4	—
Legal, audit, appraisal and consulting fees	9	7	29
Dues and contributions	7	4	75
Expenses for furniture, fixtures and office equipment	1	1	—
Other administrative expenses	1	1	—
Total other administrative expenses	**79**	**62**	**27**
Depreciation and amortization			
Property and equipment	5	3	67
Intangible assets	3	2	50
Investment property	1	1	—
Total depreciation and amortization	**9**	**6**	**50**
Total	**186**	**159**	**17**

(26) Other operating profit/loss

	1 Jan-31 Dec 2012 (in EUR m)	1 Jan-31 Dec 2011 (in EUR m)	Change (in %)
Other operating income			
From rental and lease income	7	7	—
From cost reimbursements	1	1	—
From the disposal of assets	3	—	—
Other income	7	3	>100
Total other operating income	**18**	**11**	**64**
Other operating expenses			
From rental and lease expenses	2	1	100
From the redemption of issued debt securities	1	2	-50
Other expenses	7	7	—
Total other operating expenses	**10**	**10**	**—**
Total	**8**	**1**	**>100**

Other income mainly includes interest income from tax reimbursements in the amount of EUR 4m (prior year: EUR 0m).

Other expenses are due to interest expenses related to the payment of tax arrears in the amount of EUR 2m (prior year: EUR 0m) and the bank levy of EUR 4m (prior year: EUR 5m), which was planned in accordance with the German Restructuring Fund Act [Restrukturierungsfondsgesetz] and incorporated into national law as a result of the separate Restructuring Fund Ordinance in the 3rd quarter of 2011.

(27) Income taxes

The Group's income taxes break down as follows:

	1 Jan-31 Dec 2012 (in EUR m)	1 Jan-31 Dec 2011 (in EUR m)	Change (in %)
Current income taxes	16	47	-66
Current year	15	51	-71
from prior years	1	-4	—
Deferred taxes	30	-13	—
from the emergence/reversal of temporary differences	33	-11	—
from a change in tax rates	-2	-1	100
from temporary differences on account of prior years	-1	-1	—
Total income tax expense	**46**	**34**	**35**

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

	1 Jan-31 Dec 2012 (in EUR m)	1 Jan-31 Dec 2011 (in EUR m)	Change (in %)
IFRS earnings before taxes	**168**	**164**	**2**
Anticipated income tax expense	53	52	2
Effects of reconciliation			
Effects of differing tax rates	-1	-1	—
Taxes from prior years reported in the fiscal year	0	-5	-100
Effects of changes in tax rates	-2	-1	100
Non-deductible business expenses	10	3	>100
Effects of tax-free income	-10	-13	-23
Permanent accounting-related effects	-2	-3	-33
Effects of assessment base transfers	-1	-2	-50
Other effects	-1	4	—
Reported income tax expense	**46**	**34**	**35**

The expected income tax expense in the tax reconciliation statement is calculated on the basis of the corporate income tax rate of 15% which was applicable in Germany in 2012 plus a solidarity surcharge of 5.5% and the average trade tax rate of approximately 15.6%. A domestic income tax rate of 31.5% (prior year: 31.5%) is used for the measurement of the deferred taxes as of balance sheet date.

Notes to the consolidated balance sheet

(28) Cash reserve

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Cash on hand	5	4	25
Balances at central banks	71	210	
Total	**76**	**214**	**-64**

The balances at central banks of EUR 71m (prior year: EUR 210m) relate to balances at Deutsche Bundesbank to satisfy minimum reserve requirements.

(29) Loans and advances to banks

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Loans and advances from money market business			
German banks	121	594	-80
Foreign banks	117	301	-61
Total loans and advances from money market business	**238**	**895**	**-73**
Other loans and advances			
German banks			
Payable on demand	145	66	>100
Limited term	3,301	3,555	-7
Foreign banks			
Payable on demand	119	35	>100
Limited term	0	274	-100
Total other loans and advances	**3,565**	**3,930**	**-9**
Total	**3,803**	**4,825**	**-21**

Of the loans and advances to German banks, EUR 3,139m (prior year: EUR 3,245m) are loans and advances to associated savings banks. Of the total amount, EUR 3,301m (prior year: EUR 3,187m) are loans and advances which will only be realized or settled after a period of more than 12 months.

(30) Loans and advances to customers

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Loans and advances from money market business			
German customers	126	152	-17
Foreign customers	2	4	-50
Total loans and advances from money market business	**128**	**156**	**-18**
Other loans and advances			
German customers			
Payable on demand	1,426	1,010	41
Limited term	19,505	18,849	3
Foreign customers			
Payable on demand	142	110	29
Limited term	2,486	2,560	-3
Total other loans and advances	**23,559**	**22,529**	**5**
Total	**23,687**	**22,685**	**4**

Of the total amount, EUR 19,643m (prior year: EUR 18,282m) are loans and advances which will only be realized or settled after a period of more than 12 months. Loans and advances to customers include loans and advances from finance lease transactions in the amount of EUR 17m (prior year: EUR 22m). The gross investment value of lease transactions is EUR 18m (prior year: EUR 24m). Additional information on lease transactions is provided in Note (72).

(31) Risk provisions

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Risk provisions for loans and advances to banks			
German banks	—	—	—
Portfolio allowances on loans and advances	1	1	—
Total risk provisions for loans and advances to banks	**1**	**1**	**—**
Risk provisions for loans and advances to customers			
German customers	429	300	43
Foreign customers	—	—	—
Portfolio allowances on loans and advances	92	69	33
Total risk provisions for loans and advances to customers	**521**	**369**	41
Total	**522**	**370**	**41**

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

(in EUR m)	Specific valuation allowances		General loan loss provisions (on balance sheet)		Total		Loan loss provisions[1)]	
	2012	2011	2012	2011	2012	2011	2012	2011
Loans and advances to banks 1 Jan	**—**	**—**	**1**	**1**	**1**	**1**	**—**	**—**
Changes through profit or loss								
Allocations	—	—	—	—	**—**	**—**	—	—
Reversals	—	—	—	—	**—**	**—**	—	—
Unwinding	—	—	—	—	**—**	**—**	—	—
Changes recognized in equity			—					
Utilizations	—	—	—	—	**—**	**—**	—	—
Reclassifications	—	—	—	—	—	**—**	—	—
31 Dec	**—**	**—**	**1**	**1**	**1**	**1**	**—**	**—**
Loans and advances to customers 1 Jan	**300**	**232**	**69**	**68**	**369**	**300**	**21**	**26**
Changes through profit or loss								
Allocations	245	142	33	7	**278**	**149**	23	3
Reversals	-54	-41	—	—	**-54**	**-41**	-22	-6
Unwinding	-17	-10	—	—	**-17**	**-10**	0	1
Changes recognized in equity								
Utilizations	55	-29	—	—	**55**	**-29**	—	-1
Reclassifications	10	6	-10	-6	0	**—**	—	-2
31 Dec	**429**	**300**	**92**	**69**	**521**	**369**	**22**	**21**
Total	**429**	**300**	**93**	**70**	**522**	**370**	**22**	**21**

1) Including off-balance sheet general loan loss provisions

The total amount of loans for which no interest payments are received was EUR 62m as of 31 December 2012 (prior year: EUR 29m). Specific valuation allowances were made for loans with a total volume of EUR 1,338m (prior year: EUR 878m).

Outstanding interest due on these loans amounted to EUR 1m as of 31 December 2012 (prior year: EUR 1m). In the fiscal year, direct write-offs of loans and advances amounted to EUR 4m (prior year: EUR 6m). Recoveries on loans and advances previously written off amounted to EUR 2m (prior year: EUR 3m).

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

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

Rating	Very good to good		Good/ satisfactory		Still good/ adequate		Increased risk		High risk		Very high risk		No rating	
(in EUR m)	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Loans and receivables (LAR)														
Loans and advances to banks	3,803	4,825	—	—	—	—	—	—	—	—	—	—	—	—
Loans and advances to customers	12,626	12,060	2,851	2,960	3,089	3,319	1,308	1,350	681	1,027	1,326	1,093	1,806	876
Available for sale (AFS)														
Financial assets	5,556	4,999	—	—	—	—	236	236	26	—	—	17	—	—
Total	**21,985**	**21,884**	**2,851**	**2,960**	**3,089**	**3,319**	**1,544**	**1,586**	**707**	**1,027**	**1,326**	**1,110**	**1,806**	**876**

In the fiscal year, past due loans and receivables changed as follows:

Rating	Neither past due nor impaired		Past due but not impaired: Less than 3 months		3 to 6 months		6 to 12 months		More than 12 months	
(in EUR m)	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Loans and receivables (LAR)										
Loans and advances to banks	3,803	4,825	—	—	—	—	—	—	—	—
Loans and advances to customers	21,348	20,572	745	537	47	636	129	40	80	22
Available for sale (AFS)										
Financial assets	5,801	5,235	—	—	—	—	—	—	—	—
Total	**30,952**	**30,632**	**745**	**537**	**47**	**636**	**129**	**40**	**80**	**22**

In the fiscal year, impaired loans and receivables changed as follows:

(in EUR m)	Carrying amounts		Valuation allowances	
	2012	2011	2012	2011
Loans and receivables (LAR)				
Loans and advances to banks	—	—	—	—
Loans and advances to customers	1,338	878	429	300
Available for sale (AFS)				
Financial assets	17	17	—	—
Total	**1,355**	**895**	**429**	**300**

(32) Financial assets at fair value through profit or loss

This item contains trading assets (held for trading - HFT) and financial instruments designated at fair value. The trading activities of the Group comprise trading in debt securities and other fixed-income securities, shares and other variable-yield securities, registered securities and derivative financial instruments which are not used in hedge accounting.

Of the debt securities and other fixed-income securities measured at fair value through profit or loss and the shares and other variable-yield securities, EUR 116m (prior year: EUR 107m) are marketable and EUR 116m (prior year: EUR 107m) are listed.

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Trading assets			
Debt securities and other fixed-income securities			
Bonds and debt securities			
Issued by the public sector	15	10	50
Issued by other borrowers	20	15	33
Total debt securities and other fixed-income Securities	**35**	**25**	**40**
Positive fair values from derivatives in connection with:			
Interest rate risk	1,430	1,046	37
Currency risk	149	176	-15
Credit derivatives	12	20	-40
Total positive fair values from derivatives	**1,591**	**1,242**	**28**
Total trading assets	**1,626**	**1,267**	**28**
Financial assets designated at fair value			
Debt securities and other fixed-income securities	81	82	-1
Total financial assets designated at fair value	**81**	**82**	**-1**
Total	**1,707**	**1,349**	**27**

Of the total amount, EUR 1,320m (prior year: EUR 1,086m) are financial assets which will only be realized or settled after a period of more than 12 months.

The change in the fair value, which is due to the changes in the credit risk of the debt securities designated at fair value, totalled EUR 0.3m in the fiscal year (prior year: EUR -0.3m) and cumulatively EUR 0.1m (prior year: EUR -0.2m).

The calculation of the credit risk-induced fair value change is based on the change in the credit spreads for the issuers of the debt securities.

(33) Positive fair values from hedge accounting derivatives

This item comprises the positive fair values of hedging instruments in effective fair value hedges.

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Derivatives from micro fair value hedges	351	364	-4
Derivatives from portfolio fair value hedges	251	167	50
Total	**602**	**531**	**13**

Of the total amount, EUR 517m (prior year: EUR 462m) are hedging instruments which will be realized or settled after more than 12 months. Interest rate swaps are used as hedging instruments.

(34) Financial assets

The balance sheet item for financial assets includes all the debt securities and other fixed-income securities which are classified as available for sale (AFS), shares and other variable-yield securities, investments in entities which are not accounted for in accordance with IAS 27, IAS 28 or IAS 31.

Investments in the equity of other companies and silent partnerships and jouissance rights with involvement in the losses are allocated to the category of available for sale (AFS).

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Financial assets in the LAR category	—	—	—
Available-for-sale financial assets (AFS)			
Debt securities and other fixed-income securities			
Issued by the public sector	2,253	1,423	58
Issued by other borrowers	3,478	3,723	-7
Total debt securities and other fixed-income Securities	**5,731**	**5,146**	**11**
Shares and other variable-yield securities	1	9	-89
Investments in non-consolidated entities	54	65	-17
Other financial assets in the AFS category	32	32	—
Total	**5,818**	**5,252**	**11**

Of the total amount, EUR 5,309m (prior year: EUR 4,658m) represents available-for-sale financial assets (AFS) which will only be realized or settled after a period of more than 12 months.

The following table provides a summary of the financial information related to associates that are not accounted for using the equity method.

EUR m	Financial companies	Insurance companies	Other companies
Figures from the last approved financial statements			
Assets	20	35	107
Liabilities	0	2	58
Sales revenue	0	10	78
Profit/loss	4	0	-1

(35) Investments accounted for using the equity method

This item shows the investments in associates in terms of IAS 28 and measured according to the equity method. Investments accounted for in accordance with the equity method break down as follows:

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Associates			
Banks	17	15	13
Other companies	70	69	1
Total	**87**	**84**	**4**

Investments accounted for using the equity method have a term of more than 12 months.

