Die Sparkasse Bremen
Finanzdienstleistung

ANNUAL REPORT 2005

General Information

Board of Managing Directors

Jürgen Oltmann
Chairman of the Board of Managing Directors

Dr. Tim Nesemann
Klaus Schöniger
Dr. Heiko Staroßom

Head of International Division

Prof. Dr. iur. Christoph Graf v. Bernstorff,
Executive Vice President

Membership

Member of Bremen and Hamburg Stock Exchanges, Association of German Independent Savings Banks (organized under civil law), Hanseatic Savings Banks Association, German Savings Banks Association

DIE SPARKASSE BREMEN AG

REGIONAL COMMERCIAL AND FOREIGN TRADE BANK

KEY BUSINESS DATA

In EUR m.	31.12.2005	31.12.2004	Change in %
Balance sheet total	**10.834,1**	**10.381,1**	**4,4**
Liabilities to customers and those resulting from debt securities	**6.736,0**	**6.482,8**	**3,9**
of which:			
Deposits on saving accounts	3.824,8	3.644,8	4,9
Savings bank certificates	20,7	30,1	-31,2
Debt securities	509,7	649,4	-21,5
Deposits on demand	1.645,8	1.509,3	9,0
Time deposits	735,0	649,2	13,2
Total claims on customers	**7.830,3**	**7.881,7**	**- 0,7**
of which			
Bills of Exchange	20,7	46,4	- 55,4
Short, medium and long-term receivables from customer	7.419,0	7.378,1	0,6
of which:			
promissory notes acquired	262,4	257,2	2,0
Transitory credits	20,2	19,7	2,5
Guarantees and endorsement liabilities	370,4	437,5	- 15,3

	Number
Branch head offices	**5**
Branches	**65**
Sparkassen-Shops	**2**
SB-Center	**23**
FinanzCentrum Am Brill	**1**
Asset Management	**5**
Private Banking	**1**
Corporate Customer Centre	**5**
Gründungscenter	**1**
Number of staff	**1.713**
of whom staff actually engaged in banking operations	1.468

OUR BANK

Of the 463 savings banks operating in Germany, seven are known as »independent« savings banks. Die Sparkasse Bremen is one of the largest of these independent institutions. Independent savings banks differ from communal savings banks in that they are not subject to German public law. Die Sparkasse Bremen is a bank under civil law. This has various advantages for our bank. First of all, our bank is not subject to any direct government influence. For example, it is not obliged to finance public borrowing. Secondly, our bank's activities are not restricted to the Bremen area. Die Sparkasse Bremen was established by citizens of Bremen in 1825.

»Die Sparkasse Bremen-Gruppe« took on a new structure with the spinning off of banking operations to Die Sparkasse Bremen AG with retroactive economic effect as of 1 January 2004. The economic association, for over 179 years as Die Sparkasse in Bremen a trusted Sparkasse business institution, remains intact and is today doing business as Finanzholding der Sparkasse in Bremen. It holds all shares in the new Die Sparkasse Bremen AG.

Though our bank was named »Sparkasse« (savings bank) and this name has been retained ever since, this banking institution is authorized to provide a complete range of banking and related financial services. It is therefore correct to describe Die Sparkasse Bremen as a privately organized universal bank. This means that our bank is a commercial and savings bank offering all kinds of banking transactions (including commercial banking business) in the city and area of Bremen and all over Germany.

All of our bank's liabilities are covered by the reserve funds, which are held in accordance with section 10 of the German Banking Act. Having been established by Bremen citizens 180 years ago, our bank is today the oldest financial institution in the Bremen market. Uniquely, it is managed by people, which enables it to cope with any specific Bremen issues

which may arise. This is also the reason why we are the bank accounting for about two thirds of the domestic market and a large part of the international banking market in Bremen.

Our bank continues to provide financial assistance not only to its personal and corporate customers but also to many charitable, sporting, cultural and educational organizations, with the aim of helping as many people and organizations as possible in the northern part of Germany.

Through its activities, Die Sparkasse Bremen thus performs a major financing role in the City of Bremen. This special place in the Bremen community has been acquired and maintained only through a proven capacity to respond quickly, decisively and creatively to the constantly changing needs of Bremen's entrepreneurs and individuals. This, coupled with an impressive range of services (provided through a dense network of 66 branch offices all over Bremen), has enabled our bank to have the highest rate of market penetration of all the financial institutions operating in Bremen. Our bank enjoys a high standing in the international markets and a reputation that has opened many doors to the bank's customers, allowing them to profit from trading and financing arrangements that would otherwise be unattainable.

A focal point of our bank's international success of has been the satisfaction of our customers' specific requirements. Our correspondent banks have played an integral part in our international activities. These are located in most countries of the world, and Die Sparkasse Bremen attaches great importance to the relationships which have been established with these institutions over many years. Bremen, as a seaport, is closely involved in importing and exporting. Our bank therefore supplies all kinds of international banking activities, including international trade financing, document collections, international payment services and foreign exchange dealing.

CITY OF BREMEN

The Free Hanseatic City of Bremen, located on the lower reaches of the River Weser, is an autonomous State of the Federal Republic of Germany, and the country's second largest seaport. Bremen's significance as a major port and trading centre stretches back to the Middle Ages. It was one of the principal cities of the Hanseatic League, and retained its special importance in later centuries. For instance, it was in Bremen that the United States opened its first consulate in Europe. To this day the trading houses in Bremen, rooted in tradition and yet forward-looking as they are, cultivate business contacts with all the major countries engaged in international trade.

Bremen's international outlook is also attested by the representative offices it maintains in Tokyo, Seoul, Taipeh, Manila, Jakarta, Kuala Lumpur, and Singapore, its twinning with the town of Dalian in the People's Republic of China.

At the same time, Bremen is a major industrial centre. Numerous world-famous firms in the aerospace and motor industries, iron and steel production, electrical engineering, shipbuilding, and the food, drink and tobacco industry have their registered offices in Bremen. Universities and research institutes operating in a wide variety of scientific disciplines cooperate with local business enterprises. What is more, Bremen has a comparatively low cost level, a well-developed transport infrastructure and a plentiful supply of well-trained and highly motivated labour. This makes Bremen an attractive location for setting up new enterprises of all kinds.Through its activities, Die Sparkasse Bremen thus performs a major financing role in the City of Bremen. This special place in the Bremen community has been acquired and maintained only through a proven capacity to respond quickly, decisively and creatively to the constantly changing needs of Bremen's entrepreneurs and individuals. This, coupled with an impressive range of services (provided through a dense network of 66 branch offices all over Bremen), has enabled our bank to have the highest rate of market penetration of all the financial institutions operating in Bremen. Our bank enjoys a high standing in the international markets and a reputation that has opened many doors to the bank's customers, allowing them to profit from trading and financing arrangements that would otherwise be unattainable.

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ECONOMIC FRAMEWORK

SILVER LINING ON THE HORIZON – DESPITE WEAKER GROWTH

Economic growth in 2005 did not match that of 2004 but was nevertheless better than had previously been anticipated. The gross domestic product (GDP) in Germany rose by 0.9 % (2004 GDP: 1.6 %). Dynamic exports generated far more growth than imports and were the driving force behind this rise. Domestic demand continued to be a problem. While private consumer spending stagnated at the 2004 level, government spending was decreased. The number of people in work declined slightly, with the production and construction industries being affected most. The services sector (trade, hotels and restaurants, transport and service areas) recorded slight increases in the number of people employed. This development was affected by a structural change which has been in progress since German reunification. An average of more than two-thirds of those employed worked in the services sector in 2005. The proportion of those working in the services sector in relation to the total number of people in work rose from 59.5 % in 1991 to 71.9 % last year. In the production and construction industries, the number of people in work fell steadily over the same period.

Economic development in Bremen was similar. With economic growth for the period up to mid-year at 0.6 %, Bremen was once again able to match the economic development of Germany in general. Domestic demand also cooled down here, but Bremen, as a traditional foreign trade location, naturally benefited from export growth. Exports alone account for 44 % of domestic GDP (national average: 33 %). The key players were port economics and logistics, particularly the handling of automobiles. The retailing sector has stabilised. In contrast to developments on a national level, the building sector here proved to be more stable than industry in general. Positive development in the steel and aviation industries was not sufficient to offset a general decline in industrial turnover. The industry in general recorded a respectively higher drop in the number of people in work than the services sector in Bremen.
In general, indicators prompt one to assume that economic recovery in 2006 will far exceed that of 2005. Bremen, as a business location which focuses on exports, will also benefit from this recovery.

2005 – THE FIRST FULL BUSINESS YEAR UNDER THE NEW STRUCTURE

Within the scope of outsourcing banking operations to Die Sparkasse Bremen AG, which took effect retrospectively as at 1. January 2004, »Die Sparkasse Bremen – Gruppe« took on a new structure. The Economic Association, which, as Die Sparkasse in Bremen, has been an established institution for savings-bank business for more than 179 years, was maintained and today does business as a financial holding of the Sparkasse in Bremen, holding all of the shares in Die Sparkasse Bremen AG as well as participating interests in Böttcherstraße GmbH, BREMER LAGERHAUS-GESELLSCHAFT –Aktiengesellschaft von 1877–, GEWOBA Aktiengesellschaft Wohnen und Bauen, Nordwestdeutsche Treuhandstelle für Dauergrabpflege GmbH and NRS Norddeutsche Retail-Service AG, which was newly-founded in 2005 and is based in Bremen and Hamburg.

