2013 reports and financial statements

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Bremer Landesbank management report

1. Principles of the Bank

1.1 Goals and strategies

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 institute and has trustee status. Bremer Landesbank has branches in the two major cities in the metropolitan region of the North-West of Germany, with some 300 employees in Oldenburg and almost 800 in Bremen. The North-West of Germany is the business region allocated to the Bank under an interstate agreement.

The owners of Bremer Landesbank are NORD/LB with 54.8343 %, the state of Bremen with 41.2 % and the Lower Saxony Association of Savings Banks with 3.9657 %.

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

Bremer Landesbank has anchored its strategic goals in a customer-oriented business model with the following four strategic business segments and the eleven strategic business units (SBUs) assigned to them:

- **Corporate Customers**

  The strategic goal of the Corporate Customers segment is the consolidation of Bremer Landesbank as a leading business and regional bank in the North-West of Germany. The business segment is broken down into the strategic business units of Corporates and Commercial Customers.

- **Private Customers**

  The main strategic focus of the Private Customers segment is its position as the leading provider of financial services in the North-West of Germany for high net-worth private customers. The Private Customers segment is broken down into the strategic business units of Private Banking and Private Customer Support.

- **Special Finance**

  The Special Finance segment is focused on long-term property financing for fundamentally middle-market regional and international customer groups, with the inclusion of short-term construction time financing. The properties are fundamentally fungible and have sustainable income potential. The goal is to use the existing and constantly updated sector know-how to make middle-market target customers loyal. These customers include shipping customers, domestic leasing and factoring companies, operating companies and significant plant producers from the area of renewable energies and the owners and operators of nursing institutions that are handled in the respective SBUs.

- **Financial Markets**

  The strategic business units of Municipalities, Savings Banks and Institutional Customers are bundled in the Financial Markets segment. The strategic goal is to consolidate regional market leadership in these markets. In addition, Financial Markets is responsible for the sale of commercial products for customers in other segments (product SBU Sales Corporate). It also handles trading and treasury transactions.

Bremer Landesbank acts as the Landesbank for the state of Bremen, is the top bank of the savings banks in the area of Lower Saxony and Bremen and is also a business bank with a regional focus and specialist international operations.

- The strategy of the Bremer Landesbank corresponds to its business model.
- Business bank with a regional focus and specialist international operations, Landesbank and central savings bank.
- A particular focus is on problem-solving consulting for demanding customers and the promotion of the development of the North-West economic area.

The business segments are managed with a focus on returns. Profitability targets are set for each business segment on the basis of the strategy for the business segment. In addition, the Bank attaches particular importance in terms of risk to a sustainably high capital ratio and a correspondingly high degree of risk coverage in its business policy orientation.

The credit policy is therefore designed in a conservative and risk-averse way in all four business segments. It is documented in the specific form of the group's internally coordinated risk strategy and financing principles.

Overall, the focus of the Bank's business model on the core business with numerous branches in the region of the North-West and the simultaneous selective use of international market opportunities ensures a balanced risk-return ratio.

In terms of content, Bremer Landesbank's business model has been based on the guiding principle of sustainability since the very beginning. As a regional bank with a history of being strongly connected to its home region of North-West Germany and customer relationships that have often lasted for generations, our strategic positioning is based mainly on consistency and reliability together with a long-term approach to customer relationships.

Bremer Landesbank is a reliable partner with a long-term view for the region, the people, its customers and employees. The goal is to ensure the Bank’s future success, solid profitability and competitiveness through farsighted action and a business strategy that will preserve the Bank and work over the long term. For this reason, the economy, environment and society are integral components of Bremer Landesbank’s understanding of sustainability.

To ensure a sustainable business model, Bremer Landesbank pursues a portfolio approach. This allows it to constantly check and optimize the income structure of the Bank across all strategic business units.

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

1.2 Integrated bank management

The Managing Board is responsible for the risk-oriented management of returns and productivity at Bremer Landesbank. The goal of this control is the short- and medium-term optimization of its returns and efficiency with the greatest possible income and cost transparency. Bremer Landesbank’s integrated bank management is value and risk based. It meets the legal requirements and provides decision-makers with key information for management purposes. Central control instruments of the Bank are the income statement, contribution margin statement, which is structured along the lines of business segments and cost centres, the cost type report, the monthly report and the risk-bearing capacity report (RBC). Two key metrics for profitability management at an integrated bank level are return on equity (ROE)[1] and cost-income ratio (CIR)[2].

Integrated bank management links the following management processes:

- Commercial law metrics such as the ongoing comparison of contribution margin statement and the income statement
- Regulatory metrics such as the monitoring and management of risk-weighted assets
- Value and risk-based metrics such as the use of cost of capital and expected loss

The management process at Bremer Landesbank commences with a strategy review conducted in the spring of each year 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).

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[1] RoE: Profit/loss from normal activities less any profits/capital transferred under a profit-transfer agreement/sustainable capital (components: share capital; capital reserves; retained earnings).

[2] CIR: Administrative expenses including amortization of intangible assets and property and equipment/operating profit/loss excluding administrative expenses.

The strategy workshop defines the top-down targets for the business segments. The subsequent process of medium-term planning over a five-year horizon is concluded in the budget meeting in the autumn of each year. 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 improved and the instruments employed are continuously refined.

2. Economic report

2.1 Economic developments and the banking sector

2.1.1 Economy and financial markets

The global economy grew by 2.9 % in 2013, according to the IMF, after expanding by 3.2 % in 2012.

The sovereign debt crisis in the eurozone also eased in 2013. Short-term volatility in the first half of 2013 due to the parliamentary elections in Italy, the crisis in Cyprus and critical domestic circumstances in reform countries in the eurozone meant that the recovery was largely delayed until the second half of 2013. Despite this catch-up process, there was a contraction of -0.4 % in GDP for the year as a whole, following a contraction of -0.6 % in 2012.

The German economy posted growth of 0.4 % in 2013 due to its sustained positive economic development (2012: 0.9 %). Due to the recovery and catch-up effects, Deutsche Bundesbank expects growth of 1.7 % in 2014.

The conditions for the development of the global economy are more positive in 2014 than in 2013. The political risks that hampered economic growth in 2013 have reduced significantly. The US budget dispute has been resolved. The deficit crisis in the eurozone is clearly easing.

Interest rates will remain low in major industrial nations until at least the end of 2014, according to the statements made by central banks. The ECB lowered its base interest rate to a new record low of 0.25 %. The ECB is keeping all options open and will act as necessary to provide support in the event of problems.

The DAX rose by 25 % to 9,552 in the course of 2013. A good start to 2014 followed.

The euro remained strong against the other main currencies. Due to the economic stabilization of the European reform countries, movement within a manageable range is likely.

2.1.2 The region

Bremen and the region are defined by differing economic structures. These differences result in partially different assessments and considerations for the individual sectors in the various regions of Bremen, Oldenburg and East Frisia/Papenburg.

Compared to 2013, the current and future economic position in 2014 should be even more positive in all three areas. The economic climate indexes from the three chambers of industry and commerce showed significant improvements in the fourth quarter of 2013 and have fluctuated on the highest level since the middle of 2012.

The Bremen economy was able to gain ground in the second half of 2013. The labour market improved. However, the picture was mixed in industry. Slightly falling sales revenue in the food and drink sector, car manufacturing and the plastics sector were countered by a stable performance in fish processing, the chemical industry and the textile sector. Engineering and parts of the electrical industry made positive contributions. The construction industry performed satisfactorily. The real estate and housing industry also had a positive impact. The service sector expanded in areas ranging from media and IT to tourism. The port and logistics industry was not able to fully recover from the weakness in the first nine months of the year.

The improved prospects for exports, a stable labour market situation and a greater willingness to invest will characterize the expectations and plans for companies in 2014. Positive expectations are most pronounced in the transport and logistics industries and in the services sector. The positive expectations for construction and industry, on the other hand, are more subdued.

The economy in the Oldenburg region gradually recovered in 2013. The regional economic climate index rose to 118 points in the fourth quarter of 2013. With the exception of the transport and logistics industry, all sectors of industry, from construction to retail, wholesale and services, are looking confidently toward 2014.

The regional economy in East Frisia and Papenburg held up well in 2013 according to a report by the Chamber of Industry and Commerce. The economic index rose from 110 to 119 from the third to fourth quarter of 2013.

With the exception of wholesale, the latest survey was dominated by positive economic expectations. In particular industry and the foreign trade sector are looking optimistically toward 2014, while the transport industry is cautiously confident about the year ahead.

2.1.3 Industry groups

According to the Deutsche Bundesbank[3], the German banking system has long been characterized by structural income weakness which shows up particularly in the decline in interest spreads. The reason for this is the intense level of competition, which makes it difficult to build up capital buffers from retained profits. Furthermore, considerable risks have developed in individual sectors of the credit markets. The risk of default affects in particular shipping loans, loans for foreign commercial real estate and old portfolios in the form of securitizations. Another important factor for the German banking system is that in a low interest environment no disproportionately high risks may build up from the awarding of credit for residential real estate in Germany.

Bremer Landesbank was able to hold its own in what the Deutsche Bundesbank describes as a difficult environment for banks, and it remained profitable despite the high loan loss provisions in the shipping sector. In addition to the risks outlined by the Deutsche Bundesbank, the Bank also sees risks from the possibility of regulatory measures that go beyond the required extent and could have an impact on the competitiveness of European banks. The banks must make significant investments in order to meet regulatory requirements in rapid succession with short implementation periods. The required resources tied up by this are not insignificant.

[3] 2013 Deutsche Bundesbank financial stability report

Competition in lending business is set to increase further. Major banks have now also turned their attention to the middle market, which has often been neglected in the past. 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.

2.1.4 Markets

North-West

The individual branches of the economy in the North-West of Germany have performed differently. Viewed as a whole, the economic situation is good and the prospects for the future are positive. There is a willingness to invest, but it is defined by Hanseatic caution due to the recent past, so the financing needs of companies in the region are only expanding moderately.

Slightly rising employment and income ensure a fundamentally positive assessment of the prospects for private households, which will be expressed in higher consumption. Wealthy private customers are much sought after and are themselves looking for alternative investment options due to low interest rates.

Shipping

2013 was another challenging year for the shipping industry. The Chinese market grew slightly slower than originally expected, and the economy in Europe did not provide any stimulus. The uncertain environment in the Mediterranean countries was also a factor.

The ongoing crisis in the maritime industry had an impact. Increasing consolidation efforts were noticeable, particularly in the container sector. Participants again had to overcome a difficult year with over-capacity, the commissioning of an increasing number of new large container ships, the resulting cascade effects and ongoing pressure on the charter market affecting the sector.

The tanker sector showed slight signs of recovery toward the end of the year.

In the bulk shipping sector, the Baltic Dry Index tripled after a slow start to the year. In the smaller bulk segments, there was support temporarily from the good harvest season. Increasing order book figures caused a slight rise in new construction prices and gave hope for the formation of a bottom.

Leases

Despite the ongoing uncertainty in German companies with respect to new investments throughout of the year, the German leasing economy was able to maintain the level of its new business in 2013 and even increase market share in capital expenditure.

Renewable Energies

In 2013 the market for wind energy in particular enjoyed a good performance overall in renewable energies. Significantly more plants were built on-shore than in previous years. As a result, 2013 saw the second-highest amount of additional construction after 2002. In off-shore wind energy, it is expected that there will be an increase in the number plants commencing operation in 2014.

The number of new plants in the “Biogas” segment remained low in 2013, primarily due to a change in the EEC in 2012. The anticipated changes as of 1 August 2014 will continue to limit the expansion.

The same applies for the “Photovoltaic” segment, which has been characterized by ongoing cuts in the feed-in compensation and reductions in the number of installations since 30 September 2012.

Social Welfare Facilities

The market environment for the Social Welfare Facilities segment has been defined by the new capacities created in past years and more intense competition. The difficult environment at the present time means that there is only limited investment in new projects. The acquisition of existing operations is causing increasing concentration in the sector. At the same time, this ensures the continuation of professionalization process. The political discussions on the subject of nursing are resulting in the creation of alternative offers such as outpatient residential services or assisted-living. Furthermore, there is a trend toward so-called divided ownership – the sale of partial ownership to investors.

2.1.5 Impact on Bremer Landesbank

The aforementioned developments have an impact on the Bank’s business development due to the globalization of the economy:

- The development of the global economy impacts the global flow of goods and as a result the transport volumes in the shipping sector with a corresponding impact on charter rates and market prices.

- The stability of the eurozone – particularly the highly indebted countries in southern Europe – has an impact on the euro’s exchange rate against other currencies and thus the export prospects for the economy as well as the valuation of securities and credit default swaps.

- The domestic and regional economy has an impact on middle-market corporate customers and their financing needs, as well as Bremer Landesbank’s lending business.

- The interest level may have an impact on achievable margins in the lending business, but – in connection with the anticipated economic developments – it will also affect the financing needs of companies and private persons in the area of business.
- The performance of stock exchanges – particularly the DAX – will have an impact on the behaviour of private customers with respect to their investments in securities, equities and alternative investments and thus the net commission income of Bremer Landesbank.

2.2 Business performance

The Bank's business in the financial year may have produced solid income, but was defined by the difficult situation on the shipping market. The necessary stimulus from the global economy failed to materialize in a way that would haul the shipping sector out of crisis mode. Furthermore, the high number of new vessels delivered due to increasing supply continued to apply pressure to charter rates and shipping prices. Consequently, the ongoing crisis, which was even more acute in 2013, had a significant impact on the Bank's operating result again.

The Bank's result was substantially influenced by real estate transactions that roughly EUR 50m to be realized in existing reserves for properties and buildings.

One-off extraordinary income of EUR 51m in 2012, which resulted from the reversal of interest hedges in connection with the conversion of silent participations to hard core capital, was reported in 2013.

The satisfactory result under these conditions in the financial year 2013 allows Bremer Landesbank, nonetheless, to strengthen its liable equity by building up taxed reserves. No distribution to the owners is possible for 2013 due to the commitments made by NORD/LB to the EU relating to the conversion of silent participations into hard core capital. The plan is to contribute the net income for the year – and the profit carried forward from 2012 – to retained earnings. As before, Bremer Landesbank does not require any government aid.

Below we report in detail on the business performance of Bremer Landesbank in 2013.

2.3 Position of the Bank

2.3.1 Results of operations

On the whole, the Bank's results of operations were again satisfactory in 2013.

Net interest income

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

The Bank had forecast that the net interest income would be on a low level in the next few years once the special effects no longer apply.

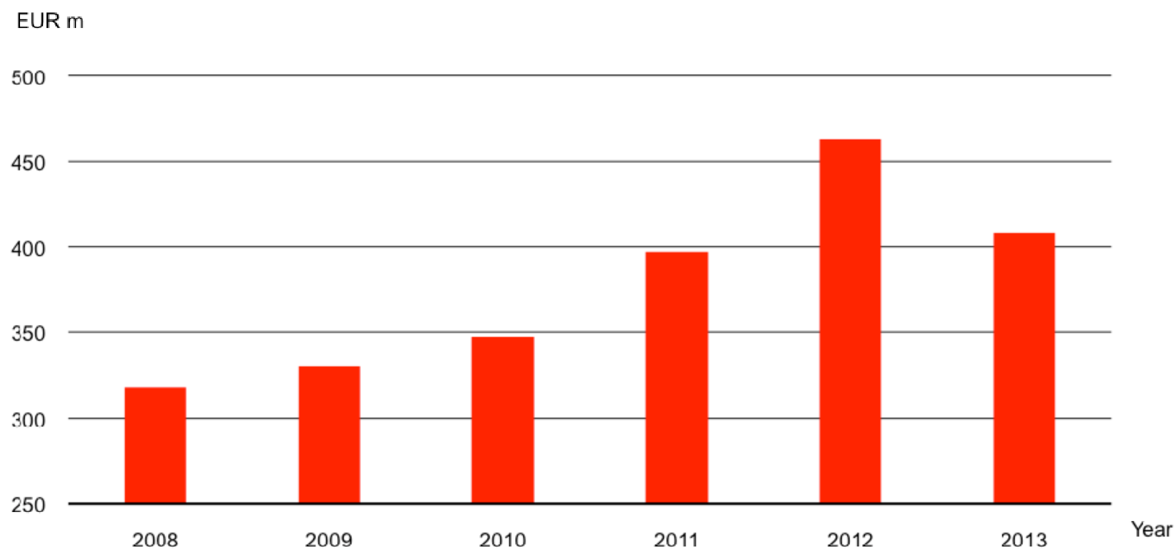
Net interest fell by 12 % from EUR 463m to EUR 408m. The contributions achieved from the operating business with customers of the Bank remained on high. The reason for the drop in net interest income is one-off extraordinary income of EUR 51m in 2012, which resulted from the reversal of interest hedges in connection with the conversion of silent participations to hard core capital.

Net interest income was supported by slightly higher profit transfers from subsidiaries in the amount of roughly EUR 30m (previous year: EUR 26m). This was substantially influenced by real estate transactions that allowed for the achievement of roughly EUR 26m in existing reserves for properties and buildings.

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

In the coming year, the net interest income will be at a slightly lower level due to the decrease in profit transfers from subsidiaries, which will return to a normal level again.

Comparison of net interest income:



Net commission income

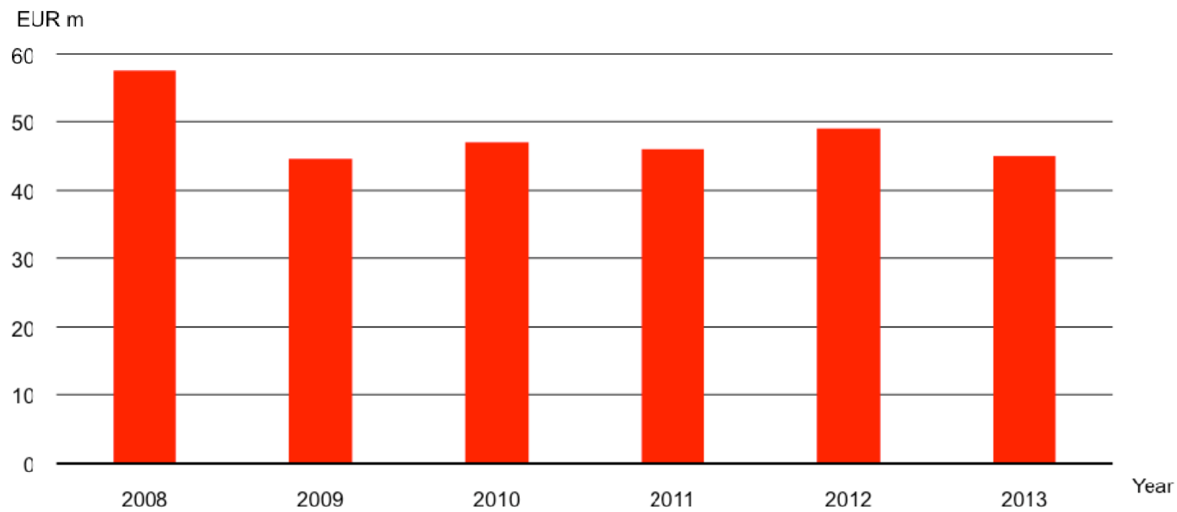
In its forecast, the Bank assumed net commission income would stabilize at the level achieved in 2012.

Net commission income fell from EUR 49m to EUR 45m and remained stable, despite the difficult environment, with the exception of declining structuring fees for ship financing.

While guarantee commissions from lending business were just able to maintain the constantly good level, fees for designing finance arrangements for alternative energy sources continued to improve significantly. Fees in the areas of account management and international business fell slightly. On the other hand, the total contribution to profit and loss from securities business (including asset management) as well as brokerage activity increased. Other contributions to profit and loss, for example from payment transactions and trust activities, were relatively stable or increased slightly.

In 2014, net commission income should remain at the level reached in 2013.

Comparison of net commission income:



Net income from the trading book positions

For the trading profit/loss, the Bank continued to see good opportunities in 2013 and 2014 to act successfully on financial markets.

Net income from the trading book positions for 2013 totalled EUR 11m and rose by roughly EUR 1m from the previous year's figure of EUR 10m.

The trading business of Bremer Landesbank is customer-induced and serves to hedge interest rate and foreign currency risks in traditional banking business. Under these general conditions, the Bank was also able to operate successfully in the past year. The net income from the trading book positions is on the whole very positive.

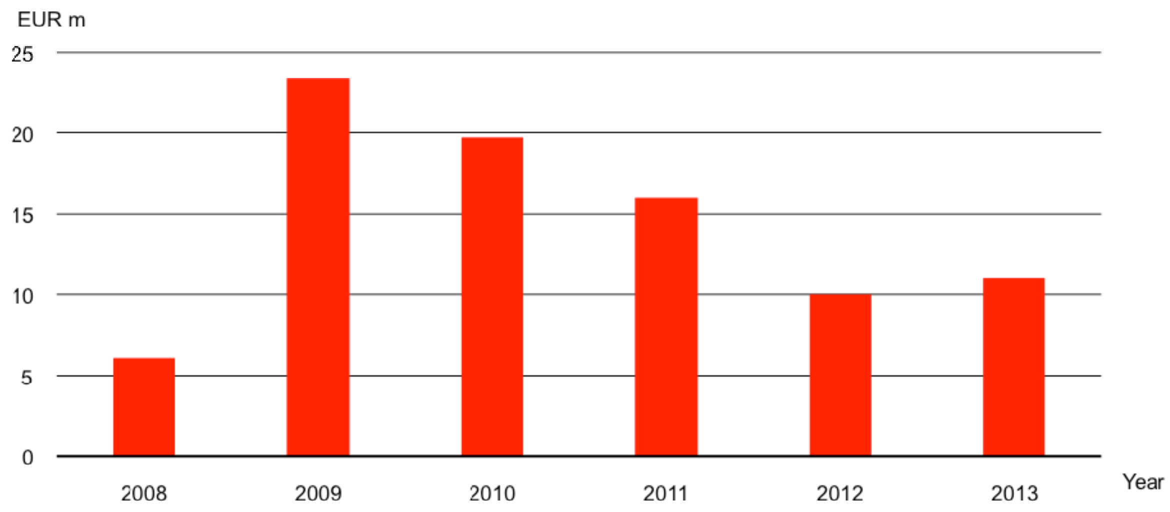
While the net valuation effect and the current result made negative contributions on account of low short-term interest rates, the realized profit – particularly from interest rate derivatives – developed positively.

In terms of products, the currency transactions and derivatives segments made a positive contribution, whilst the profit/loss from shares and annuities had a negative impact on results due to a decline in the repurchase of own issues.

The risk reduction or surcharge and the so-called risk buffer blocked for distributions reduced the net profit from the trading book positions by a total of EUR 3m in 2013 (previous year: + EUR 3m).

The net profit from the trading book positions will be volatile due to the short-term nature of the business and market fluctuations, making it difficult to forecast. In its planning, however, the Bank assumes a good chance of being able to operate successfully on financial markets in 2014, as in 2013.

Comparison of net income from the trading book positions:



Other operating income/expenses (net)

The balance of other operating income/expenses of EUR 7m was an improvement of EUR 18m compared to 2012 (EUR -11m). The special effects described in the following had a significant impact on other operating income.

Other operating expenses totalled EUR 30.0m (previous year: EUR 22m). The interest effects of around EUR 13.0m in the pension provisions (previous year: EUR 13m) were on the level of the previous year. Furthermore, costs from the bank levy of EUR 4m (previous year: EUR 4m) were reported. Interest effects from other personnel and miscellaneous provisions of EUR 1m (previous year: EUR 1m) are also reported under other operating expenses. Furthermore, a one-off expense for the implementation of medium-term cost saving measures in the amount of EUR 9m is also included in the financial year 2013.

Other operating income rose from EUR 11m to EUR 37m. This includes income from the reversal of personnel and other provisions, rental income, VAT refunds and cost refunds from customers that is on the level of 2012. This position was substantially affected in the financial year 2013 by one-off income from real estate transactions in the amount of EUR 24m.