(in EUR m)	Associates	
	2012	**2011**
1 Jan	**84**	**77**
Write-ups	3	7
31 Dec	**87**	**84**

The following table summarizes financial information on associates accounted for using the equity method in proportion to the shareholding:

EUR m	DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG	BREBAU GmbH	Ammerländer Wohnungsbau-Gesellschaft mbH [1]	Lazard-Sparkassen Rendite-Plus-Fonds	GSG OLDENBURG Bau- und Wohngesell-schaft mbH
Share in net assets as of 31 Dec 2012	**16.50%**	**48.84%**	**32.26%**	**49.18%**	**22.22%**
Assets	175	76	23	17	52
Liabilities	158	40	10	0	33
Equity	17	36	13	17	19
Total income	9	25	3	0	9
Profit/loss for the period	4	1	1	0	1

[1] Figures as of 31 December 2011.

(36) Property and equipment

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Land and buildings	49	28	75
Furniture, fixtures and office equipment	8	8	—
Other property and equipment	9	2	>100
Total	**66**	**38**	**74**

In 2012, the advanced payments totalled EUR 8m (prior year: EUR 3m) for the reconstruction of the Bremen branch beginning in 2013. In-house market value appraisals identified hidden reserves of EUR 28m in land and buildings (prior year: EUR 36m). The historical cost of property and equipment which had been fully amortized by the balance sheet date but which is still in use is EUR 22m (prior year: EUR 54m).

(37) Investment property

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Investment property	69	68	1
Total	**69**	**68**	**1**

The fair value of investment property amounts to EUR 33m (prior year: EUR 36m). Renting out this property earned EUR 7m in the fiscal year (prior year: EUR 7m). Direct operating expenses (including repairs and maintenance) excluding depreciation amounted to EUR 3m (prior year: EUR 2m).

The development of cost and accumulated depreciation and impairment for property and equipment and investment property is as follows:

(in EUR m)	Used for banking operations				Not used for banking operations		
	Land and buildings	Furniture, fixtures and office equipment	Prepay-ments/ assets under construction	Total	Investment property	Prepay-ments/ assets under construction	Total
Historical cost as of 1 Jan 2011	**78**	**31**	**2**	**111**	**82**	**1**	**83**
Additions	1	4	4	**9**	1	0	**1**
Disposals	—	0	-4	**-4**	0	-1	**-1**
Total as of 31 Dec 2011	**79**	**35**	**2**	**116**	**83**	**0**	**83**
Accumulated depreci-ation as of 1 Jan 2011	**-49**	**-26**	**—**	**-75**	**-13**	**—**	**-13**
Scheduled depreciation	-2	-1	—	**-3**	-2	—	**-2**
Unscheduled depreciation	—	—	—	**—**	—	—	**—**
Reclassifications	—	—	—	**—**	—	—	**—**
Disposals	—	—	—	**—**	—	—	**—**
Total as of 31 Dec 2011	**-51**	**-27**	**0**	**-78**	**-15**	**0**	**-15**
Closing balance as of 31 Dec 2011	**28**	**8**	**2**	**38**	**68**	**0**	**68**
Historical cost as of 1 Jan 2012	**79**	**35**	**2**	**116**	**83**	**0**	**83**
Additions	5	**3**	7	**15**	21	—	21
Reclassifications	23	**0**	—	**23**	-23	—	-23
Disposals	—	**-2**	—	**-2**	-2	—	-2
Total as of 31 Dec 2012	**107**	**36**	**9**	**152**	**102**	—	**79**
Accumulated depreci-ation as of 1 Jan 2012	**-51**	**-27**	—	**-78**	**-15**	—	**-15**
Scheduled depreciation	-2	**-2**	—	**-4**	-1	—	-1
Unscheduled depreciation	—	0	—	—	—	—	—
Reclassifications	-5	0	—	**-5**	5	—	5
Disposals	—	**1**	—	**1**	1	—	1
Total as of 31 Dec 2012	**-58**	**-28**	—	**-86**	-10	—	**-10**
Closing balance as of 31 Dec 2012	**49**	**8**	**9**	**66**	**92**	**0**	**69**

Additions and reclassifications for land and buildings relate to the Bank's operationally used interim space during the reconstruction phase of the building at Domshof.

(38) Intangible assets

Intangible assets relate to system and application software. They solely involve both purchased software and internally developed intangible assets. In 2012, EUR 1m (prior year: EUR 9m) was recognized as an internally developed intangible asset for the implementation of the integration architecture (SPOT). The remaining useful life of intangible assets is between 1 and 59 months. The historical cost of intangible assets which had been fully amortized by the balance sheet date but which are still in use is EUR 9m (prior year: EUR 10m).

Intangible assets developed as follows:

(in EUR m)	Purchased	Software Internally developed	Total
Historical cost as of 1 Jan 2011	**13**	**—**	**13**
Additions	1	10	11
Disposals	—	—	—
Total as of 31 Dec 2011	**14**	**10**	**24**
Accumulated depreciation as of 1 Jan 2011	**-11**	**—**	**-11**
Amortization	-1	-1	-2
Disposals	—	—	—
Total as of 31 Dec 2011	**-12**	**-1**	**-13**
Closing balance as of 31 Dec 2011	**2**	**9**	**11**
Historical cost as of 1 Jan 2012	**14**	**10**	**24**
Additions	1	1	2
Disposals	—	—	—
Total as of 31 Dec 2012	**15**	**11**	**26**
Accumulated depreciation as of 1 Jan 2012	**-12**	**-1**	**-13**
Amortization	-1	-2	-3
Disposals	—	—	—
Total as of 31 Dec 2012	**-13**	**-3**	**-16**
Closing balance as of 31 Dec 2012	**2**	**8**	**10**

(39) Current income tax assets and deferred income taxes

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Current income tax assets	**9**	**6**	**50**
Deferred tax assets	**122**	**143**	**-15**
Total	**131**	**149**	**-12**

Deferred tax assets show potential income tax relief from temporary differences in the carrying amounts of assets and liabilities in the IFRS consolidated balance sheet and their tax base in accordance with the tax regulations governing group entities. EUR 1m (prior year: EUR 0m) in deferred tax liabilities were offset directly against equity as of 31 December 2012.

Deferred income tax assets were recognized in connection with the following balance sheet items and unused tax losses:

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Loans and advances to customers	1	0	>100
Risk provisions	23	16	44
Financial assets at fair value through profit or loss	513	390	32
Financial assets	2	18	-89
Property and equipment	23	22	5
Intangible assets	0	1	-100
Liabilities to banks	13	12	8
Liabilities to customers	47	40	18
Securitized liabilities	37	25	48
Financial liabilities at fair value through profit or loss	44	82	-46
Negative fair values from hedge accounting derivatives	124	83	49
Provisions	65	65	—
Subordinated capital	3	9	-67
Tax loss carryforwards and other deferred tax assets	11	11	—
Total	**906**	**774**	**17**
Netting	784	631	24
Total	**122**	**143**	**-15**

Besides deferred taxes which are reported in the income statement, there are deferred tax claims from financial assets in the amount of EUR 1m (prior year: EUR 16m) and provisions of EUR 1m (prior year: EUR 0m), which are reported in other comprehensive income.

EUR 881m of the deferred income tax assets before netting will be realized after more than 12 months.

(40) Other assets

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Inventories	2	1	100
Tax refund claims resulting from other taxes	1	—	—
Other assets	47	26	81
Total	**50**	**27**	**85**

Other assets primarily include receivables from non-consolidated subsidiaries of EUR 15m (prior year: EUR 14m), claims against Eurex for EUR 15m and claims against Icelandic banks for EUR 8m (prior year: EUR 7m).

All the amounts recognized in other assets are due within the next 12 months.

(41) Liabilities to banks

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Deposits from other banks			
German banks	5	0	—
Foreign banks	—	—	—
Total deposits from other banks	**5**	**0**	**—**
Liabilities from money market business			
German banks	1,121	1,201	-7
Foreign banks	123	—	—
Total liabilities from money market business	**1,244**	**1,201**	**4**
Other liabilities			
German banks			
Payable on demand	557	246	>100
Limited term	8,887	8,426	5
Foreign banks			
Payable on demand	273	9	>100
Limited term	849	1,127	-25
Total other liabilities	**10,566**	**9,808**	**8**
Total	**11,815**	**11,009**	**7**

Of the total amount, EUR 9,669m (prior year: EUR 8,289m) are liabilities to banks which will probably only be realized or settled after more than 12 months.

Of the liabilities to German banks, EUR 771m (prior year: EUR 437m) relates to associated savings banks.

(42) Liabilities to customers

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Savings deposits			
With an agreed period of notice of three months			
German customers	175	158	11
Foreign customers	11	15	-27
With an agreed period of notice of more than three months			
German customers	7	17	-59
Foreign customers	1	1	—
Total savings deposits	**194**	**191**	**2**
Liabilities from money market business			
German customers	1,423	2,038	-30
Foreign customers	83	93	-11
Total liabilities from money market business	**1,506**	**2,131**	**-29**
Other liabilities			
German customers			
Payable on demand	2,721	1,847	47
Limited term	5,923	6,296	-6
Foreign customers			
Payable on demand	91	138	-34
Limited term	1	1	—
Total other liabilities	**8,736**	**8,282**	**5**
Total	**10,436**	**10,604**	**-2**

Of the total amount, EUR 6,687m (prior year: EUR 7,082m) are liabilities to customers which will probably only be realized or settled after more than 12 months.

(43) Securitized liabilities

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Issued debt securities			
Covered bonds	502	632	-21
Municipal debt securities	1,882	2,196	-14
Other debt securities	5,881	5,340	10
Total issued debt securities	**8,265**	**8,168**	**1**
Money market securities			
Commercial paper	181	524	-65
Other money market securities	—	—	—
Total money market securities	**181**	**524**	**-65**
Total	**8,446**	**8,692**	**-3**

Of the total amount, EUR 6,545m (prior year: EUR 6,536m) are securitized liabilities which will probably only be realized or settled after more than 12 months.

In accordance with IAS 39, debt securities issued and held by the Group itself in the nominal amount of EUR 104m (prior year: EUR 150m) were directly deducted from debt securities issued.

The following list contains the significant debt securities issued in 2012 with an issue volume of EUR 55m or more (prior year: EUR 40m).

Security abbreviation	Nominal	Currency	Maturity	Interest rate
BREM.LB.KR.A.OLD.OPF 95	100,000,000.00	EUR	6 Jan 2016	0.516
BREM.LB.KR.A.OLD.IS.156	64,146,000.00	EUR	20 Jan 2014	1.75
BREM.LB.KR.A.OLD.IS.159	150,000,000.00	EUR	17 Aug 2017	2.75
BREM.LB.KR.A.OLD.IS.177	61,500,000.00	EUR	1 Dec 2016	2.375
BREM.LB.KR.A.OLD.IS.178	100,300,000.00	EUR	12 Apr 2019	2.85
BREM.LB.KR.A.OLD.IS.180	81,900,000.00	EUR	9 May 2017	1.145
BREM.LB.KR.A.OLD.IS.190	58,401,000.00	EUR	14 Aug 2017	1.75

(44) Adjustment item for financial instruments included in the portfolio fair value hedge

This item comprises the changes in value due to interest rate fluctuations of designated other liabilities (OL) in the portfolio fair value hedge.

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Adjustment item for the portfolio fair valueAdjustment item for financial instruments included in the portfolio fair value hedge	241	142	70
Interest rate risk	**241**	**142**	**70**

(45) Financial liabilities at fair value through profit or loss

This item comprises the trading liabilities (held for trading – HFT). As in the prior year, there were no liabilities designated at fair value through profit or loss.

Trading liabilities are negative fair values resulting from derivative financial instruments which were not used in hedge accounting.

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Trading liabilities			
Negative fair values from derivatives in connection with:			
Interest rate risk	1,323	1,052	26
Currency risk	162	371	-56
Share price and other price risks	—	—	—
Credit derivatives	88	265	-67
Total trading liabilities	**1,573**	**1,688**	**-7**
Total	**1,573**	**1,688**	**-7**

Of the total amount, EUR 1,322m (prior year: EUR 1,281m) are financial instruments at fair value which will only be realized or settled after more than 12 months.

(46) Negative fair values from hedge accounting derivatives

This item comprises the negative fair values of hedging instruments in effective fair value hedges.

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Derivatives from micro fair value hedges	76	79	-4
Derivatives from portfolio fair value hedges	73	45	62
Total	**149**	**124**	**20**

Of the total amount, EUR 113m (prior year: EUR 93m) are hedging instruments which will be realized or settled after more than 12 months.

Interest rate swaps are used as hedging instruments.

(47) Provisions

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Provisions for pensions and similar obligations	374	281	33
Other provisions			
Loan loss provisions	22	21	5
Provisions for uncertain liabilities	22	17	29
Total	**418**	**319**	**31**

Of the loan loss provisions, EUR 3m (prior year: EUR 2m) relates to general loan loss provisions.

The other provisions concern amounts that were recognized for uncertain liabilities in connection with the lending business. The date of fulfilment is anticipated on the basis of an average holding period of four years. There are uncertainties with regard to the amount and date in the overall economic development for the individual borrower groups. Reimbursements are not anticipated.

The provisions for uncertain liabilities mostly include provisions that are connected with personnel obligations and a provision for interest obligations related to the payment of tax arrears. The anticipated date of fulfilment for the personnel obligations depends on the occurrence of the event for the employee. Uncertainties with regard to the amount and date depend on the employee's length of service as well as external and internal obligations (collective wage agreements, bank-specific agreements). Reimbursements are not anticipated.

