Die Sparkasse **Bremen**
Finanzdienstleistung

ANNUAL REPORT 2006

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.	31.12.2006	31.12.2005	Change in %
Balance sheet total	**10,970,0**	**10,834.1**	**1.3**
Liabilities to customers and those resulting from debt securities	**6,965.3**	**6,736.0**	**3.4**
of which:			
Deposits on saving accounts	3,798.4	3,824.8	-0.7
Savings bank certificates	11.1	20.7	- 46.4
Debt securities	436.9	509.7	-14.3
Deposits on demand	1,844.6	1,645.8	12.1
Time deposits	874.3	735.0	19.0
Total claims on customers	**7,727.3**	**7,829.3**	**-1.3**
of which			
Bills of Exchange	0	20.7	- 100
Short, medium and long-term receivables from customer	7,335.4	7,419.0	-1.1
of which:			
promissory notes acquired	262.4	262.4	0.2
Transitory credits	18.6	19.2	-3.1
Guarantees and endorsement liabilities	373.3	370.4	0.8

	Number
Branch head offices	**5**
Branches	**65**
Sparkassen-Shops	**2**
SB-Center	**25**
FinanzCentrum Am Brill	**1**
Asset Management	**7**
Private Banking	**1**
Corporate Customer Centre	**5**
Gründungscenter	**1**
Number of staff	**1,550**
of whom staff actually engaged in banking operations	1,300

OUR BANK

Of the 457 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 181 years ago, our bank is today the oldest financial institu-

tion 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 65 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.

DIE SPARKASSE BREMEN AG
ANNUAL REPORT 2006

ECONOMIC FRAMEWORK

ECONOMY – IN GOOD SHAPE

At the end of 2006 the economy showed itself to be in good shape – despite a recent slight decline in the number of orders received and in industrial production.

The gross domestic product (GDP) in Germany rose by around 2.7 % (2005: 0.9 %). This was the strongest growth impulse since 2000 and is the result of entrepreneurial efforts and a moderate wage policy, accompanied by initial results of the reform in Berlin. The driving forces here were a dynamic increase in exports, positive investment activities and improvement in domestic demand, all of which gave the upswing a more substantial basis and finally had a positive effect on the labour market. On an annual average, the number of people in paid work rose by 0.7 %, to more than 39 million job holders. The number of unemployed people dropped accordingly in the period from December 2005 (11.1 %) to 9.6 % in December 2006. The number of permanently unemployed persons, the proportion of which rose from 36 % to 42 % was, however, a cloud on this horizon.

Bremen once again benefited from the dynamic growth in exports, which accounted for the major proportion of local GDP. The key players were port economics and logistics, particularly the handling of automobiles. The number of unemployed persons did not drop as significantly as in the other federal states in the western part of Germany, but the figure nevertheless dropped slightly during the course of the year, from 37,400 to 33,000 unemployed people in December 2006.

Indicators show that the volume of exports is likely to level out in 2007. Economic development in Germany will hence also depend on whether domestic demand will be maintained at the good level achieved despite an increase in Value Added Tax.

NRS NORDDEUTSCHE RETAIL-SERVICE AG – ANOTHER POWERFUL PARTNER

The company was launched on 1 July 2006. NRS Norddeutsche Retail-Service AG commenced with operative activities as an efficient provider of risk management, service and staff force activities. Around 240 employees of Sparkasse Bremen AG and its subsidiary, Kredit-Service-Center GmbH, which was sold within the scope of this move to NRS Norddeutsche Retail-Service AG, were transferred to the new services company. The Sparkassen- und Giroverband (Savings Bank and Giro Association) for Schleswig-Holstein had previously implemented their Board decision and had acquired a participating interest in NRS Norddeutsche Service AG. Now the financial holding of the Sparkasse in Bremen holds 15 %, HASPA Finanzholding 60 % (minus one share) and the Sparkassen- und Giroverband for Schleswig-Holstein holds 25 % (plus one share) in the joint services company.

The three partners from Bremen, Hamburg and Schleswig-Holstein, with just less than 17,000 employees and a balance sheet total of around EUR 80 million, together unite a great deal of potential. In NRS Norddeutsche Retail-Service AG they concentrate volumes which would not be achievable for individual savings banks, hence contributing towards enhancing the competitive capacity of local savings banks and securing their independence in the long term by means of cost-cutting potential and improvements in quality. Unlike with mergers, this maintains a vital competitive advantage for the savings banks, namely their proximity to their customers and relationships which have already been established. The cooperation model is also a leading model in Germany and it is open for other mandators. Those who position themselves on this market at an early stage – like NRS Norddeutsche Retail-Service AG – will lead the field.

IN THE SPOTLIGHT – RETAIL SAVINGS BANK

Another key focus has been the continuation of the process of turning Sparkasse Bremen into a retail savings bank. At the beginning of 2006 we went about consistently separating business with corporate customers and business with private customers in all areas of responsibility, hence providing both of these business divisions with a new structure. At the same time we launched the 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 in the retail line of business, and to focus on the individual groups of customers. Both projects are currently being implemented. At present our main concern is to concentrate our service and consulting skills in business with private customers at seven asset management locations in addition to the central Private Banking division and to concentrate our branch-related business at 27 market divisions, while at the same time maintaining a high level of local presence. Another aim is to increase consulting times through optimising and shifting processes and to offer our customers multi-channel sales, including direct sales, in future – all of this with the aim of securing and further extending our good market shares in business with corporate and with private customers.

DEVELOPMENT OF BUSINESS

BALANCE SHEET TOTAL SLIGHTLY INCREASED

We can be quite satisfied with the development of business at Sparkasse Bremen. The balance sheet total was increased by 1.3 % to EUR 11 billion. In terms of assets we recorded a slight drop in claims on customers. Debt securities and other securities were maintained at a consistent level. However, cash resources, one of these being claims on banks, have increased. The liabilities side saw a rise in liabilities to customers, while liabilities to banks were reduced.