It is difficult to plan net other operating income and expenses. The Bank continues to assume a noticeable interest effect in the area of pension provisions and anticipates substantially lower other operating income in the forecast period due to lower special effects.

Administrative expenses

General administrative expenses rose by EUR 2m or 1%, from EUR 185m to EUR 187m.

In the 2012 financial statements, a significant decline in personnel expenses was expected.

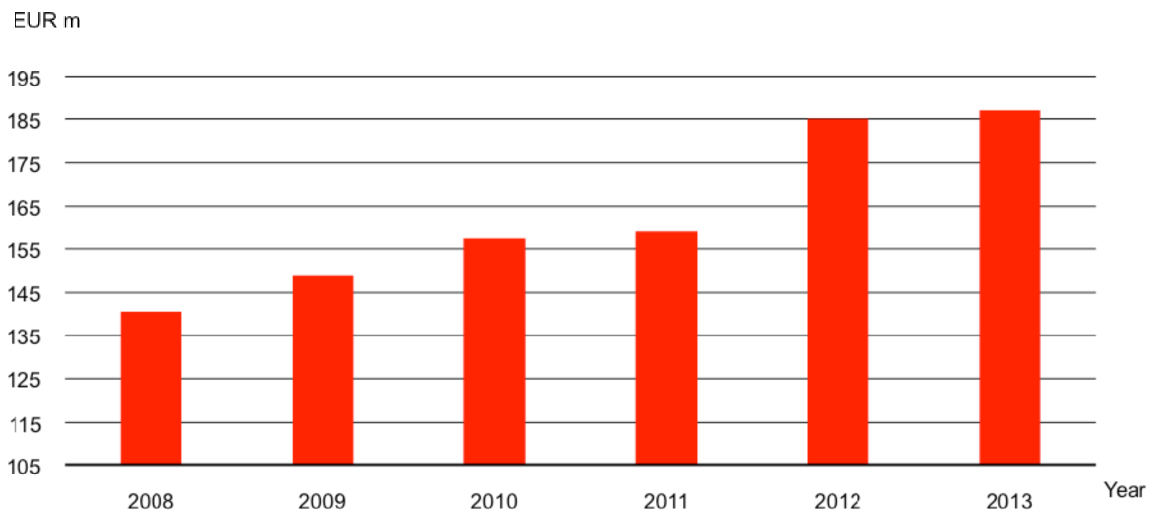
In 2013 personnel expenses totalled around EUR 105m and hence rose by EUR 2m or 2%. Expenses for wages, salaries and social security contributions rose as expected due to the collective bargaining agreements for bank employees in the previous year. Significant deviations from the budgeted decrease in personnel expenses are primarily a result of higher allocations to the pension provisions due to interest.

For other administrative expenses, a gradual consolidation of the cost level over the next few years was forecast in the 2012 financial statements.

The other administrative expenses remained almost constant at EUR 82m. There were increases particularly in the area of information technology, for project-related expenses and building costs, which were offset by compensatory effects in consulting expenses and the allocation volume at roughly the same order of magnitude. On the whole, other administrative expenses remained above the budgeted level, however.

Another slight increase in personnel expenses is expected in 2014 since the applicable collective bargaining agreement will expire in the summer and the discount rate for pension provisions will continue to fall. For other administrative expenses, the Bank expects a significant decline in the coming year.

Comparison of administrative expenses:



Amortization, depreciation and impairment

Amortization, depreciation and impairment of intangible assets and property and equipment remained unchanged at EUR 5m.

The net valuation effect in the lending and securities business and from Bremer Landesbank's investments led to a net expense of EUR 179m.

In the 2012 management report, the Bank assumed that loan loss provisions would be roughly at the level of 2012 if there was no recovery in merchant shipping.

In 2013, the negative effects of the ongoing crisis in the shipping sector had a significantly stronger impact on the Bank's loan loss provisions than originally expected. The continued oversupply of ship tonnage led to ongoing low charter rates. Declining growth rates in China and the only slowly recovering economy in large parts of the world were met by another increase in tonnage in 2013. In the fifth year of the crisis many shipping companies were again no longer able to sustain their ships. The Bank continuously analyzed 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 that the markets would bottom out.

There were no notable impairments on the Bank's own securities in the financial year. Only the sale of a bond from IRBC (formerly Anglo Irish) received from a credit event caused the Bank to incur a loss of roughly EUR 4m.

Adjustments to the carrying amounts of investments led to no appreciable net contributions in 2013, as in the year before.

The requirements for loan loss provisions in 2014 will continue to be defined by the significant difficulties on the shipping markets, according to the bank's assessment. The recovery everyone is hoping for will only take hold slowly. Since 2010, risk provisions at Bremer Landesbank have been determined largely by developments in the merchant shipping sector. If this sector does not begin to recover in 2014, loan loss provisions should again remain at the currently high level, but in all likelihood will be below the level of 2013. Deviations from the valuation parameters assumed for the shipping sector (e.g. an ongoing delay in the recovery of the market) could have a significant impact on the level of the loan loss provisions.

Fund for general banking risks

The fund for general banking risks in accordance with Sec. 340g of the German Commercial Code, which is part of the regulatory core capital, is EUR 536m. An allocation of EUR 46m was made in the financial year 2013.

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

This fund now amounts to EUR 542m.

Profit/loss from ordinary activities

The profit from ordinary activities in 2013 is EUR 54m, compared with EUR 73m in the previous year, representing a fall of 26 %. This is mainly due to the decline in net interest income due to extraordinary income in 2012 (conversion of silent participations).

Extraordinary income

In 2013, the extraordinary income totalled approximately EUR -6m (previous year: EUR -6m). For 2013 this item only comprises the BilMoG conversion effects relating to pension provisions.

Tax expense

The tax expense for Bremer Landesbank decreased to EUR 12m on account of the lower year-on-year results of operations and the lower resulting taxable income (previous year: EUR 15m).

Interest expense for silent participations

No more interest expenses were incurred in financial year 2013 due to the conversion in 2012 of silent participations to core capital and capital reserves (previous year: EUR 21m).

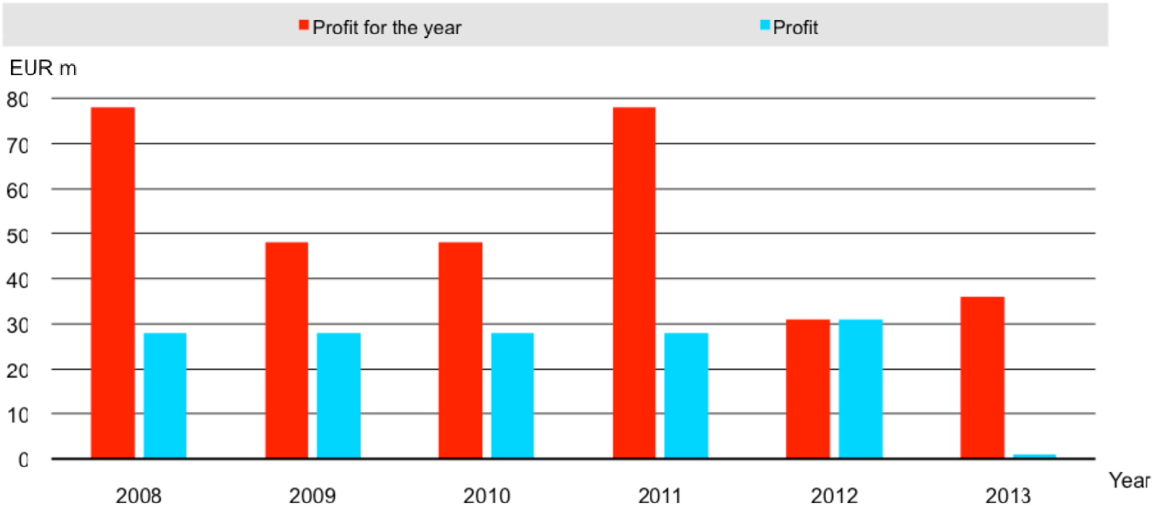
Net income for the year and appropriation of profit

The Bank had forecast a rising in net income for the years 2013 and 2014.

The net income for the year was EUR 36m following EUR 31m for 2012. The Bank will propose a further strengthening of the liable capital to its owners. Besides the establishment of taxable reserves, this should be achieved by contributing the net income for the year (EUR 36m) and the profit carried forward from 2012 (EUR 31m) to retained earnings. No distribution to the owners is possible for 2013 due to the commitments made by NORD/LB to the EU relating to the conversion of silent participations to hard core capital in 2012.

The Bank expects the net income for the year to rise slightly in 2014. A balanced relationship between the appropriate dividend amount and the ongoing strengthening of capital is sought.

Comparison of net income for the year and profit:



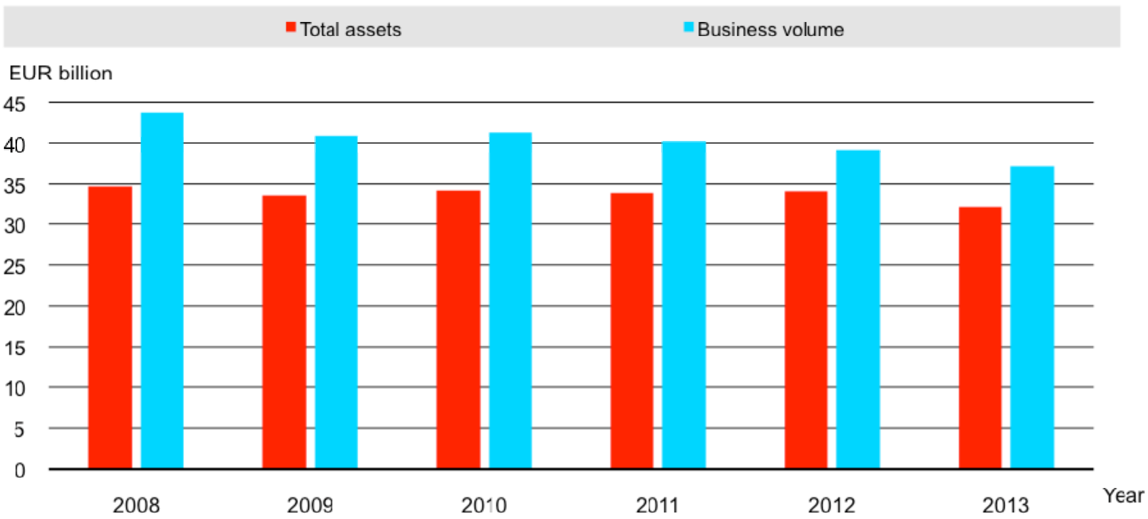
2.3.2 Net assets and financial position

Total assets and business volume

As in previous years, the Bank focused on transacting high-yield business. Interbank transactions stabilized at a low level while the Bank's own securities fell gradually. Loans and advances to customers fell due to maturities exceeding new business.

Overall, total assets decreased to EUR 32.2b (previous year: EUR 34.1b). The business volume also fell by EUR 2.0b or 5% to EUR 37.2b due to slightly lower contingent liabilities.

Comparison of total assets and business volume:



Loans and advances to banks

As a consequence of the financial and capital market crisis combined with the downgrading of a number of countries' credit ratings, the Bank reduced its interbank business significantly in previous years and it stabilized at this level in the financial year 2013. In municipal lending business, which is defined by business with associated savings banks, growth of 9 % was achieved so that the loans and advances to banks increased by a total of EUR 0.4b to EUR 4.2b.

Loans and advances to customers

Loans and advances to customers fell by roughly EUR 1.0b to EUR 22.3b due to maturities exceeding new business. Loans and advances to customers account for 69.1 % of total assets (previous year: 68.3 %). Please see the notes on the development of the business segments for a more detailed analysis of this balance sheet item.

Debt securities and shares

The Bank incrementally reduced its portfolio of debt securities and other fixed-interest securities over the reporting period by EUR 0.8b to EUR 4.9b. This focused on listed instruments from public issuers with a comparatively low risk. At EUR 18m, shares and other non-fixed-interest securities (previous year: EUR 17m) only play a minor role.

Trading book positions

Since 2010 the Bank has reported its trading book positions at fair value. The trading book positions of Bremer Landesbank with positive market values is EUR 146m (previous year: EUR 527m). The long-term derivatives are kept in the trading book and act as hedges for interest and foreign currency risks in the banking book. They are usually concluded with offsetting transactions and are open-ended. Therefore, the trading book positions of a bank increases incrementally. The substantial decline in the trading book positions in 2013 results from a profit-neutral adjustment of derivative transactions with multiple banks by using an external service provider.

Investments and shares in affiliated companies

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 investments in 2013. At the end of the year the portfolio totalled EUR 19m, after being EUR 20m in the previous year.

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 investments will only be entered into if they generate substantial added value for the Bank and the region.

Shares in affiliated companies increased due to the trust transfer of the real estate portfolio of the Bank to a newly formed subsidiary.

Liabilities to banks

The Bank also uses liabilities to other banks as a means of refinancing. Over the financial year these fell by EUR 0.9b to EUR 10.9b (previous year: EUR 11.8b). While the volume of mortgage and registered Pfandbriefe and public registered securities in circulation fell only slightly overall, the liabilities in the interbank sector and – somewhat less intensely – investments by associated savings banks declined. However, this decline was largely concentrated on the on-demand area.

Liabilities to customers

The Bank's refinancing through liabilities to customers was only slightly below the previous year's level at EUR 9.9b (against EUR 10.3b in 2012). Deposits payable on demand rose to EUR 3.2b (previous year: EUR 3.1b), whilst the other time bands exhibited slight falls. The issued public registered securities fell marginally to EUR 2.5b (previous year: EUR 2.7b). It was possible to increase savings deposits to a pleasing level of EUR 218m (previous year: EUR 194m).

Securitized liabilities

Securitized liabilities are one of the Bank's major sources of finance and decreased by 5 % to EUR 8.0b, compared with EUR 8.4b in the previous year. A differentiated presentation of refinancing at the Bank via the various issuing programmes is shown in the notes on the Financial Markets segment and in the financing section.

Trading book positions

Since 2010 the Bank has reported its trading book positions at fair value. The trading book positions of Bremer Landesbank with negative market values is EUR 40m (previous year: EUR 358m).

Provisions

At year-end 2013, Bremer Landesbank's provisions of EUR 294m are significantly above the level of the previous year (EUR 268m).

Provisions for pensions and similar obligations, which are based on actuarial reports, increased by a total of EUR 24m to EUR 218m. This development is mainly influenced by a reduced discount interest rate due to the ongoing low interest phase.

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

Therefore one-fifteenth (EUR 6m) of the total allocation calculated as at 1 January 2010 was allocated to pension provisions in the financial year 2013.

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

At EUR 16m, tax provisions are roughly on a par with the previous year (EUR 16m). Other remaining provisions rose by EUR 2m to EUR 60m in 2013. Large portions of the other provisions are related to personnel expenses, such as early retirement obligations (EUR 18m) and bonuses (EUR 8m). The loan loss provisions also included here increased from EUR 18m to EUR 20m.

Subordinated liabilities

Subordinated liabilities stood at EUR 750m at the end of the year (previous year: EUR 700m). To replace medium-term maturities and strengthen regulatory capital, a total of EUR 50m in subordinate funds was taken on in 2013.

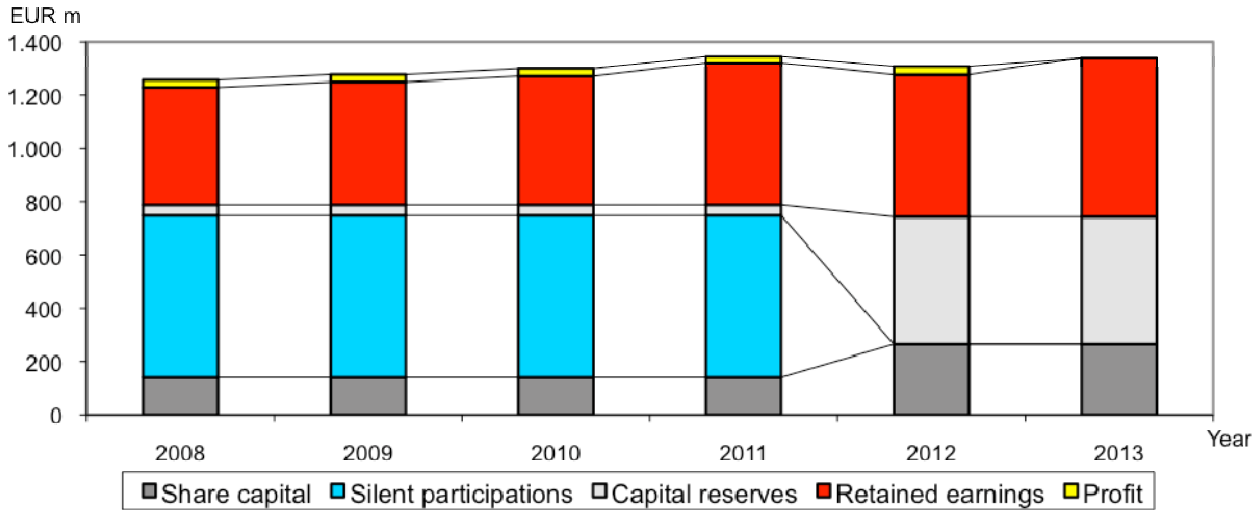
Equity

Reported equity amounts to EUR 1,343m, compared with EUR 1,307m in the previous year. Of this an unchanged EUR 265m is attributable to share capital and EUR 478m to capital reserves. The retained earnings amounted to EUR 600m after the planned contribution of the net income for the year (EUR 36m) and the profit carried forward (EUR 31m). No distribution to the owners is possible for 2013 due to the commitments made by NORD/LB to the EU relating to the conversion of silent participations to hard core capital in 2012.

The Bank also opted to strengthen its liable capital by building up taxable reserves in the amount of EUR 46m.

At year-end, after appropriation of profit and the impairment losses recognized in the financial statements, the core capital ratio was 9.5 % (previous year: 8.8 %). As before, Bremer Landesbank does not require any government aid.

Comparison of equity components:



Contingent liabilities

Liabilities from guarantees and other indemnity agreements amount to EUR 3.0b (previous year: EUR 3.4b).

While contingent liabilities from traditional off-balance sheet business remained more or less unchanged, the volume of credit default swaps (CDSs) for which Bremer Landesbank is the protection seller decreased as swaps matured and positions were systematically unwound. Bremer Landesbank engaged in such structured lending business to utilize available equity to generate commission income and to diversify its credit portfolio, notably with regard to regions/countries and rating categories. The Bank only sold protection to prime counterparties and always used recognized standard agreements. Due to the difficulties which have arisen on the international financial and capital markets since 2007 and the related widening in credit spreads, the Bank has discontinued all new business in this area except for a small number of selected position liquidations and hedges.

In the middle of 2013, the ISDA (International Swaps and Derivatives Association) declared a credit event restructuring for the Spanish bank Bankia. Bremer Landesbank held various CDSs on this bank totaling EUR 80m as a protection seller. So-called credit event notices, which notify of recourse requiring delivery of securities, have not been sent to the Bank yet.

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 and 2012 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.

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

Other obligations

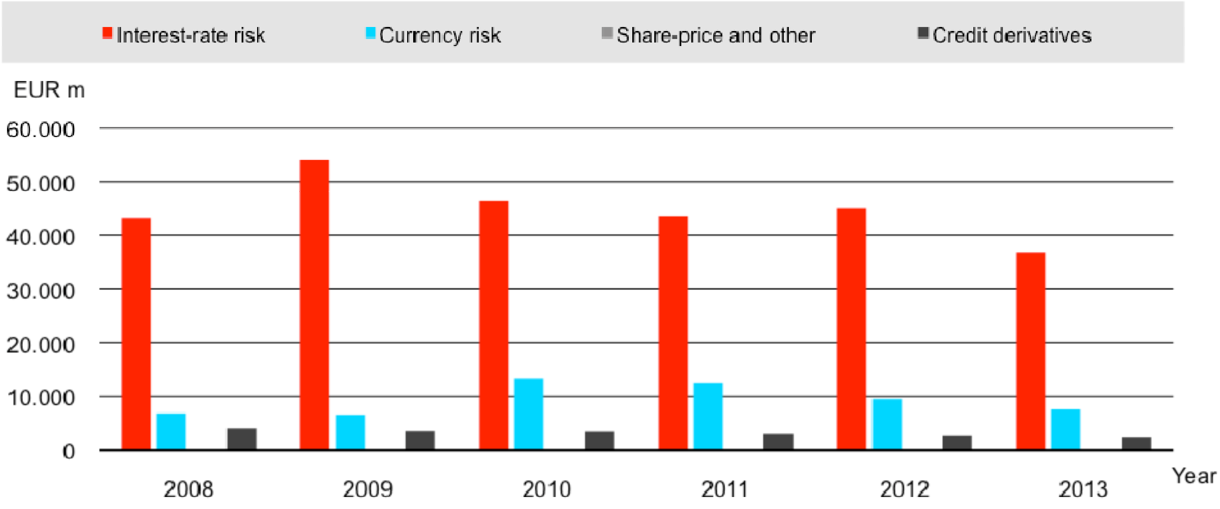
Irrevocable loan commitments which were not taken up amounted to EUR 1.9b on the balance sheet date (previous year: EUR 1.8b).

Off-balance sheet financial instruments

Bremer Landesbank enters into derivative transactions mainly for the purpose of managing and hedging interest rate and foreign currency risks. The nominal volume at year-end 2013 amounted to EUR 46.6b, compared with EUR 57.1b in the previous year, i.e., approximately 1.4 times (previous year: 1.7 times) total assets. Compared with other institutions in the sector, Bremer Landesbank only engages in such transactions to a relatively minor extent. Almost all counterparties are banks located in OECD member countries and therefore may be assumed to have a sound financial background. For detailed information on volumes and a maturity and counterparty breakdown, please refer to the information in the notes to the financial statements of Bremer Landesbank.

Derivative volume

Comparison of derivative volumes:



2.3.3 Additional explanations

Performance indicators

The return on equity (ROE) for the financial year 2013, calculated using the valuation formula defined in the Integrated bank management section, remains unchanged at 4 %. The lower level is due to the lower operating result on account of the significant rise in loan loss provisions. Additionally, the increased capital base following the conversion of silent participations reduced the ratio.

The cost-income ratio (CIR) is on a slightly higher level of 40.8 % (previous year: 37 %) and thus always in general around the 40 % that is viewed as good. The increase in the CIR is mainly due to one-off effects that increased operating income in 2012 and no longer had an effect in 2013.

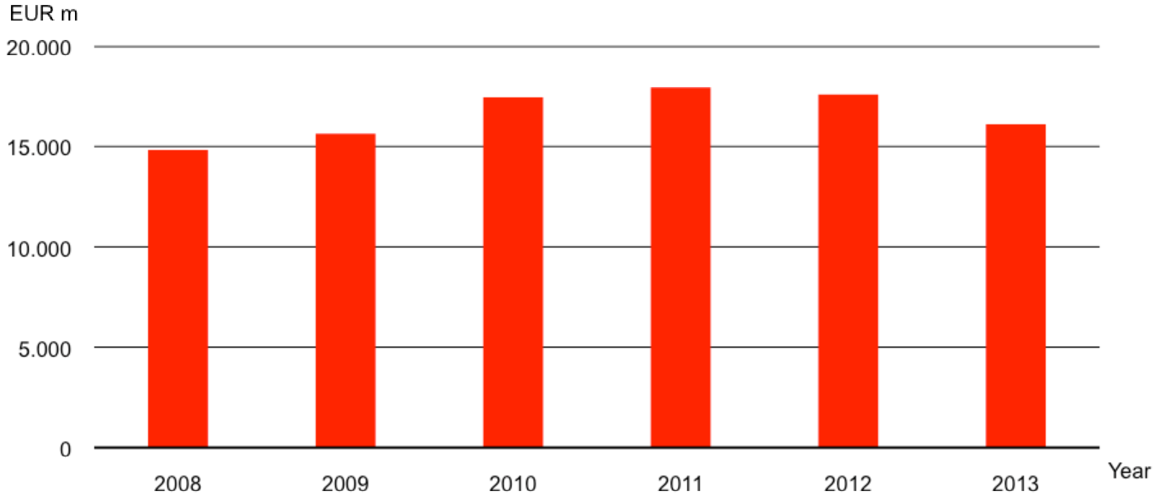
As at 31 December 2013, the risk ratio (defined as the ratio of loan loss provisions (excluding changes in the fund for general banking risks in accordance with Sec. 340f of the German Commercial Code) to risk assets) is 1.24 % (previous year: 1.07 %). This increase is primarily due to the higher loan loss provisions for ship financing.