Provisions for pensions and similar obligations

The provisions for pensions involve employee claims to company pension payments. The date of fulfilment is the beginning of the employee's retirement. There are uncertainties with regard to the amount and date of the payments, among others due to anticipated wage and salary increases, pension trends as well as the employee's age and length of service. Reimbursements are not anticipated.

Provisions for pensions and similar obligations break down as follows:

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Present value of defined benefit obligation	409	316	29
Less fair value of plan assets	-34	-35	-3
Total	**375**	**281**	**33**

The present value of the defined benefit obligation is reconciled between the opening and the closing balance, taking into account the effects of the following items:

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Opening balance	**316**	**311**	**2**
Current service cost	5	5	—
Interest cost	16	16	—
Actuarial gains/losses from the obligation	85	-2	—
Benefits paid	-14	-14	—
Closing balance	**408**	**316**	**29**

The present value of the obligation is funded in the amount of EUR 401m (prior year: EUR 311m) and unfunded in the amount of EUR 7m (prior year: EUR 5m).

The actuarial gains recognized in retained earnings break down as follows:

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Actuarial gains/losses	-3	82	—
Adjustment for deferred taxes	1	-26	—
Total	**-2**	**56**	**—**

The fair value of plan assets developed as follows:

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Opening balance	**35**	**36**	**-3**
Expected return on plan assets	1	1	—
Actuarial gains/losses from plan assets	1	-1	—
Employer contributions	11	13	-15
Benefits paid	-14	-14	—
Closing balance	**34**	**35**	**-3**

The total expenses reported in the income statement are broken down as follows:

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Current service cost	5	5	—
Interest cost	16	16	—
Expected return on plan assets	-1	-1	—
Total expenses	**20**	**20**	—

The expected income from the plan assets and the interest expenses are reported in net interest income. The current service cost is included in the administrative expenses item.

Plan assets and expected returns by type of asset break down as follows:

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Equity instruments	7.2%	3.9%	85
Debt instruments	79.0%	69.8%	13
Other assets	13.8%	26.3%	-47
	100.0%	**100.0%**	—

The cover funds of Bremer Landesbank's pension fund are reported as plan assets. Funds which are not required for current pension payments have been invested in annuity bonds and equities under an asset management agreement. Plan assets are measured at fair value.

The Group expects payments to employees and allocations to plan assets of EUR 10m in 2013. In the fiscal year, the actual return on plan assets amounted to EUR 2m (prior year: EUR 0m). The fair value of plan assets contains financial instruments issued by Bremer Landesbank in the debt instruments category of EUR 4m (prior year: EUR 3m).

The income expected from the plan assets has been previously calculated for each company individually by taking into account the composition of the plan assets (asset allocation).

In accordance with the revised IAS 19, the returns on the plan assets are assumed at the amount of the discount interest rate at the beginning of the period as of fiscal year 2013 (3.6%). The discount interest rate is used as the basis for the measurement of the pension obligation.

With the revised IAS 19, the previous procedure of separate calculation and disclosure of the expected income from the plan assets is discontinued. The anticipated income from the plan asset is considered in accordance with IAS 19 (revised) for the calculation of the net interest income.

The history of the present value of the defined benefit obligation and the fair value of plan assets are shown in the following table:

(in EUR m)	31 Dec 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008
Present value of defined benefit obligation	408	316	311	297	272
Fair value of plan assets	-34	-35	-36	-38	-39
Balance	**374**	**281**	**275**	**259**	**233**

Experience adjustments to plan assets and the volume of obligations break down as follows:

(in EUR m) + = Income - = Expense	31 Dec 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008
Differences between return on plan assets and actual income	1	-1	0	1	-2
Experience adjustments to pension obligations	-4	8	4	0	9

The assumptions on the development of costs in the medical sector affect the amounts shown for health insurance benefits. A change in the assumed development of healthcare costs by 1 percentage point would have the following effects for the Group:

(in EUR m)	Increase by 1 percentage point		Decrease by 1 percentage point	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Effect on the obligation at year-end	2	1	1	-1
Effect on total current service and interest cost for the fiscal year	0	0	0	0

Other provisions

The other provisions developed as follows:

(in EUR m)	Provisions for uncertain liabilities			
	Loan loss provisions	Provisions for personnel obligations	Other provisions for other uncertain liabilities	Total
Balance as of 1 Jan 2011	**26**	**18**	**1**	**45**
Utilizations	-1	-4	-1	-6
Reversals	-6	0	0	-6
Allocations	4	2	1	7
Reclassifications	-2	0	—	-2
Balance as of 31 Dec 2011	**21**	**16**	**1**	**38**
Balance as of 1 Jan 2012	**21**	**16**	**1**	**38**
Utilizations	0	-4	-1	-5
Reversals	-22	0	0	-22
Allocations	23	7	3	33
Reclassifications	—	—	—	—
Balance as of 31 Dec 2012	**22**	**19**	**3**	**44**

Other provisions comprise loan loss provisions, provisions for personnel obligations and other provisions for uncertain liabilities. The Bank has not recognized any provisions for restructuring or pending losses.

Loan loss provisions relate to provisions that could result for uncertain liabilities from possible legal claims made by borrowers against the Bank. The date of fulfilment is anticipated on the basis of an average holding period of four years. There are uncertainties with regard to the amount and date in the overall economic development for the individual borrower groups. Reimbursements are not anticipated.

The discount for the other loan loss provisions was increased by a total of EUR 798k (prior year: EUR 905k). EUR 91k (prior year: EUR 25k) of this amount resulted from the change in the discount rate.

The obligations in the pension area involve early retirement and long-service provisions as well as an internal bank provision for other personnel obligations. The anticipated date of fulfilment for the personnel obligations depends on the occurrence of the event for the employee. Uncertainties with regard to the amount and date depend on the employee’s length of service as well as external and internal obligations (collective wage agreements, bank-specific agreements). Reimbursements are not anticipated.

Provisions for personnel comprise provisions for early retirement of EUR 14m (prior year: EUR 13m) and provisions for long-service of EUR 4m (prior year: EUR 3m).

Other provisions for uncertain liabilities relate to provisions for interest obligations related to the payment of tax arrears, trade and sales taxes, trial costs and bonus payments from the bonus savings agreements. The anticipated date of fulfilment for interest obligations depends on the issuance of interest assessments by the place of residency. For other taxes, it depends on the issuance of amended tax assessments. In the case of trial costs, it depends on the length of the proceedings, which is expected to be two years, and for bonus savings it depends on the contractual form of the bonus savings agreements. Uncertainties with regard to the amount and date of fulfilment result from interest obligations related to the payment of tax arrears and from the status of the fiscal tax audit as of balance sheet date for the trade and sales tax. For trial costs, these uncertainties are based on the anticipated length of the legal dispute and for bonus savings on the contract holder’s intention to hold the investment. Reimbursements are not anticipated in every case.

None of the provisions are expected to be utilized within 12 months.

(48) Current income tax liabilities and deferred income taxes

Income tax liabilities break down as follows:

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Current income tax liabilities	16	32	-50
Deferred tax liabilities	2	2	—
Total	**18**	**34**	**-47**

Deferred tax liabilities show potential income tax charges from temporary differences in the carrying amount of assets and liabilities in the IFRS consolidated balance sheet and their tax base in accordance with the tax regulations governing group entities. EUR 3m (prior year: EUR 0m) in deferred tax liabilities were offset directly against equity as of 31 December 2012.

Deferred tax liabilities relate to the following balance sheet items:

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Loans and advances to customers	5	6	-17
Positive fair values from hedge accounting derivatives	191	166	15
Financial assets	29	16	81
Property and equipment	1	0	0
Investment property	3	5	-40
Intangible assets	0	2	-100
Financial liabilities at fair value through profit or loss	539	394	37
Provisions	0	26	-100
Other liabilities	18	18	—
Total	**786**	**633**	**24**
Netting	784	631	24
Total	**2**	**2**	**—**

Besides deferred taxes which are reported in the income statement, there are deferred tax liabilities from financial assets in the amount of EUR 4m (prior year: EUR 1m) and provisions of EUR 0m (prior year: EUR 26m), which are reported in other comprehensive income.

EUR 774m of the deferred income tax liabilities before netting will be realized after more than 12 months.

(49) Other liabilities

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Liabilities from outstanding invoices	5	4	25
Liabilities from contributions	0	1	-100
Liabilities from short-term employee remuneration	10	9	11
Liabilities from payable taxes and social security contributions	2	2	—
Other liabilities	65	18	> 100
Total	**82**	**34**	**> 100**

Accrued liabilities for short-term employee remuneration will be paid to Group employees during the first six months of 2013.

Other liabilities relate to the reporting of a cash payment claim by the owners of BLB for EUR 45m, Bremer Landesbank liabilities to third parties of EUR 17m (prior year: EUR 9m) and the allocation to the cover fund of the pension fund for EUR 1m (prior year: EUR 4m).

All the amounts recognized in other liabilities will be realized within the next 12 months.

(50) Subordinated capital

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Subordinated liabilities	710	506	40
Silent participations	21	664	-97
Total	**731**	**1,170**	**-38**

Items reported in subordinated capital exclusively comprise liable capital in accordance with the Basel Accord. Subordination relates to the order in which payments due to creditors would be satisfied in the event of insolvency or liquidation. In such cases, subordinated liabilities would not be repaid until the claims of all senior creditors had been satisfied.

Interest expenses for subordinated liabilities amounted to EUR 15m (prior year: EUR 15m). Accrued interest not yet due is reported in subordinated capital under subordinated liabilities.

Due to their contractual form and economic substance, silent participations constitute liabilities in accordance with IAS 32. In the context of the Basel III rules for regulatory capital that in future will gradually come into force, the owners of the Bank converted the previously available and reported silent participations into what is known as hard core capital over the course of 2012. The remaining liabilities from silent participations in the amount of EUR 21m are due to interest still to be paid in fiscal year 2013 for the period until the conversion in fiscal year 2012 (interest expenses in prior year: EUR 32m).

To replace medium-term maturities of other subordinated debt securities and to strengthen regulatory capital, a total of EUR 200m in subordinate funds was raised in the course of 2012.

The subordinated liabilities have a nominal amount of EUR 150m (prior year: EUR 150m) that is fixed income and EUR 550m (prior year: EUR 350m) that has variable yields.

At the end of 2012, the following significant subordinated liabilities were outstanding:

Nominal amount (in EUR m)	Maturity	Interest rate
150	15 Dec 2015	4.875
150	16 Nov 2027	Variable
50	6 Dec 2027	Variable
200	28 Jun 2030	Variable
85	21 Mar 2031	Variable
65	5 Apr 2041	Variable
700		

Of the total amount, a nominal EUR 700m (prior year: EUR 500m) are subordinated liabilities which will only be realized or settled after a period of more than 12 months.

(51) Notes to the statement of comprehensive income

(in EUR m)	1 Jan 2012 - 31 Dec 2012			1 Jan 2011 - 31 Dec 2011		
	Amount before taxes	Effect of income taxes	Amount after taxes	Amount before taxes	Effect of income taxes	Amount after taxes
Consolidated profit	**168**	**-46**	**122**	**164**	**-34**	**130**
Change from available for sale (AfS) financial instruments	47	-17	**30**	-57	13	**-44**
Changes in value of investments accounted for using the equity method recognized directly in equity	0	0	**0**	0	0	**0**
Actuarial gains/losses on defined benefit obligation	-85	26	**-59**	1	-1	**—**
Other comprehensive income	**-38**	**9**	**-29**	**-56**	**12**	**-44**
Total comprehensive income	**130**	**-37**	**93**	**108**	**-22**	**86**
thereof: attributable to shareholders of the parent company			**93**			**86**
thereof: attributable to non-controlling interests			**—**			**—**

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

(52) Notes on equity

Retained earnings include amounts allocated to the reserves from the profits of prior years and the current year. This item also reports actuarial gains from pension provisions and the profits/losses from investments accounted for using the equity method, which are recognized directly in equity.

The revaluation reserve includes the amounts resulting from the recognition of valuation differences relating to available-for-sale financial assets. Related deferred taxes are deducted.

Bremer Landesbank's shareholders are as follows:

	31 Dec 2012	31 Dec 2011
NORD/LB Norddeutsche Landesbank – Girozentrale	54.8343%	92.50%
Federal State of Bremen	41.2000%	7.50%
Savings Banks Association of Lower Saxony	3.9657%	—
Total	**100.0000%**	**100.0%**

By contract, Bremer Landesbank's share capital is not divided into a specific number of shares or nominal amounts. Voting rights and the right to dividends are in proportion to the owners' shares in capital. The change in the percentage of shares is mainly due to the conversion of the silent participations to share capital and other reserves.

Capital management aims to achieve compliance with legal minimum requirements and a balance between risk potential and risk capital in order to ensure that the Bank is able to act at all times (cf. 5 Opportunities and risk report in Risk-bearing capacity chapter).

On the basis of this risk-bearing capacity concept, the risk potential of each type of risk is aggregated on a monthly basis and compared with the Bank's risk capital. In the risk-bearing capacity model, this is ensured by means of three perspectives.