These developments will not result in any changes for our customers or in our corporate philosophy. Die Sparkasse Bremen, which today operates in the legal form of a public limited company, will remain a leading regional financial service institution for private customers, individual customers and medium-sized corporate customers, focussing on public welfare, at all times in awareness of its responsibility to the region.

The spin-off of banking activities was entered in the Commercial Register on 6. September 2004. All of the comparative figures reported prior to this date hence refer to the economic association which still operates as Die Sparkasse in Bremen.

NRS NORDDEUTSCHE RETAIL-SERVICE AG – ANOTHER EFFICIENT PARTNER

The lending business continues to face competition which is steadily becoming more severe. Lending institutes are competing with one another as well as with other competitors who are now penetrating the market. This development is also being increasingly burdened by a rising number of requirements imposed by regulatory authorities – from Basel II regulations to the minimum requirements for risk management (MaRisk), both of which are resulting in enormous structural change, possibly the most significant upheaval In fifty years, particularly for lending business in Germany. For example, the number of savings banks in Germany has dropped from 519 to 463 over the past three years, usually as a result of mergers. The result is that savings banks which have been amalgamated to form large units are at risk of losing a vital competitive advantage: their proximity to their customers and the close relationships established.

Strong, centrally-positioned competition makes it necessary to take action. In order to effectively meet current challenges, Sparkasse Bremen will be resolutely pursuing the course it has already taken over the past few years, namely on the one hand to push ahead with pooling resources at all levels and on the other hand to regularly take a close look at the internal structures and processes of the bank with the aim of further enhancing these.

A very decisive step towards the further pooling of resources was the founding of NRS Norddeutsche Retail-Service AG at the end of 2005. The company is located In Bremen and in Hamburg. As a services company at both of these locations, NRS Norddeutsche Retail-Service AG will initially be assuming administrative activities in the lending and investment lines of business as well as payment transaction tasks, method development and reporting in the finance and controlling divisions and may also assume other staff functions and services in future. The company is hence operating in a new, rapidly-growing market for services and this will result in an increase in the number of jobs, which means that the location of Bremen will also duly benefit from this development, offering Bremen opportunities and considerable potential for growth.

Die Sparkasse Bremen has been given another reliable partner in NRS Norddeutsche Retail-Service AG. The bank will therefore continue to be a reliable, independent service provider for its private, individual and medium-sized corporate customers in future too. The possibility of NRS Norddeutsche Retail-Service AG influencing decisions taken by the bank has been ruled out, by means of both legal and contractual stipulations. Credit decisions are for example still taken by Sparkasse Bremen and credit repayments are carried out according to its stipulations. Decision-making and credit repayment processes hence remain the sole responsibility of Sparkasse Bremen.

The original idea of cross participating interests between the Sparkassen in Bremen and in Hamburg has been shelved, mainly because of amendments to the Pfandbriefgesetz (German Covered Bond Act) which have resulted in better opportunities for refinancing. The Finanzholding der Sparkasse in Bremen is the sole shareholder of the Sparkasse Bremen.

The Finanzholding der Sparkasse in Bremen and the HASPA Finanzholding each have participating interests in NRS Norddeutsche Retail-Service AG in a 20 (Bremen) to 80 (Hamburg) ratio. The proportion of members in their executive bodies (Supervisory Board and Board of Management) is also 20 (Bremen) : 80 (Hamburg). These cornerstones as well as the two headquarters and the locations in Bremen and Hamburg have been secured long-term to the benefit of the Finanzholding der Sparkasse in Bremen.

The Sparkassen- und Giroverband (Savings Bank and Giro Association) for Schleswig-Holstein has also principally come out in favour of a participating interest in NRS Norddeutsche Retail-Service AG. The company is considered to be a vital cooperation model from a strategic and business point of view, one which will secure the independence of regional savings banks in their areas, thus guaranteeing that, unlike in the case of mergers, a vital competitive advantage of the savings banks is maintained, namely their proximity to their customers and the close relationships established.

IN THE SPOTLIGHT – RETAIL SAVINGS BANK

Another key focus has been and still is the continuation of the process of turning Sparkasse Bremen into a retail savings bank. In 2005 we therefore reorganised our range of products and streamlined it to suit the needs of our customers. In a further step implemented at the beginning of 2006, we allocated our current decentralised Corporate Customer Centre to the Corporate Customer unit and divided the organisation of the private customer section into standard customer business and individual customer business. At the same time we launched the two projects »New private customer sales structure« and »New corporate customer sales structure« with the aim of further improving our profitability on the basis of a new sales structure, i. e. to generate better earnings, particularly with retail business, and to focus on the individual groups of customers.

DEVELOPMENT OF BUSINESS

MARKET SHARES MAINTAINED – BALANCE SHEET TOTAL INCREASED

Despite a somewhat problematic economic environment we once again managed to defend our considerable market shares for business with customers in 2005. We can thus be more than satisfied with the development of business at Sparkasse Bremen. The balance sheet total was increased by 4.4 % to EUR 10.8 billion, with increased investments and a moderate rise in liabilities to banks.

LENDING BUSINESS

DEVELOPMENT OF LENDING BUSINESS

	2005 in EUR m.	2004 in EUR m.	2003 in EUR m.	2002 in EUR m.	2001 in EUR m.
Total claims on customers	7,830.3	7,881.7	7,657.5	7,663.0	7,786.2
of which					
Bills of Exchange	20.7	46.4	51.9	78.8	50.5
Short, medium and long-term receivables from customer	7,419.0	7,378.1	7,161.0	7,157.3	7,218.1
of which:					
promissory notes acquired	262.4	257.2	6.2	116.7	176.8
Transitory credits	20.2	19.7	13.0	5.9	41.9
Guarantees and endorsement liabilities	370.4	437.5	431.6	421.0	475.7
Claims on banks	998.5	939.8	545.3	1,184.3	1,253.0

Total receivables from customers (including Bills of Exchange, promissory notes acquired, transitory credits, guarantees and endorsement liabilities) stabilised at EUR 7.8 billion in 2005. Individual development was differentiated.

DEVELOPMENT OF LENDING BUSINESS WITH CORPORATE AND PRIVATE CUSTOMERS	2005 in EUR m.	2004 in EUR m.	2003 in EUR m.	2002 in EUR m.	2001 in EUR m.
Corporate customers *	**4,447.5**	**4,364.0**	**4,350.1**	**4,329.5**	**4,276.9**
Private customers *	**2,918.7**	**2,978.9**	**2,987.7**	**2,907.5**	**2,879.2**

* On the basis of regulatory reported data

Lending business with private customers declined slightly while lending business with corporate customers increased by 1.9 %, to EUR 4.4 million, of which most business was once again generated by investment loans.

Claims on banks rose by 6.2 % to just under EUR 1 billion.

INVESTMENT BUSINESS

DEVELOPMENT OF INVESTMENT BUSINESS	2005 in EUR m.	2004 in EUR m.	2003 in EUR m.	2002 in EUR m.	2001 in EUR m.
Liabilities to customers and those resulting from debt securities	6,736.0	6,482.8	6,183.7	6,138.2	6,008.7
of which: Deposits on savings accounts	3,824.8	3,644.8	3,375.2	3,218.8	3,063.5
Savings bank certificates	20.7	30.1	72.2	112.6	122.0
Debt securities	509.7	649.4	701.6	751.8	776.9
Deposits on demand	1,645.8	1,509.3	1,393.2	1,425.1	1,372.1
Time deposits	735.0	649.2	641.5	629.9	674.2
Liabilities to banks	3,160.1	3,000.3	3,142.8	3,314.0	3,427.0

Liabilities to customers and liabilities resulting from debt securities (including subordinated debt securities) rose by 3.9 % to more than EUR 6.7 billion. Deposits on savings accounts on the other hand developed well, increasing by 4.9 % to more than EUR 3.8 billion, including the special flexible contractual saving method, which rose by as much as 5.9 %, to EUR 1.5 billion.

After falling last year, liabilities to banks rose by 5.3 % to just under EUR 3.2 billion, with the bank‘s own increased investments having an effect here.

BUSINESS WITH SERVICES

Our expertise in the services line of business is once again reflected in positive commission income, which, at EUR 55.6 million, only fell short of the extremely good result of the previous year by 1.4 %. Besides an increase in business with our sales products, both in the corporate customer and the private customer lines of business, this is also due to the supervision of the successful IPO of ErSol Solar Energy AG.

After a decline last year as a result of a lack of confidence amongst investors in the economic recovery, our securities services have now partly recovered.

DEVELOPMENT OF SECURITY SERVICES BUSINESS

	2005 in EUR m.	2004 in EUR m.	2003 in EUR m.	2002 in EUR m.	2001 in EUR m.
Shares and unit trusts	463.2	454.8	542.9	443.2	829.5
Fixed-interest securities	198.9	181.0	233.2	357.1	462.5
Own security issues	206.8	226.9	303.7	285.8	358.1

While turnover generated with shares and unit trusts rose by 1.8 % to more than EUR 463 million, turnover generated by our own security issues dropped by 8.9 % to just less than EUR 207 million.

OWN-ACCOUNT INVESTMENT AND TRADING

Own-account investments once again showed a positive development. We have reinforced our funds activities and undertaken further diversification in terms of asset categories, which has resulted in an intentional distribution of risks among several owners, also in terms of other lending activities.

For example, this reinforced diversification was implemented by means of investments in ABS asset classes, Danish covered bonds and in subordinated bonds. The savings bank also took advantage of the opportunities presented by the new investment law for the purpose of intermixing. Activities in shares are partly secured by value guarantee schemes.

Debt securities and other fixed-interest securities have been reduced on the basis of maturities reached.