Capital requirements under the German Solvency Regulation (Solvabilitätsverordnung, SolvV) total approximately EUR 1.3b (previous year: approximately EUR 1.4b), equivalent to risk assets of approximately EUR 16.1b (previous year: approximately EUR 17.6b). The overall ratio is 10.9 %, compared with 11.4 % at the previous year-end. The Bank prepared audited interim financial statements in accordance with Sec. 10 (3) of the German Banking Act (Kreditwesengesetz, KWG) by 30 September 2013 and was thereby able to take reduced account of the allowances for IRBA commitments created up to that point in the shortfall allowance comparison.

The risk bearing capacity was ensured at a capacity utilization of roughly 58 % as at 31 December 2013. As a result, it lies significantly above the level of 20 % in the previous year. The reason for the increase is partly the increasing strain on the risk bearing capacity due to the ongoing shipping crisis. This is reflected in a decline in the risk capital and a rise in the risk potential due to credit risks.

Exposures/risk assets

Comparison of exposures/risk assets:



Financing

In 2013, bearer and registered debt securities are 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 bonded loans, amounted to EUR 1.5b (excluding the European Commercial paper (ECP) programme and EIB loans), compared with EUR 2.5b in 2012.

The volume of debt securities outstanding at year-end 2013 was EUR 16.2b (previous year: EUR 17.0b).

The total outstanding volume of refinancing loans from the European Investment Bank (EIB loans) was approximately EUR 0.7b as at 31 December 2013 (previous year-end: EUR 0.8b).

As part of refinancing and liquidity management during the year, Bremer Landesbank has also continually made use of the various instruments of the European Central Bank, in addition to the interbank and repo markets in 2013.

The European Commercial Paper Programme (ECP Programme) was used in the currencies EUR and USD in 2013. As at 31 December 2013, the outstanding volume had an equivalent value of EUR 60m (previous year-end: EUR 181m).

For more details, please see the Risk report and Development of business segments.

Investment activities

Bremer Landesbank invests substantially in modernizing and redesigning its buildings. At the Bremen location, the building at Domshof was demolished in 2013 except for the listed facade of the main house. The new building will begin in 2014. The investment volume will be in the higher double-digit million range.

Staff and sustainability

For Bremer Landesbank, being close to the markets and to the people who live and work in the region is both a privilege and an obligation. This is reflected, for example, in its public and social engagement initiatives, in its sponsorship of the “NordWest Award”, as well as the fact that the Bremer Landesbank employs, on average, 1,084 employees (previous year: 1,067), 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 1.1 % (previous year: 1.5 %), is low for the industry, and a relatively high average length of service of 16.3 years (previous year: 16.2 years).

As a leading regional bank in the North-West, Bremer Landesbank is committed to setting a good example 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 gGmbH in Berlin. This lets the Bank’s employees spend up to 25 % of their working hours at home under certain conditions. Cooperation agreements for daycare occupancy rights in Bremen and Oldenburg were concluded in 2013, representing another specific measure that Bremer Landesbank implemented in this connection.

These are just some of Bremer Landesbank’s efforts to make its activities economically, socially and ecologically sustainable. Since the publication of the 2011 sustainability report, the Bank has expanded its activities on the subject of sustainability. Accordingly, the Bank’s sustainability strategy and the supporting measures in the sustainability programme were adopted in 2013 to strengthen the sustainability positioning of the General Managing Board. In addition, the Managing Board passed the already introduced guidelines for the “Exclusion of pornography” and the “Exclusion of arms and defense transactions” as well as the following guidelines in 2013: “Guidelines for ESG requirements in project financing”, “Guidelines for responsible marketing”, “Guidelines for handling interest groups”, “Guidelines for hydropower”, “Guidelines for climate change”, “Guidelines for the handling of taxation requirements” and “Guidelines for human rights and labour standards”. The Bank also signed the “Diversity Charter”. Bremer Landesbank is also a permanent participant in the “Sustainability Management Committee” of the NORD/LB Group.

2.3.4 Development of 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. It is a reliable and innovative financial services partner for this target group.

In 2013 sales activities continued at a high level. Earnings in 2013 were on the whole satisfactory and met expectations. Conversely, the lending business was again a driver of development, and significantly increased volumes were achieved through the use of public credit programmes. In spite of the rise in lending volume, risk costs were in line with the calculated amounts.

In deposit business, the volume decreased due to the extremely low interest level in the area of on-demand/short term deposits. The pleasing increase in business checking accounts made it possible to keep the borrowing business overall at a satisfactory level.

The service business fell short of the good performance in the previous year due to somewhat slower foreign and guarantee business.

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

Bremer Landesbank's special finance business comprises the Shipping, Renewable Energies with the subsegments of Wind Power, Photovoltaics, Biogas, Leasing and Social Welfare Facilities SBUs.

Bremer Landesbank's Special Finance segment continued to develop positively on the whole in 2013 given the ongoing challenges from the shipping crisis and exceeded the income forecast. Economic growth has been more moderate since the financial and economic crisis, whereby renewable energies in particular are a growing part of the portfolio by means of leveraging existing business potential and could partly counteract future falls in income from shipping finance. The loan loss provisions of the business segment remained at a high level on account of the continuing crisis in shipping.

In 2013, the negative effects of the ongoing crisis in the shipping sector had a stronger impact on the bank's loan loss provisions than originally expected in the shipping segment. The continued oversupply of ship tonnage led to ongoing low charter rates. Declining growth rates in China and the only slowly recovering economy in large parts of the world were met by another increase in tonnage in 2013. In the fifth year of the crisis many shipping companies were again no longer able to sustain their ships. The Bank continuously analyzed 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 that the markets would bottom out. New business was pursued only very selectively against the background of crisis management.

In the Renewable Energies segment, the sub-segment of Onshore Wind Power in Germany, including the increasing repowering, was again the main driver of reviving new business. Here, the strong market position was confirmed. Photovoltaic financing saw the expected weakening of new business in the second half of the year due to the adjustment of the Renewable Energies Act (Erneuerbare Energiengesetz, EEG) in 2012, but was able to exceed expectations. Bremer Landesbank is the competence centre for biogas and photovoltaics in Germany within the Nord/LB group.

In the refinancing of vehicle and equipment leasing companies, Bremer Landesbank maintained its position as a leading financier of middle-market leasing companies in 2013. Whilst new business fell moderately short of the budget, the income forecast was exceeded. Our competence centre function within the NORD/LB group and our 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 clear focal point of the Social Welfare Facilities segment, Bremer Landesbank specializes in the financing of nursing homes and is the competence centre for the Nord/LB Group in this field. After the slow development of new business in the first half of the year, the lending business picked up over the course of the year and was in line with the forecast. Income also developed satisfactorily and were in line with budget. Demographic trends and the growing need for in-patient nursing highlight the strategic importance and potential of this segment.

With its various subsegments and its consistent focus on long-term, reliable customer relationships, Bremer Landesbank's Special Finance segment considers itself to be well positioned with a clientele dominated by mid-cap companies and should be able to expand at a moderate rate. The Bank's exposure is gradually shifting toward renewable energies and away from shipping, which will lead to a further improvement in the portfolio balance.

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 periods longer than one year are also carried out by the Financial Markets segment. With the volume of business generated in the customer and counterparty portfolio, Bremer Landesbank's Financial Markets segment contributes significantly to positions relevant to the Group's balance sheet.

As part of refinancing and liquidity management during the year, Bremer Landesbank has also continually made use of the various instruments of the European Central Bank, in addition to the interbank and repo markets in 2013. Money and capital market operations took place in a market again shaped by international and multi-institutional efforts to contain the consequences of the ongoing euro crisis and its impact on the financial and real markets in 2013. After the middle of the year, the situation calmed down, with positive real economic signals over the medium to long term. Overall the operations of Bremer Landesbank's Financial Markets segment were successfully deployed to achieve the final segment result.

The business segment is broken down into strategic business units (SBUs): Municipalities, Savings Banks and Institutional Customers

Municipalities

Another focus of business activity 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.

Savings Banks

Bremer Landesbank's business with associated banks, which it also conducts in the Financial Markets segment, was again successful in 2013 and included comprehensive support services for the associated savings banks. Despite the difficult economic environment with strong competition, earnings were again kept 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 international documentary business.

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

Institutional Customers

In 2013 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 somewhat slow volume of trade caused by wider economic factors.

Private Customers

The influence of the global financial market crisis on the private customer business continues to be noticeable. The very successful year in the capital markets with new records in the indices was only used by private investors to a limited extent. Uncertainty and caution remained characteristic of customer behaviour. Due to the only slowly receding sovereign debt crisis, interest rates remain low from a historical perspective. As a consequence, customers have an increased need for information, which Bremer Landesbank is actively catering to through its professional customer management.

Customers' need for professional support can also be seen in another significant increase in "assets under management". The portfolio of assets under management is managed by our asset and portfolio management as a competency centre and has performed impressively with our designed and implemented SIP® investment process. The results of this SIP® investment process are in particular in asset management, the SIP® fund family and in the consultation process.

A cornerstone of the Bank's success in this business segment is its strict adherence to providing comprehensive advice. In Private Banking this is guaranteed by means of a strictly defined and constantly quality-assured consultation process and methodically supported with a wealth concept developed with a view to our 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 market divisions. The consultation approach dubbed "entrepreneur banking" was successfully expanded for entrepreneurs, and the existing customer relationships with Bremer Landesbank were consolidated.

The focus of the lending business was on activities for individual investors and freelancers. High-quality, customized solutions in terms of the defined service areas are offered for these customer groups.

2.3.5 Conclusion

In 2013 the considerable difficulties in the shipping markets had a significant influence on Bremer Landesbank's result in accordance with German Commercial Code. However, the Bank was able to cushion the effects well on account of its good income. The Bank considers the result achieved under these difficult conditions in 2013 to be satisfactory. This reaffirms Bremer Landesbank's focus as a regional bank – with international special finance business – in and for the North-West of Germany. 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 the most significant partner for small and middle-market businesses in the North-West of Germany. Bremer Landesbank, with its sustainable business model, has positioned itself well to systematically pursue its business development in 2014 under the ongoing difficult conditions.

3. Subsequent events

There were no events of special significance for the economic situation of the Bank between the end of the financial year 2013 and the preparation of the financial statements.

4. Outlook and opportunity report

4.1 Opportunities

The difficult economic situation in the shipping markets had a significant influence on Bremer Landesbank's result in 2013. In all likelihood, this will also be felt in the coming year. If the market recovers more quickly than generally anticipated, there will be opportunities for an improvement in the Bank's result.

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 middle-market companies, 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 the middle market, which has often been neglected in the past. However, given the competitive edge offered by its local advisors, short lines of decision, local capital market and foreign business expertise and an extensive range of products and services, Bremer Landesbank remains confident that it will not only be able to hold its own in this low-risk, high-income business, but even grow its market share.

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

Bremer Landesbank, with its sustainable business model, has positioned itself well to systematically pursue its business development in 2014 under the ongoing difficult conditions.

4.2 Outlook

Significant assumptions in the outlook

The planning is based on the group-wide “Medium Term Forecast 2018”. The underlying assumptions provide a framework for economic development, real global trade volumes, crude oil price, GDP growth in the USA, economic growth in emerging markets and the performance of the US dollar. Within this framework, the macro forecasts are made for Germany, the eurozone and significant foreign markets.

The detailed forecast for interest rates and spreads will include individual financial instruments in various maturity bands. The forecast for exchange rates is provided for significant, relevant exchange rates.

The development of central product groups is estimated, among others, for credit to domestic non-banks, companies and freelancers.

For the loan loss provisions in the shipping segment, a slow recovery of charter rates is assumed in comparison to previous years. The level of the boom years will not be reached in the medium term.

In the area of other administrative expenses, the forecast is for a price increase in central cost blocks such as data processing, rents, etc.

Net assets, financial position and results of operations

The Bank expects the net income for the year to rise slightly in 2014. A balanced relationship between the appropriate dividend amount and the ongoing strengthening of capital is sought.

According to the Bank's forecasts, it will not need to make use of any state aid.

In the coming year, the net interest income will be at a slightly lower level due to the decrease in profit transfers from subsidiaries, which will return to a normal level again.

In 2014, net commission income should remain at the level reached in 2013.

The net profit for the trading book will be volatile due to the short-term nature of the business and market fluctuations, making it difficult to forecast. In its planning, however, the Bank assumes a good chance of being able to operate successfully on financial markets in 2014, as in 2013.

It is difficult to plan net other operating income and expenses. The Bank continues to assume a noticeable interest effect in the area of pension provisions and anticipates substantially lower other operating income in the forecast period due to lower special effects.

Another slight increase in personnel expenses is expected in 2014 since the applicable collective bargaining agreement will expire in the summer and the discount rate for pension provisions will continue to fall. For other administrative expenses, the Bank expects a significant decline in the coming year.

The requirements for loan loss provisions in 2014 will continue to be defined by the significant difficulties on the shipping markets, according to the bank's assessment. The recovery everyone is hoping for will only take hold slowly. Since 2010, risk provisions at Bremer Landesbank have been determined largely by developments in the merchant shipping sector. If this sector does not begin to recover in 2014, loan loss provisions should again remain at the currently high level, but in all likelihood will be below the level of 2013. Deviations from the valuation parameters assumed for the shipping sector (e.g. an ongoing delay in the recovery of the market) could have a significant impact on the level of loan loss provisions.

Performance indicators

After the satisfactory result for 2013 under the existing conditions, the return on equity is expected to increase slightly in the forecast period. In 2014 the cost-income ratio will be somewhat higher than in 2013. The risk ratio is expected to decrease moderately in the forecast period. According to the Bank's forecasts, risk assets will increase noticeably during the same period. For the risk bearing capacity, the Bank anticipates ongoing green light status in the going concern scenario through the end of 2014 in light of the planned measures.

4.3 Conclusion

In 2013 the difficulties in the shipping markets had a significant influence on Bremer Landesbank's result in accordance with the German Commercial Code. However, the Bank was able to cushion the effects well on account of its good income. The Bank assumes that the operating income will also remain stable in 2014.

5. Risk report

5.1 Management systems

5.1.1 General risk management

Risk management – fundamentals and area of application

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 Bank implements a risk management process spanning all of its activities at least once a year or as required to determine the overall risk profile according to the Minimum Requirements for Risk Management (MaRisk) AT 2.2 and AT 4.5. The overall risk profile represents the types of risks that are relevant for the Bank. In addition, there is another differentiation between material and non-material risks. Material risks are all relevant types of risk which could have a material negative effect on capital, the results of operations, liquidity or the attainment of the Bank's strategic objectives.

The major risks for the Bank are counterparty risks (credit and investment risks), market risks, liquidity risks and operational risks. Business and strategic risks, including association risk, reputation risks, syndication risks, model risks and real estate risks are considered relevant.

The framework conditions for the design of the risk management process are set by MaRsik for bank institutions and bank institution groups on the basis of Section 25a of the German Banking Act. According to MaRisk, a proper business organization includes the specification of strategies on the basis of the process for determining and ensuring the risk-bearing capacity, which includes both the risks and the capital available for their coverage.

Bremer Landesbank's risk management system includes solely the risks.

Risk management – strategies

The risk policy principles of Bremer Landesbank correspond to those of the NORD/LB group. The handbooks, method manuals and professional concepts of the NORD/LB group are specified or complemented by the Bremer Landesbank's own specific documents.

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

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

Risk management – structure and organization

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.

In the risk identification process (risk inventory), the risk types relevant to the Bank are identified and analyzed for materiality at least once a year and as required. The material risks then pass through the further process steps of risk assessment, risk reporting and risk management and monitoring. The process steps are conducted regularly at intervals suited to the particular type of risk. Risk management instruments are consistently improved through organizational measures and the adaptation of risk measurement and risk management parameters.

The risk manual published across the Bank serves as an umbrella document and combines the three dimensions of strategies, methods and processes. It contributes to a uniform understanding of risk within the Bank, is the basis for the further development of risk awareness and creates the necessary transparency. Specification and details are dealt with in risk handbooks, master documents and working instructions for specific risk types and complemented by resolutions that the Managing Board adopts. 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 indicators specific to the types of risk that enable potential risks to be identified and analyzed at an early stage and passed to the relevant decision-makers.

Fundamentally the Managing Board and the organizational 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 Division is responsible for identifying the various risks, making them measurable, evaluating them and communicating them. In consultation with the NORD/LB group, the Market Risk/Evaluation Methods, Supervisory/Liquidity Risk and Risk-Bearing Capacity/Credit Risk units develop methods, implement the requisite systems, monitor the overall risk management process and report on risks. Risk management is handled in the four business segments and the area of Back Office Financing within specified framework conditions.

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

The Bank organization is responsible for the Internal Control System (ICS) as a part of process-led and risk-orientated structures and procedures and thus promotes process security, the optimization of business processes and risk awareness in the company. The Internal Control System is uniformly structured at Bremer Landesbank. The ICS framework, introduced for this purpose and based on the framework of the Committee of Sponsoring Organizations of Treadway Commission (COSO) for internal controls, includes a specific process and structural organization. The application of standardized methods and processes should ensure a bank-wide suitable and effective ICS, whilst making it possible to achieve sustainable optimization.

The Compliance area acts as a central consultation and monitoring point for complying with the requirements on the Bank, including in the areas of securities compliance, prevention of money laundering, financial sanctions and prevention of other punishable acts and outsourcing in accordance with MaRisk. 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 demonstrate, analyze and evaluate all effects of new business activity on the risk profile and risk management prior to commencing business. The Managing Board then takes the decision on whether to commence the new business activity.

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. Within 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 (in future: Risk Committee), a committee of the Supervisory Board, five times a year.

For further information in the organization of risk management and the individual reports, refer to the following sub-sections for each risk type.

Risk management – risk-bearing capacity model

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 immaterial 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		
				Clearing risk		
			Issuer risk			
	Investment risk				x	x
	Market-price risk	Interest-rate risk	General interest-rate risk		x	x
			Specific interest-rate risk			
		Currency risk				
		Share-price risk				
		Fund-price risk				
		Volatility risk				
		Credit-spread risk				
		Commodity risk			—	—
	Liquidity risk	Traditional liquidity risk			x	x
		Refinancing risk				
		Market-liquidity risk				
	Operational risk	Operational risks			x	x
		Legal risk				
		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	—
		Real-estate risk			—	—
		Pension risks			—	—
		Actuarial risk			—	—
		Residual-value risk			—	—
		Collective 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).

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. This pillar is critical for an assessment of the risk-bearing capacity in accordance with MaRisk. Risks are measured using a defined confidence level of 90 % and the total economic risk potential is compared with risk capital. The risk capital is determined from the free regulatory capital 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 focus is on this first pillar.

- The second pillar was devised from a “gone concern” view (liquidation scenario). It will continue as a secondary requirement. The gone concern pillar includes a higher confidence level of 99.9 % for determining risk potential. Risks are measured on the basis of serious events of the kind that occur statistically about once every 1,000 years. On the capital side, the tests include all the equity and equity-related components as well as hidden liabilities. Effects on risk capital arising during the year are also taken into account. In the event of the capital required to cover risks in the gone concern scenario being consumed, it would basically no longer be possible for the bank to continue under otherwise changed assumptions.

- 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.

Stress analyses supplement all three pillars. The stress tests are based on Bremer Landesbank’s business and risk focal points. All stress scenarios are designed to cover all types of risk and affect risk capital and risk potential. In 2013 there was a refinement of the existing stress scenarios and an integration of various stress factors in the stress test landscape of Bremer Landesbank. For 2014, an ongoing refinement and an integration of the results in the existing reporting landscape is planned.

Risk concentrations, both within a single risk and across risks, are taken into consideration when calculating the risk-bearing capacity. Concentrations within a single risk mainly involve credit risk, Bremer Landesbank’s most significant risk. These are integrated into the risk-bearing capacity model via the internal credit risk model. Concentrations across all kinds of risk are regularly monitored with targeted stress tests and reported on.

The focal points resulting from our business strategy in the sectors of merchant shipping, energy and the decreasing old portfolios with banks are strategically limited to avoid risk concentrations.

Bremer Landesbank strives for the high diversification of the entire portfolio by controlling asset classes that are subject to different market cycles. Accordingly, it aims to achieve a business mix in the long term that ensures a balance of large volume special financing business with shipping and energy customers on the one hand and granular business from activities with private and corporate customers on the other. This mix should limit cluster risks and make the portfolio on the whole less vulnerable to cyclical risks.

The Bank’s Managing Board sets the Bank’s risk acceptance after deduction of a buffer in the risk strategy. Operational limits are specified for each risk type. At the same time capital is allocated to the Bank’s business segments in the form of ceilings for risk-weighted assets. The above ratios and limits are monitored as part of the monthly reporting.

The RBC report was expanded in 2013 to include an ongoing forecast for the end of the year and the end of the following year. This allows for a real time monitoring of impacts, the active controlling of the risk-bearing capacity and the degree of utilization and regulatory key performance indicators.

5.1.2 Credit risk – management

Credit risk – strategy

For the Bank, the lending business and the associated management of credit risk is a core competence which must be permanently refined 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 market division. 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. In the Shipping segment, new business was limited to financing within the framework of restructuring existing loan exposures.

Credit risk – structure and organization

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

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

- Traditional credit risk is the risk of loss resulting from an obligor's failure to pay or deterioration in a borrower's credit rating.
- Counterparty risk from trading is the risk of loss from trading activities stemming from an obligor's or counterparty's failure to pay or deterioration in an obligor's or counterparty's credit rating. It breaks down into default risk from trading, replacement, settlement and issuer risk.
    - Default risk from trading is the risk of loss stemming from an obligor's failure to pay or deterioration in an obligor's credit rating. It is equivalent to the traditional credit risk and occurs in money trading, in money market or treasury activities.
    - Replacement risk is the risk that the counterparty is unable to meet the terms of a pending contract with a positive present value and that this contract has to be replaced at a loss.
    - Settlement risk comprises pre-settlement and clearing 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. Clearing 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 derivative's) failure to pay or deterioration in an issuer's or reference entity's credit rating.

For lending business, the structures of Bremer Landesbank guarantee a functional separation of market and back office divisions and the Risk Control Division right through to the Managing Board level. Independent back office functions are performed by Back Office Financing, functions relating to the independent monitoring of risks at the portfolio level and to independent reporting are the responsibility of the OU Risk-Bearing Capacity/Credit Risk in Integrated Bank Management.

The model chosen by the Bank for the separation of functions in the loan-decision-making process is consistent with its strategic direction of being a regional bank with international specialty finance operations; the loan decision requires a high-quality risk analysis by the market division for its vote as well as a second vote by the back-office division, which assumes an independent and consistent quality assurance function for risk assessment in lending business. In addition to preparing the second vote, the back office is responsible for reviewing and setting rating levels, reviewing collateral values, processing and supervising debt rescheduling/liquidation of defaulted exposures, loan loss provisions and 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 (market and back office division) 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 (GWCC; in future: Risk Committee) or its chairman for transactions above a certain volume In regular meetings, the GWCC monitors, in particular, the Managing Board's ongoing management in accordance with the Supervisory Board's instructions and prepares the Supervisory Board meetings.

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.

The Risk Control Division is responsible for methodologies (rating, scoring, risk modelling).