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

- The going concern approach is supplemented by the economic capital adequacy perspective in which the risk potential is calculated with higher confidence levels. Risks are measured on the basis of serious events of the kind that occur statistically about once every 1,000 years. On the capital side, the tests include all the equity and equity-related components. Effects on risk capital arising during the year are also taken into account. This perspective provides proof of the capital adequacy required under the Minimum Requirements for Risk Management (ICAAP – Internal Capital Adequacy Assessment Process).

- In the third perspective, regulatory capital adequacy, risk-bearing capacity is tested on the basis of the regulatory requirements. As with the economic capital adequacy perspective, all equity and equity-related components are included on the capital side. This perspective must be complied with as a strict condition.

(in EUR m)	Risk capital	
	31 Dec 2012	31 Dec 2011
Going Concern	553	558
Gone Concern	2,013	1,730
Regulatory capital	2,005	1,895

Additionally, under the ICAAP (Internal Capital Adequacy Assessment Process; second pillar of Basel II), a capital-risk ratio is calculated based on eligible capital excluding unused tier three capital in accordance with the German Solvency Regulation.

The external capital requirements were met at all times in the reporting period.

If an owner intends to sell his shares in the Bank in full or in part, he the shares are to be offered to the other owners at the proportionate value of the company. NORD/LB is also obliged to offer its shares in Bremer Landesbank to the Free Hanseatic City of Bremen at the business value if the state of Lower Saxony and/or the Association of the Savings Banks of Lower Saxony (SVN) dispose of their majority in the share capital of NORD/LB, hence relinquishing their indirect authority to make decisions concerning Bremer Landesbank (change of control). In the consortium agreement dated 28 August 2012, the owners of the Bank agreed to other events on account of which NORD/LB is obligated to offer its shares and the Free Hanseatic City of Bremen gains a commensurate right to purchase them.

There are no other preferential rights and restrictions in accordance with IAS 1.79 (a) (v).

(53) Notes to the cash flow statement

The cash flow statement shows the change in cash and cash equivalents in the fiscal year based on the cash flows from operating, investing and financing activities.

Cash and cash equivalents are defined as cash reserves (cash on hand and bank balances at the central banks). Loans and advances to banks are not a part of cash and cash equivalents since they are not used to meet short-term payment obligations.

The cash flow from operating business activities has been calculated, starting with the consolidated profit, according to the indirect method. Initially, the expenses and income that did not have an impact on payments in the year under review are added or deducted. In addition, all cash expenses and income that do not relate to operating activities are eliminated. These payments are included in the cash flow from investing or financing activities.

In accordance with the recommendations of the IASB, payments from loans and advances to banks and customers, trading book positions, liabilities to banks and customers and securitized liabilities are recognized in the cash flow from operating activities.

The cash flow from investing activities includes payment processes for the investment and securities portfolio of financial assets and cash receipts and payments for property and equipment and the acquisition of subsidiaries.

The cash flow from financing activity includes cash flows from changes in capital, interest payments on subordinated capital and dividend payments to the owners of the parent Bremer Landesbank.

The change in other non-cash items includes in particular the change in the risk provisions of EUR 152m (prior year: EUR 69m) and the adjustment item for financial instruments in the fair value hedge portfolio of EUR 99m (prior year: EUR 120m).

Other adjustments (net) mainly include adjustments in order to represent the interest and dividends received and paid as a separate item in the cash flow from operating activities.

In 2012, interest paid totalled EUR 1,589m (prior year: EUR 1,832m).

Information contained in the cash flow statement is of limited significance for banks. The cash flow statement neither replaces the liquidity or financial plan, nor is it used as a control instrument.

Please see the comments in the risk section regarding the Bremer Landesbank Group's liquidity risk management.

Notes on financial instruments

(54) Fair value hierarchy

The following tables show the application of the fair value hierarchy of the financial assets and liabilities recognized at fair value:

(in EUR m)	Level 1 (Mark-to-market)	Level 2 (Mark-to-matrix)	Level 3 (Mark-to-model)
31 Dec 2012			
Trading assets	21	1,605	0
Financial assets designated at fair value	81	0	0
Positive fair values from hedge accounting derivatives	—	602	0
Financial assets at fair value	3,826	1,859	116
Other assets	8	—	—
Assets	**3,936**	**4,066**	**116**
Trading liabilities	0	1,569	4
Financial liabilities designated at fair value	0	0	0
Negative fair values from hedge accounting derivatives	0	149	0
Liabilities	**0**	**1,718**	**4**
31 Dec 2011			
Trading assets	—	1,260	7
Financial assets designated at fair value	82	—	—
Positive fair values from hedge accounting derivatives	—	531	—
Financial assets at fair value	4,103	21	1,110
Other assets	7	—	—
Assets	**4,192**	**1,812**	**1,117**
Trading liabilities	0	1,583	105
Financial liabilities designated at fair value	—	—	—
Negative fair values from hedge accounting derivatives	—	124	—
Liabilities	**0**	**1,707**	**105**

Fair values from the synthetic credit portfolio of CDSs (Level 2 and Level 3) now total 2.9% as of 31 December 2012 (prior year: 8.3%) of the nominal amounts of EUR 2.6b (prior year: EUR 2.9b). The Bank intends to hold the existing synthetic credit portfolio to maturity.

In the case of mark-to-model valuation (Level 3), the fair values depend on the assumptions made, i.e. changes in the assumptions may lead to changes in fair value. Significant effects of such changes in value attributable to changes in assumptions are reviewed for the fair values recognized in the financial statements using a sensitivity analysis.

- During the analysis of sensitivity on Level 3 of the securities model, the internal rating is upgraded by one rating category and downgraded by one rating category, respectively. The sensitivity of the shift is indicated by the mean value of the two calculations and amounts to EUR 1.9m for the securities (prior year: EUR 8.4m).

- During the analysis of sensitivity on Level 3 of the CDS model, the internal rating is upgraded by one rating category and downgraded by one rating category, respectively. The sensitivity of the shift is indicated by the mean value of the two calculations and amounts to EUR 0.1m for the CDS model (prior year: EUR 9.5m)

- Adjusted beta is changed by -0.1 and +0.1 to analyze sensitivity on Level 3 of the financial assets model. The sensitivity of the shift is indicated by the mean value of the two calculations and amounts to EUR 3.5m for the financial assets (prior year: EUR 4.3m).

Transfers within the fair value hierarchy break down as follows:

(in EUR m)	From Level 1 to Level 2	From Level 1 to Level 3	From Level 2 to Level 1	From Level 2 to Level 3	From Level 3 to Level 1	From Level 3 to Level 2
31 Dec 2012						
Trading assets	—	—	—	—	—	7
Financial assets designated at fair value	—	—	—	—	—	—
Positive fair values from hedge accounting derivatives	—	—	—	—	—	—
Financial assets at fair value	243	—	—	0	166	741
Assets	**243**	**—**	**0**	**—**	**166**	**748**
Trading liabilities	—	—	—	0	—	97
Financial liabilities designated at fair value	—	—	—	—	—	—
Negative fair values from hedge accounting derivatives	—	—	—	—	—	—
Liabilities	**—**	**—**	**—**	**—**	**—**	**97**
31 Dec 2011						
Trading assets	—	—	—	—	—	6
Financial assets designated at fair value	—	—	—	—	—	—
Positive fair values from hedge accounting derivatives	—	—	—	—	—	—
Financial assets at fair value	21	391	0	10	101	—
Assets	**21**	**391**	**—**	**10**	**101**	**6**
Trading liabilities	—	—	—	5	—	40
Financial liabilities designated at fair value	—	—	—	—	—	—
Negative fair values from hedge accounting derivatives	—	—	—	—	—	—
Liabilities	**—**	**—**	**—**	**5**	**—**	**40**

As of the balance sheet date 2012, the instrument-specific price information for individual securities was rated as less reliable than on the prior-year balance sheet date. For a number of previously illiquid securities, the increasing liquidity on the market as of balance sheet date made it possible to identify comparable securities that permit measurement according to Level 2. Increasing liquidity on the market also caused CDSs previously measured according to Level 3 to be shifted to Level 2.

The development of financial assets and liabilities on Level 3 of the fair value hierarchy is as follows:

(in EUR m)	Trading assets	Financial assets at fair value	Total	Trading liabilities
Opening balance as of 1 Jan 2011	**12**	**909**	**921**	**-165**
P&L effect	1	16	**17**	-11
Effect of revaluation reserve	—	-27	**-27**	—
Purchases	—	43	**43**	—
Sales	—	—	**—**	—
Redemptions	—	-131	**-131**	36
Shift up from Levels 1 and 2	0	401	**401**	-5
Shift down to Levels 1 and 2	-6	-101	**-107**	40
Closing balance as of 31 Dec 2011	**7**	**1,110**	**1,117**	**-105**
Opening balance as of 1 Jan 2012	**7**	**1,110**	**1,117**	**-105**
P&L effect	—	0	**0**	2
Effect of revaluation reserve	—	-10	**-10**	—
Purchases	—	0	**0**	—
Sales	—	—	**0**	—
Redemptions	0	-77	**-77**	2
Shift up from Levels 1 and 2	—	—	**0**	—
Shift down to Levels 1 and 2	-7	-907	**-914**	97
Closing balance as of 31 Dec 2012	**0**	**116**	**116**	**-4**

As in 2011, the P&L effects are due in full to assets and liabilities held at the end of the reporting period.

The P&L effects do not include any current profits and losses.

(55) Carrying amounts by measurement category

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Asset items			
Loans and receivables (LAR)	26,993	27,165	-1
Available-for-sale assets (AFS)	5,818	5,252	11
Held-for-trading financial assets (HFT)	1,626	1,267	28
Financial assets designated at fair value through profit or loss	81	82	-1
Positive fair values from hedges	602	531	13
Total asset items	**35,120**	**34,297**	**2**
Liability items			—
Other liabilities (OL)	31,669	31,617	0
Held-for-trading financial liabilities (HFT)	1,573	1,688	-7
Negative fair values from hedges	149	124	20
Total liability items	**33,391**	**33,429**	**-0**

The cash reserve is not included as a financial instrument as it is not allocated to any measurement category.

(56) Profit/loss by measurement category

The following contributions to profit and loss stem from the individual measurement categories:

	1 Jan-31 Dec 2012 (in EUR m)	1 Jan-31 Dec 2011 (in EUR m)	Change (in %)
Loans and receivables (LAR)	-228	-112	> 100
Other liabilities	—	-2	-100
Available-for-sale assets (AFS)	9	-6	—
Held-for-trading financial instruments	108	12	> 100
Financial instruments designated at fair value through profit or loss	-1	0	—

The profits/losses do not contain any interest, commission or dividend income/expenses. They also do not contain the profit/loss from hedge accounting.

Valuation gains on available-for-sale financial assets of EUR 9m (prior year: EUR -36m) were recognized in other comprehensive income (revaluation reserve). In the same period, valuation gains of EUR 0m which were previously recognized under other comprehensive income were reclassified from the revaluation reserve to the income statement (prior year: EUR 21m).

(57) Impairments/Reversals of impairments by measurement category

	1 Jan-31 Dec 2012 (in EUR m)	1 Jan-31 Dec 2011 (in EUR m)	Change (in %)
Loan loss provisions			
Allocations to/reversals of provisions for finance guarantees	1	0	—
Allocations to/reversals of other loan loss provisions	-1	3	—
Total loan loss provisions	**0**	**3**	-100
Available-for-sale assets (AFS)			—
Profit/loss from impairment of financial assets	0	-5	-100
Write-downs/write-ups of other assets	-1	-1	—
Total available-for-sale assets	**-1**	**-6**	-83
Loans and receivables (LAR)			
Impairment profit/loss			
Profit/loss from specific valuation allowances in lending business	—	—	—
Loans and advances to banks	0	—	—
Loans and advances to customers	-194	-104	87
Profit/loss from general loan loss provisions in lending business	-34	-7	> 100
Total loans and receivables[1)]	**-228**	**-111**	> 100
Total	**-228**	**-111**	**> 100**

[1)] Excluding unwinding effects.

The result from the valuation of loans and receivables (LAR) is stated under provisions for lending business. Changes in value for available for sale assets are reported in the profit/loss from financial assets and the measurement gains on other assets are recognized in other operating income.

(58) Fair values of financial instruments

The fair values of financial instruments are compared in the following table with carrying amounts by class.