The positive earnings-risk ratio of previous years was maintained at a high level so that own-account investments in general have contributed significantly towards the interest result and, together with the result of evaluation in the securities business, have also contributed greatly towards the annual profit.

The fund portfolios contain year-end reserve positions.

We will be working on further improving fund activities in future too.

Net income from financial transactions has developed extremely positively in comparison to that of the previous year. The result was due to trading with shares and to foreign-exchange transactions. Business with customers is at the centre of attention of foreign-exchange transactions, with demand for derivatives (futures, options and swaps) paying a major role; they will, however, in some cases only have an effect on earnings in the future.

PARTICIPATING INTERESTS AND SHARES IN AFFILIATED COMPANIES

Our participating interests and shares in associated companies rose by 8.9 % to EUR 184.5 million.

In 2005 Die Sparkasse Bremen AG acquired a participating interest in newly-founded Wincor Nixdorf Portavis GmbH, a joint venture company of the savings banks in Bremen and Hamburg under the leadership of the majority partner Wincor Nixdorf, to which the savings banks involved have outsourced their IT service and operation divisions (technical availability of infrastructure without industrial data processing development and user development).

Nwk nordwest Kapitalbeteiligungsgesellschaft der Sparkasse Bremen mbH also sold its ErSol shares, which had remained after ErSol Solar Energy AG successfully went public, to a subsidiary acquired by Sparkasse Bremen mbH, nwb nordwest Beteiligungsgesellschaft der Sparkasse Bremen mbH, which previously operated as STG Einhundertvierundachtzigste Vermögensverwaltungs- und Beteiligungsgesellschaft mbH for EUR 10.1 million. The extraordinary income of nwk nordwest Kapitalbeteiligungsgesellschaft der Sparkasse Bremen mbH resulting from the transfer of shares amounting to EUR 8.6 million was accrued to Sparkasse Bremen and recognised in net profit in 2005 already.

The remaining increase in participating interests and shares held in affiliated companies – besides the assumption of participating interests in neue leben Pensionsverwaltung AG – is the result of increases in our participating interests in the Freie Internationale Sparkasse S. A., FPE Faulen-Quartier Projekt- und Entwicklungsgesellschaft mbH & Co. KG, nwi nordwest international Servicegesellschaft mbH and in Odewald & Compagnie GmbH & Co. Kommanditgesellschaft für Vermögensanlagen in Portfoliounternehmen.

In addition to minor reductions in other participating interests, the acquisition of new and the increase in current participating interests were matched by the sale of our participating interests in nordwest-leasing GmbH and in ZVS Zahlungsverkehrs- und Transaktionsservicegesellschaft mbH. We sold the former to its main partner, Deutsche Sparkassen Leasing AG & Co. KG, and the latter to NRS Norddeutsche Retail-Service AG, Bremen / Hamburg, jointly set up by the Finanzholding der Sparkasse in Bremen and the HASPA Finanzholding.Changes in the area of participating interests were undertaken from strategic and from earnings-related points of view in compliance with our investment strategy, essential under the minimum requirements on credit business. We have concluded profit surrender agreements with most of our subsidiaries.

INVESTMENTS IN FIXED ASSETS

After comprehensive investments in our network of branches during previous years, in particular in our Financial Centre Am Brill, intangible and tangible assets were reduced by 3.9 % to EUR 128.5 million.

HUMAN RESOURCES AND SOCIAL ISSUES

The total number of employees was further reduced by 3 %, to 1,713 employees, as of the balance sheet date. These included 435 part-time and temporary employees and 81 trainees. In addition to the utilisation of partial retirement and early retirement schemes and the improvement of processes for the staff and in the administration division, these reductions are primarily due to the outsourcing of IT services and IT operations (technical availability of infrastructure without industrial data processing development and user development) to Wincor Nixdorf Portavis GmbH.

A good offer of professional training measures and advanced professional training ensures that our employees are able at all times to cope with increasing requirements, whether these concern the need of our corporate and private customers for consulting services, or the complexity of bank supervision and the control of banks.

Of the 1,468 employees operating in bank-related divisions, 27.3 % had qualified as bank clerks after receiving professional training, another 10.2 % had also qualified as specialised savings bank clerks, 31.9 % also had a degree in savings bank business management and another 1 % had a degree in savings bank business management from the Deutsche Sparkassenakademie. A total of 8.2 % of the employees had graduated at a university, college or university of applied science.

Advanced vocational training measures on offer at our bank generated a great deal of interest. In-house seminars were attended by 2,540 employees and 349 employees attended external seminars.

ASSETS POSITION

DEVELOPMENT OF SELECTED BALANCE-SHEET ITEMS

	2005 in EUR m.	2004 in EUR m.	2003 in EUR m.	2002 in EUR m.	2001 in EUR m.
Claims on banks	998.5	939.8	545.3	1,184.3	1,253.0
Claims on customers	7,419.0	7,378.1	7,161.0	7,157.3	7,218.1
Securities	1,871.3	1,378.0	1,917.3	1,266.7	1,184.8
Liabilities to banks	3,160.1	3,000.3	3,142.8	3,314.0	3,427.0
Liabilities to customers	6,226.3	5,833.3	5,482.1	5,386.4	5,231.7

Short-term, medium-term and long-term claims on customers were only slightly raised to EUR 7.4 billion. We anticipate that retail credits will continue to rise only moderately in future. We are on the other hand utilising marked growth in the volume of customer deposits to enhance our securities position and to exploit opportunities to generate earnings.

Sparkasse Bremen equity capital totals EUR 824.7 million after appropriation of profits. The resulting ratio between equity capital and weighted risk assets forms an adequate basis for continued development of business.

The strict principle of the lower of cost was observed on evaluating trading portfolio and liquidity reserve securities as well as fixed assets.

FINANCIAL POSITION

The fundamental principle on which we evaluate our short-term liquidity is the German Principle II, which is applied for showing material liquidity. The average liquidity ratio was 1.9 times the required minimum standard.

In order to comply with minimum reserve requirements, we maintained a daily credit balance of EUR 11.2 million, calculated on an annual average basis, at the Bremen branch of the Hanover Head Office of the Deutsche Bundesbank.

Our ability to meet payment obligations now and in future is ensured by cash reserves, savings deposited at banks and fixed-interest securities with an aggregated value of EUR 1.6 billion on the balance sheet date as well as by the liquidity control system in place in our bank.

EARNINGS

DEVELOPMENT OF SELECTED INCOME ITEMS

	2005 in EUR m.	2004 in EUR m.	2003 in EUR m.	2002 in EUR m.	2001 in EUR m.
Net interest income	217.4	226.5	236.0	207.8	199.2
Net commission income	55.6	56.4	50.6	48.1	45.5
Human resources expenses	112.6	115.6	121.8	126.9	128.2
Material and advertising expenses	78.1	81.5	88.1	84.5	81.3
Administrative expenses	190.7	197.1	209.9	211.4	209.5
Other regular expenses	3.6	4.4	3.6	3.3	2.3
Other regular income	12.3	12.9	14.6	12.2	12.3
Net income from financial transactions	2.2	1.0	3.1	0.5	-4.0
Result of securities business evaluation	25.7	30.5	-5.2	-14.2	-38.2
Result of lending business evaluation	-78.6	-97.1	-67.7	-73.2	-41.0
Other evaluations	-0.1	-3.3	-5.6	-0.6	0.0
Operating result after evaluation [1)]	10.3	4.4	26.5	-34.1	-26.5
Neutral result	10.2	3.8	18.5	49.8	35.0
Earnings-related taxes	6.8	-10.0	34.7	0.4	0.0
Net income for the year	13.7	18.2	10.4	15.3	8.5
Dividend payout	1.1	0.9	–	–	–
Allocation to reserves	12.6	17.3	9.8	14.7	7.7

[1)] After allocation to or release from provident funds respectively

As in previous years earnings are shown on an economic basis. This ensures that – irrespective of the obligations to disclose under German commercial law – reporting is carried out in accordance with a standard system through a given year. This system complies with our internal planning and control system, with the forecasting system of the German Sparkassen- und Giroverband (Savings Bank and Giro Association) and with the inter-company comparison and the exchange of know-how among major German savings banks.

Net interest income declined in 2005 – in alignment with a general trend in the branch – by 4 % or EUR 9.1 million, to EUR 217.4 million. This development is primarily the result of an ever-increasing drop in average interest rates in lending business in comparison to interest rates for deposits. Net interest income includes proceeds from the sale of ErSol shares - which had remained in the portfolio of our nwk nordwest Kapitalbeteiligungsgesellschaft mbH after the successful IPO of ErSol Solar Energy AG – to another of our subsidiaries. The proceeds were paid to Sparkasse Bremen within the scope of a contract to surrender profits. Interest payable (including interest resulting from derivatives) rose by 4.4% or EUR 12 million, to EUR 281.7 million. Interest income rose by 0.6 % or EUR 2.9 million, to EUR 499.1 million. Income from additional investments in special funds which aim at utilising opportunities to generate earnings were matched by expenses for credits taken out in order to refinance these investments.

Net commission income, at EUR 55.6 million, almost matched that of the previous year (EUR 56.4 million) – success that is a reflection of our wide range of customer-oriented services and our focus on our sales efforts; it is , however, in particular a pleasing consequence of the supervision of the successful IPO of ErSol Solar Energy AG.

While commission from securities business increased, provisions from insurance transactions concluded were reduced.