Credit risk – collateral

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

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

The Bank's credit policies and lending principles specify what basic types of collateral can be accepted and the maximum loan-to-value ratio. Guarantees, collateral similar to guarantees, assignments of claims and other rights, claims and other rights assigned as security, liens on real estate and registered liens as well as 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 legal portfolio of collateral is stored in a special system for the management of collateral. This also forms the basis for the netting of collateral in the calculation of the capital charge as well as the regulatory notifications.

In order to ensure the legal validity and enforcement of the collateral, the Bank primarily uses standard contracts. In addition, external appraisers are obtained and the contracts are prepared by authorized law firms. At the same time, the Bank constantly monitors the relevant legal codes. For foreign collateral, this takes place on the basis of monitoring processes at international law firms.

Credit risk – control and monitoring

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 departments 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 General Managing Board. The following allocation always applies:

1. Exposures in rating category 9 and above are closely watched. The causes of deterioration in a situation and the exposure strategy are analyzed taking into account costs and benefits. If necessary, collateral is improved, terms are adjusted and the customer's reporting duties are intensified. The market division 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 the organizational unit Back Office Debt Rescheduling (OU BO Debt Rescheduling).

2. From a rating of 12 or higher, an exposure is transferred to Back Office Debt Rescheduling for management and processing. This unit is part of Back Office Financing. It examines the viability and feasibility of debt rescheduling, consulting external advisors if need be. A reevaluation of the exposure strategy with regard to costs and benefits is required. The rescheduled loan may be secured by further adequate collateral, the terms may be adjusted or a decision to terminate the business relationship made.

3. If acute default risks are identified, the Bank initiates a standard process which ensures the prompt recognition, recording and communication of a specific valuation allowance (SVA). These exposures must all be re-rated, with "SVA made" recorded as the reason for default. The steps mentioned above are triggered by this classification. If considerable new or additional risk provisions are required (from EUR 1.0m or more in the current year), the General Managing Board is informed immediately via the head of the back office.

4. Terminated exposures are handled by the Liquidation 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 ceilings are calculated based on the Bremer Landesbank's risk-bearing capacity.

Credit risk – securitization

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

Credit risk – valuation

The rating methods developed by the Savings Banks Finance 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 Banks Association (Deutscher Sparkassen- und Giroverband, DSGV).

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 (AAA)	0,01 %	
	1 (AA+)	0,02 %	
	1 (AA)	0,03 %	
	1 (AA–)	0,04 %	
	1 (A+)	0,05 %	
	1 (A)	0,07 %	
	1 (A–)	0,09 %	
	2	0,12 %	
	3	0,17 %	
	4	0,26 %	
Good/adequate	5	0,39 %	
	6	0,59 %	
Still good/adequate	7	0,88 %	
	8	1,32 %	
Increased risk	9	1,98 %	Close watch
	10	2,96 %	
High risk	11	4,44 %	
	12	6,67 %	Debt rescheduling
Very high risk	13	10,00 %	
	14	15,00 %	
	15	20,00 %	
	15B	30,00 %	
	15C	45,00 %	
Default (=Non-performing loans)	16	100,00 %	
	17	100,00 %	
	18	100,00 %	Liquidation

The rating methods are an instrument for active risk management. The forecast quality of the rating methods for each individual rating component and their interaction is regularly examined by the rating service agencies by backtesting and validating using the data pools. These quality controls 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 Savings Banks Finance Group, Sparkassen Rating und Risikosysteme GmbH (S Rating), a subsidiary of the 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 Germany 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's 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 (IRBA) since 2008.

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

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

The modules Banks, Corporates, Country and Transfer Risk, Leasing as well as DSGV Standard Rating and DSGV Minor Customer Rating are based on scorecard methods which identify attributes and factors for distinguishing between good and bad borrowers. A sufficient number of relatively 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 2014, cooperation with NORD/LB, the Landesbanken that are members of the RSU and with the DSGV to improve the rating methods will be continued. A focus will be on overcoming the segment-specific impact 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.

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. The calculation of the credit exposure is based on utilization (in the case of guarantees the nominal value and in the case of securities the carrying amount) and the credit equivalents resulting from derivatives (including add-ons and in consideration of netting). Irrevocable and revocable loan commitments are included in the credit exposure on a transaction-specific basis; collateral is not taken into account.

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 2013. 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.

Credit risk – reporting

As part of risk reporting, monthly reports are prepared for the Managing Board: a report on close watch and problem exposures and on the development of loan loss provisions, a report on the monitoring of concentration risks in borrower groups and, quarterly, a credit portfolio report.

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

5.1.3 Investment risk – management

Investment risk – strategy

The Bank meets its special responsibility toward the North-West region of Germany with its investments. Shares in regional companies thus constitute a focus of investment portfolio activities, in addition to investments within the framework of the Savings Banks Finance Group. With its investments, the Bank contributes equally toward fulfiling its public mandate and strengthening the regional economy.

The subsidiary BLB Immobilien GmbH is integrated in the strategic process of the Bank.

Investment risk – structure and organization

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.

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

Investment risk – control and monitoring

Significant affiliated companies 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).

Investment risk – valuation

The Bank's investments fundamentally undergo a rating process along the lines of the lending process. This is not done when Bremer Landesbank's share in the carrying amount of investments not involving lending does not exceed T€ 1,000 in accordance with Section 19 (2) of the German Banking Act. The complete quantification takes place via a scoring model for the risk inventory.

Investment risk – 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 investments are communicated in the monthly risk-bearing capacity report. In addition to this report, the Managing Board is informed at least every six months about the key issues relating to investments in the form of an investment report.

5.1.4 Market risk – management

Market risk – strategy

The Bank's activities aimed at the management of market risk focus on selected markets, customers and product segments. Its positioning in the money, foreign exchange and capital markets is primarily geared toward the needs of customers and supporting bank management. Bremer Landesbank does not open speculative positions going beyond this.

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. Business was mainly pursued in accordance with the "buy & hold" strategy. Credit derivatives are solely contracted for the trading book.

Fundamentally, the Bank pursues the strategy of closely monitoring the individual counterparties and the market development as well as individual disinvestments in the case of a pending lowering of the credit rating. The portfolio is reduced through scheduled repayments since investments have been stopped. The remaining market risk positions play a fairly minor role overall.

Market risk – structure and organization

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

- Interest rate risk comprises the components of general 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. In line with the regulatory definition, specific interest rate risk includes potential changes in value resulting from rating migrations or the default of issuers (for securities) or reference entities (for credit derivatives). For Bremer Landesbank, specific interest rate risk is the same as issuer risk.

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

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

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

- Volatility risk is the risk that the value of an option may react to potential changes in value resulting from market movements of the volatilities used to price the option and that such changes subsequently impair the position.

- Credit spread risk 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 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.

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

The trading desks in the Financial Markets unit may take on market risk in their trading transactions and positions. The functions and activities of the trading desks are defined by the Financial Markets portfolio strategy, the unit business strategies and the sub-strategies for all of the organizational units which, in accordance with MaRisk, conduct trading activities or in which market, 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 risk positions in the Financial Markets segment are managed by the trading desks and Asset/Liability Management, which also centrally plans and manages market 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.

The OUs Transaction Banking and Financial Markets Business Segment Management perform the services. The Transaction Banking unit is responsible for processing and reviewing trade transactions concluded by the market divisions. Its tasks include checking to ensure that the transactions have been completely and correctly entered and assessing them for deviations from specified standards. The reporting on the internal breakdown and usage of the market risk limit for the Financial Markets segment is handled by the Financial Markets Business Segment Management unit on the basis of data from the daily reports provided by the Market Risk / Valuation Methods unit. In accordance with MaRisk, the Market Risk / Valuation Methods unit is independent of the Market Risk Management units in functional and organizational terms. The Market Risk / Valuation Methods unit monitors, limits and reports on market risks and is responsible for measurement methodology. The Market Risk / Valuation Methods unit verifies the market compliance of the transactions.

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

Market risk – control and monitoring

The controlling of asset book positions is handled centrally by the Asset Liability Committee (ALCO), whilst the operational implementation is the responsibility of the Financial Markets unit. ALCO is a decision committee with the goal of optimizing the risk/returns of the bank portfolios, the long-term funding, controlling of the market and liquidity risk positions and the investment portfolios, balance sheet structure management, income statement control, investment guidelines. The committee consists of the General Managing Board and representatives of the Financial Markets segment and the Integrated Bank Management unit. The committee usually meets monthly. The General Managing Board makes the decisions. ALCO is also responsible for controlling the credit investment book.

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

Please refer to sections 1.2 to 1.7 in the notes to the financial statements for information about the instruments for controlling the market risk within the framework of reporting hedges.

Market risk – valuation

Bremer Landesbank uses the process of historical simulation for the internal controlling of specific risk types and the monitoring of credit spread risks, applying a one-sided confidence level of 95% and a holding period of one day.

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 (including the valuation volatility of option positions), the risk types, the currencies and the (sub)portfolios.

The value-at-risk models are primarily suited for the measurement of market 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 Risk / Valuation Methods unit 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 risk are regularly reviewed and adapted to current market developments if necessary.

Bremer Landesbank integrated the credit spread risk in the internal market risk measurement according to value-at-risk in August 2012. In 2013, it introduced a VaR limit derived from the risk-bearing capacity for the credit spread risks of assets and completely integrated the credit investment portfolio in the daily market risk management.

Furthermore, Bremer Landesbank implemented a methodological refinement with a moderate quantitative impact in the daily market risk management. This includes the implementation of basic risks as well as the conversion to the OIS discounting in the economic profit & loss calculation.

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.

Bremer Landesbank uses the standardized approach to calculate the capital charge for market 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.

Market risk – reporting

In accordance with MaRisk, the Market Risk / Valuation Methods unit reports to the General Managing Board on Bremer Landesbank's market risks on a daily basis with regard to value-at-risk and the profits from the assumption of market risks by Bremer Landesbank.

The General Managing Board receives information about market risks and the results of backtesting and stress testing in the monthly risk-bearing capacity report. The GWCC (in future: Risk Committee) reports five times a year.

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

5.1.5 Liquidity risk – management

Liquidity risk – strategy

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.

Liquidity risk – structure and organization

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

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

- Traditional liquidity risk is the risk that payment obligations cannot be met or 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 on the money or capital markets. The most significant cause is a change in the estimation of the Bank's credit rating by other market participants. The Bank's focus is on the entire range of maturities.

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

Money Market and Foreign Exchange Trading, Treasury and the Risk Control Division are involved in the Bank's liquidity risk management process.

Money Market and Foreign Exchange Trading and Treasury are responsible for managing liquidity risk positions and for the profits and losses resulting from changes in the liquidity situation. The basis for Asset-Liability Management is the liquidity maturity balance sheet. Refinancing risk is also reported to the Asset-Liability Committee (ALCO); proposals for strategic planning activities are also discussed if necessary.

The Risk Control Division is responsible for the installation and development of internal procedures for measuring, limiting and monitoring liquidity risk. This unit also calculates refinancing and traditional liquidity risks and monitors compliance with limits. In addition, this unit calculates and monitors the utilization of the liquidity ratio in accordance with the German Liquidity Regulation (Liquiditätsverordnung, LiqV). The reporting exercises service and control functions in this connection.

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-reacting management of new business and funding activities. The enhancements developed are implemented in day-to-day management by the Working Group.

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

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

Market liquidity risk is included in market risk. The aim is to restrict the market liquidity risk by chiefly operating in liquid markets. The differentiated security and liquidity class concept allows specific haircuts to be modelled for managing the forward liquidity exposure, liquidity stress testing and collateral allocation management.

The measurement, management and monitoring of liquidity risks are recorded in the risk manual.

Liquidity risk – control and monitoring

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 of the NORD/LB group. This involves in particular 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. The contingency plan for liquidity management is also consistent with the contingency plan of the NORD/LB group.

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.

In addition to the monthly report to the Deutsche Bundesbank, the liquidity ratio is calculated daily and used in money trading to support operational management.

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. At the Bank, management control signals from the static stress test do not automatically trigger countermeasures, prompting instead a more in-depth analysis of the present liquidity situation and a factoring-in of the key drivers of the statistical scenario based on the current probability of the crisis stress scenario.

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

Risk concentrations on the liability side are prevented by a diversified investor basis and product pallet. The focus is on institutional and public sector investors, which corresponds to the risk orientation of the NORD/LB group. The diversification of refinancing sources is also reinforced by Pfandbrief issues and retail deposits.

Liquidity risk – valuation

In addition to managing liquidity for the aggregate exposure in EUR, the Bank also defines its USD foreign exchange exposure as material. All other foreign currencies are immaterial for the Bank's liquidity management. Refinancing risks from maturity transformation in material 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.

Liquidity risk – reporting

Reporting on the liquidity risk situation takes the form of the Risk Control Division's monthly liquidity status report, which is discussed by the Liquidity Management Working Group and in ALCO.

The General 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 the Pfandbrief business.

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

5.1.6 Operational risk – management

Operational risk – strategy

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

Operational risk – structure and organization

Operational risks are possible and, from the point of view of the Bank, consist of unintended events that result from an inappropriate circumstance or the failure of internal workflows, employees or technology, or as a result of external influences, and lead to a loss or serious negative consequences for the Bank (e.g. violation of the law).

According to this definition, operational risks include legal risks and risk from changes in the law, compliance risks, outsourcing risks, dilution risks, fraud risks and vulnerabilities within the scope of the emergency and crisis management. Strategic risks and business risks are not a part of operational risk.

- 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.
- The risk of changes in the law reflects the risk of a loss due to new laws or requirements, a disadvantageous change in existing laws or requirements and their interpretation or application by courts.
- Compliance risk is the risk of penalties being imposed by courts or authorities or disciplinary measures resulting from non-compliant procedures, processes, etc. (due to failure to comply with laws, regulations, rules of conduct and standards) within the Bank.
- Outsourcing risk is the risk resulting from the outsourcing of activities and processes.
- Dilution risk is the risk with regard to the existence and realizability of a purchased receivable that the obligor of the purchased receivable is not obliged to perform to the full extent (Section 71 (2) of the German Solvency Regulation).
- Fraud risk is the risk of an avoidable pecuniary loss or damage to the Bank's reputation resulting from punishable acts against the Bank.

The Bank's Managing Board, the Risk Control Division 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 the overall bank level. The Risk Control Division 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.

The general requirements of the NORD/LB group were implemented in the Bank's own security standard due to its responsibility for adequate technical-organizational equipment and for a suitable contingency concept at group level in accordance with Sections 25a and 25c of the German Banking Act. This consists of a security strategy, a catalogue of threats and security guidelines and covers the risks connected with the subjects of business continuity management, emergency/crisis management, IT systems, information security, work security, external service providers, infrastructure and special means of production.

The Bank's business continuity management and its emergency and crisis management are intended to prepare and handle contingencies and crises. 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 the quantity and quality of the various human resources risks such as bottleneck risk, exit risk, adjustment risks, motivation risks and the risk of insufficient and inadequate staffing in an integrated personnel risk management process. Targeted personnel development for employees in line with requirements is the authoritative responsibility of the respective managers with significant support from central staff development. Human Resources Management advises and supports the departments in their personnel development activities. The requirements of the Bank Remuneration Regulation (Institutsvergütungsverordnung) are implemented in the Bremer Landesbank group.

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 Management Board responsible for risk.

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

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

Operational risk – control and monitoring

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 Association of German Public Sector Banks (Bundesverband Öffentlicher Banken Deutschlands, 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 detailed insight into the risk situation of the individual functional departments and allow any required steps to be taken. The first step in the risk assessment process is completion of a catalogue of qualitative questions. In a second step, a scenario is calculated to quantify operational risk for areas with significant operational risk.

There is a method for collecting risk indicators. 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.

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.

Bremer Landesbank continued to move toward integrated OpRisk management in 2013. The goal was primarily to overhaul the existing reporting channels and formats and link them more closely to each other, and to expand the uniform risk management in the group.

In 2014, Bremer Landesbank will continue down the path toward integrated OpRisk management. The goal is primarily to harmonized the methods used on two lines of defense, leverage efficiencies and further improve the risk management. In this connection, the piloting and rollout of the integrated risk assessment will continue. Furthermore, significant events should be detailed and analyzed as before and it will be possible to combine the results better with other surveys and findings in bank management (e.g. with stress tests).

Operational risk – valuation

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 the Risk Control Division. All enhancements are made in close consultation with the NORD/LB group.

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.

In 2013, the fundamental usage of a risk matrix was adopted as a uniform valuation and control instrument for all types of operational risks. By specifying risk tolerances and information thresholds, it also serves as the central control and reporting instrument. The previously separate reporting to the Managing Board and Supervisory Board on individual risk issues in the second line of defence (the Risk Control Division, ICS, Security, Compliance) will be consolidated as of 2014 in a combined governance, operational risk and compliance report. It reports on the material operational risks and need for action by the Bank and also complies with the regulatory requirements.

In the refinement of the risk monitoring in 2013, individual risk indicators were overhauled and the risk indicator system was further harmonized.

The standardized approach continued to be used for operational risk capital charges in 2013.

Operational risk – reporting

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

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

Bremer Landesbank is a registered public institute (Anstalt öffentlichen Rechts) and is treated as a capital market-oriented corporation in accordance with Section 264d of the German Commercial Code. Accordingly, it is necessary to describe the significant features of the internal controlling and risk management system with regard to the financial reporting process in accordance with Section 289 (5) of the German Commercial Code.

The internal control and risk management system relating to the financial reporting process is not defined by law. The Bank considers the internal control and risk management system to be a comprehensive system, referring to the definition by the Institute of Public Auditors in Germany (IDW), Düsseldorf, of the accounting-related internal control system (IDW AuS 261 Sec. 19 et seq.) and of the risk management system (IDW AuS 340 Sec. 4). According to the IDW, an internal control system comprises the policies, procedures and measures installed within the organization by management which are aimed at implementing management's decisions

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

Bremer Landesbank considers information to be significant in terms of Sec. 289 (5) of the German Commercial Code if its omission could materially affect the economic decisions made by users on the basis of the annual financial statements and other elements of the financial reporting. Whether information is significant is determined by reference to the issue at hand, and depends on the nature and scope of the issue. When deciding whether an issue is significant, Bremer Landesbank considers its significance in relation to the financial statements.

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

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

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

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

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

Bremer Landesbank prepares its financial statements in accordance with the provisions of the HGB. The provisions specific to banks of Sec. 340 of the German Commercial Code and those of the German Accounting Regulation for Credit and Financial Services Institutions (RechKredV), the German Accounting Standards (DRS) and supplementary provisions in the statutes are also observed.

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

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

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

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

- Provision of relevant information for the notes to the financial statements and the management report.

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

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

- Considering questions of auditor independence

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

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

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

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

- Identification of the main risk fields and control areas relevant to the financial reporting process

- Cross-segment controls for monitoring the financial reporting process

- Preventive controls in the Bank’s finance and accounting functions, the strategic business segments and operating processes which generate key information for preparing the financial statements and management report, including functional separation 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 accounting-related internal control and risk management system

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

Accounting policies and other rules ensure that transactions are properly accounted for; the former are subject to ongoing review and adjusted if need be. Bremer Landesbank uses the SAP system for its accounting entries. It also makes use of customized data processing tools whose design is separately monitored.

Appropriate instructions in the policies mitigate the risk of non-compliant preparation of the financial statements. Generally accepted measurement methods are used. These methods and the underlying parameters are regularly checked and modified if necessary.

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

The financial reporting process for the financial statements comprises functional transaction support, data entry and processing, reporting and publication of the parts of the financial reporting.

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

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

5.3 Risks from the strategic business segments

Bremer Landesbank has anchored its strategic goals in a customer-oriented business model with the following four strategic business segments and the eleven strategic business units assigned to them:

	BREMER LANDESBANK			
Strategic business segments	Corporate customers	Private customers	Special finance	Financial markets
Strategic business units	• Corporates • Commercial customers	• Private banking • Private customers support	• Shipping • Renewable energies • Leasing • Social welfare facilities	• Municipalities • Savings banks • Institutional customers

The main risks lie in the strategic business unit shipping, energy and the rapidly decreasing credit investment portfolio.

Risks are managed by risk types, primarily in the central organizational units.

As is standard in the banking industry, the internal risk of credit, market and liquidity risks from the strategic business units is transferred to the central organizational units on new business via the rating of the customers, the associated risk-adjusted acquisition prices and the consideration of liquidity premiums. This is reflected in the strategic business units by way of the consistent use of financing principles and taking into account the rules relating to risk management. Operational, business and strategic risks are managed decentrally in the strategic business units.

The relevant risks arising from the strategic business units and the measures for managing or for supporting the central management of these risks are set out in the following section.

5.3.1 Private customers

Private banking

Private banking is subject to traditional credit risk. The anticipated amendments to statutory and legal provisions will be accompanied by documentation obligations. Operational risks can arise from the non or inadequate implementation of these documentation obligations. A further operational risk arises as a result of the strong demand for qualified employees and existing talent in the labour market. A risk is seen in inefficient processes and internal procedures. In addition, business and strategic risks occur above all as a result of the fierce competition in the deposit and lending business, which is primarily conducted via terms and conditions.

Private customers

The private customers strategic business unit is subject to conventional credit risk. The anticipated amendments to statutory and legal provisions will be accompanied by the need to adapt internal processes. Operational risks can arise from the non or inadequate implementation of these process adjustments. In addition, business and strategic risks occur above all as a result of the fierce competition in the deposit and lending business, which is primarily conducted via terms and conditions, as well as group restrictions at the Oldenburg site.

5.3.2 Corporate customers

Corporates

The corporate customers strategic business unit is subject to conventional credit risk. The anticipated amendments to statutory and legal provisions will be accompanied by documentation obligations. Operational risks can arise from the non or inadequate implementation of these documentation obligations. In addition, business and strategic risks exist as a consequence of the dependence between the economic development and group restrictions. In personnel development meetings, the managers examine individual qualification requirements and meet these by way of corresponding training and development programmes.

Commercial customers

The commercial customers strategic business unit is subject to conventional credit risk. The anticipated changes to regulatory requirements will be accompanied by the need to adapt internal processes. Operational risks can arise from the non or inadequate implementation of these process adjustments. In addition, business and strategic risks exist as a consequence of the dependence between the economic development and group restrictions. In personnel development meetings, the managers examine individual qualification requirements and meet these by way of corresponding training and development programmes. Additionally, a review and where applicable reduction of the product portfolio takes place.

5.3.3 Financial markets

Savings banks

The savings banks strategic business unit is subject to conventional credit risk. In terms of the business and strategic risk, this is a restricted market in which the existing high market shares preclude significant increases in sales and new customer acquisition. The savings banks are increasingly cooperating in syndicate business and are opening up their own strategic opportunities through mergers. Additionally, increasing competition between Landesbanken is evident.

Municipal customers

The municipal customers strategic business unit is subject to conventional credit risk. Because the customer portfolio includes loans and advances to regional and public corporations that are incapable of becoming insolvent or loans and advances to companies that are covered in full by government guarantees, there is no netting under the current legislation in accordance with the German Solvency Regulation (Solvabilitätsverordnung, SolvV). The anticipated amendments to statutory and legal provisions will be accompanied by documentation obligations. Operational risks can arise from the non or inadequate implementation of these documentation obligations. Additionally, business risks exist in particular as a consequence of municipal authorities' obligation to invite tenders, non-competitive cost rates in acquiring new business or a narrowing of the market as a consequence of debt limits at regional level. In future loans and advances made to municipal customers will have to be subjected to a more intensive risk analysis.

Institutional customers

In the institutional customers strategic business unit, business and strategic risks exist in the Bank's refinancing business as a result of potentially declining sales figures of some issues as a consequence of deterioration in the Bank's ratings, a fall in customer relationships or a lack of rating of Bremer Landesbank's Pfandbriefe. With anticipated changes to regulatory requirements, operational risks may arise as a consequence of the absent or defective implementation of these reforms. The outsourcing of important services carries further operational risks as additional statutory requirements need to be complied with. Additionally, conventional credit risk is a factor, albeit to a limited extent.