(in EUR m)	Basis of measurement	31 Dec 2012		31 Dec 2011	
		Fair value	Carrying amount	Fair value	Carrying amount
Assets					
Cash reserve	Fair value	76	76	214	214
Loans and advances to banks	Amortized cost	4,017	3,803	4,942	4,825
Loans and advances to customers	Amortized cost	21,957	23,687	23,387	22,685
Receivables from finance leases	Amortized cost	17	17	22	22
Risk provisions	Fair value	—	-522	—	-370
Financial assets at fair value through profit or loss					
Trading assets	Fair value	1,626	1,626	1,267	1,267
Financial assets designated at fair value	Fair value	81	81	82	82
Financial assets					
Financial assets in the AFS category	Fair value	5,801	5,801	5,235	5,235
Financial assets in the AFS category (at cost)	Amortized cost	17	17	17	17
Positive fair values from hedge accounting derivatives	Fair value	602	602	531	531
Other assets					
in the LAR category	Fair value	18	18	18	18
in the AFS category	Fair value	7	7	7	7
Total		**34,219**	**35,213**	**35,709**	**34,511**
Liabilities					
Liabilities to banks	Amortized cost	12,100	11,815	10,924	11,009
Liabilities to customers	Amortized cost	11,047	10,436	10,782	10,604
Liabilities from finance leases	Amortized cost	—	—	—	—
Securitized liabilities	Amortized cost	8,519	8,446	8,380	8,692
Adjustment item for financial instruments included in the portfolio fair value hedge	Fair value	0	241	—	142
Financial liabilities at fair value through profit or loss					
Trading liabilities	Fair value	1,573	1,573	1,688	1,688
Negative fair values from hedge accounting derivatives	Fair value	149	149	124	124
Subordinated capital					
Silent participations	Amortized cost	701	664	701	664
Subordinated liabilities	Amortized cost	538	506	538	506
Other liabilities					
in the other liabilities (OL) category	Amortized cost	1	1	0	0
Total		**34,628**	**33,831**	**33,135**	**33,427**
Additional classes					
Irrevocable loan commitments		79	1,804	68	2,643
Financial guarantees		0	617	4	607

The fair values of loans and advances to banks and customers include risk provisions.

The fair value of the adjustment item for financial instruments included in the portfolio fair value hedge is stated under the balance sheet items of the designated underlying transactions.

Investments in entities of EUR 17m (prior year: EUR 17m) were recognized at amortized cost. These shares are not listed in an active market. In the absence of forecast figures, it was not possible to reliably value these investments in entities. The Group does not plan any changes in relation to these shares.

(59) Maximum default risk and available collateral

The following table shows the maximum default risk and the available collateral, broken down by financial instrument class: The held securities cannot be sold or transferred without the owners defaulting in payment. Furthermore, there were no violations or infringements of loan agreements in the reporting period.

(in EUR m)	Carrying amount before risk provisions	Risk provisions	Maximum default risk	Fair value of available collateral
31 Dec 2012				
Loans and advances to banks	3,803	0	3,803	—
Loans and advances to customers	23,687	429	23,258	7,381
Irrevocable loan commitments	1,804	0	1,804	26
Financial guarantees	617	15	602	138
Total	**29,911**	**444**	**29,467**	**7,545**
31 Dec 2011				—
Loans and advances to banks	4,825	—	4,825	—
Loans and advances to customers	22,685	-300	22,385	7,114
Irrevocable loan commitments	2,643	0	2,643	63
Financial guarantees	607	-17	590	137
Total	**30,786**	**-325**	**30,461**	**7,314**

The available collateral breaks down as follows:

(in EUR m)	Commercial real estate	Guarantees	Other physical collateral	Other collateral	Total
31 Dec 2012					
Loans and advances to customers	2,103	2,962	1,400	916	**7,381**
Irrevocable loan commitments	8	1	17	0	**26**
Financial guarantees	64	2	62	10	**138**
Total	**2,175**	**2,965**	**1,479**	**926**	**7,545**
31 Dec 2011					
Loans and advances to customers	1,983	2,810	1,245	1,076	**7,114**
Irrevocable loan commitments	12	0	50	1	**63**
Financial guarantees	66	3	59	9	**137**
Total	**2,061**	**2,813**	**1,354**	**1,086**	**7,314**

As in the prior year, no collateral has been provided for loans and advances to banks.

(60) Derivative financial instruments

The Bremer Landesbank Group employs derivative financial instruments for hedging purposes in asset/liability management. It also trades in derivative financial instruments.

Derivative financial instruments in foreign currencies are chiefly concluded as forward exchange contracts, currency swaps, cross-currency interest rate swaps and currency options. Interest rate derivatives primarily comprise interest rate swaps, forward rate agreements as well as interest rate futures and interest rate options; in a few cases, forward contracts for fixed-income securities are also entered into. Equity derivative agreements are mainly concluded as equity options and equity index futures. There are also credit default swaps.

Nominal values are the gross volume of all purchases and sales. This value is a reference figure for calculating mutual compensation payments; it does not refer to loans and advances and liabilities which can be recognized in the balance sheet. The fair values of the individual contracts were measured on the basis of recognized valuation models without taking into account any netting agreements.

Derivative financial instruments break down as follows:

(in EUR m)	Nominal values		Positive fair values		Negative fair values	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Interest rate risk	**44,920**	**43,799**	**2,032**	**1,578**	**1,473**	**1,176**
Interest rate swaps	41,202	41,419	2,006	1,558	1,417	1,131
FRAs	1,200	0	0	0	0	0
Swaption	**421**	**204**	**5**	**0**	**17**	**11**
Purchases	123	37	5	0	0	0
Sales	298	167	0	0	17	11
Caps, floors	1,666	1,758	21	19	21	19
Stock exchange contracts	381	358	0	1	0	0
Other forward interest rate transactions	50	60	0	0	18	15
Currency risk	**9,495**	**12,377**	**149**	**175**	**162**	**372**
Forward exchange contracts	267	341	3	6	5	11
Currency swaps/cross-currency interest rate swaps	8,986	11,456	141	159	155	353
Currency options	**98**	**391**	**5**	**9**	**2**	**7**
Purchases	61	201	5	9	0	0
Sales	37	190	0	0	2	7
Other exchange contracts	144	189	0	1	0	1
Share price and other price risks	**0**	**0**	**0**	**0**	**0**	**0**
Equity forward contracts	0	0	0	0	0	0
Equity options	**0**	**0**	**0**	**0**	**0**	**0**
Purchases	0	0	0	0	0	0
Sales	0	0	0	0	0	0
Stock exchange contracts	0	0	0	0	0	0
Credit derivatives	**2,600**	**2,950**	**12**	**20**	**88**	**265**
Protection buyer	162	212	12	20	0	0
Protection seller	2,438	2,738	0	0	88	265
Total	**57,015**	**59,126**	**2,193**	**1,773**	**1,723**	**1,813**

The residual terms to maturity of the derivative financial instruments, based on their nominal values, break down as follows. The period between the balance sheet date and the contractual due date of the receivable or liability is the residual term to maturity.

(in EUR m)	Interest rate risk		Currency risk		Share price and other price risks		Credit derivatives	
	2012	2011	2012	2011	2012	2011	2012	2011
Residual maturities								
Up to 3 months	7,840	7,059	1,699	2,547	0	0	45	110
More than 3 months up to 1 year	7,105	7,193	2,810	4,608	0	0	134	150
More than 1 year up to 5 years	17,266	17,266	4,201	4,230	0	0	2,361	2,350
More than 5 years	12,709	12,281	785	992	0	0	60	340
Total	**44,920**	**43,799**	**9,495**	**12,377**	**0**	**0**	**2,600**	**2,950**

The following table contains an analysis of the maturities of derivative financial liabilities on the basis of the remaining contractual terms:

(in EUR m)	Up to 1 month	More than 1 month up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years	Total
31 Dec 2012						
Negative fair values from trading derivatives	59	47	292	830	309	**1,537**
Negative fair values from hedge accounting derivatives	16	11	18	95	10	**150**
Total	**75**	**58**	**310**	**925**	**319**	**1,687**
31 Dec 2011						
Negative fair values from trading derivatives	37	61	357	716	315	**1,484**
Negative fair values from hedge accounting derivatives	17	8	4	87	9	**125**
Total	**54**	**69**	**361**	**803**	**324**	**1,609**

The following table shows the positive and negative fair values of derivative transactions broken down by counterparty.

(in EUR m)	Nominal values		Positive fair values		Negative fair values	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Banks in the OECD	52,127	53,541	1,951	1,553	1,688	1,772
Public institutions in the OECD	137	36	5	1	0	0
Other counterparties (including stock exchange contracts)	4,751	5,549	237	219	35	41
Total	**57,015**	**59,126**	**2,193**	**1,773**	**1,723**	**1,813**

(61) Disclosures on selected countries

The following table shows the reported values of financial assets with counterparties in selected countries. The sovereign exposure figures refer to transactions with sovereigns, regional governments, local authorities and government-related entities.

(in EUR m)	Held-for-trading financial instruments		Available for sale (AFS) Assets		Loans and receivables	
	2012	2011	2012	2011	2012	2011
Portugal						
Sovereign exposure	0	0	0	0	0	0
Financial institutions/insurance companies	0	0	0	0	0	0
Corporates/other	0	0	0	0	0	1
Total Portugal	**0**	**0**	**0**	**0**	**0**	**1**
Italy						
Sovereign exposure	0	0	0	0	0	0
Financial institutions/insurance companies	0	0	260	277	1	16
Corporates/other	0	0	0	0	0	0
Total Italy	**0**	**0**	**260**	**277**	**1**	**16**
Ireland						
Sovereign exposure	0	0	0	0	0	0
Financial institutions/insurance companies	0	0	151	141	22	60
Corporates/other	0	0	0	0	23	0
Total Ireland	**0**	**0**	**151**	**141**	**45**	**60**
Greece						
Sovereign exposure	0	0	0	0	0	0
Financial institutions/insurance companies	0	0	0	0	0	0
Corporates/other	0	0	0	0	0	0
Total Greece	**0**	**0**	**0**	**0**	**0**	**0**
Spain						
Sovereign exposure	0	0	0	0	0	0
Financial institutions/insurance companies	4	2	110	169	12	18
Corporates/other	0	0	0	0	0	0
Total Spain	**4**	**2**	**110**	**169**	**12**	**18**
Cyprus						
Sovereign exposure	0	0	0	0	0	0
Financial institutions/insurance companies	0	0	0	0	0	0
Corporates/other	0	0	0	0	352	354
Total Cyprus	**0**	**0**	**0**	**0**	**352**	**354**
Total	**4**	**2**	**521**	**587**	**410**	**449**

For available-for-sale financial instruments with a total cost of EUR 527m (prior year: EUR 618m), the net valuation effect in other comprehensive income relating to the above countries totals EUR 6m (prior year: EUR 44m). As in the prior year, no impairment losses were charged to the income statement.

As in the prior year, no notable specific valuation allowances or general loan loss provisions were made for loans and receivables in relation to the above countries. The fair value of the exposure in the loans and receivables category totals EUR 365m (prior year: EUR 459m).

In 2012, Bremer Landesbank did not have any exposure to Slovenia and Hungary.

Credit derivatives on counterparties in selected countries break down as follows:

(in EUR m)	Nominal values - protection buyer		Market values - protection buyer		Nominal values - protection seller		Market values - protection seller	
	2012	2011	2012	2011	2012	2011	2012	2011
Portugal								
Sovereign exposure	0	0	0	0	0	0	0	0
Financial institutions/insurance companies	0	0	0	0	140	225	-15	-44
Corporates/other	0	0	0	0	0	0	0	0
Total Portugal	**0**	**0**	**0**	**0**	**140**	**225**	**-15**	**-44**
Italy								
Sovereign exposure	0	0	0	0	76	77	-2	-6
Financial institutions/insurance companies	60	90	6	10	485	485	-24	-62
Corporates/other	0	0	0	0	0	0	0	0
Total Italy	**60**	**90**	**6**	**10**	**561**	**562**	**-26**	**-68**
Ireland								
Sovereign exposure	0	0	0	0	0	0	0	0
Financial institutions/insurance companies	0	0	0	0	45	45	-3	-8
Corporates/other	0	0	0	0	0	0	0	0
Total Ireland	**0**	**0**	**0**	**0**	**45**	**45**	**-3**	**-8**
Greece								
Sovereign exposure	0	0	0	0	0	59	0	-33
Financial institutions/insurance companies	0	0	0	0	0	0	0	0
Corporates/other	0	0	0	0	0	0	0	0
Total Greece	**0**	**0**	**0**	**0**	**0**	**59**	**0**	**-33**
Spain								
Sovereign exposure	0	0	0	0	0	0	0	0
Financial institutions/insurance companies	20	20	2	3	380	380	-27	-39
Corporates/other	0	0	0	0	0	0	0	0
Total Spain	**20**	**20**	**2**	**3**	**380**	**380**	**-27**	**-39**
Cyprus								
Sovereign exposure	0	0	0	0	0	0	0	0
Financial institutions/insurance companies	0	0	0	0	0	0	0	0
Corporates/other	0	0	0	0	0	0	0	0
Total Cyprus	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**80**	**110**	**8**	**13**	**1,126**	**1,271**	**-71**	**-192**

The following table shows the application of the fair value hierarchy for the financial assets and credit derivatives recognized at fair value for selected countries:

(in EUR m)	Level 1		Level 2		Level 3		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Portugal								
Sovereign exposure	0	0	0	0	0	0	**0**	**0**
Financial institutions/insurance companies	0	0	-15	-37	0	-7	**-15**	**-44**
Corporates/other	0	0	0	0	0	0	**0**	**0**
Total Portugal	**0**	**0**	**-15**	**-37**	**0**	**-7**	**-15**	**-44**
Italy								
Sovereign exposure	0	0	-2	0	0	-6	**-2**	**-6**
Financial institutions/insurance companies	260	114	-18	-45	0	156	**242**	**225**
Corporates/other	0	0	0	0	0	0	**0**	**0**
Total Italy	**260**	**114**	**-20**	**-45**	**0**	**150**	**240**	**219**
Ireland								
Sovereign exposure	0	0	0	0	0	0	**0**	**0**
Financial institutions/insurance companies	121	98	27	0	0	35	**148**	**133**
Corporates/other	0	0	0	0	0	0	**0**	**0**
Total Ireland	**121**	**98**	**27**	**0**	**0**	**35**	**148**	**133**
Greece								
Sovereign exposure	0	0	0	-33	0	0	**0**	**-33**
Financial institutions/insurance companies	0	0	0	0	0	0	**0**	**0**
Corporates/other	0	0	0	0	0	0	**0**	**0**
Total Greece	**0**	**0**	**0**	**-33**	**0**	**0**	**0**	**-33**
Spain								
Sovereign exposure	0	0	0	0	0	0	**0**	**0**
Financial institutions/insurance companies	110	22	-17	2	-4	111	**89**	**135**
Corporates/other	0	0	0	0	0	0	**0**	**0**
Total Spain	**110**	**22**	**-17**	**2**	**-4**	**111**	**89**	**135**
Cyprus								
Sovereign exposure	0	0	0	0	0	0	**0**	**0**
Financial institutions/insurance companies	0	0	0	0	0	0	**0**	**0**
Corporates/other	0	0	0	0	0	0	**0**	**0**
Total Cyprus	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**491**	**234**	**-25**	**-113**	**-4**	**289**	**462**	**410**

(62) Underlying transactions in effective hedges

IAS 39 allows the use of hedge accounting to (partially) eliminate economically unjustified profit and loss distortions resulting from different methods of measuring derivatives and non-derivatives in hedges.