Human resources expenses were reduced for the sixth year in succession, namely by 2.6 % or EUR 3 million, to EUR 112.6 million (previous year: EUR 115.6 million). In 2005 this was the result of a decrease in allocations to provisions for pensions after an increase on the basis of collective bargaining had been taken into consideration in the previous year.

We were able to once again lower material and advertising expenses, by 4.2 % or EUR 3.4 million, to EUR 78.1 million (previous year: EUR 81.5 million) – primarily the result of stringent, centralised cost management.

Other ordinary income, at EUR 12.3 million (previous year: EUR 12.9 million), was in the range of that of the previous year. This item mainly comprises proceeds from the offsetting of services with our subsidiaries. Other ordinary expenses were reduced by EUR 0.8 million to EUR 3.6 million. This includes expenses for buildings and office equipment, depreciation on buildings and office equipment and maintenance and repairs.

The cost-income ratio, at 67 %, was equal to that of the previous year.

Net income from financial transactions was enhanced by EUR 1.2 million to EUR 2.2 million, with EUR 0.7 million resulting to a large extent from foreign-exchange transactions.

The result of evaluation from business with securities fell short of what was an extremely good result for the previous year, but nevertheless contributed EUR 25.7 million (previous year: EUR 30.5 million) towards earnings. A decline in write-ups of EUR 4.2 million and an increase in depreciation of EUR 2.7 million were matched by an increase in exchange-rate gains. Write-ups were largely the result of the positive development on the market for shares in special funds in the investment portfolio.

The lending business result of evaluation was greatly improved. At EUR 78.6 million (previous year: EUR 97.1 million), it was markedly lower than that of the previous year. Provisions and depreciation were reduced by EUR 26.2 million and income resulting from the release of provisions, general provisions and provisions and payments received on claims written off were reduced by EUR 7.7 million. The development of risks resulting from current lending business is still positive.

The neutral result includes a large number of combined income and expense items which are not to be included in the ordinary operating result for operational and system-related reasons. The result rose by EUR 6.4 million to EUR 10.2 million (previous year: EUR 3.8 million). The increase was primarily the result of earnings generated by the premature repayment of loans relating to other periods as well as the premature conclusion of a swap arrangement and as a result of the partial reversal of previous-year accruals.

Return on equity before taxes derived from this development amounted to 10.3 % (previous year: 6.6 %).

The profit for the year after allocation to provision reserves and deduction of profit-related taxes amounts to EUR 13.7 million (previous year: EUR 18.2 million). Of this sum, EUR 1.1 million (previous year: EUR 0.9 million) is to be paid to the Sparkasse in Bremen and EUR 12.6 million (previous year: EUR 17.3 million) is to be allocated to retained earnings in order to reinforce capital.

SUPPLEMENTARY REPORT

There were no occurrences of any special significance that needed to be reported on subsequent to closure of the 2005 accounting period.

RISK REPORT

The success of banking operations is to a great extent contingent on the risks taken. Consciously taking risks hence has a direct effect on the measure of success achieved.

Risks are always taken and controlled on observation of two aspects. The first aspect is that there must be sufficient legal capital available; secondly, an adequate yield must be expected.

Given what continues to be a somewhat problematic general economic framework, active risk control in the lending business Is a central element in ensuring success and the continued existence of a company.

OVERALL BANK MANAGEMENT

Sparkasse Bremen has an institutionalised procedure in place, in which all of the significant organisational units of the savings bank are integrated, for the purpose of strategic and operative planning. Responsibility for the coordination of all of the planning activities lies with the Corporate Development Department. Strategic planning is reviewed every year to ensure that it is up-to-date and is presented to the Board of Management for approval. Monthly target/actual comparisons in the Overall Bank Control Committee ensure that deviations in operative planning are identified in good time so that any necessary counter-control measures can be initiated.

Other tasks performed by the Overall Bank Control Committee serve in preparation of decisions to be taken on fundamental issues such as strategy, risk guarantee fund and loss and risk limits. Conclusions drawn by the Treasury Committee and the Credit Risk Committee, which also include the respective members of the Board of Management responsible, form the basis for the tasks performed by the Overall Bank Control Committee, which includes the Chairman of the Board of Management as a member.

The risk management system regulates the structural and procedural framework for controlling and monitoring risks. It is a significant component of an overall bank control system and is the focus of attention of the regulatory requirements which become apparent during a given year under report, resulting from the international convergence of the calculation of capital and equity capital requirements (Basel II), its national implementation guidelines and the minimum requirements for risk management (MaRisk). The Sparkasse has set up a major project in order to comply with these requirements. The project was launched at the end of 2004 and most of it is to be implemented in 2006.

SUMMARISED PRESENTATION OF THE RISK SITUATION

An effective risk management and controlling system is employed for any risks which may significantly influence the assets, financial or earnings position of the bank. Risks relating to the future development of the bank which could put the portfolio at risk are not discernible in risk inventory.

The sum total of all risks was covered at all times by the risk guarantee fund during the course of the year.

As per 31. December 2005 the ratio between equity capital included and the sum total of weighted risk-bearing assets and risks resulting from market risk items (Principle I), at an overall ratio of 9.5 %, exceeded the minimum of 8 % stipulated by the bank supervisory authorities.

Solvency coefficient (= Principle I)	31.12.2005	30.06.2005	31.12.2004
Overall ratio	9.5%	9.5%	9.7%

In its endeavour to achieve an optimal control system for profitability, risk, liquidity and assets, Sparkasse Bremen permanently develops and improves its instruments relevant to control.

The following presents further information on the risk management and controlling systems as well as on the risk situation of individual types of risk.

ADDRESS DEFAULT RISK

No growth in loans at any price – total receivables from customers (including Bills of Exchange, promissory notes acquired, transitory credits, guarantees and endorsement liabilities) stabilised at EUR 7.8 billion in 2005.

Despite an ongoing tight economic environment, risk provisions have been markedly reduced in comparison to those of last year; they are nevertheless still too high. We expect this situation to ease again in 2006.

The minimum requirements on the lending activities of credit institutions (MaK) were already implemented in 2004 and our current credit lines were integrated in the credit risk strategy adopted by our General Management. Since then this strategy has constituted the binding guidelines which form the basis of activities in all the areas of lending business conducted by us at a general, portfolio and individual business level. We focus primarily on our private and corporate customers in our business region, since they are the customers from whom we expect an adequate credit rating.

The credit risk control system was further developed and extended, among other things in respect of the granting of loans, the reporting and committee system and the early-warning system for risks. These ongoing improvements are being implemented to further limit our default risks.

Employees with special know-how work in a group for problem credits which is independent of the sales department, supervising credit exposures which are at risk and providing an intensive consulting service on financial restructuring processes.

Decision-making authority for the approval of individual credits is graduated according to credit volume and risks involved. Certain stipulated criteria determine from which point on an additional risk assessment by means of a vote taken independently of the sales department becomes obligatory. The credit committee of the Sparkasse decides on whether significant risks are to be included or not.

The Sparkasse has for many years now been employing internal rating procedures as key instruments in assessing risks in the lending business conducted with both private customers and corporate customers. Since June 2003, rating procedures of the Savings Bank Organisation which vary according to respective customer segments have been used to determine an individual credit rating for each customer.

The RAP software package (»Risk-adjusted Premium identification«), which was developed in a project conducted by the German Savings Bank and Giro Association to establish an address risk management and controlling system for determining conditions for rated credits, and the CPV (»CreditPortfolioView«) are still being used and further developed in order to quantify anticipated and unanticipated losses as a result of credit defaults or a deterioration in credit ratings (Value at Risk at a confidence level of 99%, holding period of one year).

This value-at-risk procedure enables portfolio-oriented inspections with a corresponding calculation of the utilisation of risk guarantee funds to be carried out when calculating default risks, which means that a consistent approach is in place when calculating address default and market price risks.

Ceilings in terms of volume are stipulated under a standard system based on the assessment of quantative credit rating characteristics in order to limit address default risks in commercial activities. The risk controlling system monitors compliance with trading partner limits while current market values are applied.

Participation risks, as a special form of credit risks, are controlled with the help of a regularly-applied participation controlling and reporting system.

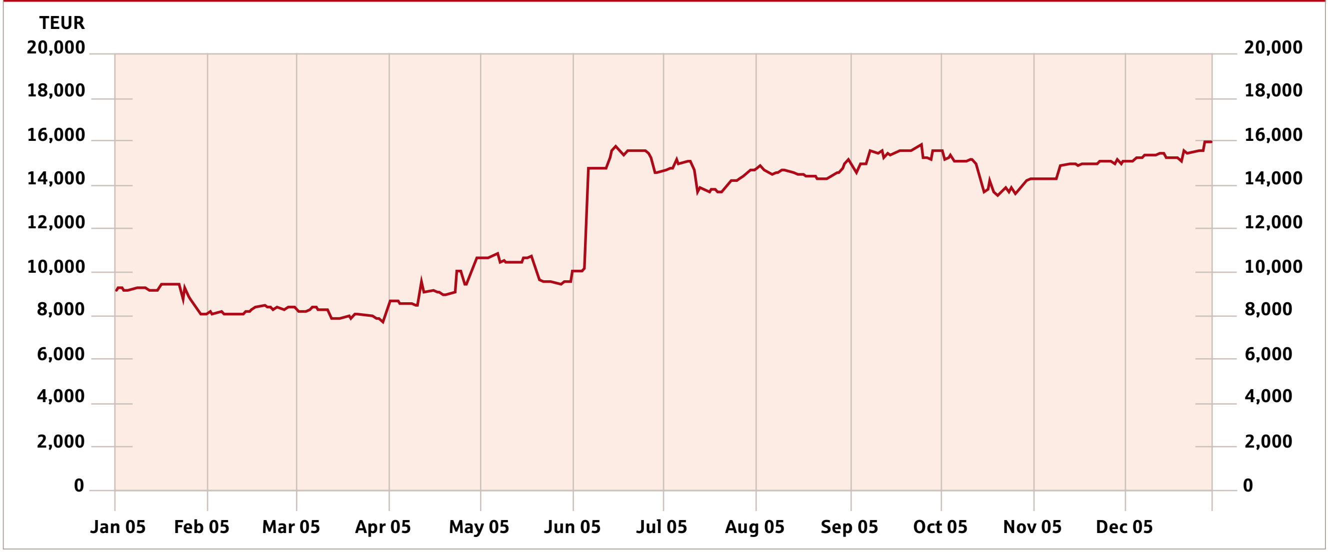
MARKET PRICE RISK

The Board of Management has stipulated loss and risk limits for the market price risks of commercial transactions in accordance with the definitions of the minimum requirements for the trading business of credit institutions (MaH). Compliance with these minimum requirements is monitored by the risk control department on every stock-exchange trading day.