5.3.4 Special finance

Shipping

The shipping strategic business unit is subject to conventional credit risk. The particular strategic focus of Bremer Landesbank on shipping in the past and the associated increased income opportunities give rise to concentration risks in this segment. Increasing regulatory requirements with repercussions are anticipated after a recovery of the cyclical shipping markets. Operational risks can arise from the non or inadequate implementation of these requirements. Pressures at human resources level arise that need to be countered by additional staff capacity and training measures. In addition, there are high business and strategic risks due to the continued strain on the shipping market and the development of charter rates and shipping values as well as the withdrawal by or the complex negotiations with syndication partners.

Renewable energies

The renewable energies strategic business unit is subject to conventional credit risk. The particular strategic focus of Bremer Landesbank on renewable energies and onshore wind energy in Germany can give rise to concentration risks in this strategic business unit. With an anticipated tightening of the regulatory framework, operational risks may arise as a consequence of the absent or defective implementation of these reforms. Severely stretched personnel resources can give rise to operational risks. Additionally, establishing the requisite specialist expertise and the knowledge transfer in this context can be a slow process both internally and externally. As a business and strategic risk there is significant competition in the renewable energies sector. Amendments to the Renewable Energies Act (Erneuerbare Energien Gesetz, EEG) also may have an impact on the Bank's future orientation.

Leases

The leases strategic business unit is subject to conventional credit risk. The particular strategic focus of Bremer Landesbank on leases has produced a considerable portfolio in this segment that exhibits only low concentration risks as a result of its broad sector management and high levels of granularity at lessee level. With the anticipated amendments to statutory and legal provisions as well as regulatory framework conditions, operational risks may arise as a consequence of the non or inadequate implementation of these reforms may arise for Bremer Landesbank and its customers, which, as leasing or factoring companies, are classified as financial services institutions. In addition, business and strategic risks exist, in particular as a consequence of the economic development.

Social welfare facilities

The social welfare facilities strategic business unit is subject to conventional credit risk. The anticipated amendments to statutory and legal provisions will be accompanied by the need to adapt internal processes. Operational risks can arise from the non or inadequate implementation of these process adjustments. Additionally, business and strategic risks exist, for example in the form of regulatory interventions in the nursing-care market, by increasingly predatory competition of (potential) customers and due to competition with regional institutes on the ground and the associated pressure on profit margins.

5.4 Extended risk report

5.4.1 Development in the risk-bearing capacity in 2013

Potential utilization rate of available risk capital in the going concern

EUR m	Risk-bearing capacity 31 Dec 2013		31 Dec 2012	
Risk capital	282	100 %	553	100 %
Credit risk	169	60 %	153	28 %
Investment risk	6	2 %	4	1 %
Market-price risk	28	10 %	55	10 %
Liquidity risk	11	4 %	17	3 %
Operational risks	9	3 %	8	1 %
Other	-60	-21 %	-127	-23 %
Total risk potential	**163**		**109**	
Capacity utilization		**58 %**		**20 %**

The utilization rate as at 31 December 2013 is 57.9% and therefore below the previous year's level. The reason for the increase is partly the increasing strain on the risk-bearing capacity due to the ongoing shipping crisis. This is reflected in a decline in the risk capital and a rise in the risk potential due to credit risks. Additionally, the going concern analysis takes into account the RBC limit agreed across the group. For that reason, only a partial amount of the free capital of EUR 282 million in the risk-bearing capacity was recognized as risk capital for the going concern case. Without this restriction the risk capital in the going concern case rises to EUR 532.5 million. The utilization rate is 30.6% taking into account the entire risk capital.

At Bremer Landesbank a forecast of future development is conducted for the active management of risk-bearing capacity. In the course of this management, measures for the reduction of risk assets (e.g. due to restructuring at the level of individual cases for ship finance, reductions in the credit investment portfolio by selling individual items) and for strengthening the risk capital (e.g. accumulation, raising of further subordinated capital in 2013) are proposed and implemented. Taking into account the effect of these measures, at the end of 2014 a continued green light status is expected in the going concern. This also complies with regulatory requirements concerning capital resources.

In 2013, too, the rating agencies were critical in their assessment of the ratings of banks. In September Moody's announced that it was assessing the Bank's rating with a view to a potential downgrade. A key reason given for this were the impact of the ongoing shipping crisis and its effect on the Bank's earnings position and capital ratios. Overall Moody's downgraded the rating for Bremer Landesbank to Baa2 (outlook negative) (long-term) in December 2013. The short-term rating was confirmed at P-2. The long-term rating from Fitch, however, remained unchanged at A (stable outlook) (short-term F1).

5.4.2 Credit risk

Credit risk - development in 2013

The Bank's credit exposure came to approximately EUR 36,899m as at 31 December 2013, a decrease of around 4.7% compared to the previous year.

Charter rates in shipping, 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 the middle of 2011. In crude oil and bulk shipping, the (spot) charter rates were for a time sufficient to cover solely operating costs, while in container and multi-purpose and product tanker shipping, it was possible to pay interest and in some cases make redemption payments. As expected, the low charter rates were reflected in the prices for new builds and even more strongly in the prices for used vessels.

The global financial market and economic crisis had a particularly negative impact on the ship finance portfolio. The ongoing excess supply of tonnage led to falling charter rates. In 2012 and 2013 declining growth rates in China and the recession in parts of the eurozone were met by a relatively high level of surplus tonnage. In the fifth year of the crisis numerous shipping companies could no longer support their ships in 2013. For this reason, loan loss provisions were higher than the forecast values, which anticipated a sideways movement in the markets.

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. Despite attempts to amend the Renewable Energies Act (EEG), the framework conditions for financing wind energy were attractive and reliable. Furthermore, the historically low level of interest rates contributed to an improvement in returns. The risks in wind park project financing have been manageable to date. There were no specific valuation allowances or provisions for wind park project financing. A reform of the EEG by mid-2014 has been announced. Closer management of the construction of wind energy plants and a reduction and amendment of the remuneration structures is anticipated. The political discussion is being followed closely so that any need to adjust the financing parameters can be implemented in good time. We also anticipate a stable business environment beyond 2014 despite the announced statutory amendment. After moderate growth in 2014 the wind energy subsegment will consolidate at the high level reached.

The debt crisis of many euro countries, in particular of those termed the PIIGS countries, relaxed considerably in 2013. Ireland was the first country to leave the European rescue package at the end of 2013. The returns on the bonds of the PIIGS countries have fallen substantially. The decline in the spreads of the government bonds has had an effect on the spreads in the banking portfolio of Bremer Landesbank. The key benchmark here, the Itraxx Financial 5y Senior, fell to 86 BP at the end of 2013 (previous year: 141 BP). The banks in Europe have stabilized by raising capital increases and reducing risks. However, many banks are suffering from the low interest rate and the increase in non-performing loans due to the still difficult economic situation in the eurozone.

With the exception of a credit derivative position on Italian sovereign risk, the investment portfolio is made up exclusively of securities and credit derivatives mainly from European banks. The portfolio is well diversified. The risk of default is estimated to be fairly low. Credit events on credit derivatives are called because of the restructuring of subordinated capital and not because of a downgrade in the credit rating.

The Bank participated in the solidarity-based Landesbanken bailout of the former Sachsen LB led by the German Savings Banks Association (Deutscher Sparkassen- und Giroverband, DSGV), extending loans to the special-purpose entity Sealink Funding Limited. As these loans are senior debt, the resulting risks are extremely limited. The item was reduced in full in the course of 2013.

Analysis of the total exposure

The following table compares the rating structure of the loan portfolio with the previous year. The classification is based on the standard IFD rating scale which the banks, savings banks and associations in the “Initiative Finanzstandort Deutschland” (IFD, initiative for Germany as a financial location) have agreed on. in order to improve comparability between the rating levels of the individual credit institutes.

The rating categories of the 27-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)]	Other [6)]	Total	
EUR m		31 Dec 2013			31 Dec 2013	31 Dec 2012
Very good to good	11.754	4.570	1.940	5.712	**23.976**	**24,883**
Good/satisfactory	2.047	170	554	508	**3.279**	**4,495**
Still good/adequate	2.575	35	158	732	**3.500**	**3,979**
Increased risk	1.164	105	166	82	**1.517**	**1,409**
High risk	567	—	6	47	**620**	**748**
Very high risk	1.422	—	8	21	**1.451**	**1,367**
Default (= NPL)	2.526	—	10	20	**2.556**	**1,827**
Total	**22.055**	**4.881**	**2.842**	**7.121**	**36.899**	**38,708**

1) Classification by the IFD rating categories.
2) Differences between totals are due to rounding.
3) Includes loans taken up, credit commitments, guarantees and other non-derivative off-balance sheet assets, whereby as in the internal reports the irrevocable credit commitments and the revocable credit 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. The risk structure of the loan portfolio deteriorated further overall in 2013, as is shown by the rising probabilities of default and a significant increase in non-performing loans.

Lending business by region

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

Regions [1)2)3)]	Loans	Securities	Derivatives	Other	Total	
EUR m		31 Dec 2013			31 Dec 2013	31 Dec 2012
Euro countries	20.943	4.660	2.056	7.118	**34.777**	**36,255**
- of which Germany	19.518	3.951	799	6.875	**31.145**	**31,819**
Rest of Europe	273	156	682	4	**1,114**	**1,229**
North America	43	64	103	—	**210**	**301,8557**
Latin America	43	—	—	—	**43**	**101,8564**
Middle East/Africa	123	—	0	0	**123**	**126,3958**
Asia	630	—	1	—	**631**	**693,5455**
Other	0	—	—	—	**0**	**0**
Total	**22.055**	**4.881**	**2.842**	**7.121**	**36.899**	**38,708**

1) The definition of the regions has changed slightly since the previous year (in particular, Australia/Oceania is now allocated to Asia).
2) The item "rest of EU" from the previous year is covered by the item "rest of Europe".
3) 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 30% (previous year: 32%), 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 groups[1)]	Loans	Securities	Derivatives	Other	Total	
EUR m		31 Dec 2013			31 Dec 2013	31 Dec 2012
Financial institutions/insurance companies	3.259	2.745	2.534	2.528	**11.066**	**12,505**
Service industries/other	7.377	2.127	132	658	**10.294**	**10856**
- of which real estate and housing	1.334	—	22	150	**1,506**	**1529**
- of which public administration	3.625	2.109	90	45	**5.870**	**6058**
Transport, communications	6.953	9	62	151	**7.175**	**7637**
- of which shipping	6.429	0	57	45	**6.531**	**6966**
Manufacturing	700	—	23	88	**811**	**801**
Energy, water supply and mining	2.031	—	45	3.275	**5.352**	**4821**
Trade, maintenance and repairs	1.283	—	42	178	**1.502**	**1402**
Agriculture, forestry and fishing	137	—	2	184	**323**	**298**
Construction	314	—	2	59	**376**	**387**
Other	0	—	—	—	**0**	—
Total	**22.055**	**4.881**	**2.842**	**7.121**	**36.899**	**38,708**

1) Differences between totals are due to rounding.

Non-performing loans

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

The past due or impaired financial assets at Bremer Landesbank are primarily secured by standard collateral and other credit enhancements valued on the basis of lending principles. The gross book value of the non-performing loans with a need for allowances before deduction of collateral is covered by risk positions up to 28.9% (previous year: 32.8%).

Specific valuation allowances and loan loss provisions rose significantly yet again in 2013, above all because of the ongoing crisis in the shipping sector. The specific valuation allowance ratio, expressed as the ratio of specific valuation allowances to the aggregate exposure, is 1.43% (previous year: 1.13%).

Loan loss provisions for the bank as a whole were greater than expected with net specific valuation allowances of around EUR 183m.

Loan loss provisions by industry group

Industry groups[1][2] EUR m	Impaired credit exposures[1] 2013	2012[3]	Specific valuation allowances 2013	2012	Loan loss provisions 2013	2012	Changes in specific valuation allowances/ provisions 2013	2012
Financial institutions/insurance companies	19	1	3	10	—	—	-7	0
Service industries/other	69	84	28	35	3	3	-7	-19
- of which real estate and housing	23	31	8	11	0	0	-3	0
- of which public administration	0	0	0	0	0	0	0	0
Transport, communications	1.608	1,229	415	311	0	0	104	122
- of which shipping	1.602	1.224	410	306	0	0	104	125
Manufacturing	34	17	21	9	1	1	12	-4
Energy, water supply and mining	43	41	28	33	5	5	-5	26
Trade, maintenance and repairs	39	31	9	16	3	0	-5	5
Agriculture, forestry and fishing	3	4	2	2	0	1	0	-1
Construction	24	31	15	21	8	9	-7	0
Other	—	—	—	—	—	—	—	—
Total	**1.841**	**1.438**	**522**	**438**	**20**	**18**	**86**	**130**

[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).
[2] Differences between totals are due to rounding.
[3] Figures were corrected in comparison to the previous year's report.

Loan loss provisions by region

Industry groups[1][2] EUR m	Impaired credit exposures[1] 2013	2012[3]	Specific valuation allowances 2013	2012	Loan loss provisions 2013	2012	Changes in specific valuation allowances/ provisions 2013	2012
Euro countries	1.780	1,352	516	417	20	18	100	135
Rest of Europe	0	28	0	13	0	0	-13	-3
North America	—	—	—	—	—	—	0	0
Latin America	0	13	1	9	—	—	-8	6
Middle East/Africa	—	—	—	—	—	—	—	—
Asia	60	44	6	0	0	0	6	-8
Other	—	—	—	—	—	—	—	—
Total	**1.841**	**1.438**	**522**	**438**	**20**	**18**	**86**	**130**

[1] Differences between totals are due to rounding.
[2] The item "rest of EU" from the previous year is now included in the item "rest of Europe".
[3] Figures were corrected in comparison to the previous year's report.

The exposure to the PIIGS countries (mainly securities and credit derivatives) has decreased slightly since 31 December 2012. The credit spreads narrowed considerably in 2013. Given the substantial political will to keep the eurozone together, the international measures introduced and steps taken in individual countries (other savings and reform programmes), the risk of a break-up of the eurozone was considerably reduced. The scaling back of the portfolio will continue as scheduled by means of scheduled repayments in 2014.

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[1] EUR m	Past due[2], unimpaired exposures [3] 2013	2012
Financial institutions/insurance companies	19	111
Service industries/other	52	41
- of which real estate and housing	20	18
- of which public administration	10	1
Transport, communications	675	704
- of which shipping	673	696
Manufacturing	18	31
Energy, water supply and mining	104	59
Trade, maintenance and repairs	49	49
Agriculture, forestry and fishing	5	2
Construction	1	3
Other	—	—
Total	**923**	**1.001**

[1] Differences between totals are due to rounding.
[2] The term “impaired” refers here exclusively to specific valuation allowances and lumpsum specific loan loss provisions. General loan loss provisions have not been taken into account.
[3] Receivables past due > 0 days that have not been impaired.

Past due exposures by region

Regions[1] EUR m	Past due[2], unimpaired exposures [3] 2013	2012
Euro countries	881	975
Rest of Europe	2	10
North America	0	0
Latin America	—	—
Middle East/Africa	—	—
Asia	40	16
Other	—	—
Total	**923**	**1.001**

[1] Differences between totals are due to rounding.
[2] The term “impaired” refers here exclusively to specific valuation allowances and lumpsum specific loan loss provisions. General loan loss provisions have not been taken into account.
[3] Receivables past due > 0 days that have not been impaired.

Days past due, unimpaired exposures by region

Regions[1)]	Past due, unimpaired exposures									
	Up to 1 month		1 to 3 months		3 to 6 months		6 months and over		Total	
EUR m	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Euro countries	437	607	53	116	103	47	288	206	881	975
Rest of Europe	0	0	—	9	—	—	1	1	2	10
North America	0	—	—	—	—	—	—	—	0	—
Latin America	—	—	—	—	—	—	—	—	—	—
Middle East/Africa	—	—	—	—	—	—	—	—	—	—
Asia	12	13	11	1	—	—	17	2	40	16
Other	—	—	—	—	—	—	—	—	—	—
Total	**449**	**619**	**64**	**126**	**103**	**47**	**306**	**209**	**923**	**1.001**

1) Differences between totals are due to rounding.

The exposure to unimpaired exposures falls in the first three time bands and rose in the last time band. The unimpaired exposures are made up of 44% (26%) exposures whereby the agreed interest payments or repayments are more than 90 days past due. 49% (62%) of the exposures are past due by up to a month.

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

Days past due[1)]	Past due, unimpaired exposures	
EUR m	31 Dec 2013	31 Dec 2012
< 30 days	449	619
30-90 days	64	126
90-180 days	103	47
> 180 days	306	209
Total	**923**	**1.001**

1) Differences between totals are due to rounding.

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

In the year under review direct write-offs of loans and advances amounted to EUR 9m (previous year: EUR 3m). Recoveries on loans and advances previously written off amounted to EUR 4m (previous year: EUR 2m). No direct write-downs were made for investment securities at Bremer Landesbank.

Deduction of collateral reduced the risk-weighted assets as at 31 December 2013 by EUR 1.7 billion (previous year: EUR 1.9 billion), corresponding to a proportion of 10% (previous year: 10%) of the whole credit risk RWA. This primarily involved the netting of government and bank guarantees, financial collateral and mortgages.

Bremer Landesbank has not obtained any assets in the period under review by taking possession of securities obtained in the form collateral or by claiming other collateral for loans.

Credit risk – outlook

The Bank will continue to enhance its credit risk control system in 2014. In this context, the risk parameters and the credit risk model will be validated, as in 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 credit portfolio level will provide further input for efficient credit risk management at the Bank.

Since 2010, loan loss provisions at Bremer Landesbank have been determined largely by developments in the merchant shipping sector. In its risk management, the Bank is preparing for a continued crisis in merchant shipping during the next two years and is taking adequate measures, making appropriate loan loss provisions and actively managing its portfolio in order to work out non-performing loans that cannot realistically be recovered. For 2014 the Bank's mid-term plan loan loss provisions of EUR 171m for the Bank as a whole.

The EEG will be amended in the first half of 2014. Closer management of the construction of wind energy plants and a reduction and amendment of the remuneration structures is anticipated. The political discussion is being followed closely so that any need to adjust the financing parameters can be implemented in good time. The Bank also anticipates a stable business environment beyond 2014 despite the announced statutory amendment. The previous strong growth in the wind energy sub-segment will diminish in 2014.

5.4.3 Investment risk

Investment risk – development in 2013

The investment portfolio has been subject to a critical review over the last few years. The Bank has since disposed of some of its investments and continued this process in 2013. The reason for the growth in the investment volume is due to outsourcing of properties used by the Bank and third parties to newly-formed limited partnerships (Kommanditgesellschaften). As in previous years, in 2013, no investments are deemed material as defined by the Minimum Requirements for Risk Management (MaRisk).

Investment risk – outlook

The investment portfolio has now been largely optimized.

5.4.4 Market risk

Market risk – development in 2013

The credit investment portfolio developed largely in accordance with expectations in 2013. Besides the scheduled maturities of EUR 521m, there was also a strategic reduction of EUR 617m as a contribution to the RWA reduction. The remaining portfolio of EUR 4.9b, 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 73m in Italian sovereign risk, will fall below EUR 1b by the end of 2015 due to repayments.

The capital increase and risk reduction, which started in 2012, continued in 2013 with an eye on the ECB stress test in 2014. Dependence on ECB refinancing was reduced. The banks continue to suffer primarily from low interest rates and the continued high loan loss provisions as non-performing loans are again on the rise as a result of the weak overall economy in the eurozone. The results of the ECB stress test will be published in the second half of 2014. It cannot be ruled out that portfolio banks of Bremer Landesbank may have additional capital requirements. As things look today, this may not be possible without government support in individual cases. In this case, subordinate creditors will need to participate in restructuring measures, which may result in credit event restructuring.

The credit spread risk represents the primary market risk in the credit investment portfolio. In the course of 2013 a clear narrowing of the spread and reduced spread volatility were observed. These effects have favoured the fall in the market risk in the credit investment portfolio.

In addition, interest-rate risk represents a material market risk in the portfolio of Bremer Landesbank. In 2013 this risk appeared very stable at a moderate level as both the interest rate as well as the corresponding volatility have not moved substantially.

The following table shows the Bank's market risks in the year under review and the previous year including credit spread risks in the banking book:

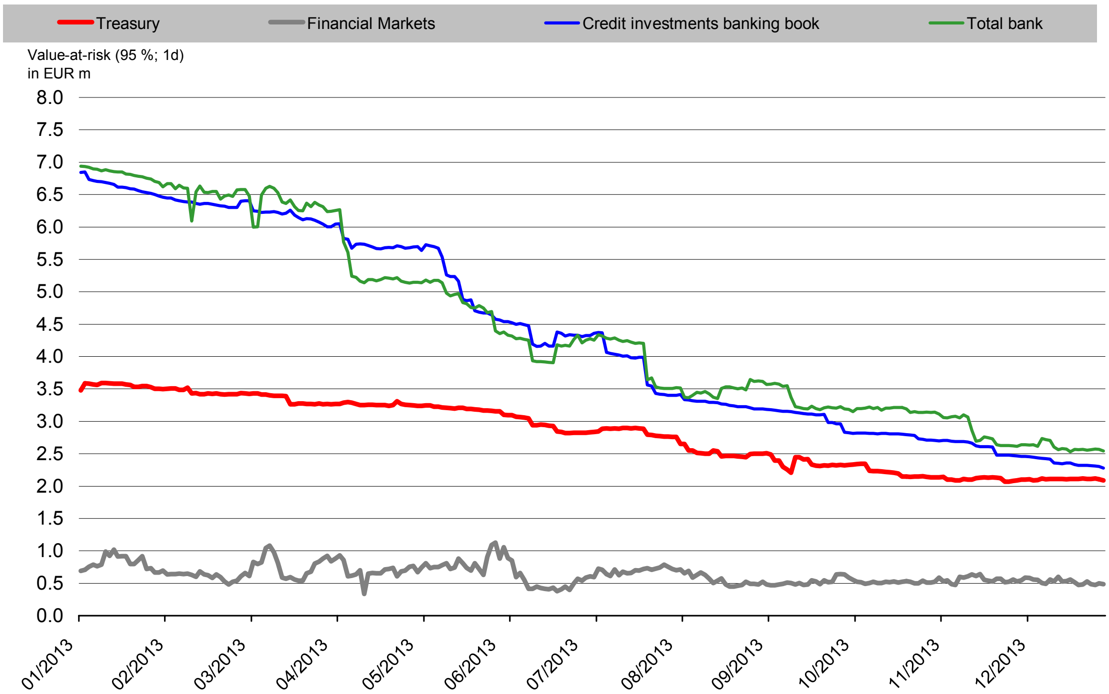
Market-price risks – overview

	Maximum		Average		Minimum		Year-end	
EUR m	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Interest-rate risk (VaR)	3,53	5,22	2,81	4,43	1,97	3,50	2,00	3,50
Currency risk (VaR)	0,10	0,30	0,04	0,12	0,00	0,00	0,06	0,03
Share-price and fund-price risk (VaR)	0,31	0,37	0,15	0,18	0,02	0,03	0,02	0,03
Volatility risk (VaR)	0,04	0,03	0,02	0,02	0,01	0,02	0,01	0,02
Total risk (VaR)	**3,53**	**5,13**	**2,78**	**4,18**	**1,87**	**3,43**	**2,04**	**3,43**

The average utilization of the market risk limit for the overall Bank was 48% (maximum 57% and minimum 38%). As at 31 December 2013, the value-at-risk (confidence level of 95% and a holding period of one day) at the Bank amounted to EUR 2.04m. In 2013 average utilization of the risk limit in Financial Markets was 29%; in Treasury it was 57%.

The development of the value at risk for the Bank as a whole (including the credit spread risks of the investment book) is illustrated in the chart for 2013 below.

Market price risk value-at-risk



In 2013 the stress tests performed for the Bank as a whole showed a maximum risk of EUR 88m and an average of EUR 78m, with a minimum of EUR 65m. As at 31 December 2013, the stress tested value for the Bank as a whole was EUR 65m.