Financial assets and liabilities used as underlying transactions in micro fair value hedges are still reported together with unhedged transactions in the respective balance sheet items since the hedging transaction has no effect on the nature and function of the underlying transaction.

However, the carrying amount of financial instruments (OL category) which would otherwise be recognized at amortized cost is adjusted by the change in fair value attributable to the hedged risk.

The following table therefore lists the total amounts of financial assets and liabilities which are part of an effective micro fair value hedge for information purposes:

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Assets			
Financial assets	718	914	-21
Total	**718**	**914**	**-21**
Liabilities			
Liabilities to banks	526	595	-12
Liabilities to customers	1,190	1,371	-13
Securitized liabilities	1,865	1,456	28
Subordinated capital	158	406	-61
Total	**3,739**	**3,828**	**-2**

Apart from the underlying transactions included in micro fair value hedges, fixed-income underlying transactions were also designated as portfolio fair value hedges. As of the balance sheet date, cash flows from available-for-sale financial assets of EUR 1,023m (prior year: EUR 639m) were designated as a portfolio fair value hedge. As of the balance sheet date, cash flows from liabilities in the other liabilities category (liabilities to banks and customers, securitized liabilities and subordinated capital) were designated in an amount of EUR 2,463m (prior year: EUR 2,583m).

(63) Residual maturities of financial liabilities

(in EUR m)	Up to 1 month	More than 1 month up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years	Total
31 Dec 2012						
Liabilities to banks	1,995	417	974	5,891	3,778	**13,055**
Liabilities to customers	4,041	321	850	3,073	3,614	**11,899**
Securitized liabilities	228	479	944	5,687	1,108	**8,446**
Financial liabilities at fair value through profit or loss (excluding derivatives)	0	0	0	0	0	**0**
Subordinated capital	0	0	31	182	710	**923**
Other liabilities (financial instruments only)	1	0	0	0	0	**1**
Irrevocable loan commitments	246	5	58	118	1,377	**1,804**
Financial guarantees	77	1	34	19	953	**1,084**
Total	**6,588**	**1,223**	**2,891**	**14,970**	**11,540**	**37,212**
31 Dec 2011						
Liabilities to banks	685	1,399	1,125	5,085	3,205	**11,499**
Liabilities to customers	3,709	456	973	3,552	3,531	**12,221**
Securitized liabilities	653	454	1,705	6,100	748	**9,660**
Financial liabilities at fair value through profit or loss (excluding derivatives)	0	0	0	0	0	**0**
Subordinated capital	0	-1	45	601	975	**1,620**
Other liabilities (financial instruments only)	0	0	0	—	—	**0**
Irrevocable loan commitments	463	11	200	436	1,533	**2,643**
Financial guarantees	209	0	55	86	704	**1,054**
Total	**5,719**	**2,319**	**4,103**	**15,860**	**10,696**	**38,697**

Residual maturity is defined as the period between the balance sheet date and the contractual due date.

(64) Disclosures on the fair value option

The Bremer Landesbank Group applies the fair value option in order to avoid accounting mismatches. Securities designated at fair value are hedged against interest rate risk with interest rate swaps.

If they had not been designated at fair value, the securities would have had to be allocated to the AFS category and measured at fair value with the result recognized in other comprehensive income, while interest rate swaps are measured at fair value (through profit or loss) in any case.

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Assets			
Debt securities and other fixed-income securities	81	82	-1

(65) The BLB Group as protection seller

(in EUR m)	31 Dec 2012	31 Dec 2011
Assets		
Loans and advances to banks	151	376
Loans and advances to customers	5,970	5,196
Financial assets	2,190	4,921
Other assets	15	—
Total	**8,326**	**10,493**
Liabilities		
Liabilities to banks	376	146
Total	**376**	**146**

Loans and advances to customers and financial assets involve assets transferred as collateral to third parties. The related transactions were conducted in accordance with standard terms for loan transactions.

Loans and advances to banks show paid cash collateral, while liabilities to banks included cash collateral received on account of collateral agreements.

(66) Real securities sale and repurchase agreements

Material risks and rewards incidental to the financial assets sold under sale and repurchase agreements are borne by the pledgor. The securities are therefore not derecognized and continue to be accounted for by the Bremer Landesbank Group. Regulations for securities sold under sale and repurchase agreements are laid down in a standard German master agreement.

As of 31 December 2012 and 31 December 2011, there was no portfolio of real securities sale and repurchase agreements.

Other notes

(67) Equity management

Equity is managed by the parent company for the Group. The aim is to ensure adequate equity in terms of quantity and quality, to achieve a reasonable return on equity at group level and to comply with the regulatory capital adequacy requirements. Significant capital metrics for equity management are

- Reported equity
- Regulatory core capital
- Regulatory capital

For most of these capital metrics, target capital ratios are specified for the Group. The numerator is the respective capital metric and the denominator is risk-weighted assets in accordance with the German Solvency Regulation. Regulatory minimum core capital and regulatory capital, which must be maintained at all times, are also in place (regulatory core capital: 4.0%; regulatory capital: 8.0%). Target ratios for regulatory core capital and regulatory capital far exceed the regulatory minimum capital ratios. The actual development of capital metrics and the related capital ratios is regularly determined and reported to the management and supervisory bodies of the Bank. Where required, budgets and forecasts are prepared for these capital metrics and capital ratios. If they indicate that the defined target capital ratios are at risk, alternative or additional adjustments are made to risk-weighted assets or – in agreement with the owners of the Bank – procurement measures are taken for individual capital metrics.

There have been no changes since the prior year in the objectives, methods or processes of equity management.

In 2012 and 2011, the Bank maintained the regulatory minimum capital ratios at group level at all times. The regulatory core capital ratio and the regulatory capital ratio (= overall ratio) at the end of each year are reported in Note (68).

(68) Regulatory data

The following regulatory data for the Group were calculated in accordance with the German Solvency Regulation.

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Risk-weighted assets	**17,588**	**17,897**	**-2**
Capital requirements for credit risk	1,293	1,332	-3
Capital requirements for market risk	47	47	—
Capital requirements for operational risk	67	63	6
Capital requirements in accordance with the German Solvency Regulation	**1,407**	**1,432**	**-2**

The following table shows the composition of regulatory capital for the Bank in accordance with Sec. 10 of the German Banking Act:

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Paid-in capital	265	140	89
Contributions from silent partners	—	608	-100
Other reserves	1,020	523	95
Special item for general banking risks in accordance with Section 340g German Commercial Code	494	442	12
Other components (intangible assets)	-3	-3	—
Core capital	**1,776**	**1,710**	**4**
Deduction from core capital	236	172	37
Core capital for solvency purposes	**1,540**	**1,538**	**0**
Non-current subordinated liabilities	700	500	40
Other components	—	29	-100
Supplementary capital	**700**	**529**	**32**
Deduction from supplementary capital	236	172	37
Supplementary capital for solvency purposes	**464**	**357**	**30**
Modified available equity	**2,004**	**1,895**	**6**
Tier three capital	—	—	—
Eligible capital in accordance with Section 10 of the German Banking Act	**2,004**	**1,895**	**6**

The state of Bremen holds 41.2000% of the Bank's share capital (prior year: 7.5000%), NORD/LB Norddeutsche Landesbank – Girozentrale holds 54.8343% (prior year: 92.5000%) and the Savings Banks Association of Lower Saxony holds 3.9657% (prior year: 0.000%). Due to the legal form, the shares do not have any nominal value.

Core capital (overall) for solvency purposes after the deductions of EUR 236m in accordance with the German Banking Act amounts to EUR 1,540m.

in %	31 Dec 2012	31 Dec 2011	Change
Overall ratio in accordance with Sec. 2 (6) of the German Solvency Regulation	11.40	10.59	8
Core capital ratio (before appropriation of profit)	8.76	8.59	2
Core capital ratio (after appropriation of profit)	8.79	9.09	-3

(69) Foreign currency volumes

The Bremer Landesbank Group reports the following assets and liabilities in foreign currencies as of 31 December 2012.

(in EUR m)	USD	GBP	JPY	Others	Total
Cash reserve	0	0	0	0	**0**
Loans and advances to banks	55	6	9	59	**129**
Loans and advances to customers	4,362	18	300	192	**4,872**
Financial assets at fair value	108	0	26	8	**142**
Financial assets	0	0	0	32	**32**
Total assets	**4,525**	**24**	**335**	**291**	**5,175**
Liabilities to banks	699	195	10	17	**921**
Liabilities to customers	379	4	1	27	**411**
Securitized liabilities	38	0	9	0	**47**
Financial liabilities at fair value	111	1	1	17	**130**
Total liabilities	**1,227**	**200**	**21**	**61**	**1,509**

The open balance sheet items are matched by corresponding forward exchange contracts or currency swaps with matching maturities.

(70) Long-term assets and liabilities (with realization after 12 months)

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Assets			
Loans and advances to banks	3,570	3,187	12
Loans and advances to customers	19,603	18,282	7
Financial assets at fair value through profit or loss			
Trading assets	1,320	1,006	31
Financial assets designated at fair value	0	80	-100
Positive fair values from hedge accounting derivatives	517	462	12
Available-for-sale (AFS) financial assets	5,309	4,643	14
Investments accounted for using the equity method	0	84	-100
Total	**30,319**	**27,744**	**9**
Liabilities			
Liabilities to banks	9,669	8,289	17
Liabilities to customers	6,687	7,082	-6
Securitized liabilities	6,545	6,536	0
Adjustment item for financial instruments included in the portfolio fair value hedge	196	120	63
Financial liabilities at fair value through profit or loss			
Trading liabilities	1,322	1,283	3
Negative fair values from hedge accounting derivatives	113	93	22
Subordinated capital	686	1,137	-40
Total	**25,218**	**24,540**	**3**

(71) Contingent liabilities and other obligations

Contingent liabilities are obligations arising from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly under the Group's control. This also includes current obligations arising from past events which are not recognized as liabilities because it is not probable that an outflow of resources will be required to settle these obligations or because the amount of the obligations cannot be measured with sufficient reliability.

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Contingent liabilities			
Guarantees	468	447	5
Other obligations			
Irrevocable loan commitments	1,804	2,643	-32
Financial guarantees	617	607	2
Total	**2,889**	**3,697**	**-22**

Of the total amount, EUR 3m (prior year: EUR 4m) relates to associates.

For transactions between the BLB Group and the following related entities, NORD/LB ensures that obligations can be met:

- Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover
- Nieba GmbH, Hanover
- Norddeutsche Landesbank Luxembourg S.A., Luxembourg, Luxembourg
- NORD/LB Asset Management Holding GmbH, Hanover
- NORD/LB COVERED FINANCE BANK S.A., Luxembourg, Luxembourg
- Skandifinanz AG, Zurich, Switzerland

Disclosures on the uncertainties with regard to the amount or the maturity of the outflows are not made for feasibility reasons.

(72) Leases

The Bremer Landesbank Group is a lessor in connection with finance leases.

These leases covered movable assets (e.g., motor vehicles, machinery and IT equipment) on the balance sheet date.

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Outstanding lease payments	**14**	**20**	**-30**
+ Guaranteed residual values	4	5	-20
= Minimum lease payments	**18**	**25**	**-28**
+ Unguaranteed residual values	—	—	-100
= Gross investment	**18**	**25**	**-28**
- Unearned finance income	1	3	-67
= Net investment	**17**	**22**	**-23**
- Present value of unguaranteed residual values	—	—	-100
= Present value of minimum lease payments	**17**	**22**	**-23**

Minimum lease payments comprise the total lease payments due from the lessee under the lease plus the guaranteed residual value.

Unearned finance income is the interest implicit in the lease between the balance sheet date and the expiry of the lease.

The above average resale value of the financed capital goods allows greater scope for assuming credit risk. Nonetheless, credit risk is already limited by defining target customers, capital goods and contract configurations. However, the approval of Bremer Landesbank's corporate accounts manager who deals with the customer over a sustained period remains an important element of the loan decision. With this approach, there was only an insignificant volume of defaults in the fiscal year, such that no accumulated allowances were recognized for uncollectible outstanding minimum lease payments.