LENDING BUSINESS

DEVELOPMENT OF LENDING BUSINESS (IN EUR MILLIONS)

	2006	2005	2004	2003	2002
Total claims on customers	**7,727.3**	**7,829.3**	**7,881.7**	**7,657.5**	**7,663.0**
of which:					
Bills of exchange	**0.0**	**20.7**	**46.4**	**51.9**	**78.8**
Short, medium and long-term receivables from customers	**7,335.4**	**7,419.0**	**7,378.1**	**7,161.0**	**7,157.3**
of which:					
promissory notes acquired	262.8	262.4	257.2	6.2	116.7
Transitory credits	**18.6**	**19.2**	**19.7**	**13.0**	**5.9**
Guarantees and endorsement liabilities	**373.3**	**370.4**	**437.5**	**431.6**	**421.0**
Claims on banks	**1,127.2**	**998.5**	**939.8**	**545.3**	**1,184.3**

Total receivables from customers (including promissory notes acquired, transitory credits, guarantees and endorsement liabilities) amounted to EUR 7.7 billion on 31 December 2006.

DEVELOPMENT OF LENDING BUSINESS WITH CORPORATE AND PRIVATE CUSTOMERS (IN EUR MILLIONS)

	2006	2005	2004	2003	2002
Corporate customers *	**4,477.9**	**4,447.5**	**4,364.0**	**4,350.1**	**4,329.5**
Private customers *	**2,773.7**	**2,918.7**	**2,978.9**	**2,987.7**	**2,907.5**

* On the basis of regulatory reported data

Credit business with corporate customers increased by 0.7 % to EUR 4.5 billion. Investment loans once again accounted for a considerable proportion of business.

INVESTMENT BUSINESS

DEVELOPMENT OF INVESTMENT BUSINESS (IN EUR MILLIONS)	2006	2005	2004	2003	2002
Liabilities to customers and those resulting from debt securities	**6,965.4**	6,736.0	6,482.8	6,183.7	6,138.2
of which:					
Deposits on savings accounts	3,798.4	3,824.8	3,644.8	3,375.2	3,218.8
Savings bank certificates	11.1	20.7	30.1	72.2	112.6
Debt securities	436.9	509.7	649.4	701.6	751.8
Deposits on demand	1,844.6	1,645.8	1,509.3	1,393.2	1,425.1
Time deposits	874.4	735.0	649.2	641.5	629.9
Liabilities to banks	**3,004.9**	3,160.1	3,000.3	3,142.8	3,314.0

Liabilities to customers and liabilities resulting from debt securities (including subordinated debt securities) rose by 3.4 % to just under EUR 7 billion. This is the result of an increase in investments due on demand and in time deposits. Deposits in savings accounts, as well as our debt securities, showed declines.

After a rise last year we were able to reduce liabilities to banks by 4.9 %, to EUR 3 billion. This was the result of an increase in customer deposits.

BUSINESS WITH SERVICES

Our expertise in the services line of business is once again reflected in positive commission income. At EUR 57.4 million, business with services exceeded the extremely good figure for last year, namely EUR 55.6 million, and at the same time reached a new record high. This is due to increases in business with sales products transacted by us, in particular with insurance products, both in terms of volume and in numbers.

A return of the confidence of investors in economic recovery and hence also in money markets and capital markets had a positive effect on our business with securities services.

DEVELOPMENT OF SERVICES BUSINESS WITH SECURITIES (IN EUR MILLIONS)

	2006	2005	2004	2003	2002
Shares and unit trusts	677.2	463.2	454.8	542.9	443.2
Fixed-interest securities	146.0	198.9	181.0	233.2	357.1
Own security issues	208.5	206.8	226.9	303.7	285.8

While turnover generated with shares and unit trusts soared by 46.2 % to more than EUR 677 million, turnover generated by our own security issues increased 0.8 % to just less than EUR 209 million. Sales of fixed interest-rate securities were reduced by more than a quarter – possibly as a result of a renewed increase in the confidence of investors in share investments and investment products.

OWN-ACCOUNT INVESTMENT AND TRADING

The capital markets got off to a good start in 2006. The upward trend was reversed in May and June. It was only during the latter six months of the year that the capital markets caught up with the good developments of spring.

Our own-account investments, in particular our investments in funds, generally reproduced this development. After a good performance in the period up to May or June, they initially lost ground due to the reversal in the trend. During this phase we lowered the risks involved with investments in the funds by reducing investments in shares and by temporarily limiting currency risks in the case of investments in the convergence area. In the end, the upwards trend of the latter six months of the year resulted in an overall positive development. This is all the more remarkable when one considers that we only partly realised scheduled investments aimed at further diversification of our own-account investments and since we reduced our volume of investments in corporate funds during the latter six months of the year. As a result of an increase in direct investments in fixed interest-rate securities, in particular in public bonds, the volume of own-account investments at year-end reached the same level as those of the same period of the previous year.

PARTICIPATING INTERESTS AND SHARES IN AFFILIATED COMPANIES

Our participating interests and shares in associated companies decreased slightly, by 1 % to EUR 182.7 million.

Reductions resulted mainly from the repayment of capital of Odewald & Compagnie GmbH & Co. Kommanditgesellschaft für Vermögensanlagen (limited partnership for capital investments) to companies in the portfolio and the sale of Kredit-Service-Center GmbH, both carried out within the scope of scheduled exits. Under the joint cooperation model the shares were transferred to NRS Norddeutsche Retail-Service AG at mid-year with the aim of extending and advancing business activities in the long term.

Reductions were offset with an increase in the participating interest in BUG Bremer Unternehmensbeteiligungsgesellschaft mbH; a conversion of partner loans into capital reserves was carried out within the framework of a fundamental change in the business model of the associated company.

Other changes resulted from the takeover of a new participating interest in Odewald & Compagnie GmbH & Co. Dritte Beteiligungsgesellschaft für Vermögensanlagen KG, from various minor capital increases – including those of neue leben Pensionsverwaltung AG and SCHUFA Holding AG – as well as from a partial reduction in the proportion of shares of Freie Internationale Sparkasse S.A., Luxemburg.

Changes in the area of participating interest were undertaken in terms of strategy and earnings in compliance with our investment strategy. 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 EUR 6 million to EUR 118 million. Intangible assets rose by EUR 3.6 million to EUR 8.1 million as a result of the purchase of software licences in connection with the continuation of establishing our trade platforms and as a result of the »Basel II« project.

HUMAN RESOURCES AND SOCIAL ISSUES

The total number of employees was further reduced by 9.5 %, to 1,550 employees on the balance sheet date. These included 378 part-time and temporary employees and 82 trainees. In addition to the fact that the opportunity to make use of partial retirement and early retirement schemes was taken up, this is mainly due to the transfer of employees to NRS Norddeutsche Retail-Service AG.

A good offer of professional training measures and advanced professional training ensures that our employees are able to cope with an increasing number of requirements at all times, 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. Our advanced vocational training measures also generated a great deal of interest. In-house seminars were attended by 1,542 employees and 331 employees attended external seminars.