In 2013 the average interest-rate risk in relation to liable equity was 9.7%. 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.

Market risk – outlook

In 2014 new regulatory requirements such as Prudent Valuation were implemented and the market data process developed further. The Bank is anticipating a continued stable market environment for 2014. A further substantial narrowing of the credit spreads is considered just as unlikely as a massive movement on interest rates.

5.4.5 Liquidity risk

Liquidity risk – development in 2013

The effects of the financial market crisis can still be observed in the money and capital markets. The Bank continued to have sufficient access to the money and capital markets through reasonably diversified investor groups and products, evident in the fact that it was able to refinance at comparatively good terms in these markets. Long-term refinancing on both a covered and uncovered basis is primarily provided by long-term issues and customer deposits. Close observation of the markets and active liquidity management ensured that the Bank had a sufficient supply of liquidity at all times in financial year 2013 to date.

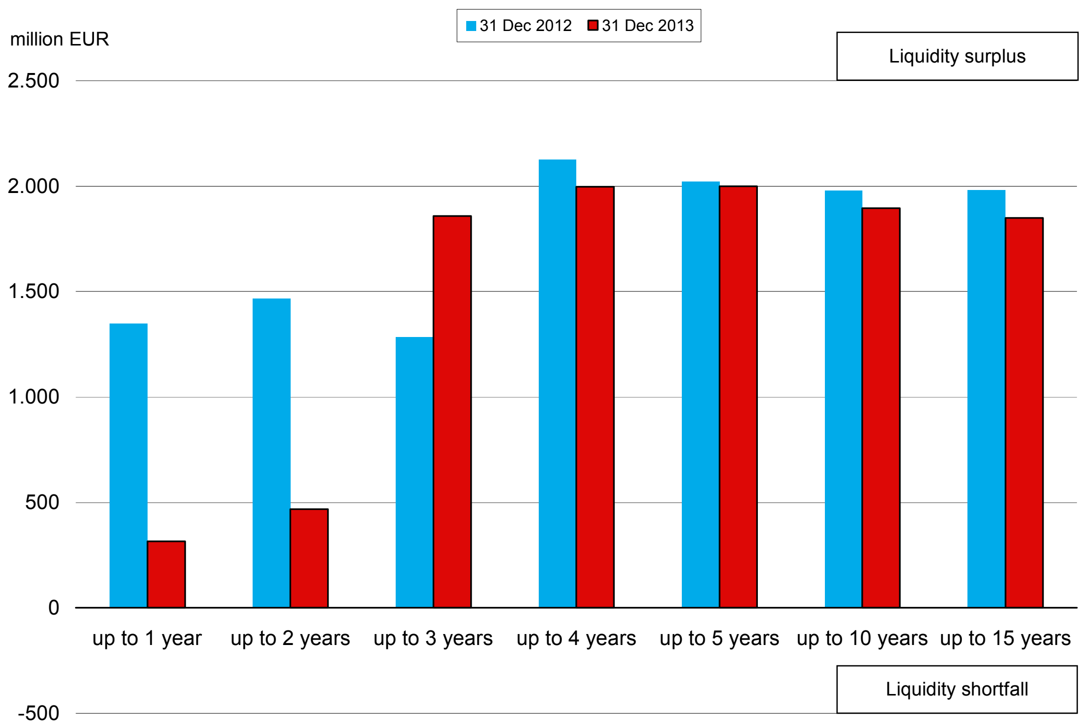
A comparison of cash and cash equivalents and payment obligations results in the liquidity ratio, which must be at least one in accordance with the German Liquidity Regulation (Liquiditätsverordnung, LiqV). This requirement was met throughout 2013 and was 2.15 as at 31 December 2013.

In 2013, there were no signals pointing to a potential liquidity squeeze for the Bank in the dynamic liquidity stress test.

The requirements regarding the liquidity buffer to be held in accordance with MaRisk have been complied with; the utilization of the liquidity buffer for a week was 20% on the reporting date (previous year: 50%). The utilization of the liquidity buffer for a month was also 22% on the reporting date (previous year: 50%).

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

Accumulated liquidity progress



Overall, the Bank's liquidity maturity balance sheet as at 31 December 2013 shows that the liquidity situation remains comfortable. Liquidity limits employed for management purposes were maintained at all times in the financial year.

Liabilities EUR m	Volume 31 Dec 2013	Share	Volume 31 Dec 2012	Share
Banks	10.943	34%	11.775	35%
Customers	9.909	31%	10,288	30%
Securitized liabilities	8.023	25%	8.442	25%
Capital	1.343	4%	1.307	4%
Rest	2.017	6%	2.249	7%
Total liabilities	**32.235**		**34.061**	
Covered refinancing (total)	5.030		4.663	
Öffentliche Pfandbriefe	3.822	76%	3.479	75%
Hypothekenpfandbriefe	957	19%	891	19%
Schiffspfandbriefe	251	5%	293	6%

The refinancing of Bremer Landesbank essentially consists of liabilities to banks at 34% (previous year: 35%), to customers at 31% (previous year: 30%) and securitized liabilities at 25% (previous year: 25%). As well as uncovered securities, Bremer Landesbank also uses covered securities, including Öffentliche Pfandbriefe, Hypothekenpfandbriefe and Schiffspfandbriefe. The proportion of covered refinancing is 16% (previous year: 14%).

At the end of 2013 the ratings agency Moody's assessed the ratings, resulting in a reevaluation. Whilst Moody's reduced the long-term rating to Baa2, the short-term rating of P-2 was confirmed. Possible consequences of the refinancing are analyzed and evaluated in the course of the liquidity management.

The Bank addressed these more exacting demands in 2013 by further expanding its liquidity management and control system as part of a project. One focus was 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. The Bank is systematically enhancing its liquidity risk management methods and models in close consultation with the NORD/LB group.

Liquidity risk – outlook

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 observed closely.

Its development work in 2014 will be geared to making early allowance for the extensive regulatory requirements relating to Basel III/CRD IV in its liquidity management, in particular as regards the liquidity coverage ratio (LCR).

5.4.6 Operational risk

Operational risk – development in 2013

The loss events that occurred in 2013 were considered to be immaterial from an overall Bank point of view. All reported losses (including credit risk cases) came to EUR 2.2m (gross) in 2013 (previous year: EUR 2.4m). Minimization of losses resulted in a net loss total of EUR 0.5m.

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

Loss database	Share 31 Dec 2013	Share 31 Dec 2012
External events	8,9 %	6,9 %
Internal processes	0,0 %	2,7 %
Employees	90,5 %	89,4 %
Technology	0,6 %	1,0 %

Given the risk assessment results, the risk indicators and entries in the loss database, the Bank does not consider it likely that operational risk could lead to losses that would threaten the existence of the Bank.

Trial risks In one trial in 2012 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 BGH has yet to decide in the matter. The claims do not pose a threat to the existence of the Bank in any case.

Operational risk – outlook

For 2014 the Bank again assumes that loss events arising from operational risks will remain at a low level as in previous years.

5.5 Other risks

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

5.6 Conclusions

Conclusion on the risk situation

The Bank pursues a sustainable risk policy. It has taken measures to limit 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.

Bremer Landesbank's risk-bearing capacity concept is supplemented by stress analyses. In 2013 there was a refinement of the existing stress scenarios and an integration of inverse stress factors. For 2014, an ongoing refinement and an integration of the results in the existing reporting landscape is planned. The RWA management process will also be enhanced to optimize risk-return planning and build a buffer for future crises.

The utilization rate in the risk-bearing capacity as at 31 December 2013 is 57.9% and therefore below the previous year's level of 19.7% as at 31 December 2012. The reason for the increase is partly the increasing strain on the risk-bearing capacity due to the ongoing shipping crisis. Secondly, the RBC limit agreed across the group is considered and as a result only a partial amount of EUR 282m of the free capital of EUR 532.5m included in the calculation. The utilization rate is 30.6% taking into account the entire risk capital.

With regard to the future course of 2014 and 2015, pressure on the risk-bearing capacity and capital ratio will continue. Additionally, negative effects from Basel III are anticipated in 2014. Based on the fact that the pressures are likely to increase, the measures included in the scope of the RWA and shortfall management will be further intensified. Restructuring is taking place at the individual case level for ship financing, as is the sale of individual positions of the credit investment portfolio and capital-strengthening measures that compensate for the pressures. These also suggest that a green light status can again be expected in the going concern at the 2014 year end.

In 2013 Moody's downgraded the rating for Bremer Landesbank to Baa2 (outlook negative) (long-term). The short-term rating was confirmed at P-2. The long-term rating from Fitch, however, remained unchanged at A (stable outlook) (short-term F1).

The global financial market and economic crisis had a particularly negative impact on the ship finance portfolio. Numerous shipping companies could no longer support their ships and loan loss provisions were higher than the forecast values. 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 loan loss provisions and actively managing its portfolio in order to work out non-performing loans that cannot realistically be recovered. For 2014 the Bank's mid-term plan loan loss provisions of EUR 171m for the Bank as a whole.

The good market and results in renewable energies largely compensated for the problem in shipping. Wind energy remains the most important partial segment. The risks in wind park project financing have been manageable to date. There were no specific valuation allowances or provisions for wind park project financing. The EEG will be amended by mid-2014. The political discussion relating to the implementation of the shift in energy policy supported by all parties is being followed intensively so that any adjustment to the financing parameters can be implemented in good time.

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. The debt crisis of many euro countries, in particular of those termed the PIIGS countries, relaxed considerably in 2013. The decline in the spreads of the government bonds has had an effect on the spreads in the banking portfolio of Bremer Landesbank. Credit investment is well diversified. The risk of default is estimated to be fairly low. Credit events on credit derivatives are called because of the restructuring of subordinated capital and not because of a downgrade in the credit rating.

The credit spread risk represents the primary market risk in the credit investment portfolio. During 2013 a substantial narrowing of the spreads and reduced spread volatility have favoured the decline in the market risk in the credit investment portfolio. In 2014 new regulatory requirements such as Prudent Valuation were implemented and the market data process developed further. The Bank is anticipating a continued stable market environment for 2014. A further substantial narrowing of the credit spreads is considered just as unlikely as a massive movement on interest rates.

The Bank addressed these more exacting demands in 2013 by further expanding its liquidity management and control system as part of a project. The requirements regarding the liquidity buffer to be held in accordance with MaRisk have been complied with; the liquidity ratio in accordance with the German Liquidity Regulation was 2.15 as at 31 December 2013.

The Bank does not anticipate any sustained relaxation on the money and capital markets and the developments between the banks and the market liquidity provided by the central bank will continue to be observed closely. In 2015, the last refinancing funds that were issued under "Anstaltslast" (liability assumed by public sector owners for economic viability of a corporation incorporated under public law) and "Gewährträgerhaftung" (public guarantee under which the owners of savings banks are jointly and severally liable to the bank's creditors) will run out. The Bank has already ensured that it has liquidity for constant operations.

The losses arising in 2013 that are attributable to the operational risk are deemed insignificant overall from the perspective of the Bank as a whole. For 2014 the Bank again assumes that loss events arising from operational risks will remain at a low level as in previous years.

On 14 December 2012 BaFin published the final version of the fourth revision of the Minimum Requirements for Risk Management (MaRisk). The Bank implemented the necessary adjustments and additions (capital planning process, risk controlling function, compliance function, settlement system for liquidity costs, benefits and risks) in coordination with the NORD/LB group.

The development of Bremer Landesbank currently remains dependent on the continued uncertain development on the shipping markets. Risks may also arise as a result of parameters amended in the course of the pending asset quality review by the European Central Bank and the subsequent stress test for the NORD/LB Group. However, Bremer Landesbank considers these influences to be manageable and will continue to carefully monitor and analyze the developments.

6. 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 therefore only valid at the time of publication. Bremer Landesbank assumes no obligation to update forward-looking statements in the light of more recent information or unexpected events.

Supervisory Board report

The Bank's Managing Board regularly informed the Supervisory Board and its General Working and Credit Committee and Audit and Sponsorship Committees about the Bank's performance and situation. At its meetings, the Audit Committee also heard reports from Internal Audit and Compliance about their findings. In the four 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.

KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, audited the financial statements of Bremer Landesbank for financial year 2013. They comply with legal requirements. The auditors issued an unqualified audit opinion on the financial statements. The auditors also attended the Supervisory Board's financial statements meeting on 28 March 2014 and reported on the results of the audit.

The Supervisory Board approved the results of the audit conducted by the auditors and did not raise any objections on the basis of its own review. In its meeting on 28 March 2014, the Supervisory Board approved and adopted the management report and the financial statements as at 31 December 2013.

The Supervisory Board proposes to the Owners' Meeting that the acts of the Managing Board be ratified and the profit of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – of EUR 36m for financial year 2013 be allocated to the retained earnings. The profit of EUR 31m for the financial year 2012 is similarly allocated to retained earnings from the profit carried forward.

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 2013 by the Managing Board and by all of the Bank's employees.

Bremen, 28 March 2014

The Chairwoman of the Supervisory Board

Mayoress Karoline Linnert

Owners' Meeting report

The Owners' Meeting convened twice during the year under review in order to discharge its duties under the law and the Bank's statutes.

On 28 March 2014 the Owners' Meeting resolved, at the suggestion of the Supervisory Board, to allocate the profit of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – for the financial year 2013 to retained earnings and to allocate the profit for the financial year 2012 from the profit carried forward to retained earnings. It further ratified the acts of the Managing Board of the Bank. The owners ALSO ratified the acts 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 2013.

Bremen, 28 March 2014

The Chairman of the Owners' Meeting

Dr. Gunter Dunkel

Balance sheet as at 31 December 2013

Assets

EUR m				31 Dec 2012
1. Cash reserve			**65**	**76**
a) Cash on hand		5		5
b) Balances at central banks		60		71
of which: at Deutsche Bundesbank		(60)		(71)
2. Public-sector debt instruments and bills of exchange eligible for refinancing with central banks			**—**	**20**
a) Treasury bills and treasury discount notes as well as similar public-sector debt instruments		—		20
of which: eligible for refinancing with Deutsche Bundesbank		(—)		(20)
3. Loans and advances to banks			**4.193**	**3.834**
b) Municipal loans		3.475		3.130
c) Other loans and advances		718		704
of which: payable on demand		(270)		(274)
against securities		(—)		(0)
4. Loans and advances to customers			**22.266**	**23.266**
a) Mortgage loans		1.633		1.628
b) Municipal loans		4.697		5.059
c) Other loans and advances		15.936		16.579
of which: against securities		(—)		(0)
5. Debt securities and other fixed-interest securities			**4.861**	**5.710**
b) Bonds and debt securities		4.861		5.710
ba) Issued by the public sector	2.109			2.160
of which: eligible for collateral with Deutsche Bundesbank	(2.109)			(2.160)
bb) Issued by other issuers	2.752			3.550
of which: eligible for collateral with Deutsche Bundesbank	(2.545)			(3.279)
6. Shares and other non fixed-interest securities			**18**	**17**
6a. Trading portfolio			**146**	**527**
7. Investments			**19**	**20**
of which: in banks			(5)	(5)
in financial services institutions			(0)	(0)
8. Shares in affiliated companies			**119**	**81**
of which: in banks			(0)	(0)
I n financial services institutions			(1)	(1)
9. Trust assets			**87**	**40**
of which: Trust loans			(3)	(4)
11. Intangible assets			**2**	**2**
b) Purchased licences, industrial property rights and similar rights and values as well as licenses in such rights and values		2		2
12. Property and equipment			**27**	**50**
14. Other assets			**421**	**405**
15. Deferred items			**11**	**13**
a) From issuing and loan business		10		12
b) Other		1		1
Total assets			**32.235**	**34.061**

Liabilities

EUR m				31 Dec 2012
1. Liabilities to banks			**10.943**	**11.775**
a) Issued registered Hypothekenpfandbriefe		336		396
b) Issued registered Öffentliche Pfandbriefe		889		894
c) Other liabilities		9.718		10.485
of which: payable on demand		(1.020)		(1.867)
Hypothekenpfandbriefe surrendered to the lender to secure loans raised		(0)		(—)
Öffentliche Pfandbriefe surrendered to the lender to secure loans raised		(111)		159
2. Liabilities to customers			**9.909**	**10,288**
a) Issued registered Hypothekenpfandbriefe		319		318
b) Issued registered Öffentliche Pfandbriefe		2.469		2.658
c) Savings deposits		218		194
ca) with an agreed period of notice of three months	213			186
cb) with an agreed period of notice of more than three months	5			8
d) Other liabilities		6.903		7.118
of which: payable on demand		(3.168)		(3.088)
Hypothekenpfandbriefe surrendered to the lender to secure loans raised		(—)		(—)
Öffentliche Pfandbriefe surrendered to the lender to secure loans raised		(—)		(—)
3. Securitized liabilities			**8.023**	**8.442**
a) Debt securities issued		8.023		8.442
aa) Hypothekenpfandbriefe	581			498
ab) Öffentliche Pfandbriefe	2.052			1.866
ac) Other debt securities	5.390			6.078
3a. Trading portfolio			**40**	**358**
4. Trust liabilities			**87**	**40**
of which: Trust loans			(3)	(4)
5. Other liabilities			**287**	**367**
6. Deferred items			**17**	**21**
a) From issuing and loan business		17		21
7. Provisions			**294**	**268**
a) Provisions for pensions and similar obligations		218		194
b) Tax provisions		16		16
c) Other provisions		60		58
9. Subordinated liabilities			**750**	**700**
11. Fund for general banking risks			**542**	**495**
of which: for trading portfolio			(6)	(5)
12. Equity			**1.343**	**1.307**
a) Subscribed capital		265		265
aa) Share capital	265			265
b) Capital reserves		478		478
c) Retained earnings		600		533
cc) Other retained earnings	600			533
d) Profit		0		31
Total liabilities			**32.235**	**34.061**

Contingent liabilities and other obligations

EUR m			31 Dec 2012
1. Contingent liabilities		**3.013**	**3.360**
b) Liabilities from guarantees and other indemnity agreements	3.013		3.360
2. Other obligations		**1.937**	**1,804**
c) Irrevocable credit commitments	1.937		1,804

Income statement

for the period from 1 January to 31 December 2013

EUR m			1 Jan – 31 Dec 2012
1. Interest income from		**1,047**	**1.212**
a) Lending and money market business	970		1.106
b) Fixed-interest securities and debt register claims	77		107
2. Interest expenses		**676**	**790**
		371	**422**
3. Current income from		**7**	**9**
a) Shares and other non fixed-interest securities	0		0
b) Investments	3		4
c) Shares in affiliated companies	4		5
4. Income from profit pooling and profit and loss transfer agreements		**30**	**32**
5. Commission income		**53**	**56**
6. Commission expenses		**8**	**7**
		45	**49**
7. Net income from the trading portfolio		**11**	**10**
of which: Allocations to the fund for general banking risks		(1)	(1)
8. Other operating income		**37**	**11**
10. Other administrative expenses		**187**	**185**
a) Personnel expenses		105	103
aa) Wages and salaries	74		76
ab) Social security, pension and other benefit costs	31		27
of which: for pensions	(19)		(14)
b) Other administrative expenses		82	82
11. Amortization, depreciation and impairment of intangible assets and Property and equipment		**5**	**5**
12. Other operating expenses		**30**	**22**
12a. Allocations to the fund for general banking risks		**46**	**50**
13. Impairment of and valuation allowances on loans and advances and certain securities as well as allocations to loan loss provisions		**175**	**201**
15. Impairment of and valuation allowances on equity investments, shares in affiliates and investment securities		**5**	**0**
16. Income from write-ups of equity investments, shares in affiliates and investment securities		**1**	**3**
19. Profit/loss from ordinary activities		**54**	**73**
21. Extraordinary expenses		**6**	**6**
22. Extraordinary result		**-6**	**-6**
23. Income taxes		**12**	**15**
24. Other taxes not disclosed in item 12		**0**	**0**
		12	**15**
26. Profits transferred under profit pooling and profit and loss transfer agreements		**—**	**21**
27. Profit for the year		**36**	**31**
28. Profit/loss carried forward from previous year		**31**	**—**
32. Allocations to retained earnings		**67**	**0**
d) To other retained earnings	67		**0**
34. Profit		**0**	**31**

Notes to the financial statements

1. General information on the accounting policies and the basis of currency translation into euros

1.1 Basis of preparation of the financial statements

The annual financial statements of Bremer Landesbank as at 31 December 2013 were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch, HGB, last amended on 4 October 2013), and the German Accounting Regulation for Credit and Financial Services Institutions (RechKredV).

The format of the balance sheet and income statement is based on the RechKredV. The comparative figures from 2012 are the figures approved, published and audited in the previous year. The balance sheet was prepared in accordance with Sec. 268 (1) of the of the German Commercial Code assuming an appropriation of the profit for the year.

1.2 Accounting policies applied – banking book

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

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

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

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

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

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

Investments and shares in affiliated companies are recognized at acquisition cost or at lower net realizable value if they are permanently impaired. The net realizable value is determined on the basis of the present value of the future net cash flows to the owners from their share in the entity (future earnings value).

The net earnings of the owners, which are discounted in order to calculate the capitalized earnings value, chiefly stem from the distributions of the net cash flows generated by the entity. The calculation of the fair value of the investment is therefore based on a forecast of earnings development in 2013 and a detailed budget for 2014 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 affiliated company (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 affiliated company 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 affiliated company reflects the changes in the return on the market portfolio.

To value investments in unlisted companies, groups of comparable listed instruments are formed (peer groups) and the beta factor is calculated for each position in relation to the respective national index. The beta factor of the peer group so calculated is used as a key multiplier to determine the capitalization rate. Raw beta is the historical beta factor of a company derived from a linear regression of the share return against the return on the market portfolio. The Bank uses an adjusted beta for valuing investments. Unlike the traditional beta, the adjusted beta takes into account future trends as well as historical data. Adjusted beta (adjusted beta = raw beta x 0.67 + 0.33) is used to smooth out the volatility of the valuation over the course of time.

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

Liabilities to customers and banks are recognized at their settlement value. Differences between the amount borrowed and the settlement value that represent interest are shown as deferred items and released as scheduled.

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

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

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

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

To test whether a provision is required, the Bank compares the sum total of the interest-induced present values of all interest-bearing reported and off-balance sheet transactions outside the trading portfolio taking into account the anticipated refinancing, risk and administrative costs with the sum total of the carrying amounts of all interest-bearing transactions. As at 31 December 2013 no provision was required.

1.3 Hedge accounting

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

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

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

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

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

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

1.4 Accounting policies applied – trading portfolio

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

During the financial year the Bank’s internally specified criteria for including financial instruments in the trading portfolio were applied unchanged.

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

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

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

The method for determining the risk adjustment was not changed. Determined on the basis of the historical simulation.

1.5 Accounting policies applied – internal transactions

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

1.6 Calculation of fair values

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

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

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

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

1.7 Currency translation principles

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

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

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

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

- The same applies in accordance with Sec. 256a Clause 2 of the German Commercial Code to income from the translation of foreign currency positions with a residual term of one year or less.

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

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

The euro acquisition cost of assets and liabilities is calculated as the acquisition cost in the foreign currency translated into euros on the acquisition date (acquisition has no effect on profit or loss). All foreign currency assets and liabilities are valued on the balance sheet date (subsequent valuation) in the respective currency in accordance with the general principles. In accordance with Sec. 256a of the German Commercial Code, the value thereby obtained is translated into euros using the mean spot exchange rate of the balance sheet date. Outstanding spot transactions in foreign currencies are also translated at the mean spot exchange rate. Foreign currency assets of EUR 4,591m (previous year: EUR 5,028m) and liabilities of EUR 1,223m (previous year: EUR 1,394m) were translated at the mean spot exchange rate of 31 December 2013. The effects on income from the conversion of assets and debts denominated in foreign currencies are included in the net income from the trading portfolio.

Foreign currency transactions in the trading portfolio are accounted for and valued using the rules applicable for the trading portfolio. The profit or loss from currency translation is reported under net income from the trading portfolio.