Gross investments and present values of the minimum lease payments relating to non-cancellable finance leases break down as follows:

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Gross investments			
Up to one year	7	8	-13
More than 1 year and up to 5 years	10	15	-33
More than 5 years	1	2	-50
Total	**18**	**25**	**-28**
Present value of minimum lease payments			
Up to one year	7	7	—
More than 1 year and up to 5 years	9	13	-31
More than 5 years	1	2	-50
Total	**17**	**22**	**-23**

Agreements concluded by the Bremer Landesbank Group as an operating lessee are of little significance.

(73) Other financial obligations

The following significant other financial obligations exist:

- As guarantors, Bremer Landesbank and the other owners of DekaBank Deutsche Girozentrale are jointly liable for the latter.
- An obligation to contribute to M Cap Finance Deutsche Mezzanine Fonds Zweite GmbH & Co. Leipzig, amounts to EUR 4m (prior year: EUR 4m).
- Another obligation to make additional contributions and additional joint liability for other share-holders relating to Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, amounts to EUR 3m (prior year: EUR 3m).

- Contributions to the security reserve of the Landesbanken 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, 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.

- There were no securities 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).

(74) Subordinated assets

Assets are subordinated if they may only be settled after the claims of other creditors have been satisfied in the event of the debtor's liquidation or insolvency. The following subordinated assets are included in the balance sheet:

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Financial assets	32	32	—
Total	**32**	**32**	**—**

(75) Trust activities

Trust activities break down as follows:

	31 Dec 2012 (in EUR m)	31 Dec 2011 (in EUR m)	Change (in %)
Loans and advances to customers	4	36	-89
Trust assets	**4**	**36**	**-89**
Liabilities to banks	4	36	-89
Liabilities to customers	0	0	—
Trust liabilities	**4**	**36**	**-89**

In the annual report for 2011, the trust activities also included activities that are held for fully consolidated Group companies on a trust basis. These activities have been removed from the report. The disclosure from the prior year has been restated accordingly.

(76) Events after the balance sheet date

The Managing Board and Supervisory Board of Bremer Landesbank will propose to the Owners' Meeting of Bremer Landesbank to carry over the profit in the HGB balance sheet of EUR 31m (prior year: EUR 28m) to new account.

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

Companies and individuals linked to the Group

(77) Number of employees

The Group's average headcount in the fiscal year broke down as follows:

	2012			2011		
	Male	Female	Total	Male	Female	Total
Bremer Landesbank Anstalt des öffentlichen Rechts[1)]	517	553	1,070	514	525	1,039
Others	29	22	51	32	21	53
Group[2)]	**546**	**575**	**1,121**	**546**	**546**	**1,092**

[1)] The male headcount includes the members of the Managing Board.
[2)] In fiscal year 2011, investments accounted for using the equity method had a headcount of 276 (fiscal year 2010: 271).

Breakdown of headcount by levels of authority:

	2012	2011
The Managing Board	3	3
Executives	107	111
Others	1,012	978
Total	**1,121**	**1,092**

(78) Related parties

All non-consolidated subsidiaries and associates qualified as related parties. Associates also include subsidiaries of associates and joint venture subsidiaries of joint ventures. Furthermore, NORD/LB and the subsidiaries of Bremer Landesbank and the pension fund are also related parties of the BLB Group.

Natural persons that are viewed as related parties in accordance with IAS 24 are the members of the Managing Board, the Supervisory Board and the committees of Bremer Landesbank and their close family members.

Related party transactions involving businesses or people are concluded at arm's length terms with regard to terms, conditions and securities. The volume of such transactions is shown below.

Related party transactions

There were the following transactions between Bremer Landesbank and related parties as of balance sheet date:

(in EUR m)	Owners	Subsidiaries	Associates	Key management personnel	Others Related parties
31 Dec 2012					
Outstanding loans and advances incl. securities					
to banks	375	—	17	—	10
to customers	—	—	125	34	145
Other outstanding assets	—	—	—	—	—
Total assets	**375**	**—**	**142**	**34**	**155**
Outstanding liabilities incl. securities					
to banks	544	—	158	—	39
to customers	—	2	21	3	16
Other outstanding liabilities	—	—	—	—	—
Total liabilities	**544**	**2**	**179**	**3**	**55**
Guarantees received	3	0	5	—	—
Guarantees granted	1	—	9	—	0
31 Dec 2011					
Outstanding loans and advances incl. securities					
to banks	589	—	20	—	—
to customers	—	—	142	37	137
Other outstanding assets	—	—	—	—	—
Total assets	**589**	**—**	**162**	**37**	**137**
Outstanding liabilities incl. securities					
to banks	319	—	83		52
to customers	—	2	39		5
Other outstanding liabilities	—	—	—		—
Total liabilities	**319**	**2**	**122**		**57**
Guarantees received	2	0	5		—
Guarantees granted	3	—	4		1

(in EUR m)	Owners	Subsidiaries	Associates	Key management personnel	Others Related parties
1 Jan 2012 - 31 Dec 2012					
Interest expenses	5	0	5	—	2
Interest income	11	—	5	1	6
Commission expenses	—	—	0	—	0
Commission income	0	—	0	—	0
Other expenses	—	—	—	0	1
Other income	—	—	—	—	—
Total contributions to profit and loss	**6**	**0**	**0**	**1**	**3**
1 Jan 2011 - 31 Dec 2011					
Interest expenses	8	0	5	—	1
Interest income	11	—	7	1	6
Commission expenses	—	—	—	—	1
Commission income	0	—	0	—	0
Other expenses	—	—	—	0	—
Other income	—	—	—	—	—
Total contributions to profit and loss	**3**	**0**	**2**	**1**	**4**

Use is made of the rules in IAS 24.25 for transactions with the state of Bremen, which holds 41.2000% (prior year: 7.5000%) in Bremer Landesbank, and with the Savings Banks Association of Lower Saxony, which holds 3.9657% (prior year: 0.0000%) of Bremer Landesbank. Accordingly, the Bank is not subject to the disclosure obligation with respect to public sector authorities unless the circumstance involves business transactions that have a significant impact on the consolidated financial statements.

The conversion of the previously reported silent participations to core capital is identified as a significant business event in terms of IAS 24. The state of Bremen's share of the silent participations, which originally totalled EUR 608m before the conversion, amounted to EUR 480m after the conversion; a share of EUR 51m was attributed to the Savings Banks Association of Lower Saxony. Another significant business event was the raising of EUR 150m (nominal) of subordinated capital with the issue of a subordinated registered debt security, which was subscribed by NORD/LB. Additional disclosures on the aforementioned business cases can be found in Note (50).

As of the balance sheet date and in the prior year, there were no valuation allowances for loans and advances to related parties.

Transactions with affiliates

Call money and time deposits receivable

The following call money and time deposits were deposited within the respective quotas:

	Number of transactions	Currency	Volume (in EUR m)
Call money			
Norddeutsche Landesbank	1	EUR	20
	1	GBP	14
	11	USD	221
Time deposits			
Norddeutsche Landesbank	5	EUR	444
BLB Leasing	1	EUR	1
BLB Immobilien	2	EUR	17

Syndicated loans

Norddeutsche Landesbank

NORD/LB participated with other syndicate partners in 72 (prior year: 82) long-term loans and ship loans granted by us, contributing a total volume of EUR 296m (prior year: EUR 371m).

The Bank participated in 4 (prior year: 5 syndicated loans) under the lead management of NORD/LB, contributing EUR 18m (prior year: EUR 25m).

Securities transactions

Norddeutsche Landesbank

NORD/LB purchased securities of EUR 391m (prior year: EUR 298m) from Bremer Landesbank and sold securities of EUR 758m (prior year: EUR 403m) to Bremer Landesbank.

Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH

The Bremer Landesbank pension fund acquired securities issued by third parties for a nominal value of EUR 6m (prior year: EUR 2m). It redeemed securities issued by third parties for a nominal value of EUR 4m (prior year: EUR 16m).

Liabilities relating to borrowed funds, credits and loans

Based on the balances at the end of each quarter, the pension fund had the following average current account liabilities:

Current account liabilities

(in EUR k)	2012	2011
Norddeutsche Landesbank	138,009	25,363
BLB pension fund	2,284	1,126
BLB Leasing	743	—
Bremische Grundstücks-GmbH	3,250	4,064
Bremische Grundstücks-GmbH & Co. Wohnanlagen Groß-Bonn	76	76
Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz	86	233
Interessengemeinschaft Katherinenklosterhof GbR, Bremen	59	47
NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG	318	623
NORDWEST VERMÖGEN Vermietungs-GmbH & Co.KG, Bremen	105	58
BBG Bremen GmbH & Co. KG	235	120
BLB Immobilien GmbH	326	99
BLBI Beteiligungs-GmbH	21	20
BLB Immobilien Treuhandkonten für Mietobjekte	927	987

Norddeutsche Landesbank

3 loans were taken on for EUR 33m in the current fiscal year.

Call money and time deposit liabilities

	Number of transactions	Currency	Volume (in EUR m)
Call money			
Norddeutsche Landesbank	198	EUR	28,001
	86	USD	1,688
Norddeutsche Landesbank Luxembourg S.A.	58	EUR	5,836
	1	USD	20

Currency transactions

	Number of transactions	Currency	Volume (in EUR m)
Norddeutsche Landesbank			
Spot purchase	221	EUR	45,747
Spot sale	205	EUR	42,503
Forward purchase	18	EUR	3,503
Forward sale	1	EUR	114

Derivative transactions

	Number of transactions	Currency	Volume (in EUR m)
Norddeutsche Landesbank			
Asset swap	1	USD	38
Liability swap	7	EUR	218
	1	GBP	29
	15	USD	734
Norddeutsche Landesbank Luxembourg S.A.			
Asset swap	4	EUR	55

Other transactions

Norddeutsche Landesbank

In fiscal year 2012, BLB had business transactions with NORD/LB for IT services of EUR 22,634k (prior year: EUR 11,879k) and with NORD/FM for project service costs of EUR 329k (prior year: EUR 718k).

BLB Immobilien GmbH

Due to the existing profit and loss transfer agreement, the Bank capitalized a receivable in the amount of the net profit for the year of EUR 28,537k.

BLB was charged EUR 1,240k for services and EUR 2k for project expenses that were rendered and billed by the Facility Management of BLB Immobilien. Furthermore, the Bank incurred lease expenses for the house am Rüten for EUR 365k and for other areas of EUR 92k.

BLB Leasing GmbH

BLB has made leasing instalment payments of EUR 8k (net) and payments for rent in the amount of EUR 14k.

Furthermore, the BLB received a reimbursement of costs for the transfer of personnel in the amount of EUR 120k.

Due to the existing profit and loss transfer agreement, the Bank capitalized a receivable in the amount of the net profit for the year of EUR 3,371k.

Bremische Grundstücks-GmbH

Due to the existing profit and loss transfer agreement, the Bank capitalized a receivable in the amount of the net profit for the year of EUR 4,600k.

NORDWEST VERMÖGEN Vermietungs-GmbH & Co.KG, Bremen

Due to the existing profit and loss transfer agreement, the Bank capitalized a receivable in the amount of the net profit for the year of EUR 45.

Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH

Bremer Landesbank transferred EUR 1,145k (prior year: EUR 3,800k) to the pension fund's cover fund in 2012.

Relationships with other related parties

Remuneration of EUR 52k was paid to key management personnel (for the Managing Board and Supervisory Board of NORD/LB) (prior year: EUR 58k).

Please see the section "Remuneration of and loans to governing bodies" for overall remuneration and loans to the Managing Board and Supervisory Board. Ongoing remuneration for employee representatives on the Supervisory Board totalled EUR 386k (prior year: EUR 385k).

All transactions were concluded on arm's length terms.

(79) Directory of mandates

Members of the Bremer Landesbank Group 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-Hanover, Hanover (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

(80) Expenses for governing bodies and governing body loans

Management's remuneration is based on the rules in IAS 24.17 and can be categorized as follows:

(in EUR k)	2012	2011
Remuneration of active members of governing bodies		
Payments due in the short term	2,481	2,464
Post-employment benefits	547	425
Salaries of key management personnel	3,028	2,889

The business transactions engaged in by the governing boards in accordance with IAS 24.18 are shown in the following table:

(in EUR k)	Advances and loans	Liabilities
as of 31 December 2012		
The Managing Board	490	545
Supervisory Board	1,246	1,542
Owners' Meeting	38	87
as of 31 December 2011		
The Managing Board	633	128
Supervisory Board	1,514	1,722
Owners' Meeting	38	36

Loans to members of the Managing Board were granted at interest rates between 0.2 and 5.2%. Loans to members of the Supervisory Board were granted at interest rates between 2.3 and 5.5%; the loans to members of the Owners' Meeting bear interest at a rate of 2.9%.

The breakdown of the total remuneration on the basis of the national accounting standards can be seen in the following table.

(in EUR k)	2012	2011
Total remuneration of active members of governing bodies		
The Managing Board	2,246	2,228
Supervisory Board	164	165
Advisory Board	71	71
Total remuneration of former members of governing bodies and their dependants		
The Managing Board	1,786	1,999
Supervisory Board	—	—
Advisory Board	—	—

Provisions for pensions to former members of governing bodies and their dependants amounted to EUR 26,326k (prior year: EUR 21,182k).