The loss limit which applies for trading results determined on an operation basis limits the impact of negative market developments which may already have occurred. Maximum utilisation for 2005 was 2.5 %.

Future potential risks, on the other hand, are limited by the risk limit system with which market price risks are determined in accordance with the value-at-risk concept (VaR). The VaR (confidence level of 99 %, holding period of ten days) of all of the commercial transactions under MaH averaged EUR 12.4 million in 2005. An increase in June 2005 was the result of an increase in the number of commercial transactions.

DEVELOPMENT OF THE VALUE AT RISK (VaR) OF COMMERCIAL TRANSACTIONS ACCORDING TO MaH
CONFIDENCE LEVEL 99%, 10 DAYS HOLDING PERIOD



Daily back-testing is carried out in order to check the VaR risk model. The results show that the risk model applied covers the actual change in value. No adjustments were necessary.

Extreme fluctuations on the commercial market are also simulated with the help of regularly-conducted worst-case scenarios.

The controlling and monitoring of risks involved in changes of interest rates at Sparkasse Bremen is carried out in an institutionalised procedure by the Overall Bank Control Committee and the Treasury Committee, with the Treasury and the Risk Control Department carrying out preparatory work. The Treasury Committee also resolves on the interest-rate estimation of the Sparkasse and on measures to control market-price risks within the limits. The software used by the Sparkasse enables it to efficiently quantify interest-rate risks in terms of cash value and profit-and-loss and to simulate the effects of measures.

Sparkasse Bremen pursues a semi-active strategy. The bank orientates itself towards a benchmark (REX-P, in accordance with a DSGV recommendation) and permits an active cash-related control of the interest-rate book by the Treasury Committee.

LIQUIDITY RISK

Liquidity risks are fine-tuned by the Sparkasse both within the scope of liquidity planning and liquidity control as well as through maintaining the Principle II liquidity index.

Risks resulting from fluctuations in the flow of payments are implicitly covered in the sections on the respective types of risks if these risks are significant for assessing the situation of the bank or its future development. Interest-rate related fluctuations in the flow of payments are hence included in the control of the interest-rate book for financial instruments with variable interest rates, while fluctuating payment flows as a result of customers‘ scheduling within the scope of short-term liquidity controlling are regulated by the Treasury Department. Regular stress scenarios are also simulated in respect of our trading transactions.

The average liquidity ratio in accordance with Principle II was 1.9 times the required minimum standard in 2005.

Liquidity principle (= Principle II)	31.12.2005	30.06.2005	31.12.2004
Liquidity index	1.96	2.09	1.90

Within the scope of implementing Basel II, Sparkasse Bremen identified areas for further developing the liquidity management system in a preliminary study and is now endeavouring to fine-tune liquidity planning in the context of an integrated risk management system.

OPERATIONAL RISK

Operational risks refer to the risk of incurring losses as a result of the inadequacy or the failure of internal procedures, of employees, of the internal infrastructure or as a result of external influences.

A pilot project on operational risks was successfully concluded at the German Savings Bank and Giro Association in autumn 2004. In addition to general principles, the three principles of loss databank, risk inventory and risk map methods were developed in cooperation with several savings banks. Risk inventory for operational risks is divided into a qualitative part and a quantative part (assessment of risk potential).

A loss databank serves to systematically record losses incurred as a result of operational risks and the resulting measures. Actual losses resulting from operational risks in 2005, as in previous years, were far below the amount reserved for examining the risk-bearing capacity of the bank.

The respective corporate divisions are responsible for evaluating and controlling the operational risks documented in the qualitative part of the risk inventory. A four-step weighting system is used for assessment and the system of marking in German schools is applied for evaluation. They decide on the implementation of limiting measures on consideration of cost and effectiveness aspects. These measures include an appropriate system of instructions, an emergency computer centre, sophisticated data security systems, regular controls of work procedures and compliance with security regulations and selected insurances.

With the risk map, another forward-looking instrument was implemented in the year under report. Risk maps are a method of assessing risk potential on the basis of self-developed risk scenarios involving cross-department effects. The decentrally-prepared loss scenarios were methodically discussed in a workshop with those responsible. In future loss potential assessment is scheduled to be carried out annually on the basis of a risk map and risk inventory.

As a part of operational risks, legal risks are reduced by means of a thorough examination of contractual principles and the application of widely-used, legally-verified standard contracts.

The preparation of information is a vital area and Sparkasse Bremen makes good use of the technical possibilities of this information in order to ensure that business procedures within the bank are highly effective. Information technology (IT) and its security are therefore important aspects of the business strategy of the bank. For this reason, an IT security officer was appointed and an IT security management system, involving all of the organisational units, subsidiaries and external service providers, was put in place.

IT security is understood to be a process that needs to be regularly developd in order for it to remain effective. The elements of IT security as outlined in the IT security guideline are binding.

An important step within the process of ongoing enhancement of IT security is the founding of Wincor Nixdorf Portavis GmbH, a joint venture of Sparkasse Bremen, the Hamburg Sparkasse and the majority shareholder Wincor Nixdorf, which was concluded in October 2005. The savings banks involved have outsourced their IT service and operation (technical availability of infrastructure without industrial data processing development and user development) and are benefiting from the yearlong experience of this IT market leader.

FORECAST REPORT

We report here on the likely development of Sparkasse Bremen, including the most significant chances and risks, under the assumptions outlined hereafter. The forecast period comprises the current business year and the coming business year. Forward-looking statements and information contained in this report are based on our latest expectations and on current assumptions. They are primarily based on generally-anticipated overall economic developments, on our operative planning and on our medium-term projected earnings as well as on yearlong experience. In principle, we presume that developments in 2007 will not result in any situation which greatly differs from that of 2006. However, all of the forecasts are subject to incalculable uncertainties and the risk that the actual development may not be as forecast.

We endeavoured to achieve results which were largely comparable to those of 2005 for our most significant key figures. We see good chances that we will be able to match net income for the year and perhaps even achieve a slight increase.

Things are looking good. The new German government expects GDP to rise by 1.4 % in 2006. According to the most recent economic surveys, the financial world is more optimistic about economic development than it has been for two years now. Above-average exports indicate that the economy in Bremen may also be showing slight recovery.

We expect developments on the capital market to vary. Share prices are likely to continue to rise initially before a slowdown in the US economy as a result of Fed Reserve interest-rate increases darken the horizon in Europe too. In the case of certain fluctuations we do not anticipate any major increases in interest-rates today, but we cannot exclude the possibility of increases in future.

Banking business in general and Sparkasse Bremen will both be benefiting from economic recovery. In addition to further stimulation in our line of business, we also expect our average balance sheet total to increase moderately in future. The expansion will primarily be based on our own business but also that of corporate and private customers.

We expect demand to increase in the lending line of business, both for corporate and for private loans, thanks to the improved economic situation. Business will increase and we are striving for moderate growth in future too.

We expect this development to trigger increased demand in investment business with our customers too. Portfolios will continue to expand. This is substantiated by the fact that, in contrast to what was a generally-declining trend, we recorded consistent growth in our liabilities to customers and liabilities arising from debt securities (including subordinate securities), and in particular in our deposits in savings accounts. Liabilities to banks, which were all extended within the scope of maturities, will be moderately increased in order to refinance our own-account investments.

The following applies for business with services: the stock exchanges have regained some of the confidence of investors. Confidence will continue to increase as a result of increases in share prices which are being anticipated, at least for the time being. This will have a positive effect on our services line of business. We also expect our enhanced sales activities within the scope of aligning Sparkasse Bremen to become a retail savings bank to generate positive effects. We expect sales figures to increase.

In alignment with economy recovery and anticipated growth on capital markets, we intend to continue with a moderate increase in our own-account investments and our commercial activities in order to enhance opportunities for generating earnings.

We expect that claims on customers and own-account investments and on the other hand liabilities to customers and banks will increase accordingly. We do not anticipate that this will result in a far-reaching shift in the assets position.

We estimate that this will have varying effects on the development of our interest-rate, commission and business evaluation results.

At present we feel that net interest income will decline somewhat. We will not be able to generate marked increases in marginal profits from the anticipated increase in our lending and investment business alone. Sparkasse Bremen, like many others too, is registering a stronger decline in average interest rates for lending than for deposits. Nothing would change, even if interest rates were to rise – and we do not fully exclude this possibility during the course of the year. A rise in interest payable would exceed the rise in interest income. More stringent lending conditions and enhanced caution in respect of deposit conditions are hardly realisable given the current unbroken pressure on profit margins. The declining trend in interest income could at best be offset by marginal profits generated for our own-account business which match those of 2005. However, as a precaution, we are only projecting reasonable marginal profits for our short-term commercial activities and our longer-term own-account investments.