1.8 Disclosures on the pension provisions

Pension obligations were calculated using actuarial methods applying the projected unit credit method. The provisions for pensions and similar obligations were discounted using the average market interest rate of the last seven years for the assumed residual term of 15 years, as published by the Deutsche Bundesbank (Sec. 253 (2) Clause 2 of the German Commercial Code). As at 31 December 2013 this interest rate was 4.88% (previous year: 5.04%).

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

Parameter	2013	2012
Employee turnover (excl. retirement/early retirement)	1,500 %	1,500 %
Pension trend:		
Managing Board/permanent employees p.a.	2,500 %	2,500 %
Total benefits p.a.	3,500 %	3,500 %
Add-on benefits p.a.	2,000 %	2,000 %
Defined contribution benefits p.a.	1,000 %	1,000 %
Salary trend:		
Collective wage increases p.a.	2,000 %	2,000 %
Individual salary increases (pensionable) p.a.	0,375 %	0,375 %

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

The allocation amount remaining as a result of the change in the valuation of pension obligations totalled EUR 68m as at 31 December 2013 (Art. 67 (2) of the Introductory Act of the German Commercial Code (EGHGB)) (previous year: EUR 75m). Indirect benefit obligations in accordance with Art. 28 (2) EGHGB amount to EUR 19m (previous year: EUR 18m).

1.9 Deferred taxes

Deferred taxes were calculated using the current corporate income tax rate in Germany of 15% with the solidarity surcharge of 5.5% and an average trade tax rate of approximately 15.83% (previous year: 15.77%). Deferred taxes were therefore determined using a domestic income tax rate of 31.65% (previous year: 31.59%).

Deferred tax liabilities on differences in carrying amounts between the accounts prepared under commercial and tax law were offset against deferred tax assets from differences in carrying amounts of pension provisions and property and equipment.

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

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

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

2.1 Balance sheet

2.1.1 Balance sheet – assets

EUR m		31 Dec 2013	31 Dec 2012
Item 3:	**Loans and advances to banks**		
	Loans and advances to affiliated companies	128	138
	Loans and advances to companies with which there are participation relationships	32	17
	Subordinated loans and advances	—	26
	Loans and advances to associated savings banks	3.475	3.139
	Loans and advances designated as coverage for issued debt securities in accordance with Sec. 28 of the PfandBG	1.099	1.318
	Loans and advances designated as coverage for issued debt securities	535	684
Item 4:	**Loans and advances to customers**		
	Loans and advances to affiliated companies	98	58
	Loans and advances to companies with which there are participation relationships	111	109
	Loans and advances designated as coverage for issued debt securities in accordance with Sec. 28 of the PfandBG	4.729	4.578
	Loans and advances designated as coverage for issued debt securities	963	1.289
Item 5:	**Debt securities and other fixed-interest securities**		
	b) Bonds and debt securities		
	ba) Issued by the public sector		
	Marketable and listed bonds	2.109	2.160
	bb) Issued by other issuers		
	Marketable and listed bonds	2,722	3.520
	Marketable and unlisted bonds	30	30
	Of affiliated companies	237	237
	Sum total of marketable securities not valued at the strict lower of cost or market	2.975	3.751
	Omitted write-downs to the lower net realizable value		
	Carrying amount	529	1.902
	Fair value	512	1,859
	Hidden reserves		
	Carrying amount	4.262	3.170
	Fair value	4.342	3.280
	Loans and advances designated as coverage for issued debt securities in accordance with Sec. 28 of the PfandBG	362	200
	Loans and advances designated as coverage for issued debt securities	475	525

EUR m		31 Dec 2013	31 Dec 2012
Item 6:	**Shares and other non fixed-interest securities**		
	Hidden reserves		
	Carrying amount	1	1
	Fair value	1	1
	Marketable and listed shares	1	1
	Marketable and unlisted shares	0	0
Item 6a:	**Trading portfolio**		
	Derivative financial instruments	12	379
	Debt securities and other fixed-interest securities	138	149
	Of affiliated companies	10	10
	less risk adjustment	3	1
Item 7:	**Investments**		
	Marketable and listed shares	3	3
	Marketable and unlisted shares	—	—
Item 8:	**Shares in affiliated companies:**		
	Marketable and listed shares	—	—
	Marketable and unlisted shares	—	—
Item 9:	**Trust assets**		
	Loans and advances to customers	3	4
	Investments	31	31
	Property and equipment	53	5
Item 12:	**Property and equipment**		
	Used in the Bank's own activities		
	- Land and buildings	7	33
	- Operating and office equipment	9	9
Item 14:	**Other assets**		
	Accrued interest for financial swaps	284	296
	Adjustment items from foreign currency derivatives	64	31
	Claims to tax refunds	10	12
Item 15	**Deferred items**		
	Premiums and discounts	10	12

Statement of changes in fixed assets

EUR m	Costs	--------------Changes-------------- Additions	Disposals	Reclassi-fications	Accumulated write-downs	Net carrying amount 31 Dec 2013	Net carrying amount 31 Dec 2012	Write-downs in the financial year	Write-ups in the fiscal year
Investments	24	0	1	—	4	19	20	0	0
Shares in affiliated companies	81	48	10	—	0	119	81	—	—
Investment securities	3.751	0	776	0	0	2.975	3.751	—	—
Intangible assets	15	1	2	—	12	2	2	1	—
Property and equipment	133	10	70	—	46	27	50	4	—

The asset items shown break down by residual terms to maturity as follows:

Loans and advances to banks

EUR m	Total	Payable on demand	Up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years
31 Dec 2013						
b) Municipal loans	3.475	423	25	361	1.032	1.634
c) Other loans and advances	718	270	85	175	129	59
Total	**4.193**	**693**	**110**	**536**	**1.161**	**1.693**
31 Dec 2012						
b) Municipal loans	3.130	5	33	228	1.235	1.629
c) Other loans and advances	704	274	131	124	139	36
Total	**3.834**	**279**	**164**	**352**	**1.374**	**1.665**

Loans and advances to customers

EUR m	Total	Payable on demand	Up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years
31 Dec 2013						
a) Mortgage loans	1.633	1	56	66	385	1.125
b) Municipal loans	4.697	1	62	339	1.480	2.815
c) Other loans and advances	15.936	1.257	1.891	1.324	4.142	7.322
Total	**22.266**	**1.259**	**2.009**	**1.729**	**6.007**	**11.262**
31 Dec 2012						
a) Mortgage loans	1.628	1	60	68	378	1,121
b) Municipal loans	5.059	1	135	358	1.618	2.947
c) Other loans and advances	16.579	947	2.097	1.208	4.220	8.107
Total	**23.266**	**949**	**2.292**	**1.634**	**6.216**	**12.175**

Of the loans and advances payable on demand, EUR 820m (previous year: EUR 792m) have an indefinite term.

Debt securities and other fixed-interest securities

Debt securities and other fixed-interest securities which will mature next year amount to EUR 711m (previous year: EUR 404m).

The hidden liabilities specified in the explanatory table to balance sheet item 5 "Debt securities and other fixed-interest securities" of EUR 17m (previous year: EUR 43m) result from the difference of fair value and carrying amount without accounting for the effects from hedges. Any securities or guarantees are also not taken into account when calculating the hidden liabilities.

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

2.1.2 Balance sheet – liabilities

EUR m		31 Dec 2013	31 Dec 2012
Item 1:	**Liabilities to banks**		
	Liabilities to affiliated companies	98	578
	Liabilities to companies with which there are participation relationships	2	26
	Liabilities to associated savings banks	521	771
Item 2:	**Liabilities to customers**		
	Liabilities to affiliated companies	7	10
	Liabilities to companies with which there are participation relationships	22	22
Item 3:	**Securitized liabilities**		
	Liabilities to affiliated companies	402	365
	Liabilities to companies with which there are participation relationships	—	—
Item	**Trading portfolio**		
	Derivative financial instruments	40	358
Item 4:	**Trust liabilities**		
	Liabilities to banks	3	4
	Liabilities to customers	84	36
Item 5:	**Other liabilities**		
	Interest on silent participations	—	21
	Interest on subordinated liabilities	2	2
	Accrued interest from financial swap transactions	216	264
	Option premiums received	18	16
	Tax liabilities	1	0
Item 6:	**Deferred items**		
	Premiums and discounts	17	21
Item 9:	**Subordinated liabilities**		
	Liabilities to affiliated companies	200	150
	Liabilities to other affiliated companies with which there are participation relationships	—	—
	Expenses for subordinated liabilities	18	14

Specification of the subordinated liabilities in accordance with Sec. 35 (3) of the RechKredV:

Currency	Amount 31 Dec 2013 EUR m	Interest cost 2013 EUR m	Interest rate % p.a.	End of term
EUR	65	0	Variable	5 Apr 2041
EUR	85	1	Variable	21 Mar 2031
EUR	200	1	Variable	28 Jun 2030
EUR	50	1[1)]	Variable	11 Sep 2028
EUR	50	2	Variable	6 Dec 2027
EUR	150	6	Variable	16 Nov 2027
EUR	150	7	4,875 %	15 Dec 2015
Total	**750**	**18**		

[1)] issued in 2013

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

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

Liabilities to banks

EUR m	Total	Payable on demand	Up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years
31 Dec 2013						
a) Issued registered mortgage securities	336	—	1	80	245	10
b) Issued registered public securities	889	—	177	150	481	81
c) Other liabilities	9.718	1,020	341	678	2.599	5.080
Total	**10.943**	**1,020**	**519**	**908**	**3.325**	**5.171**
31 Dec 2012						
a) Issued registered mortgage securities	396	0	1	42	318	35
b) Issued registered public securities	894	0	79	33	722	60
c) Other liabilities	10.485	1.866	381	476	2.709	5,053
Total	**11.775**	**1.866**	**461**	**551**	**3.749**	**5.148**

Liabilities to customers

EUR m	Total	Payable on demand	Up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years
31 Dec 2013						
a) Issued registered mortgage securities	319	—	2	6	94	217
b) Issued registered public securities	2.469	39	84	409	729	1.208
c) Savings deposits	218	—	169	43	5	1
d) Other liabilities	6.903	3.168	1.297	272	722	1.444
Total	**9.909**	**3.207**	**1.552**	**730**	**1.550**	**2.870**
31 Dec 2012						
a) Issued registered mortgage securities	318	1	2	5	111	199
b) Issued registered public securities	2.658	0	60	174	1,345	1.079
c) Savings deposits	194	0	4	184	5	1
d) Other liabilities	7.118	3.088	1.181	366	869	1.614
Total	**10,288**	**3.089**	**1.247**	**729**	**2.330**	**2.893**

Securitized liabilities

Debt securities listed under securitized liabilities which will mature next year amount to EUR 1,745m (previous year EUR 1,678m).

2.2 Income statement

Disclosures and notes to the income statement

EUR m		2013	2012
Item 7:	**Net income from the trading portfolio**		
	Risk adjustment in accordance with Sec. 340 e (2012) of the German Commercial Code (income from reversals in 2012)	1	-3
	Allocation to the fund for general banking risks	1	1
Item 8:	**Other operating income**		
	Write-ups of cancelled securities recognized under other assets	0	1
	Reversal of provisions	7	2
	Cost refunds	2	1
	Rental income	1	1
Item 12:	**Other operating expenses**		
	Contribution to the bank restructuring fund (“bank levy”)	4	4
	Unwinding of discount on pension provisions	13	13
	Unwinding of other discounts	1	1
Item 21:	**Extraordinary expenses**		
	BilMoG adjustment for pension provisions	6	6

Other operating profit/loss

Bremer Landesbank sold land and buildings to the newly established wholly-owned subsidiary "BLB Grundbesitz KG", realizing a profit of EUR 24m.

In the course of implementing cost saving measures in 2013, additional one-off expenditure of EUR 9m was incurred.

Income taxes

Income taxes primarily relate to tax on the profit from ordinary activities.

3. Other disclosures

3.1 Contingent liabilities and other financial obligations

For the contingent liabilities from guarantees of EUR 3.0b (previous year: EUR 3.4b), the credit risk relating to the guarantee bonds drawn on is assessed during general loan processing. The liabilities from guarantees primarily relate to credit derivatives of EUR 2.0b; previous year: EUR 2.3b). There are no contingent liabilities to affiliated companies (previous year: EUR 3m).

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

Other financial obligations include the following significant sums:

- An obligation to contribute to M Cap Finance Deutsche Mezzanine Fonds Zweite GmbH & Co. KG, Leipzig, amounts to EUR 4m (previous year: EUR 4m).
- Another obligation to make additional contributions and additional joint liability for other shareholders relating to Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, amounts to EUR 3m (previous 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 55m (previous year: EUR 59m). These additional contributions can be called in when support is required.
- In connection with the redemption of shares in FinanzIT GmbH, Hanover, the withdrawing shareholders NORD/LB, Bremer Landesbank and Landesbank Saar have undertaken to cover the company's risks from the period up to their withdrawal jointly with the remaining FinanzIT shareholders provided these risks actually occur and are not covered by provisions already established.
- Notwithstanding the disposal of the investment in DekaBank Deutsche Girozentrale, Frankfurt am Main, held indirectly through GLB GmbH & Co. OHG, Frankfurt am Main, and the related reduction in the capital of GLB GmbH & Co. OHG, Bremer Landesbank, as a guarantor, is still jointly liable with the other owners for certain liabilities of DekaBank Deutsche Girozentrale.
- There were no securities deposited as collateral for transactions on forward markets, as in the previous year. Instead, a cash security of EUR 15m was deposited at Eurex Deutschland, Frankfurt am Main (previous year: EUR 15).

3.2 Employees

Annual average number of employees

	2013	2012
Male	531	514
Female	553	553
Total	**1.084**	**1.067**

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

3.3.1 Total remuneration of governing bodies

EUR k	2013	2012
Managing Board	2.144	2.246
Supervisory Board[1)]	171	164
Advisory Board[1)]	73	71

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

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

EUR k	2013	2012
Managing Board	1.587	1.786
Supervisory Board	—	—
Advisory Board	—	—

Provisions for pensions to this group of people amounting to EUR 16,674k (previous year: EUR 17,447k) were recognized. The allocation amount remaining as a result of the change in the valuation of pension obligations totalled EUR 4,563k as at 31 December 2013 (Art. 67 (2) of the EGHGB) (previous year: EUR 5,030k).

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

3.3.3 Advances, loans and contingent liabilities

EUR k	Loans and advances	Liabilities
Advances and loans as at 31 December 2013		
Managing Board	466	436
Supervisory Board	1.087	1,500
Owners' Meeting	0	64
Advances and loans as at 31 December 2012		
Managing Board	490	545
Supervisory Board	1.246	1.542
Owners' Meeting	38	87

3.4 Other disclosures

3.4.1 Non-arm's length transactions

No non-arm's length transactions were entered into with related parties in financial year 2013.

3.4.2 Services provided to third parties

Services provided to third parties relating to administration and brokerage are of minor significance.

3.4.3 Offsetting of assets and liabilities from pension obligations

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

3.4.4 Restrictions on distribution of assets

No assets were recognized in accordance with Sec. 268 (8) of the German Commercial Code which are subject to restrictions on distribution in the financial year 2013.

3.5 Forward contracts

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

EUR m	Nominal values	Fair values positive	Fair values negative
Forward contracts in the banking book			
Forward contracts in foreign currencies	5.062	109	63
Forward interest-rate contracts	9.964	22	65
	15.026	**131**	**128**
Forward contracts in the trading portfolio			
Forward contracts in foreign currencies	2,477	35	42
Forward interest-rate contracts	26,877	1.099	691
	29.354	**1.134**	**733**

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

The forward interest rate contracts in the trading portfolio are outstanding futures and forward rate agreements with a nominal volume of EUR 212m (previous year: EUR 381m).

3.6 Derivative transactions

The value of the derivative instruments listed in the following tables, which serve to transfer market-price and credit risk between various parties, depends on interest rates, indices and exchange rates. Bremer Landesbank's derivative products are interest rate and cross-currency interest rate swaps, forward rate agreements, caps and floors, exchange-traded futures and options, currency options, forward exchange contracts and credit derivatives. Derivative transactions are concluded as standardized stock exchange contracts or off-exchange (OTC) in the form of bilateral contracts.

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

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

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

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

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

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

EUR m	Nominal values	Positive Fair values	Negative Fair values	Carrying amount	Recorded in balance sheet items
Interest-rate risk					
Interest-rate swaps	8.920	13	49		
F.R.A.	800	0	0		
Caps, floors	47	—	1		
Forward issue	70	1	15		
Swaptions (purchases)	127	8	—	6	Other Assets
Interest-rate risk – total –	**9.964**	**22**	**65**	**6**	
(previous year)	**(10.404)**	**(35)**	**(98)**	**(6)**	
Currency risk					
Currency swaps	553	14	0		
Cross-currency interest rate swaps	4.498	95	63		
Foreign currency caps and floors	10	0	0		
Currency options (purchases)	1	0	0		
Currency risk – total –	**5.062**	**109**	**63**	**—**	
(previous year)	**(6.247)**	**(76)**	**(90)**	**(2)**	
Credit risk	1.968	0	18	—	
Credit derivatives – total –	**1.968**	**0**	**18**	**—**	
(previous year)	**(2.276)**	**(0)**	**(76)**	**(—)**	

The nominal values refer to the gross volume of all purchases and sales and long and short positions. Fair values and carrying amounts are shown for all contracts without accrued interest. Positive and negative fair values of contracts with the same counterparty were not offset. The above table also contains those derivatives designated as hedges in accordance with Sec. 254 of the German Commercial Code. In connection with foreign currency translation in accordance with Sec. 340h of the German Commercial Code in conjunction with Sec. 256a of the German Commercial Code, no derivatives with currency risks were recognized as at 31 December 2013 (previous year:

EUR 2m). All fair values could be reliably determined. See the chapter "Calculation of fair values" for more information on the valuation methods applied.

3.6.2 External derivatives reported at fair value by risk and transaction type (trading portfolio)

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

EUR m	Nominal values	Positive Fair values	Negative Fair values
Interest-rate risk			
Interest-rate swaps	24.749	1.084	657
Swaptions	346	0	21
Purchases	6	0	—
Sales	340	—	21
Caps, floors	1.570	15	13
Futures	212	—	—
Interest-rate risk – total –	**26,877**	**1.099**	**691**
(previous year)	**(34.604)**	**(2.000)**	**(1.376)**
Currency risk			
Forward exchange contracts	219	3	2
Currency swaps	384	3	3
Cross-currency interest rate swaps	1.744	27	35
Caps, floors	84	0	0
Currency options	46	2	2
Purchases	23	2	—
Sales	23	—	2
Currency risk – total –	**2,477**	**35**	**42**
(previous year)	**(3.248)**	**(73)**	**(73)**
Credit risk	300	3	3
Credit derivatives – total –	**300**	**3**	**3**
(previous year)	**(324)**	**(12)**	**(11)**

3.6.3 Maturities of derivatives (trading portfolio)

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

	31 Dec 2013			31 Dec 2012		
EUR m	Interest rate risks	Currency risks	Credit derivatives	Interest rate risks	Currency risks	Credit derivatives
Residual maturities						
Up to 3 months	2,678	699	—	1,875	745	—
More than 3 months up to 1 year	3,107	401	0	3,688	663	4
More than 1 year up to 5 years	13,086	1,160	300	16,369	1,617	260
More than 5 years	8,006	217	0	12,672	223	60
Total	**26,877**	**2,477**	**300**	**34,604**	**3,248**	**324**

There were no share-price or other price risks as at the balance sheet date of either the financial year or the previous year.

3.6.4 Counterparties of derivatives (trading portfolio)

Trading portfolio derivatives break down by external counterparty as follows:

	31 Dec 2013			31 Dec 2012		
	Nominal	Fair values		Nominal	Fair values	
EUR m	values	positive	negative	values	positive	negative
Banks in the OECD (including stock exchange contracts)	25.945	986	725	33.969	1.849	1.448
Public institutions in the OECD	19	0	0	20	1	0
Other counterparties	3.690	151	12	4.187	235	12
Total	**29.654**	**1.137**	**737**	**38.176**	**2.085**	**1,460**

3.6.5 Disclosures on hedges

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

EUR m	31 Dec 2013	31 Dec 2012
Assets		
Fixed-interest securities in the liquidity reserve	281	281
Total	**281**	**281**

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

The securities in the liquidity reserve are valued applying the strict lower of cost or market principle. Due to the perfect micro hedging relationships, no interest rate-induced negative changes in value of the the underlying transactions are taken into account. The non-interest rate-induced hidden reserves for the underlying transactions amount to EUR 4m. No interest rate-induced impairment losses had to be recognized on hedged securities in the liquidity reserve as at 31 December 2013.

3.7 Other disclosures

3.7.1 Open-market transactions

Bonds with a carrying amount of EUR 1,562m (previous year: EUR 2,190m) were deposited with Deutsche Bundesbank in open-market transactions.

3.7.2 Repurchase agreements

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

3.7.3 Transfer of collateral for the Bank's own liabilities

Loans and advances to customers of EUR 6,441m (previous year: EUR 5,970m) were assigned as collateral for the Bank's own liabilities to banks.

3.7.4 Auditors' fees

The following table shows, on an aggregate basis, the services rendered by the auditors KPMG in financial year 2013 and the fees paid to KPMG and E&Y in financial year 2012:

EUR k	2013	2012
a) Services for the audit of the financial statements	646	555
b) Other confirmation services	534	466
of which Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	—	168
c) Tax services	—	—
d) Other services	—	46

3.7.5 Financial transactions with selected European states

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

31 Dec 2013 EUR m	Nominal	Historical acquisition costs	Carrying amount accounted for[1)]	Allowances in P&L	Fair value
Portugal	**0**	**0**	**0**	**—**	**0**
Sovereigns	—	—	—	—	—
Financial institutions/ insurance companies	0	0	0	—	0
Companies/other	0	0	0	—	0
Ireland	**170**	**170**	**171**	**—**	**171**
Sovereigns	—	—	—	—	—
Financial institutions/ insurance companies	146	146	149	—	148
Companies/other	24	24	22	—	23
Italy	**82**	**82**	**81**	**—**	**81**
Sovereigns	0	0	0	—	0
Financial institutions/ insurance companies	81	81	81	—	81
Companies/other	1	1	0	—	0
Greece	**31**	**31**	**31**	**—**	**31**
Sovereigns	—	—	—	—	—
Financial institutions/ insurance companies	—	—	—	—	—
Companies/other	31	31	31	—	31
Spain	**44**	**44**	**44**	**—**	**41**
Sovereigns	—	—	—	—	—
Financial institutions/ insurance companies	44	44	44	—	41
Companies/other	0	0	0	—	0
Total	**327**	**327**	**327**	**—**	**324**

31 Dec 2012 EUR m	Nominal	Historical acquisition costs	Carrying amount accounted for[1)]	Allowances in P&L	Fair value
Portugal	—	—	—	—	—
Sovereigns	—	—	—	—	—
Financial institutions/ insurance companies	—	—	—	—	—
Companies/other	—	—	—	—	—
Ireland	**197**	**194**	**197**	—	**193**
Sovereigns	0	0	0	—	0
Financial institutions/ insurance companies	171	171	174	—	169
Companies/other	26	23	23	—	24
Italy	**266**	**266**	**266**	—	**262**
Sovereigns	—	—	—	—	—
Financial institutions/ insurance companies	266	266	266	—	262
Companies/other	—	—	—	—	—
Greece	—	—	—	—	—
Sovereigns	—	—	—	—	—
Financial institutions/ insurance companies	—	—	—	—	—
Companies/other	—	—	—	—	—
Spain	**132**	**132**	**133**	—	**121**
Sovereigns	—	—	—	—	—
Financial institutions/ insurance companies	132	132	133	—	121
Companies/other	—	—	—	—	—
Total	**595**	**592**	**596**	**0**	**576**

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

3.8 Cover calculation

3.8.1 Cover calculation in accordance with section 35 (1) No. 7 of the RechKredV

Coverage of the debt securities in circulation (section 35 (1) no. 7 of the RechKredV)

EUR m	Mortgage lending business		Municipal lending business		Shipping	
Liabilities requiring cover		**957**		**3.822**		**251**
Pfandbriefe						
Bearer debt securities	479		1.852		98	
Registered debt securities	478		1.970		153	
Covering assets		**1.268**		**4.563**		**359**
Loans and advances to banks	—		1.049		50	
Loans and advances to customers	1.233		3.204		292	
Securities issued by the public sector	35		310		17	
Excess coverage		**311**		**741**		**108**

3.8.2 Report in accordance with Sec. 28 of the Covered Bond Act (Pfandbriefbankgesetz, PfandBG) as at 31 December 2013

a. Hypothekenpfandbriefe

Hypothekenpfandbriefe cover in nominal and present values (Sec. 28 (1) No. 1 of the PfandBG)

	Nominal value		Present value		Risk-adjusted present value dynamic method at least +100bp		Risk-adjusted present value dynamic method at least -100bp	
EUR m	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Total amount of Pfandbriefe outstanding	957	891	1,011	971	980	935	1.040	1.003
Total amount of covering assets	1.268	1.170	1.392	1.320	1.341	1.275	1.443	1,358
Capital surplus	311	279	381	349	361	340	403	355
Excess coverage in %	32	31	38	36	37	36	39	35

Term structure of the Hypothekenpfandbriefe cover register (Sec. 28 (1) No. 2 of the PfandBG)

	Hypothekenpfandbriefe		Covering assets by fixed-interest periods	
EUR m	**2013**	**2012**	**2013**	**2012**
Up to 1 year	231	40	199	213
More than 1 year up to 2 years	217	231	139	115
More than 2 years up to 3 years	180	207	183	127
More than 3 years up to 4 years	40	180	122	132
More than 4 years up to 5 years	67	35	132	123
More than 5 years up to 10 years	129	105	454	419
More than 10 years	93	93	39	41
Total	**957**	**891**	**1.268**	**1.170**

Share of derivatives (Sec. 28 (1) No. 3 of the PfandBG)

No derivatives are included in the portfolio.