Of the 1,300 employees operating in bank-related divisions, 26.8 % have qualified as bank clerks after receiving professional training, another 11.7 % have also qualified as specialised savings bank clerks, 32.9 % also have a degree in savings bank business management and another 1.2 % have gained a degree in savings bank business management from the Deutsche Sparkassenakademie. A total of 9.1 % of the employees have graduated at a college or university of applied science.

ASSETS POSITION

DEVELOPMENT OF SELECTED BALANCE-SHEET ITEMS (IN EUR MILLIONS)

	2006	2005	2004	2003	2002
Claims on banks	1,127.2	998.5	939.8	545.3	1.184.3
Claims on customers	7,335.4	7,419.0	7,378.1	7,161.0	7.157.3
Securities	1,862.6	1,871.3	1,378.0	1,917.3	1.266.7
Liabilities to banks	3,004.9	3,160.1	3,000.3	3,142.8	3.314.0
Liabilities to customers	6,528.4	6,226.3	5,833.3	5,482.1	5.386.4

Claims on customers were reduced to EUR 7.3 billion. While our investments in securities remained at the same level as those of the previous year, claims on banks rose by EUR 128.7 million to EUR 1.1 billion.

Sparkasse Bremen equity capital totals EUR 853.5 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 Principle II, which is applied for showing material liquidity. The average liquidity ratio was double that of the required minimum standard.

In order to comply with minimum reserve requirements, we maintained a standing credit balance of EUR 111.5 million, calculated on an annual average basis, at 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 2 billion on the balance sheet date as well as by the liquidity control system in place in our bank.

EARNINGS

DEVELOPMENT OF THE EARNINGS BASE (IN EUR MILLIONS)

	2006	2005	2004	2003	2002
Net interest income	195.6	217.4	226.5	236.0	207.8
Net commission income	57.4	55.6	56.4	50.6	48.1
Staff expenses	117.3	112.6	115.6	121.8	126.9
Material expenses	94.2	78.1	81.5	88.1	84.5
Administrative expenses	211.5	190.7	197.1	209.9	211.4
Other regular expenses	3.6	3.6	4.4	3.6	3.3
Other regular income	15.8	12.3	12.9	14.6	12.2
Net income from financial transactions	1.3	2.2	1.0	3.1	0.5
Result of securities business evaluation	16.4	25.7	30.5	-5.2	-14.2
Result of lending business evaluation	-53.8	-78.6	-97.1	-67.7	-73.2
Other evaluations	-0.1	-0.1	-3.3	-5.6	-0.6
Operating result after evaluation [1]	2.5	10.3	4.4	26.5	-34.1
Neutral result	11.4	10.2	3.8	18.5	49.8
Earnings-related taxes	-1.2	6.8	-10.0	34.7	0.4
Net income for the year	15.1	13.7	18.2	10.4	15.3
Dividends [2]	0.5	1.1	0.9	–	–
Allocation to reserves [2]	14.6	12.6	17.3	9.8	14.7

[1] After allocation to or release from provident funds respectively
[2] Proposed appropriation of profits for the Annual General Meeting

As in previous years earnings are shown on an operating basis. This ensures that – irrespective of the obligations to disclose under German commercial law – reporting is carried out in accordance with a standard system throughout the 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 exchange of know-how among major German savings banks.

We were fortunately able to slightly improve our profit for the year in comparison to that of the previous year. This did, however, result in transfers between the various items.

Net interest income dropped by 10.1 % or EUR 21.9 million to EUR 195.6 million in accordance with a trend that can generally be observed throughout the sector. While interest income fell by 1.7 % to EUR 90.8 million, interest payable (including the counter-balanced interest earned with derivatives) rose by 4.8 %, or EUR 13.6 million, to EUR 295.2 million. The general development of market interest rates showed substantial increases, particularly in short-term interest rates, with the interest-rate structure curve easing off. This development resulted in two reverse effects. The average interest rate for liabilities rose, which resulted in a rise in interest payable. The average interest rate for assets dropped to result in a decline in interest income. In this case a decrease in average interest rates can be observed in almost all of the asset items. The drop in average interest rates in the area of claims on customers is quite striking. Another reason for this development is a non-recurring effect from 2005. The portfolio of our nwk nordwest-Kapitalbeteiligungsgesellschaft mbH contained more proceeds than in 2006 from the sale of ErSol shares, which had remained in the portfolio after the successful IPO of ErSol Solar Energy AG.

Net commission income, at EUR 57.4 million, was higher than ever before, so that it exceeded the figure for the previous year (EUR 55.6 million) by EUR 1.7 million – success that is a reflection of our wide range of customer-oriented services, of our focus on our sales efforts and of the intensive cooperation with our association partners. The latter can clearly be deduced from increased commission from sales products negotiated by us, in particular insurance products. In addition to increasing commission income, the decrease in commission to be paid by us to external service providers, who support us in all of our service offers relating to current accounts, also had an effect here.

Staff expenses rose again for the first time in several years and increased by 4.2 %, or EUR 4.7 million, to EUR 117.3 million (previous year: EUR 112.6 million). It was mainly disproportionately high allocations to provisions for old-age pensions that had a negative effect here. These provisions are to be made on the basis of an actuarial report from 2006 involving a collective agreement for the private banking sector concluded for a 25-month validity period. Allocations for 2007 will be reduced accordingly. Transfers from staff expenses to material expenses relating to the operative start of NRS Norddeutsche Retail-Service AG were not sufficient to compensate for the increases in cost.

Material expenses increased by 20.5 % or EUR 16 million, to EUR 94.2 million (previous year: EUR 78.2 million) which, in addition to transfers from human resources expenses to materials expenses, was a result of the »Basel II«, »new sales structure for private customers« and »new sales structure for corporate customers« projects.

Other regular income, at EUR 15.8 million, exceeded that of the previous year, which was at EUR 12.3 million. This item mainly includes earnings from the offsetting of services with our subsidiaries and other reimbursements from staff and material expenses. Other ordinary expenses, at EUR 3.6 million, were at the same level as that of the previous year.

In the year under report the cost-income ratio was 78.2 % (previous year: 66.8 %).

The decline in net income from financial and investment banking transactions is related to a decline in the volume of foreign-exchange transactions with corporate customers. The remaining trade divisions were not in a position to offset this effect.