We adapted to a possible increase in changes in interest rates as a result of developments in lending and investment business by extending the agreed terms for refinancing funds taken out or by means of replacing expiring refinancing funds with new long-term funding in 2005. Current fund exposures will to a large extent remain unaffected by increases in interest rates thanks to secured durations. We are also investing in various markets in order to achieve a low degree of correlation between the respective interest-rate curves.

In terms of commission income we see good chances of matching the positive results achieved in 2005 – at least by today‘s standards. In addition to substantial current commission for business generated in the past, an anticipated positive development in business with services and our reinforced sales activities will result in an increase in sales commission. Commission income will be influenced by non-recurring commission which was collected in 2005 but cannot be scheduled in future and a decline in commission paid to our VAT service providers.

After what tended to be declining administration expenditure over the past few years we now expect administration expenses to rise slightly. Human resources expenses will drop as a result of the scheduled increase in outsourcing staff-related and services tasks to NRS Norddeutsche Retail-Service AG; this may however be partly offset by upcoming collective pay negotiations in the field of banking. Material expenses will rise as a result of the commencement of operations of Wincor Nixdorf Portavis GmbH, of further outsourcing staff-related and service tasks and implementation of the »Basel II« project. Price decreases within the scope of current contracts or price decreases currently being negotiated by our facility management service provider and our credit service centre will have a positive effect.

In terms of our cost-income ratio we are endeavouring to achieve an improvement, even if we must expect figures to be somewhat less positive than those for 2005 due to the anticipated development in interest-rate income and administration expenses.

As far as the evaluation of lending business goes, we do not expect default risks to increase any more, despite a moderate increase in credit portfolios. Instead we anticipate that the result of evaluation of the lending business will continue to improve. We made considerable provision for current recapitalisation and liquidation exposures last year already and for 2005 we can report markedly reduced yet nevertheless considerable loan loss provisions. The development of risks resulting from current lending business is still positive.

We do not expect any appreciable declines in the results of evaluations for business with securities. In the event of any exceptional developments on the stock markets we are in a position to secure our portfolios at short notice. We can entirely withdraw our involvement in funds within a short period.

After a balanced neutral result, which will be reduced as a result of the abolition of non-recurring effects, we are optimistic that we will be able to achieve earnings before tax equivalent to those reported for 2005. However, the return on equity before taxes will fall short of the positive result for 2005 due to a cautious estimation of the marginal profit generated by own-account business. We are determined to continue to enhance return on equity in years to come.

FINAL STATEMENT

We have drawn up a report on relationships with affiliated companies in accordance with § 312 AktG (German Companies Act). The report closes with the following statement: In accordance with § 312 Paragraph 3 AktG, we, the Board of Management of Die Sparkasse Bremen AG, Bremen, declare that in the 2005 accounting period and in accordance with circumstances known to us at the point in time in which such a legal transaction was conducted or a measure executed or refrained from, the company received fair and adequate consideration for all of the legal transactions conducted with affiliated companies or for all of the legal transactions conducted upon the recommendation or in the interest of such companies and that were not disadvantaged by the fact that such a measure was undertaken or refrained from.

Bremen, March 2006

The Board of Management

DIE SPARKASSE BREMEN AG
ANNUAL ACCOUNTS

ANNUAL BALANCE SHEET AS AT 31. DECEMBER 2005

ASSETS	€	€	€	€	Previous year T€
1. Cash reserve					
a) Cash on hand			72,917,981.63		86,882
b) Balances with central banks			80,847,720.36		168,373
of which: with the Deutsche Bundesbank	*80,847,720.36*				*168,373*
				153,765,701.99	**255,255**
2. Debt instruments of public authorities and Bills of Exchange authorised for refinancing purposes at central banks					
a) Treasury bills and non interest-bearing treasury notes as well as similar debt instruments issued by public authorities			–.–		–
of which: eligible for refinancing with the Deutsche Bundesbank	–.–				–
b) Bills of Exchange			20,707,119.47		46,380
of which: eligible for refinancing with the Deutsche Bundesbank	*20,707,119.47*				*46,380*
				20,707,119.47	**46,380**
3. Claims on banks					
a) Due on demand			326,215,585.87		243,445
b) Other claims			672,330,642.36		696,320
				998,546,228.23	**939,765**
4. Claims on customers				**7,419,032,898.29**	**7,378,108**
of which:					
secured by mortgages	*2,525,656,334.86*				*2,455,916*
public sector loans	*287,128,919.99*				*290,744*
5. Debt securities and other fixed-interest securities					
a) Money-market instruments					
aa) From public issuers		–.–			–
of which:					
eligible as collateral with the Deutsche Bundesbank	–.–				–
ab) Issued by other borrowers		–.–	–.–		–
of which:					
eligible as collateral with the Deutsche Bundesbank	–.–				–
b) Bonds and debt securities					
ba) From public issuers		50,184,444.44			90,092
of which:					
eligible as collateral with the Deutsche Bundesbank	*50,184,444.44*				*90,092*
bb) issued by other borrowers		339,353,647.14	389,538,091.58		410,821
of which:					
eligible as collateral with the Deutsche Bundesbank	*275,023,597.57*				*300,514*
c) Debt securities issued by the institution itself			24,960,025.14		27,948
Nominal amount	*24,118,264.73*				*26,656*
				414,498,116.72	**528,861**
6. Shares and other variable-yield securities				**1,456,788,716.71**	**849,126**
7. Participating interests				**75,247,898.73**	**73,134**
of which:					
in banks	*11,943,964.79*				*11,944*
in financial institutions	–.–				–
8. Shares in affiliated companies				**109,248,876.69**	**96,276**
of which:					
in banks	*13,163,359,11*				*12,689*
in financial institutions	–.–				–
9. Assets held in trust				**20,197,576.99**	**20,741**
of which:					
loans on a trust basis	*19,188,286.82*				*19,732*
10. Equalisation claims against public authorities including debt securities resulting from their exchange				–.–	–
11. Intangible assets				**4,502,222.01**	**5,019**
12. Tangible assets				**124,006,070.91**	**128,689**
13. Other assets				**34,470,627.31**	**56,902**
14. Deferred expenses and accrued income				**3,089,913.51**	**2,844**
Total assets				**10,834,101,967.56**	**10,381,100**

LIABILITIES	€	€	€	€	Previous year T€
1. Liabilities to banks					
a) Due on demand			47,846,888.27		45,701
b) With an agreed term or notice period			3,112,232,087.77		2,954,604
				3,160,078,976.04	**3,000,305**
2. Liabilities to customers					
a) Deposits on savings accounts					
aa) With an agreed notice period of three months		3,578,159,563.52			3,331,671
ab) With an agreed notice period of more than three months		246,630,395.54	3,824,789,959.06		313,100
b) Other liabilities					
ba) Due on demand		1,645,840,406.94			1,509,274
bb) With an agreed term or notice period		755,661,196.73	2,401,501,603.67		679,303
				6,226,291,562.73	**5,833,348**
3. Securitised liabilities					
a) Issued debt securities			300,448,444.65		388,766
b) Other securitised liabilities			–.–		–
of which:					
money-market instruments	–.–				–
own acceptances and promissory notes in circulation	–.–				–
				300,448,444.65	**388,766**
4. Liabilities held in trust				**20,197,576.99**	**20,741**
of which:					
loans on a trust basis	*19,188,286.82*				*19,732*
5. Other liabilities				**29,964,305.29**	**27,380**
6. Deferred income and accrued expenses				**13,678,824.94**	**13,436**
7. Provisions					
a) Provisions for pensions and similar obligations			237,780,908.00		234,190
b) Tax provisions			3,798,457.00		5,434
c) Other provisions			24,396,661.58		23,411
				265,976,026.58	**263,035**
8. Special account with reserve characteristics				**–.–**	–
9. Subordinated liabilities				**209,254,042.01**	**260,627**
10. Participatory capital				**147,225,837.62**	**125,226**
of which:					
due within two years	–.–				
11. Equity					
a) Subscribed capital					
aa) Subscribed capital		370,000,000.00			370,000
ab) Participations from silent partnerships		13,000,000.00	383,000,000.00		13,000
b) Capital reserves			47,041,959.68		47,042
c) Retained earnings					
ca) Legal reserves		–.–			–
cb) Reserve for own shares		–.–			–
cc) Statutory reserves		–.–			–
cd) Other retained earnings		17,269,473.78	17,269,473.78		9,000
d) Balance sheet profit			13,674,937.25		9,194
				460,986,370.71	**448,236**
Total liabilities				**10,834,101,967.56**	**10,381,100**
1. Contingent liabilities					
a) Contingent liabilities on bills rediscounted and settled			–.–		–
b) Liabilities from securities and guarantee agreements			370,369,003.24		437,549
c) Obligations from the registration of securities for third-party liabilities			–.–		–
				370,369,003.24	**437,549**
2. Other obligations					
a) Repurchase obligations from fictitious repurchase operations			–.–		–
b) Placement and underwriting obligations			–.–		–
c) Irrevocable credit commitments			213,406,486.74		208,777
				213,406,486.74	**208,777**

PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM 1. JANUARY TO 31. DECEMBER 2005