(81) List of shareholdings in accordance with Section 313 (2) and Section 340a (4) No. 2 of the German Commercial Code

List of companies and investment funds in the basis of consolidation

Company name and registered office	Shares (%) indirect	Shares (%) direct	Equity[1] (in EUR m)	Profit/loss (in EUR m)
Companies included in the consolidated financial statements				
Subsidiaries				
BLB Immobilien GmbH, Bremen	—	100.00	—	—[2]
BLB Leasing GmbH, Oldenburg	—	100.00	—	—[2]
Bremische Grundstücks-GmbH, Bremen	—	100.00	—	—
NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen	100.00	—	—	—
NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen	90.00	10.00	—	—
Investments included in the consolidated financial statements using the equity method				
Associates				
Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede	32.26	—	—	—
BREBAU GmbH, Bremen	48.84	—	—	—
DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen	—	16.50	—	—
GSG Oldenburg Bau- und Wohngesellschaft, Oldenburg	—	22.22	—	—
Investment funds				
Lazard-Sparkassen Rendite-Plus-Fonds, Frankfurt am Main	—	49.18	—	—
Companies not included in the consolidated financial statements				
BGG Bremen GmbH & Co. KG, Bremen	100.00	—	0[4]	-0[4]
BGG Oldenburg GmbH & Co. KG, Bremen	100.00	—	8[4]	-0[4]
BLB I Beteiligungs-GmbH, Bremen	100.00	—	0[4]	0[4]
Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen	—	49.00	-0[3]	-0[3]
Bremer Toto und Lotto GmbH, Bremen	—	33.33	4	0
Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen	100.00	—	3[4]	1[4]
Bremische Grundstücks-GmbH & Co., Wohnanlagen Gross-Bonn, Bremen	100.00	—	0[4]	0[4]
BREMER LAGERHAUS-GESELLSCHFT- Aktiengesellschaft von 1877-, Bremen	—	12.61	17	2
Deutsch-Indonesische Tabak Handelsgesellschaft mit beschränkter Haftung, Bremen	—	24.53	0	-0
GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen	7.75	—	327	35
Gewobau Gesellschaft für Wohnungsbau Vechta mbH, Vechta	—	20.46	10	1
Grundstücksgemeinschaft Escherweg 5 GbR, Bremen	50.00	—	-2[4]	-0[4]
Grundstücksgemeinschaft Escherweg 8 GbR, Bremen	50.00	—	-0[4]	-0[4]
Interessengemeinschaft KATHARINENKLOSTERHOF GbR, Bremen	30.70	—	1[4]	-0[4]
Öffentliche Versicherung Bremen, Bremen	—	20.00	6	0
Schiffsbetriebs-Gesellschaft Bremen mbH, Bremen	—	100.00	1	0
Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen	—	100.00	35	4
WLO Wirtschaftsförderungsgesellschaft für den Landkreis Oldenburg mbH, Wildeshausen	—	23.84	0	—
Wohnungsbaugesellschaft Wesermarsch mbH, Brake	—	21.71	19	0

[1] Equity as defined in Secs. 266 and 272 of the German Commercial Code; there are no unpaid contributions.
[2] Domination and profit and loss transfer agreement concluded with the company.
[3] No information provided in accordance with Sec. 313 (2) No. 4 Sentence 3 of the German Commercial Code.
[4] Figures are from the most recent, but as yet unapproved, financial statements for 2012.

Bremer Landesbank exercises a significant influence under IAS 28.37(d) over DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co., although the Bremer Landesbank sub-group holds less than 20% of the voting rights. Bremer Landesbank appoints one or more Supervisory Board members of the aforementioned company and, together with NORD/LB, safeguards its interests in the supervisory bodies for the Group as a whole.

(82) Group auditor's fees

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:

(in EUR k)	2012	2011
a) Services for the audit of the financial statements	648	1,062
b) Other confirmation services	466	511
of which Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	168	511
c) Tax services	—	—
d) Other services	46	43
Total	**1,161**	**1,616**

Bremen, 26 March 2013

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –

The Managing Board

Dr. Stephan-Andreas Kaulvers

Heinrich Engelken

Dr. Guido Brune

8. Responsibility statement

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

Bremen, 26 March 2013

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –
The Managing Board

Dr. Stephan-Andreas Kaulvers | Heinrich Engelken

Dr. Guido Brune

9. Audit opinion[2]

“We have audited the consolidated financial statements prepared by Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen, (Bremer Landesbank) comprising the consolidated balance sheet, consolidated income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group management report for the fiscal year from 1 January 2012 to 31 December 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs [International Financial Reporting Standards] as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) of the German Commercial Code is the responsibility of the Bremer Landesbank’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the 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 annual financial statements of entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law in accordance with Sec. 315a (1) of the German Commercial Code and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Hanover, 28 March 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

[redacted] [redacted]

Leitz
Wirtschaftsprüfer
[German Public Auditor]

Hering
Wirtschaftsprüfer
[German Public Auditor]

10. 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 performance and situation of Bremer Landesbank AöR and the Bremer Landesbank Group. At its meetings, the Audit Committee also heard reports from Internal Audit and Compliance about their findings. In the two meetings of the Supervisory Board, the five meetings of the General Working and Credit Committee, the three meetings of the Audit Committee and the three meetings of the Sponsorship Committee, fundamental issues relating to business policy and operations were discussed in detail. The bodies adopted resolutions on the transactions and other matters presented to them which, according to the statutes and the rules issued under these statutes, require a decision by these bodies.

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 and the consolidated 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 and the consolidated 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 of 26 April 2013, the Supervisory Board approved the group management report and consolidated financial statements as of 31 December 2012.

The Supervisory Board approves the Managing Board's proposal for the appropriation of Bremer Landesbank AöR's profit for the year. The Supervisory Board proposes to the Owners' Meeting that the acts of the Managing Board be ratified.

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 employees.

Bremen, 26 April 2013

The Chairwoman of the Supervisory Board

Mayoress Karoline Linnert

11. Owners' Meeting report

The Owners' Meeting convened twice during the reporting period in order to discharge its duties under the law and the Bank's statutes.

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 the Bremer Landesbank with a view to the future requirements under 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 ratfied the actions of the Managing Board of the Bank. The owners also 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

12. Declaration of compliance with the German Corporate Governance Code by Bremer Landesbank – Girozentrale –

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 governing companies in Germany more transparent. It includes nationally and internationally recognized standards of good corporate governance, in particular in relation to the management and organization of a company, control mechanisms and the cooperation between the 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, together with its Managing Board, Bremer Landesbank is particularly concerned with positioning itself as a reliable partner and fostering the confidence of investors, customers, employees and the general public through transparency. For this reason, the Bank has decided to voluntarily commit itself to observing the principles of the Code as far as is possible and appropriate for its legal form and ownership structure and to disclose its corporate governance system.

General

Bremer Landesbank is a corporation under public law incorporated by the Free Hanseatic City of Bremen and the State of Lower Saxony. It is a public lending and Pfandbrief (covered bond) institution. Bremer Landesbank'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 to the respective regulatory requirements of the German Banking Act and BaFin (German Federal Financial Authority). Moreover, the Bank's risk management system must be compatible with the group-wide risk management and credit risk monitoring systems established by its parent and owner Norddeutsche Landesbank – Girozentrale.

The 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 regards this as 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 progress of strategy implementation. Based on its specific information and reporting duties, the Managing Board also regularly 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. 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 opening and closure 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.

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 Banks Association of Lower Saxony and three 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 the Savings Banks Association of Lower Saxony and an employee of the Bank who sits on the Supervisory Board and 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 (41.2000%) and the Savings Bank Association of Lower Saxony (3.957%). 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 control agreements, the ratification of the actions of the Managing Board, approval for opening of 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-competition agreement while they work for the Bank.

The members of the Supervisory Board advise and monitor the Managing Board. The 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 interest must be reported to the Supervisory Board immediately.

All transactions between the Company and the Managing Board, the Supervisory Board and its committees, related parties or enterprises in which the member has personal interests on the other 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.

Consultant agreements and other service and work agreements of a member of the Supervisory Board with the Bank require the Supervisory Board’s approval.

The members of the 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.

13. Facts and figures

Established

26 April 1983

Predecessor institutions:
Staatliche Kreditanstalt
Oldenburg-Bremen (established 1883)
Bremer Landesbank (established 1933)

Legal basis

Interstate treaty between the Free Hanseatic City of Bremen and Lower Saxony, as amended on 18 June 2012
Statutes dated 28 August 2012

Functions

Commercial bank
Landesbank
Central savings bank

Legal form

Corporation under public law (AöR)

Owners

NORD/LB Norddeutsche Landesbank Girozentrale (NORD/LB) – 54.8343%
Free Hanseatic City of Bremen – 41.2000%
Savings Banks Association of Lower Saxony – 3.9657%

Governing bodies

The Managing Board
Supervisory Board
Owners' Meeting

Registered office

Bremen

Branches

Bremen
Oldenburg

Memberships

Deutscher Sparkassen- und Giroverband e.V.
Bundesverband öffentlicher Banken e.V.
Hanseatischer Sparkassen- und Giroverband

Also available to **customers of Bremer Landesbank** and its associated savings banks:
NORD/LB, subsidiaries, equity investments, branches, real estate agencies and representative offices.

14. Governing bodies of Bremer Landesbank

1. Members of the Managing Board

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
		Anti-Money Laundering
		Back Office Financing
		Operations
		Risk Control
Dr. Guido Brune	Sales	Financial Markets
		Corporate Customers
		Private Customers
		Special Finance
		BLB Immobilien GmbH
		BLB Leasing GmbH

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

2. Members of the Supervisory Board

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

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

Hermann Bröring (until 15 March 2012)
Meppen

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

Ursula Carl (from 1 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. Members of the Owners' Meeting

For Norddeutsche Landesbank

– Girozentrale –

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

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

Hartmut Möllring
Lower Saxony Minister of Finance

For the Free Hanseatic City of Bremen

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

Dr. Anke Saebetzki
Senate Director for the Finance Senator
of the Free Hanseatic City of Bremen

Bernhard Günthert
Senate Councillor for the Finance Senator
of the Free Hanseatic City of Bremen

For the Savings Banks Association of Lower Saxony

Thomas Mang
President of the Association of Savings Banks
of Lower Saxony

Harm-Uwe Weber
District Administrator of the Aurich District

Heinz Feldmann
Chairman of the Managing Board
Sparkasse LeerWittmund

4. Members of the Advisory Board

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

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

Detthold Aden
Chairman of the Managing Board of
BLG Logistics Group AG & Co. KG

Heiko Albers
President of Wasserverbandstag e. V.
(Association of Water Authorities)

Sven Ambrosy
District Administrator of the Friesland District

Kai-Uwe Bielefeld
District Administrator of the Cuxhaven District

Bernhard Bramlage
District Administrator of the Leer District

Rolf Brandstrup
Chairman of the Managing Board of
Sparkasse Wilhelmshaven

Claus Brüggemann (until 31 October 2012)
Bremerhaven

Elke Brüning (from 1 November 2012)
Managing Director of
Klaas Siemens GmbH

Günter Distelrath
General Manager of the
Savings Banks Association of Lower Saxony

Hans Eveslage
District Administrator of the Cloppenburg
District

Heinz Feldmann (from 1 November 2012)
Chairman of the Managing Board
Sparkasse LeerWittmund

Ralf Finke
Chairman of the Managing Board of
Kreissparkasse Grafschaft Diepholz

Dr. Matthias Fonger
Chief Executive Officer and
First Legal Counsel of the
Bremen Chamber of Commerce

Günter Günnemann
Chairman of the Managing Board of
Kreissparkasse Syke

Martin Hockemeyer
Managing Partner
of the Thiele Group

Hans-Dieter Kettwig (from 1 November 2012)
General Manager of
ENERCON GmbH

Reinhard Krüger
Chairman of the Managing Board of
Sparkasse Rotenburg-Bremervörde

Bernd Meerpohl
Managing Board of Big Dutchman
Aktiengesellschaft, Vechta

Arendt Meyer zu Wehdel
President of the Chamber of Agriculture
of Lower Saxony

Doris Nordmann (from 1 April 2012)
Undersecretary of the
Lower Saxony Ministry of Finance

Dr. Götz Pätzold
Chairman of the Managing Board
Kreissparkasse Wesermünde-Hadeln

Angelika Saacke-Lumper
Shareholder
Saacke GmbH

Thomas Schneider (until 7 March 2012)
Undersecretary of the
Lower Saxony Ministry of Finance

Dietmar Schütz
President of the German
Renewable Energy Foundation e. V.
(Association of Water Authorities)

Prof. Dr. Gerd Schwandner
Mayor of the
City of Oldenburg

Dr. Carl-Ulfert Stegmann (until 31 October 2012)
Norden

Martin Steinbrecher
General Manager of
Martin Steinbrecher GmbH

Gerd Stötzel (until 31 October 2012)
Bassum

Dietmar Strehl
Senate Councillor for the Finance Senator
Bremen

Gert Stuke
President of the Oldenburg
Chamber of Industry and Commerce

Michael Teiser
Mayor and Treasurer of the
City of Bremerhaven

Manfred Wendt
General Manager of Johann Bunte
Bauunternehmung GmbH & Co. KG

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