The result of evaluation from business with securities fell short of what was an extremely good result for the previous year, but nevertheless, at EUR 16.4 million (previous year: EUR 25.7 million), contributed greatly towards overall earnings. A decrease in write-ups of EUR 11.5 million, an increase in losses on exchange rates of EUR 2.5 million and a EUR 2.9 increase in depreciation were matched by an increase in exchange-rate gains generated by restricted funds amounting to EUR 7.6 million and the sale of fixed interest-rate securities and investment fund deposits.

We were able to once again significantly enhance the result of evaluation of lending business. After this item had already developed in our favour by 19 % during the previous year, we achieved another reduction of almost one third in 2006 too. In the year under report this amounted to EUR 53 million net (previous year: EUR 78.6 million), and was hence markedly lower than that of the previous year. Allowances for loan losses and depreciation were reduced by EUR 14.2 million. Payments received for claims written off and earnings from the release of allowances for loan losses and provisions were raised by EUR 13.9 million. After general loan loss provisions had been reduced to the amount of EUR 1.1 million in 2005, in the year under report EUR 2.2 million were allocated to this item.

The neutral result includes a large number of combined income and expense items which are not to be included in the ordinary operating result. The result rose by EUR 1.2 million to EUR 11.4 million (previous year: EUR 10.2 million). The significant earnings component is of an aperiodic nature or is the result of the reversal of accruals. In addition to prematurity compensation payments from business with customers, the aperiodic sector comprises earnings from the closure of derivative interest-rate items, which account for just over one third of the neutral result and are due to control measures undertaken in the interest-rate book. Expense items include payments to the Pension Security Association and allocations to provisions.

Return on equity before taxes derived from this development amounted to 5.6 % (previous year: 10.3 %).

Earnings for the year after allocation to provision reserves and deduction of profit-related taxes amount to EUR 15.1 million (previous year: EUR 13.7 million). Of this sum, EUR 0.5 million (previous year: EUR 1.1 million) is to be paid to the financial holding of the Sparkasse in Bremen and EUR 14.6 million (previous year: EUR 12.6 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 2006 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 of risk strategy. The first aspect is that there must be sufficient legal capital available; secondly, an adequate yield must be expected.

Given the current 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 Unit. Strategic planning is reviewed every year 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.

The Overall Bank Control Committee also conducts preparatory work for decisions to be taken on fundamental Issues such as strategy, risk guarantee funds 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 constitutes a significant component of overall bank management, which also includes the outsourced divisions. Special interfaces were created with the Controlling and Group Accounting / Tax Departments for the purpose of regulating the units and functions outsourced to NRS Norddeutsche Retail-Service AG.

At Sparkasse Bremen the risk processes are the responsibility of the Controlling Department and the Credit Management Unit. They are responsible for the methods relating to all of the issues relevant to risk and for monitoring risks, with the development of methods and drawing up reports being carried out by the risk control department at NRS Norddeutsche Retail-Service AG upon agreement with and on the instructions of Sparkasse Bremen.

The fundamental aim of our risk management system is to be able to secure the permanent viability of risks taken. The concept was implemented in 2006 and secures the risk-bearing capacity of the bank, both on the basis of an economic as well as of a profit-and-loss oriented control cycle, with business aspect being placed in the foreground and external requirements relating to risk-bearing capacity being taken into consideration. The limit system is aligned towards the potential to cover risk in economic terms. To this purpose the overall risk determined across all of the types of risk is regularly compares with value-based reported capital on consideration of with drawable silent reserves.

In this context, implementation of the new equity capital requirements under Basel II and the minimum requirements for risk management (MaRisk) have already been resolutely pursued within the scope of a major project since 2004. In the year under report significant implementation activities such as establishing a technical infrastructure for the reporting system, the adaptation of a large number of processes to the new bank supervisory regulations and further improving control systems at overall bank level were completed. Implementation is to be concluded according to schedule in 2007.

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

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 monitored with a comprehensive early warning system for risks and are not discernible in risk inventory. The risk-bearing capacity is sufficient and was in place at all times during 2006.

As per 31 December 2006 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 10.4 %, exceeded the minimum of 8 % stipulated by the bank supervisory authorities.

Solvency coefficient (= Principle I)	31.12.2006	31.12.2005	31.12.2004
Overall ratio	10.4 %	9.5 %	9.7 %

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

BORROWER'S DEFAULT RISK

We understand borrower's default risk to be the risk of a decline in the value of a loan or a financial instrument if a business partner defaults or if the credit rating of a business partner deteriorates and the resulting risk that capital made available will not be repaid or will only partly be repaid.

In order to quantify an economic credit risk at portfolio level, methods and procedures developed by the savings bank financial group are implemented to enable the borrower's default risk to be inspected in an integrated manner for the entire savings bank. This VaR procedure applied on the basis of a credit portfolio review enables a portfolio-oriented calculation to be carried out followed by a corresponding ascertainment of the utilisation of risk guarantee funds within the scope of inspecting borrower's default risks at full-bank level. This ensures that a suitable quantifying approach in alignment with market price risks is in place for the purpose of calculating borrowers' default risk.

In support of the strategic alignment of the Sparkasse and in order to secure its existence in the long term, lending business is controlled in terms of yield and risk in the »credit risk control« committee and in the credit management unit.

The Sparkasse has for many years now been employing different internal rating procedures for corporate and for private customers as a significant instrument for assessing creditworthiness in lending business in order to ensure that risks are adequately estimated. This involves different processes of the Savings Bank Organisation being employed in order to determine the individual credit rating of each customer. Within the framework of implementing bank regulatory requirements, implementation of the DSGV real-estate rating system, the DSGV rating system for minor customers and the DSGV private customer score card system was initiated in 2006 in order to effectively back up the system for assessing credit ratings as well as the pricing system.

Decision-making authority for the approval of individual credits is graduated according to credit volume and risks involved. As of the occurrence of specific criteria, an additional risk assessment by means of a vote taken independently of the market division becomes obligatory. The credit committee of the Sparkasse decides on whether significant risks are to be included or not.

No growth in loans at any price – total receivables from customers (including promissory notes acquired, transitory credits, guarantees and endorsement liabilities) stabilised at EUR 7.7 billion in 2006.

Loan loss provisions have been significantly reduced due to an improvement in general economic data and a cautious strategy employed in terms of approving loans and of collateral over the past few years. The situation is expected to ease further in 2007.

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

Current risk management processes and methods were revised in 2006 with regard to regulatory requirements under Basel II and MaRisk, in order to establish a basis now for the future implementation of more demanding procedures (IRB approach).