Other covering assets in accordance with Sec. 19 (1) Nos. 2 and 3 PfandBG
(Sec. 28 (1) No. 4 of the PfandBG)

	Nominal values	
EUR m	**2013**	**2012**
Other covering assets	—	—

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

	EUR m		in %	
Size categories	**2013**	**2012**	**2013**	**2012**
Up to EUR 0.3m	438	421	34	36
More than EUR 0.3m up to EUR 5.0m	644	590	51	50
More than EUR 5.0m	151	125	12	11
Excess coverage	35	34	3	3
Total	**1.268**	**1.170**	**100**	**100**

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

	EUR m		in %	
	2013	2012	2013	2012
Apartments	107	107	8	9
Single-family houses	265	250	21	21
Apartment buildings	310	310	24	27
New buildings under construction, not yet able to generate income	—	0	—	—
Building sites	0	0	0	0
Total residential properties	**682**	**667**	**53**	**57**
Office buildings	109	88	8	7
Retail buildings	73	43	6	4
Industrial buildings	0	1	0	0
Buildings used for other commercial purposes	369	337	29	29
New buildings under construction, not yet able to generate income	—	0	—	—
Building sites	—	0	—	—
Total commercial properties	**551**	**469**	**43**	**40**
Total residential and commercial properties	1.233	1.136	97	97
Excess coverage, liquidity coverage in accordance with Sec. 4 (1a) of the PfandBG, other coverage	35	34	3	3
Total	**1.268**	**1.170**	**99**	**100**

All residential and commercial properties are located in Germany.

Payments in arrears (> 90 days) (Sec. 28 (2) No. 2 of the PfandBG)

There were no payments in arrears by more than 90 days as at 31 December 2013 (previous year: EUR 0).

b) Öffentliche Pfandbriefe

Öffentliche Pfandbriefe cover in nominal and present values (Sec. 28 (1) No. 1 of the PfandBG)

	Nominal value		Present value		Risk-adjusted present value, dynamic method at least +100bp		Risk-adjusted present value, dynamic method at least -100bp	
EUR m	2013	2012	2013	2012	2013	2012	2013	2012
Total amount of Pfandbriefe outstanding	3.822	3.479	4.149	3.955	3.950	3.764	4.357	4.143
Total amount of covering assets	4.563	4.485	4.930	5.038	4.662	4.779	5.220	5.309
Capital surplus	741	1.006	781	1.083	712	1.015	863	1.166
Excess coverage in %	19	29	19	27	18	27	20	28

Term structure of the Öffentliche Pfandbriefe cover register (Sec. 28 (1) No. 2 of the PfandBG)

EUR m	Öffentliche Pfandbriefe 2013	2012	Covering assets by fixed-interest periods 2013	2012
Up to 1 year	668	311	450	440
More than 1 year up to 2 years	500	668	1.052	348
More than 2 years up to 3 years	474	455	454	1.179
More than 3 years up to 4 years	302	425	258	293
More than 4 years up to 5 years	349	309	300	236
More than 5 years up to 10 years	746	550	1.079	1.168
More than 10 years	783	761	970	821
Total	**3.822**	**3.479**	**4.563**	**4.485**

Share of derivatives (Sec. 28 (1) No. 3 of the PfandBG)

No derivatives are included in the portfolio.

Other covering assets in accordance with Sec. 20 (2) No. 2 of the PfandBG

(Sec. 28 (1) No. 4 PfandBG)

EUR m	Nominal values 2013	2012
Other covering assets	164	153

Breakdown of the Öffentliche Pfandbriefe cover register (Sec. 28 (3) No. 1 of the PfandBG)

EUR m	State 2013	2012	Regional authorities 2013	2012	Local authorities 2013	2012	Other debtors 2013	2012
Germany	—	—	455	420	2.334	2.219	1.410	1.518

Payments in arrears (> 90 days)

There were no payments in arrears by more than 90 days as at 31 December 2013, as in the previous year.

c. Schiffspfandbriefe

Schiffspfandbriefe cover in nominal and present values (Sec. 28 (1) No. 1 of the PfandBG)

EUR m	Nominal value 2013	2012	Present value 2013	2012	Risk-adjusted present value, dynamic method at least +100bp 2013	2012	Risk-adjusted present value, dynamic method at least -100bp 2013	2012
Total amount of Pfandbriefe outstanding	251	293	266	322	257	310	275	331
Total amount of covering assets	359	441	370	465	333	410	354	433
Capital surplus	108	148	104	143	76	100	79	102
Excess coverage in %	43	51	39	44	30	32	29	31

In addition to the stated nominal value of the total covering assets as at 31 December 2012, a time deposit of EUR 100m was entered in the cover register in the previous year in accordance with Sec. 4 (1a) of the PfandBG, exclusively to safeguard liquidity, and has subsequently been dissolved.

Term structure of the Schiffspfandbriefe cover register (Sec. 28 (1) No. 2 of the PfandBG)

EUR m	Schiffspfandbriefe 2013	Schiffspfandbriefe 2012	Covering assets by fixed-interest periods 2013	Covering assets by fixed-interest periods 2012
Up to 1 year	103	87	342	418
More than 1 year up to 2 years	10	58	14	9
More than 2 years up to 3 years	46	10	3	12
More than 3 years up to 4 years	20	46	—	2
More than 4 years up to 5 years	23	20	—	—
More than 5 years up to 10 years	46	69	—	—
More than 10 years	3	3	—	—
Total	**251**	**293**	**359**	**441**

Share of derivatives (Sec. 28 (1) No. 3 of the PfandBG)

No derivatives are included in the portfolio.

Other covering assets in accordance with Sec. 26 (1) Nos. 3 and 4 of the PfandBG

(Sec. 28 (1) No. 4 of the PfandBG)

EUR m	Nominal values 2013	Nominal values 2012
Other covering assets	17	—

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

Size categories	EUR m 2013	EUR m 2012	in % 2013	in % 2012
Up to EUR 0.5m	2	4	1	1
More than EUR 0.5m up to EUR 5.0m	245	277	68	63
More than EUR 5.0m	45	111	12	25
Excess coverage	67	49	19	11
Total	**359**	**441**	**100**	**100**

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

	Ocean-going vessels				Inland vessels				Excess coverage			
	EUR m		in %*)		EUR m		in %*)		EUR m		in %*)	
Countries	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Germany	248	331	69	75	10	11	3	2	67	49	19	11
Gibraltar	4	6	1	2	—	—	0	—	—	—	0	—
Greece	—	—	0	—	—	—	0	—	—	—	0	—
Malta	8	5	2	1	—	3	0	1	—	—	0	—
Marshall Islands	19	26	5	6	—	—	0	—	—	—	0	—
Netherlands	—	6	0	1	—	—	0	—		—	0	—
Panama	3	4	1	1	—	—	0	—	—	—	0	—
Cyprus	—	0	0	0	—	—	0	—	—	—	0	—
Total	**282**	**378**	**79**	**86**	**10**	**14**	**3**	**3**	**67**	**49**	**19**	**11**

*) In relation to the total amount of covering assets of EUR 359m as at 31 December 2013 and of EUR 441m as at 31 December 2012.

3.8.3 Additional disclosures on Hypothekenpfandbriefe and Schiffspfandbriefe

a. Hypothekenpfandbriefe (Sec. 28 (2) Nos. 3a-c)

	Commercial properties		Residential properties	
	2013	**2012**	**2013**	**2012**
Number of pending foreclosure and sequestration proceedings as at 31 Dec 2013	—	—	—	—
Number of foreclosure sales in the financial year	—	—	—	—
Number of cases in which Pfandbrief bank had to repossess property in order to prevent mortgage losses in the financial year	—	—	—	—
Total interest in arrears due from mortgage debtors (EUR m)	—	—	0	0

b. Schiffspfandbriefe (Sec. 28 (4) Nos. 2a-c)

	Ocean-going vessels		Inland vessels	
	2013	**2012**	**2013**	**2012**
Number of pending foreclosure proceedings for ships or ships under construction as at 31 Dec 2013	—	—	—	—
Number of foreclosure sales in the financial year	—	—	—	—
Number of cases in which the Pfandbrief bank had to repossess ships or ships under construction in order to prevent ship mortgage losses in the financial year	—	—	—	—
Total interest in arrears due from loan debtors (EUR m)	—	—	—	0

3.8.4 Old loans cover calculation as at 31 December 2013

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

EUR m	**Mortgage lending business**		**Municipal lending business**	
Liabilities requiring cover		**14**		**1.640**
Pfandbriefe				
Bearer debt securities	—		175	
Registered debt securities	14		1.465	
Covering assets		**99**		**1.874**
Loans and advances to banks	—		535	
Loans and advances to customers	98		865	
Securities issued by the public sector	1		474	
Excess coverage		**85**		**234**

3.9 Shareholdings

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

No.	Company name and registered office	Share in capital held (%)	Equity EUR m[1]	Profit/loss EUR m
1	Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede	32.26	29	1
2	BGG Bremen GmbH & Co. KG, Bremen	100.00	0[4]	-0[4]
3	BGG Oldenburg GmbH & Co. KG, Bremen	100.00	8[4]	1[4]
4	BLB Grundbesitz KG, Bremen	100.00	48[4]	0[4]
5	BLB I Beteiligungs-GmbH, Bremen	100.00	0[4]	0[4]
6	KG, Bremen	100.00	42[4]	4[4]
7	BLB Immobilien GmbH, Bremen	100.00	15[4]	0[2] [4]
8	BLB Leasing GmbH, Oldenburg	100.00	0[4]	0[2] [4]
9	BREBAU GmbH, Bremen	48.84	55	8
10	BREMER LAGERHAUS-GESELLSCHFT- Aktiengesellschaft von 1877-, Bremen	12.61	18	3
11	Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen	49.00	[3]	[3]
12	Bremische Grundstücks-GmbH, Bremen	100.00	57[4]	3[4]
13	Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen	100.00	0[4]	1[4]
14	Bremische Grundstücks-GmbH & Co. Wohnanlagen Gross-Bonn, Bremen	100.00	0[4]	0[4]
15	GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen	7.75	345	34
16	Gewobau Gesellschaft für Wohnungsbau Vechta mbH, Vechta	20.46	11	0
17	Grundstücksgemeinschaft Escherweg 5 GbR, Bremen	50.00	-2[4]	-0[4]
18	Grundstücksgemeinschaft Escherweg 8 GbR, Bremen	50.00	-0[4]	-0[4]
19	GSG Oldenburg Bau- und Wohnungsgesellschaft mbH, Oldenburg	22.22	82	3
20	Interessengemeinschaft KATHARINENKLOSTERHOF GbR, Bremen	30.70	0[4]	-0[4]
21	BLB I Beteiligungs-GmbH, Bremen	21,33	20	2
22	NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen	100.00	0[4]	3[4]
23	NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen	100.00	1[4]	0[4]
24	Öffentliche Versicherung Bremen, Bremen	20.00	6	0
25	Schiffsbetriebs-Gesellschaft Bremen mbH, Bremen	100.00	1	0
26	Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen	100.00	33	2
27	WLO Wirtschaftsförderungsgesellschaft für den Landkreis Oldenburg mbH, Wildeshausen	23.84	0	0
28	Wohnungsbaugesellschaft Wesermarsch mbH, Brake	21.71	19	0

[1] Equity as defined in Secs. 266 and 272 of the German Commercial Code.
[2] Profit-and-loss-transfer agreement concluded with the company.
[3] Not stated as allowed by Sec. 286 (3) Clause 2 of the German Commercial Code.
[4] Figures are from the most recent, but as yet unapproved, financial statements for 2013.

3.10 Disclosures on investments in collective investment undertakings (CIUs)

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

EUR m	2013	2012
“Lazard-Sparkassen Rendite-Plus-Fonds”, Frankfurt am Main, “iShares Dax ®”		
Distribution	0	0
Market value	17	17
Carrying amount	17	17
Write-down shortfall	—	—

The fund “Lazard-Sparkassen Rendite-Plus-Fonds” can invest in the assets in accordance with in Secs. 47 to 52 of the German Investment Act (Investmentgesetz, InvG). There are no restrictions on daily redemption.

4. Governing bodies of Bremer Landesbank

4.1 Members of the Managing Board and General Agents

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

General Representative
Mathias Barghoorn
Matthias Hellmann
Björn Nullmeyer

4.2 Members of the Supervisory Board

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

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

Ursula Carl
Managing Director
ATLANTIC Grand Hotel,
Bremen

Prof. Dr. Wolfgang Däubler, Prof. emeritus
German and European employment law,
civil law and commercial law
University of Bremen, Bremen

Frank Doods (from 19 February 2013)
State Secretary of the Lower Saxony
Ministry of Finance, Hanover

Dr. Gunter Dukel
Deputy Chairman of the Managing Board of
NORD/LB Norddeutsche Landesbank
Girozentrale, Hanover

Martin Grapentin
Chairman of the Managing Board of
Landessparkasse zu Oldenburg,
Oldenburg

Martin Günthner
Senator for Economics, Labour and Ports
of the Free Hanseatic City of Bremen,
Bremen

Cora Hermenau (until 18 February 2013)
State Secretary of the Lower Saxony
Ministry of Finance, Hanover

Dr. Olaf Joachim
State Councillor of the Senate Chancellery
of the Free Hanseatic City of Bremen,
Bremen

Andreas Klarmann
Banker
Bremer Landesbank,
Bremen

Hartmut Möllring (until 18 February 2013)
Lower Saxon Minister of Finance,
Hanover

Bernhard Reuter
District Administrator in Göttingen,
Göttingen

Dr. Johannes-Jörg Riegler
Deputy Chairman of the Managing Board of
NORD/LB Norddeutsche Landesbank
Girozentrale, Hanover

Michael Schlüter
Banker
Bremer Landesbank,
Bremen

Peter-Jürgen Schneider (from 19 February 2013)
Lower Saxon Minister of Finance, Hanover

Jörg Walde
Banker
Bremer Landesbank,
Bremen

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

Eike Westermann
Fully qualified lawyer
Bremer Landesbank,
Bremen

Markus Westermann
Trade union secretary
Vereinte Dienstleistungsgewerkschaft
ver.di, Bremen

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

Members of Bremer Landesbank exercised the following mandates in accordance with Sec. 340a (4) No. 1 of the German Commercial Code as at 31 December 2013. 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 (until 15 May 2013)
	DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co.
	EUROGATE Geschäftsführungs-GMBH & Co.
	BREMER LAGERHAUS-GESELLSCHAFT – Aktiengesellschaft von 1877, Bremen
	EWE Aktiengesellschaft, Oldenburg
Heinrich Engelken	BREBAU GmbH, Bremen
	GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen
	GSG Oldenburg Bau- und Wohngesellschaft, Oldenburg
Dr. Guido Brune	BREBAU GmbH, Bremen
	DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen
	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hanover

Employees Bremer Landesbank	Company
Mathias Barghoorn	GSG OLDENBURG Bau- und Wohngesellschaft, Oldenburg
Harald Groppel	GSG OLDENBURG Bau- und Wohngesellschaft, Oldenburg

4.4 Parent company

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

Bremen, 18 March 2014

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – The Managing Board

Dr. Stephan-Andreas Kaulvers

Heinrich Engelken

Dr. Guido Brune

Responsibility statement

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

Bremen, 18 March 2014

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – The Managing Board

Dr. Stephan-Andreas Kaulvers

Heinrich Engelken

Dr. Guido Brune

Audit opinion

“We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen, for the financial year from 1 January to 31 December 2013. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Managing Board of Bremer Landesbank. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of Bremer Landesbank in accordance with generally accepted accounting principles. The management report is consistent with the annual financial statements and provides on the whole a true and fair view of the position of Bremer Landesbank and accurately presents the opportunities and risks of future development."

Hanover, 20 March 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Leitz	Mahr
Auditor	Auditor

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 13 May 2013. The Code aims to make the rules for corporate governance and control in Germany more transparent. It includes nationally and internationally recognized standards of good corporate governance, in particular in relation to the management and organization of a company, control mechanisms and the cooperation between the Managing Board and Supervisory Board.

The Corporate Governance Code is designed for listed companies with a capital-market orientation and is not therefore legally binding for banks with the legal form of a registered public institute (Anstalt öffentlichen Rechts). 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 and to disclose its corporate governance system.

General

Bremer Landesbank is a public institute registered by the Free Hanseatic City of Bremen and the State of Lower Saxony. It is a public lending and Pfandbrief institute. 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. As a consequence of the CRD IV Implementing Act which took effect on 1 January 2014, there are new requirements relating to the committees that the Supervisory Board is required to set up. With effect from 1 January 2014 the Supervisory Board accordingly set up an additional Nomination Committee as well as a Remuneration Committee and also renamed the General Working and Credit Committee to the Risk Committee.

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 the German Federal Financial Supervisory Authority (BaFin). Moreover, the Bank's risk management system must be compatible with the group-wide risk management and credit risk monitoring systems established by its parent and owner Norddeutsche Landesbank – Girozentrale.

The Managing Board is composed of the chairman, deputy chairman, if one has been appointed, and other members and deputy members. The chairman of the Managing Board manages the allocation of functions in consultation with the other members of the Managing Board. The Supervisory Board must be informed of the allocation of functions. Each member of the Managing Board must be allocated at least one separate area of business for which he or she independently decides on matters in the ordinary course of business subject to the authority granted and can delegate some of his or her decision-making powers to employees. For specific transactions, the Managing Board can transfer its decision-making authority to a member of the Managing Board or allow the participation of a further member of the Managing Board, generally the deputy.

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

The Managing Board discusses the Bank's strategic focus with the Supervisory Board and its committees and regularly reports on the status of strategy implementation. Based on its specific information and reporting duties, the Managing Board also reports on significant matters of the Bank, especially regarding the intended business policy and other fundamental issues of corporate planning, the Bank's profitability and, in particular, equity, the course of business and the Bank's situation. In addition, it reports on transactions which may have a significant impact on profitability, the Bank's liquidity as well as its net assets, financial position and results of operations and on the Bank's risk situation, compensation systems and the measures taken by the Group Management through NORD/LB as the parent company. Moreover, the Managing Board reports to the Supervisory Board immediately when there is good cause, particularly if risks are involved, and this is of special significance for the Bank's situation, and involves the Supervisory Board in fundamental decisions.

The remuneration of members of the Managing Board is determined by the General Working and Credit Committee set up by the Supervisory Board. The remuneration comprises fixed and variable components and is reviewed on a regular basis.

Supervisory Board

The Supervisory Board advises the Managing Board and monitors its management activities. It decides on the appointment and removal of members of the Managing Board, the general policies for the Bank's operations, the corporate planning proposal made to the Owners' Meeting, the rules of procedure for the Managing Board, policies governing the employment of staff, the election and engagement of the auditor, the approval of the financial statements, the acquisition and sale of investments within the meaning of Sec. 271 of the German Commercial Code, as well as the establishment 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 twelve 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 (Personalvertretungsgesetz). 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 Savings Banks Association of Lower Saxony.

The General Working and Credit Committee, the Audit Committee and the Sponsorship Committee (as well as the Nomination Committee and Remuneration Committee from 1 January 2014) were formed to support the Supervisory Board.

The General Working and Credit Committee consists of ten members. It is chaired by the chairman of the Managing Board of Norddeutsche Landesbank – Girozentrale. The Committee includes another two members for Norddeutsche Landesbank – Girozentrale –, the Finance Senators of the Free Hanseatic City of Bremen, two other members for the Free Hanseatic City of Bremen, the president of the Savings Bank Association of Lower Saxony and the employee representatives. In regular meetings the General Working and Credit Committee monitors in particular the Managing Board's ongoing management in accordance with the Supervisory Board's instructions and prepares the Supervisory Board meetings. The General Working and Credit Committee is also responsible for specifying the employment conditions for the Managing Board in detail.

The Audit Committee consists of six members, namely two representatives of Norddeutsche Landesbank – Girozentrale – and the Free Hanseatic City of Bremen, the president of 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. The Chairman of the Audit Committee may not be the Chairman of the Supervisory Board at the same time. The Audit Committee reports to the Supervisory Board on the basis of the auditors' reports on the outcome of the audit of the annual financial statements. 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%), the Federal State of Bremen (41.2%) and the Savings Bank Association of Lower Saxony (3.9657%). Each owner may appoint up to three representatives to the Owners' Meeting. Voting rights are in proportion to the owners' shares in capital. The representatives of each owner may only cast block votes.

The Owners' Meeting decides on the general principles of business policy, changes to the statutes, the amount and changes to share capital, changes in ownership, the raising and setting of the amount and conditions of other liable equity, the conclusion, amendment and termination of profit-and-loss transfer and domination agreements, the ratification of the acts of the Managing Board, approval for the establishment of branches, the corporate planning for the following financial year and the multiple-year forecast, the setting 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 have the function of advising and monitoring the Managing Board. Members of the Supervisory Board are not bound by orders or instructions.

Members of governing bodies and employees may not demand or accept any inducements or other benefits from third parties for themselves or others or grant any unjustified advantages to third parties in connection with their work. Moreover, no member of a governing body may pursue personal interests in his/her decisions or use any business opportunities open to the Company for themselves. Potential conflicts of interests must be reported to the Supervisory Board immediately.

All transactions between the Company on the one hand and the Managing Board, the Supervisory Board and its committees, related parties or enterprises in which the member has personal interests on the other must be conducted on arm’s length terms.

The assumption of sideline activities by its members, in particular membership of governing bodies or advisory boards of other companies, requires the approval of the General Managing Board. Accepting a mandate at a company in which the Bank does not hold a stake, or merely an indirect one, requires the additional agreement of the Supervisory Board. Additionally, the Managing Board reports once a year to the Risk Committee on the sideline activities of the members of the Managing Board.

Consultancy agreements and other service and work agreements of a member of the Supervisory Board with the Bank require the Supervisory Board’s approval.

The members of the Managing Board must apply the diligence of a prudent and conscientious manager 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.

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