	€	€	€	€	Previous year T€
1. Interest income from					
a) Lending and money market transactions		435,541,420.86			433,040
b) Fixed-interest securities and book-entry securities		13,319,689.73	448,861,110.59		19,156
2. Interest expense			281,702,140.13		269,694
				+167,158,970.46	**+182,502**
3. Current income from					
a) Shares and other variable-yield securities			57,670,383.70		46,390
b) Participating interests			1,132,619.90		998
c) Shares in affiliated companies			1,114,677.57		500
				59,917,681.17	**47,888**
4. Income from profit-pooling, profit transfer and partial profit transfer agreements				**12,115,003.54**	**10,876**
5. Commission income			61,941,270.25		61,803
6. Commission expense			6,184,972.98		6,327
				+55,756,297.27	**+55,476**
7. Net income or net expenditure from financial transactions				**+2,211,024.99**	**+986**
8. Other operating income				**19,220,416.17**	**20,369**
9. Income from the release of special reserve items				**–.–**	**–**
10. General administrative expenses					
a) Staff expenses					
aa) Wages and salaries		80,023,840.72			78,243
ab) Social contributions and expenditure on pension schemes and other benefits		33,745,267.72	113,769,108.44		37,721
of which: for pension schemes	*19,952,749.37*				*23,802*
b) Other administrative expenses			66,590,426.76		68,243
				180,359,535.20	**184,207**
11. Depreciation of and provisions against intangible assets and tangible assets				**12,423,074.45**	**14,585**
12. Other operating expenses				**9,648,732.11**	**10,264**
13. Write-downs and value adjustments to claims and certain securities and allocations to provisions for lending business			103,832,881.47		117,372
14. Earnings from write-ups on claims and certain securities and the reversal of accruals in lending business			–.–		–
				-103,832,881.47	**-117,372**
15. Depreciation of and provisions against participating interests, shares in affiliated companies and securities treated as fixed assets			–.–		–
16. Income from write-ups of participating interests, shares in affiliated companies and securities treated as fixed assets			11,832,485.97		17,332
				+11,832,485.97	**+17,332**
17. Expenses on assumption of losses				**955,129.41**	**580**
18. Allocation to special reserve items				**–.–**	**–**
19. Profit (loss) on ordinary activities				**+20,992,526.93**	**+8,421**
20. Extraordinary income			–.–		–
21. Extraordinary expenses			–.–		–
22. Profit (loss) on extraordinary activities				**–.–**	**–**
23. Taxes on income and earnings			6,828,110.15		**-10,014**
24. Other taxes			489,479.53		235
				7,317,589.68	**-9,779**
25. Profit (loss) for the year				**13,674,937.25**	**18,200**
26. Profit/loss brought forward from the previous year				**–.–**	**-6**
27. Withdrawals from capital reserves				**–.–**	**–**
28. Transfer from retained earnings					
a) From legal reserves			–.–		–
b) From reserve for own shares			–.–		–
c) From statutory reserves			–.–		–
d) From other retained earnings			–.–	**–.–**	**–**
29. Transfer to retained earnings					
a) To legal reserves			–.–		–
b) To reserve for own shares			–.–		–
c) To statutory reserves			–.–		–
d) To other retained earnings			–.–	**–.–**	9,000
					9,000
30. Balance sheet profit				**13,674,937.25**	**9,194**

I. ACCOUNTING AND VALUATION METHODS

We have prepared our annual accounts in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch), the Companies Act, accounting regulations for financial institutions and our articles of association. Sub-consolidated accounts in accordance with § 340 i of the German Commercial Code (HGB) in conjunction with § 296 Paragraph 2 HGB were not prepared since the subsidiaries were of secondary importance for evaluating the situation of the Group in terms of assets, finances and earnings, both individually and collectively.

A breakdown of maturities on the basis of residual terms in accordance with § 9 RechKredV (German accounting regulations for banks and financial service institutions) for certain balance sheet items and sub-items is shown in the Notes. Allocation of proportionate interest to the various maturity periods was dispensed with in accordance with the option available under § 11 RechKredV.

ACCOUNTS RECEIVABLE FROM CUSTOMERS AND BANKS

Balance sheet items were entered at their nominal value. Provisions and reserves were included in order to take account of discernible risks in lending business. General provisions cover latent risks under accounts receivable. The requirement to reinstate original values was observed on evaluating credits. Bills of Exchange were reported at market value.

SECURITIES

All of the securities were evaluated on application of the strict principle of lower of cost or market on consideration of the requirement to reinstate original values.

SHARES IN AFFILIATED COMPANIES AND PARTICIPATING INTERESTS

As a basic principle, shares in affiliated companies and participating interests were reported at acquisition cost or, in special circumstances, at lower values. The requirement to reinstate original values was observed in this case.

TANGIBLE AND INTANGIBLE ASSETS

Tangible and intangible assets were all valued at acquisition cost; consumable assets were depreciated by applying either the straight-line or the declining-balance method of depreciation. For the purpose of simplification, assets of minor value were fully depreciated in the year of acquisition.

OTHER ASSETS

Depreciation and discernible risks in the case of other assets were taken into account by means of appropriate reductions in valuations.

LIABILITIES

Liabilities were valued at amounts repayable. Discounts were shown as assets and premiums as liabilities. They were accrued in accordance with their maturity periods.

PROVISIONS

All of the discernible risks and contingent liabilities were provided for on the basis of prudent business judgement.

Provisions for pensions and similar obligations were determined on the basis of updated fundamentals (2005 G Heubeck mortality tables) and actuarial principles on application of the fiscal interest rate permissible.

The elimination amount resulting from the transition to the new mortality tables is distributed evenly over a period of three years, from both a commercial and a fiscal point of view, to commence in 2005. In total this year results in an addition to provisions for pensions.

CURRENCY CONVERSION

Assets and liabilities denominated in foreign currencies as well as pending transactions were converted using the reference exchange rates of the ECB or the year-end forward rates.

Positive conversion differences resulting from standard covered transactions were reported as earnings on the profit-and-loss account insofar as these differences only offset a temporarily-effective expense in the transactions serving as security. No permanent evaluation gains were received.

No evaluation was made on the basis of ›special security‹. Current internal forward-exchange contracts are shown in the overall item and in the evaluation of secured transactions. Foreign-currency options concerning a single currency were combined within the scope of trade activities and risk management by Sparkasse Bremen. Evaluation gains were offset against revenue to the extent of the corresponding evaluation losses. The attributable value in this case was calculated on the basis of an option price model. No permanent gains were received. Evaluation is carried out in accordance with the provisions of § 340 h HGB and upon the approval of the banking committee of the Institute of Chartered Surveyors.

DERIVATIVES

Derivative financial instruments (options and futures) were all evaluated individually on application of the principles of imparity and realisation. Interest-rate swaps were primarily used to regulate the risk of changes in interest rates. This is why no evaluation was carried out. Pending forward exchange contracts and agreements to limit interest rates were accounted for in accordance with the BFA 2/1995 statement. Structured products were handled in accordance with IDE RH BFA 1.003 provisions.

II. EXPLANATORY NOTES ON THE BALANCE SHEET (FIGURES IN EURO THOUSAND UNLESS OTHERWISE INDICATED)

ASSETS

On 3. Claims on banks

Other claims on banks - sub-item b) – include claims with residual terms of		
– up to 3 months	107,028	
- more than 3 months but less than 1 year	193,459	
- more than 1 year but less than 5 years	351,002	
- more than 5 years	749	
Item 3 includes:		
– Claims on affiliated companies (previous year: 2,089)		2,100
– claims on companies in which the bank has shareholdings (previous year: 80,936)		61,747
– Claims on the bank's own central giro institution		20,749
– subordinated claims (previous year: –)		–

On 4. Claims on customers

Claims on customers include claims		
– with an indefinite term	270,413	
and claims with residual terms of		
– up to 3 months	943,158	
– more than 3 months but less than 1 year	507,370	
– more than 1 year but less than 5 years	1,912,736	
– more than 5 years	3,778,170	
Item 4 includes:		
– Claims on affiliated companies (previous year: 17,614)		17,999
– Claims on companies in which the bank holds shares (previous year: 358,498)		383,761
– Subordinated claims (previous year: 1,034)		1,034
– Claims on companies in which the bank holds shares (previous year: 1,034)	1,034	

On 5. Debt securities and other fixed-interest securities

Of the debt securities and other fixed-interest securities the following amount will become due in the coming year	173,511	
Item 5 includes:		
– Money-market securities and listed securities		405,112
– Money-market securities and securities not listed		9,387
– Investment securities (previous year: 310,736)		290,065
Securities not evaluated at the lower of cost or market value (previous year: –)		–
– Debt securities issued by the institution itself (5c) incl. subordinated debt securities (previous year: 926)		888

On 6. Shares and other variable-yield securities

Item 6 includes:		
– Money-market securities and listed securities		65,427
– Money-market securities and securities not listed		5,837
– Investment securities (previous year: 838,110)		1,445,193
Securities not evaluated at the lower of cost or market value (previous year: –)		–
– Subordinated securities (previous year: –)		–
– Shares in special funds		1,368,186

In accordance with § 92 InvG (German Investment Act), investment certificates in special funds may only be transferred on the agreement of the investment company. The companies always pay out interest and dividends resulting for the fund asset account at the end of a business year for the fund and not interest and dividends used for covering costs. Interim distributions are made. The price gains realised and available for distribution as per end of the business year of the fund are generally accumulated by the companies. The earnings generated by financial futures at the end of the business year of the fund are fully accumulated.

On 7. Participating interests

– Money-market securities and listed securities		23
– Money-market securities and securities not listed		–

On 8. Shares in affiliated companies

Item 8 does not include any money-market securities.