Participation risks as a special form of borrower's default risk are controlled with the help of a participation controlling and reporting system which is regularly applied and was also revised in 2006 with regard to Basel II requirements.

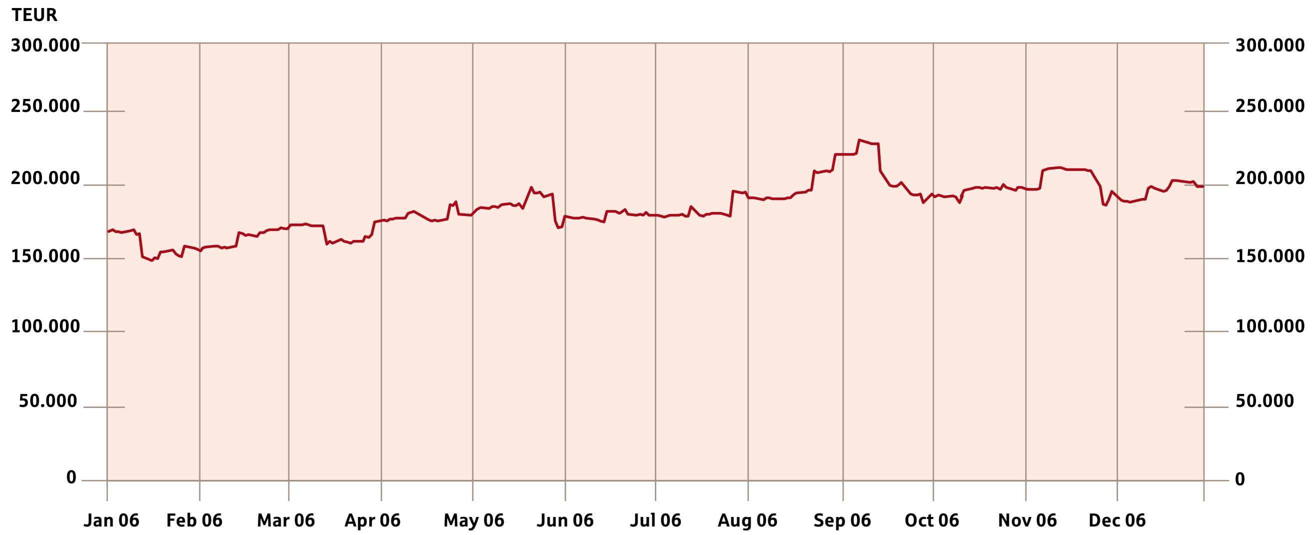
MARKET PRICE RISK

We consider market price risks to be the risk of a loss in value of financial instruments due to fluctuations in market parameters such as interest rates, share prices and foreign currencies.

The Board of Management stipulated risk limits for market price risks of the Sparkasse. Compliance with these minimum requirements is monitored by the risk control department on every stock-exchange trading day.

Future potential losses are limited by a risk limit with which the overall risk of items which carry market price risks in accordance with the value-at-risk concept (VaR) is measured. The VaR (confidence level of 99.9 %, holding period of 250 days) of all of the market price risk items averaged EUR 189 million in 2006.

DEVELOPMENT OF VALUE AT RISK (VaR) OF ALL OF THE MARKET PRICE RISK ITEMS
Confidence level: 99.9 %, holding period for all of the portfolios: 250 days



Daily back-testing is carried out on the trading portfolio every day 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 interest-rate book of Sparkasse Bremen is separately controlled. The controlling and monitoring of risks involved in changes of interest rates are 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 enables us to efficiently quantify interest-rate risks in terms of cash value and profit-and-loss and to simulate the effects of measures.

We apply a semi-active strategy for controlling the interest-rate book. The strategy is aligned 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 within a target corridor of 80 % to 120 % of the target VaR specified.

LIQUIDITY RISK

Liquidity risk for us is the risk that obligations to make payment which become due are not met or are not met to the extent required.

These risks are controlled by Sparkasse Bremen 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. In addition the effects of shortages in liquidity are regularly simulated on the basis of trade transactions.

The average liquidity ratio in accordance with Principle II was twice the required minimum standard in 2006.

Liquidity principle (= Principle II)	**31.12.2006**	**31.12.2005**	**31.12.2004**
Liquidity index	2.05	1.96	1.90

OPERATIONAL RISK

We refer to operational risks as 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.

Sparkasse Bremen utilises concepts and software developed at the Deutsche Sparkassen- und Giroverband for controlling operative risks. Many savings banks participated in the development process. In addition to the general basic principles, this includes a loss databank as well as the methods applied for an annual inventory of risks and of the risk map, which are carried out every two years. The identification and analysis of operational risks is carried out on the basis of structurally prepared scenarios, both in terms of risk inventory as well as of the risk map. Risk inventory for operational risks is divided into a qualitative part and a quantative part (assessment of loss potential).

The 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 2006, as in previous years, were far below the amount reserved for examining the risk-bearing capacity of the bank.

In order to determine operational risks, the possible loss potential of scenarios was quantified and estimated within the framework of risk inventory for the first time in 2006. The total of these assessments is also far below the amount which is to be applied in accordance with regulatory specifications.

The respective corporate divisions are responsible for evaluating and controlling the results determined. They decide on the implementation of limiting and improvement measures, taking into consideration cost and effectiveness aspects. If a measure is initiated within the scope of a decision on control, this measure (if it is sufficiently significant) will be integrated in the planning process of Sparkasse.

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.

In the area of financial services information and reliable processes are vital resources for the success of a business. The Sparkasse makes good use of the technical possibilities available for processing information in order to ensure that business processes within the bank are highly effective. The aim of this emergency and security architecture is hence to provide comprehensive protection to the Sparkasse and its customers by means of a combination of organisational, human resources, technical and structural measures relating to all of the relevant risks, in order to secure the availability, integrity, confidentiality and binding character of information and processes and to limit the magnitude of potential losses.

The emergency manuals and safety guidelines available document this claim and establish requirements relating to security management at Sparkasse Bremen, its subsidiaries and its external service providers.

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. These 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. We presume at all times that development in 2008 will not be based on any circumstances which differ greatly from those prevailing in 2007. However, all of the forecasts are subject to incalculable uncertainties and the risk that the actual development may not be as forecast.

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 business volume to grow in future. This growth is to be generated solely by business with customers and we are targeting business with corporate customers as well as business with private customers. Our expectations are specifically based on the planning of our current projects »new private customer sales structure« and »new corporate customer sales structure«.

In addition to the positive effects generated by these projects, we expect demand to increase in the lending line of business, among both corporate and private customers, thanks to an improved economic situation. This will also result in an increase in business. We are nevertheless still merely endeavouring to achieve controlled moderate growth, given the aspects of risk.

As a result of our expectation of an increase in the average balance sheet total on the basis of business with customers, plans for our own-account investments merely concern the extension of items which are expiring on the assumption of a consistent level of interest rates.

In terms of liabilities, we expect our customer deposits to be stimulated. Investments will increase here too. This is substantiated by the historical development. For example, despite a generally declining trend, we recorded consistent increases in our liabilities to customers and in this case in particular in our deposits in the period up to 2005.

Within the framework of own-account trading we are planning to achieve consistent volumes in long-term liabilities to banks. Short-term borrowing from banks merely serves to undertake surplus settlements within the scope of business with customers.

The scheduled volumes outlined here will have effects on the development of our earnings in future. Raised interest rates on the market, in particular short-term interest rates, mainly influence liabilities and hence result in reducing net interest income. This effect is however, more than compensated for by an increase in the volume of business with customers. On the bottom line net interest income will exceed that of the previous year on the inclusion of the contribution to earnings from own-account trading.

This also applies to net commission income since we expect our current projects »new sales structure for private customers« and »new sales structure for corporate customers« to boost our business with services. Another factor is that we have gradually been able to regain – or at least partly regain – the confidence of investors thanks to the general economic situation and a recent positive development on the stock exchange. Confidence will basically continue to increase as a result of increases in share prices which are being anticipated, at least for the time being. The resulting sales will have a positive effect on business that we conduct with services and also on our commission income.

Outsourcing generally results in a reduction in expenses, but it may also generate higher income. In addition to reimbursements from the balancing of services within the Group, reimbursements for human resources and materials expenses are also shown under other ordinary income. Our high level of outsourcing will hence have a positive effect on the future development of this item. Companies to which we have outsourced services will still be utilising our services so that we presume that the current high level will at least be consistently maintained.

Administrative expenses see clear transfers between human resources and materials costs. Decreases in staff expenses are matched by increases in material expenses. The transfers result from further steps undertaken in consistently adapting Sparkasse Bremen to its role as a sales savings bank. Since 2006 saw disproportionately high allocations to provisions for old-age pensions – the result of an actuarial report drawn up on the basis of a collective agreement for the private banking sector concluded for a period of 25 months – allocations for 2007 will not be as extensive and this will also be reflected in staff expenses. Materials expenses are likely to be raised as a result of expenses relating to the pending IT migration process and as a result of staff force activities and services outsourced to NRS Norddeutsche Retail-Service AG in the middle of 2006.

The cost-income ratio will remain stable at around 78 %. We anticipate that this figure will be improved in future, not least as a result of outsourcing measures which have already been undertaken.

We do not expect any appreciable declines in the results of evaluations for business with securities. Despite an improved general economic environment and the anticipated positive development on the stock exchange, our cautious estimates do not allow us to plan for any positive evaluations or for any exchange-rate gains.

As far as the evaluation of lending business goes, we do not expect default risks to increase, 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 commitments last year already and for 2006 we can report markedly reduced yet nevertheless considerable loan loss provisions. We believe that these will basically continue to be reduced in future.

For other income, which is difficult to project, we have hitherto only forecast items that occur permanently despite their irregular nature. For example other income comprises a cautious estimation of prepayment indemnities and reductions to be undertaken in provisions for partial retirement schemes on the basis of an actuarial interim report. Aperiodic expenses and donations made are reported under other expenses.

In general the individual cautious assumptions show us that reported net income will initially fall short of that of the previous year, but that it will, on the other hand, show an extremely positive subsequent trend.

We are generally striving to achieve comparable results to those of 2006 in terms of the vital key figures, and we shall continue to endeavour to improve our return on equity in the 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 2006 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 we were not disadvantaged by the fact that such a measure was undertaken or refrained from.

Bremen, March 2007

The Board of Management

DIE SPARKASSE BREMEN AG
ANNUAL ACCOUNTS

ANNUAL BALANCE SHEET AS AT 31 DECEMBER 2006

ASSETS	€	€	€	€	Previous Year T€
1. Cash reserve					
a) Cash on hand			76,345,160.40		72,918
b) Balances with central banks			203,355,301.47		80,848
of which: with the Deutsche Bundesbank	*203,355,301.47*				*80,848*
				279,700,461.87	**153,766**
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
of which: eligible for refinancing with the Deutsche Bundesbank	*–.–*				*20,707*
				–.–	**20,707**
3. Claims on banks					
a) Due on demand			269,262,542.67		326,215
b) Other claims			857,934,445.42		672,331
				1,127,196,988.09	**998,546**
4. Claims on customers				**7,335,378,395.61**	**7,419,033**
of which:					
secured by mortgages	*2,489,007,907.98*				*2,525,656*
public sector loans	*280,510,976.56*				*287,129*
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		45,458,711.19	45,458,711.19		–
of which: eligible as collateral with the Deutsche Bundesbank	*–.–*				*–*
b) Bonds and debt securities					
ba) From public issuers		196,450,096.95			50,184
of which: eligible as collateral with the Deutsche Bundesbank	*196,450,096.95*				*50,184*
bb) Issued by other borrowers		359,736,200.30	556,186,297.25		339,354
of which: eligible as collateral with the Deutsche Bundesbank	*336,669,160.30*				*275,024*
c) Debt securities issued by the institution itself			18,405,384.63		24,960
Nominal amount	*18,221,587.28*				*24,118*
				620,050,393.07	**414,498**
6. Shares and other variable-yield securities				**1,242,584,888.39**	**1,456,789**
7. Participating interests				**74,935,310.77**	**75,248**
of which:					
in banks	*11,943,964.79*				*11,944*
in financial institutions	*–.–*				*–*
8. Shares in affiliated companies				**107,806,449.76**	**109,249**
of which:					
in banks	*13,220,932.18*				*13,163*
in financial institutions	*–.–*				*–*
9. Assets held in trust				**19,512,949.87**	**20,198**
of which:					
loans on a trust basis	*18,605,918.07*				*19,188*
10. Equalisation claims against public authorities including debt securities resulting from their exchange				**–.–**	–
11. Intangible assets				**8,070,627.40**	**4,502**
12. Tangible assets				**117,988,695.26**	**124,006**
13. Other assets				**33,791,878.20**	**34,470**
14. Prepaid expenses				**3,026,513.26**	**3,090**
Total assets				**10,970,043,551.55**	**10,834,102**