On 9. Assets held in trust

Assets held in trust are		
– Claims on customers		19,189
– Other assets		1,009

On 11. and 12. Intangible assets and tangible assets

Development of intangible assets and tangible assets:

	Intangible assets	Tangible assets
Acquisition cost at beginning of the year	26,955	298,651
Additions	1,992	12,262
Disposals	211	35,247
Accumulated depreciation	24,234	151,660
Balance-sheet values at year-end	4,502	124,006
Depreciation in the accounting period	2,471	9,952
Item 12 on tangible assets includes:		
– Land and buildings utilised within the scope of Sparkasse activities		78,269
– Operating and office equipment		18,589

On 13. Other assets

Item 13 includes:		
– Financial assets (previous year: 68)		77
Exceptional individual items:		
– Claims for tax refunds		4,151
– Receivables from affiliated companies on the basis of profit transfers		12,102
– Subordinated assets (silent participations)		10,000
– Asset-side balancing items for changes in forward-contract spot rates		1,036

On 14. Deferred expenses and accrued income

Item 14 includes:		
– Discounts on liabilities (previous year: 1,333)		1,108
– Premium on receivables (previous year: 11)		7

_LIABILITIES

On 1. Liabilities to banks

Liabilities to banks with an agreed term or notice period – Sub-item b) – include liabilities with residual term of		
– up to 3 months	243,944	
– more than 3 months but less than 1 year	371,958	
– more than 1 year but less than 5 years	1,517,054	
– more than 5 years	930,797	
Item 1 includes:		
– Claims on affiliated companies (previous year: 3,776)		2,669
– Claims on companies in which the bank has shareholdings (previous year: 16,853)		31,161
– Claims on the bank's own giro institution		59,288

Assets amounting to EUR 709.9 million were transferred as security for liabilities included under this Item.

On 2. Liabilities to customers

Savings deposits with an agreed notice period of more than three months – Sub-item a) ab) – include liabilities with residual terms of		
– up to 3 months	88,009	
– more than 3 months but less than 1 year	86,523	
– more than 1 year but less than 5 years	65,399	
– more than 5 years	6,699	
Other liabilities to customers with an agreed term or notice period – Sub-item b) bb) – include liabilities with residual terms of		
– up to 3 months	307,029	
– more than 3 months but less than 1 year	16,177	
– more than 1 year but less than 5 years	128,417	
– more than 5 years	286,975	
Item 2 includes:		
– Claims on affiliated companies (previous year: 44,565)		46,166
– Claims on companies in which the bank has shareholdings (previous year: 38,269)		38,994

On 3. Securitised liabilities

The following amount will become due in the coming year for issued debt securities	97,779	
Item 3 includes:		
– Claims on affiliated companies (previous year: 7,840)		8,634
– Claims on companies in which the bank has shareholdings (previous year: 2,536)		15,815

On 4. Liabilities held in trust

Liabilities held in trust are:		
– Liabilities to banks		17,713
– Liabilities to customers		2,485

On 5. Other liabilities

Exceptional individual items:		
– Customers' interest discount tax retained		12,421
– Repayment obligations from closed-end real-estate investment funds		3,187
– Trade payables		3,013

Securities valued at EUR 5 million were transferred as security for margin obligations resulting from EUREX transactions included in this Item.

On 6. Deferred income and accrued expenses

Item 6 includes premiums and discounts on receivables (previous year: 12,650).	13,052

On 7. Provisions

Assets amounting to EUR 0.1 million were transferred as security for the provisions included under Item 7 c).

On 9. Subordinated liabilities

– Liabilities to affiliated companies (previous year: 177)	123
– Liabilities to companies in which the bank has shareholdings (previous year: 858)	668
In 2005 the following interest expenses were incurred for liabilities included under this Item.	14,015

The portfolio refers to bearer and registered debentures denominated in Deutschmarks and Euros bearing fixed interest rates and with maturity dates from 2006 to 2019. Provision has not been made for premature repayment or for conversion into capital or into any other form of debt.

On 10. Participatory capital

The portfolio refers to 15 registered participation certificates. In the 2005 accounting period three new registered participation certificates at a nominal value of EUR 22 million were issued.

On 11. Equity

The registered capital of the bank amounts to EUR 370 million and comprises 370,000 no-par value denominated shares. The shares are all held by the Finanzholding der Sparkasse in Bremen. Subscribed capital includes a silent participation to the amount of EUR 13 million with a residual term of four years. In accordance with a resolution passed at the Annual General Meeting held on 25. 05. 2005, EUR 8.3 million of the profit shown on the balance sheet for 2004 was appropriated to other retained earnings. The Board of Management proposes to the Annual General Meeting that EUR 12.6 million of the profits shown on the balance sheet for 2005 to the amount of EUR 13.7 million be allocated to retained earnings and EUR 1.1 million be paid out to the Finanzholding der Sparkasse in Bremen.

On contingent liabilities (first Item below the line)

Liabilities from guarantees and other indemnity agreements include:

– Liabilities to affiliated companies (previous year: 42)	–
– Liabilities to companies in which the bank has shareholdings (previous year: 16,576)	3,776

III. OTHER INFORMATION CONCERNING THE BALANCE SHEET

_ FOREIGN CURRENCY ASSETS AND LIABILITIES

Assets and liabilities denominated in foreign currencies total an equivalent of EUR 169.1 million and EUR 164.8 million respectively.

_ NON-RECOURSE PENSION BUSINESS

On the reporting date for the annual accounts no assets were assigned in pension.

_ OTHER FINANCIAL OBLIGATIONS

Obligations arising from leasing, licensing and maintenance agreements for the coming financial years currently total EUR 11.9 million p.a.

In the participating interest section, unpaid call-in obligations and obligations to make additional contributions currently amount to EUR 4.7 million. On the basis of a declaration revoked due to the fact that the shareholding in Bankhaus Carl F. Plump Kommanditgesellschaft, Bremen, was no longer a majority shareholding on 06.04.2000 in accordance with § 5 Paragraph 10 of the statute on a permanent insurance fund of the Bundesverband deutscher Banken e.V. (German Association of Banks) in Cologne, Die Sparkasse Bremen AG, Bremen, is obliged to release this participating interest from losses sustained in measures implemented until that time in accordance with § 2 Paragraph 2 of the statute on permanent insurance funds.

Within the scope of special declarations, general partners appointed by Sparkasse Bremen for five projects financed for real-estate limited partnerships are to be released from personal liability for payments due by them to Sparkasse Bremen.

Concerning the outsourcing of activities, Sparkasse Bremen has committed itself for a limited period to enabling a few subsidiaries to settle equalisation payments in the event of operational-related dismissals as they would need to be met for employees of Sparkasse Bremen in the event of operational-related dismissals. This applies for as long as Sparkasse Bremen is a majority shareholder in the respective subsidiaries.

With the Finanzholding der Sparkasse in Bremen, Bremen, Die Sparkasse Bremen AG is jointly and severally liable for the real estate acquisition tax arising in connection with the assigning of the plots of land and the buildings when transferring banking operations to Die Sparkasse Bremen AG, Bremen.

_ INFORMATION ON THE NOTES IN ACCORDANCE WITH § 160 PARAGRAPH 1 NO. 8 AKTG

The following was announced to the AG: »The Financial Holding of the Sparkasse in Bremen, Am Brill 1–3 in 28195 Bremen, has notified us in accordance with § 20 Paragraph 1 and 4 AktG that it holds 100 % of the shares in our company«.

FUTURES TRANSACTIONS

The majority of interest-rate-related transactions (interest-rate swaps) as at the reporting date for the annual accounts were concluded in order to secure them against the risk of changes in interest rates. Issuers also had a right to cancellation In the case of structured securities.

Transactions relating to foreign currencies are primarily trade deals with customers which were virtually fully insured against changes in exchange-rates.

Residual term	Less than 1 year EUR million	More than 1 year Less than 5 years EUR million	More than 5 years EUR million	Total EUR million	Market values EUR million	Book values EUR million	Balance-sheet items
Interest-rate related transactions							
OTC products	47.0	1,607.5	550.0	2,204.5	-17.7	–	–
Stock-exchange transactions	–	–	–	–	–	–	–
Currency-related transactions							
OTC products	858.6	29.7	–	888.3	1.0	1.7/1.7	A13/P5
Stock-exchange transactions	–	–	–	–	–	–	–
Transactions bearing other risks							
OTC products	–	–	–	–	–	–	–
Stock-exchange transactions	0.1	–	–	0.1	0.1	0.1	P5
Total				**3,092.9**			

Interest-rate swaps

The market value is the settlement of the cash values of the cash flows on the two swap sides calculated with the help of zero-bond yields. Cash flows on the variable side are calculated on the basis of implicit forward rates.

Forward exchange contracts

The market value results from the current forward rates (spot price on the balance-sheet date +/- the swap rate for the residual period per balance-sheet date).

Currency options

The Garmann-Kohlhagen model is used to calculate market values.

Caps

With the help of the modified Black model, the market value is calculated as the total of theoretical prices discounted with the zero bond yields of each individual caplet at the point in time of evaluation.

IV. EXPLANATORY NOTES TO THE STATEMENT OF INCOME

On 5. Commission income

We received income as commission for the negotiation of life insurances and property insurances, building society savings products and shares in investment funds for services performed for third parties within the scope of our Allfinance offer.

On 8. Other Operating Income

This item includes EUR 7.6 million in reimbursements of administration expenses by subsidiaries, EUR 2.8 million in ordinary income from land and buildings and EUR 1.9 million in other fees for lending business.

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