LIABILITIES	€	€	€	€	Previous Year T€
1. Liabilities to banks					
a) Due on demand			76,772,308.47		47,847
b) With an agreed term or notice period			2,928,166,028.46		3,112,232
				3,004,938,336.93	**3,160,079**
2. Liabilities to customers					
a) Deposits on savings accounts					
aa) With an agreed notice period of three months		3,384,089,338.88			3,578,160
ab) With an agreed notice period of more than three months		414,306,693.54	3,798,396,032.42		246,630
b) Other liabilities					
ba) Due on demand		1,844,569,805.95			1,645,841
bb) With an agreed term or notice period		885,460,489.79	2,730,030,295.74		755,661
				6,528,426,328.16	**6,226,292**
3. Securitised liabilities					
a) Issued debt securities			267,178,927.42		300,448
b) Other securitised liabilities			–.–		–
of which:					
money-market instruments	–.–				–
own acceptance and promissory notes in circulation	–.–				–
				267,178,927.42	**300,448**
4. Liabilities held in trust				**19,512,949.87**	**20,198**
of which:					
loans on a trust basis	*18,605,918.07*				*19,188*
5. Other liabilities				**33,807,690.49**	**29,964**
6. Deferred income				**10,891,204.24**	**13,679**
7. Provisions					
a) Provisions for pensions and similar obligations			240,742,528.00		237,781
b) Tax provisions			3,323,869.11		3,798
c) Other provisions			29,297,652.35		24,397
				273,364,049.46	**265,976**
8. Special account with reserve characteristics				**–.–**	–
9. Subordinated liabilities				**169,707,574.65**	**209,254**
10. Participatory capital				**147,225,837.62**	**147,226**
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		53,000,000.00	423,000,000.00		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		29,834,411.03	29,834,411.03		17,269
d) Balance sheet profit			15,114,282.00		13,675
				514,990,652.71	**460,986**
Total liabilities				**10,970,043,551.55**	**10,834,102**
1. Contingent liabilities					
a) Contingent liabilities on bills rediscounted and settled			–.–		–
b) Liabilities from securities and guarantee agreements			373,336,315.58		370,369
c) Obligations from the registration of securities for third-party liabilities			–.–		–
				373,336,315.58	**370,369**
2. Other obligations					
a) Repurchase obligations from fictitious repurchase operations			–.–		–
b) Placement and underwriting obligations			–.–		–
c) Irrevocable credit commitments			218,801,817.59		213,406
				218,801,817.59	**213,406**

PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2006

	€	€	€	€	Previous Year T€
1. Interest income from					
a) Lending and money market transactions		428,711,946.61			435,541
b) Fixed-interest securities and book-entry securities		15,914,219.28	444,626,165.89		13,320
2. Interest expense			295,517,215.65		281,702
				+149,108,950.24	**+167,159**
3. Current income from					
a) Shares and other variable-yield securities			59,572,015.11		57,670
b) Participating interests			4,126,066.49		1,133
c) Shares in affiliated companies			2,424,652.31		1,115
				66,122,733.91	**59,918**
4. Income from profit-pooling, profit transfer and partial profit transfer agreements				**5,757,491.01**	**12,115**
5. Commission income			61,609,409.75		61,941
6. Commission expenses			5,846,516.08		6,185
				+55,762,893.67	**+55,756**
7. Net income or net expenditure from financial transactions				**+1,333,727.57**	**+2,211**
8. Other operating income				**25,743,180.81**	**19,220**
9. Income from the release of special reserve items				**–.–**	**–**
10. General administrative expenses					
a) Staff expenses					
aa) Wages and salaries		76,841,506.01			80,024
ab) Social contributions and expenditure on pension schemes and other benefits		42,451,324.31	119,292,830.32		33,745
of which: for pension schemes	*29,332,178.36*				*19,953*
b) Other administrative expenses			83,969,658.67		66,590
				203,262,488.99	**180,359**
11. Depreciation of and provisions against intangible assets and tangible assets				**11,115,528.50**	**12,423**
12. Other operating expenses				**8,452,355.23**	**9,649**
13. Write-downs and value adjustments to claims and certain securities and allocations to provisions for lending business			68,215,235.84		103,833
14. Earnings from write-ups on claims and certain securities and the reversal of accruals in lending business			–.–		–
				-68,215,235.84	**-103,833**
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			2,114,634.75		11,833
				+2,114,634.75	**+11,833**
17. Expenses on assumption of losses				**401,951.61**	**955**
18. Allocation to special reserve items				**–.–**	**–**
19. Profit (loss) on ordinary activities				**+14,496,051.79**	**+20,993**
20. Extraordinary income			–.–		–
21. Extraordinary expenses			–.–		–
22. Profit (loss) on extraordinary activities				**–.–**	**–**
23. Taxes on income and earnings			-1,175,829.91		6,828
24. Other taxes			557,599.70		490
				-618,230.21	**7,318**
25. Profit (loss) for the year				**15,114,282.00**	**13,675**
26. Profit/loss brought forward from the previous year				**–.–**	**–**
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			–.–	**–.–**	–
30. Balance sheet profit				**15,114,282.00**	**13,675**

APPENDIX

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. Subconsolidated 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.

_CLAIMS ON 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«.

Foreign-currency options concerning a single currency were combined within the scope of trade activities and risk management. 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, currency forward options 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	238,043	
– more than 3 months but less than 1 year	242,855	
– more than 1 year but less than 5 years	340,062	
– more than 5 years	725	
Item 3 includes:		
– Claims on affiliated companies (previous year: 2,100)		1,986
– Claims on companies in which the bank has shareholdings (previous year: 61,747)		44,156
– Claims on the bank's own central giro institution		20,396
– Subordinated claims (previous year: –)		–

On 4. Claims on customers

Claims on customers include claims		
– with an indefinite term	299,529	
and claims with residual terms of		
– up to 3 months	922,232	
– more than 3 months but less than 1 year	467,645	
– more than 1 year but less than 5 years	1,943,758	
– more than 5 years	3,695,820	
Item 4 includes:		
– Claims on affiliated companies (previous year: 17,999)		35,123
– Claims on companies in which the bank holds shares (previous year: 383,761)		393,797
– Subordinated claims (previous year: 1,034)		32,561
– including claims on affiliated companies (previous year: –)	1,526	
– 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	165,242	
Item 5 includes:		
– Money-market securities and listed securities		581,708
– Money-market securities and securities not listed		38,343
– Investment securities (previous year: 290,065)		413,828
– 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: 888)		737

On 6. Shares and other variable-yield securities

Item 6 includes:		
– Money-market securities and listed securities		67,651
– Money-market securities and securities not listed		4,408
– Investment securities (previous year: 1,445,193)		1,236,884
– Securities not evaluated at the lower of cost or market value (previous year: –)		–
– Subordinated securities (previous year: –)		–
– Shares in special funds		1,101,559

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 the business year for the fund and not those utilised for covering costs. Interim distributions are made.
Price gains realised and available for distribution as at the end of the business year of the fund are generally accumulated by the companies. Earnings from financial future contracts were fully paid out at the end of the business year of the fund.

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	18,606
– Other assets	907

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	28,737	275,666
Additions	6,233	3,367
Disposals	4,200	15,873
Accumulated depreciation	22,699	145,171
Balance-sheet values at year-end	8,071	117,989
Depreciation in the accounting period	2,157	8,958

Item 12 on tangible assets includes:	
– Land and buildings utilised within the scope of Sparkasse activities	70,585
– Operating and office equipment	17,355

On 13. Other assets

Item 13 includes:	
– Financial assets (previous year: 77)	77
Exceptional individual items:	
– Claims for tax refunds	8,648
– Receivables from affiliated companies on the basis of profit transfers	5,757
– Subordinated assets (silent participations)	10,000

On 14. Deferred income and accrued expenses

Item 14 includes:	
– Discount on liabilities (previous year: 1,108)	1,229
– Premiums on receivables (previous year: 7)	4

_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	190,014	
– more than 3 months but less than 1 year	252,784	
– more than 1 year but less than 5 years	1,777,185	
– more than 5 years	648,506	

Item 1 includes:

– Liabilities to affiliated companies (previous year: 2,669)		307
– Liabilities to companies in which the bank has shareholdings (previous year: 31,161)		37,487
– Claims on the bank's own giro institution		43,360

Assets amounting to EUR 660,9 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	68,261	
– more than 3 months but less than 1 year	202,196	
– more than 1 year but less than 5 years	137,178	
– more than 5 years	6,672	

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	331,910	
– more than 3 months but less than 1 year	43,684	
– more than 1 year but less than 5 years	193,235	
– more than 5 years	296,082	

Item 2 includes:

– Liabilities to affiliated companies (previous year: 46,166)		40,429
– Liabilities to companies in which the bank has shareholdings (previous year: 38,994)		40,021

On 3. Securitised liabilities

The following amount will become due in the coming year for issued debt securities	52,027	

Item 3 includes:

– Liabilities to affiliated companies (previous year: 8,634)		1,010
– Liabilities to companies in which the bank has shareholdings (previous year: 15,815)		15,815

On 4. Liabilities held in trust

Liabilities held in trust are:

– Liabilities to banks		17,408
– Liabilities to customers		2,105

On 5. Other liabilities

Exceptional individual items:

– Customers' interest discount tax retained		14,066
– Repayment obligations from closed-end real-estate investment funds		3,691
– Trade payables		1,794

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

On 6. Deferred income and accrued expenses

Item 6 includes premiums and discounts on receivables (previous year: 13,052).	10,546

On 9. Subordinated liabilities

– Liabilities to affiliated companies (previous year: 123)	254
– Liabilities to companies in which the bank has shareholdings (previous year: 668)	668

In 2006 the following interest expenses were incurred for liabilities included under this Item.	8,993

The portfolio refers to bearer and registered debentures denominated in Deutschmarks and Euros bearing fixed interest rates and with maturity dates from 2007 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 2006 accounting period no new registered participation certificates 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 three years and a silent participation to the amount of EUR 40 million with a residual term of ten years.
In accordance with a resolution passed at the Annual General Meeting held on 28. 07. 2006, EUR 12.6 million of the profit shown on the balance sheet for 2005 was appropriated to other retained earnings.
The Board of Management proposes to the Annual General Meeting that EUR 14.6 million of the profits shown on the balance sheet for 2006 to the amount of EUR 15.1 million be allocated to retained earnings and EUR 0.5 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: 3,776)	3,166

III. OTHER INFORMATION CONCERNING THE BALANCE SHEET

FOREIGN CURRENCY DUE AND FOREIGN CURRENCY OWING

Assets and liabilities denominated in foreign currencies total an equivalent of EUR 173.6 million and EUR 188.0 million respectively.

REPURCHASE TRANSACTIONS

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 8.8 million p. a.

In the participating interest section, unpaid call-in obligations and obligations to make additional contributions currently amount to EUR 14.3 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

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	435.2	1,588.1	770.0	2,793.3	-2.5	0.0	A13 / P5
Stock-exchange transactions	–	–	–	–	–	–	–
Currency-related transactions							
OTC products	814.7	28.3	–	843.0	1.0	0.9 / 1.0	A13 / P5
Stock-exchange transactions	–	–	–	–	–	–	–
Transactions bearing other risks							
OTC products	–	–	–	–	–	–	–
Stock-exchange transactions	–	–	–	–	–	–	–
Total			**3,636.3**				

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 10.5 million in reimbursements of administration expenses by subsidiaries, EUR 2.9 million in ordinary income from land and buildings and EUR 2.2 million in other fees for lending business.

For further information please contact

Die Sparkasse Bremen AG

International Division
Postal Address
PO Box 107880
28078 Bremen
Germany

Visiting Address
Am Brill 1–3
28195 Bremen
Germany

SWIFT-Address SBREDE 22
Reuter Dealing Code SBRE
E-mail service@nordwest-international.de
Telephone +49 (0) 421/179-2181

Internet http://www.sparkasse-bremen.de
E-mail mail@sparkasse-bremen.de

Head of International Division
Prof. Dr. iur. Christoph Graf v. Bernstorff, Executive Vice President – Ext. 2367

Foreign Trade Finance
Bernd Kloppenborg, Vice President – Ext. 2188
Heiko Hirsig, Assistant Vice President – Ext. 3384

Foreign Exchange
Dealing/Money Market
Bernd Etmer, Vice President – Ext. 3310
Günter Spanjer, Assistant Vice President – Ext. 2190

Document Collection
Thomas Gädje, Assistant Vice President – Ext. 2183

International Payments
Thomas Markwitz, Assistant Vice President – Ext. 2181