

FINANCIAL PAGES OF SPARKASSE BREMEN

ANNUAL REPORT 2007

Die Sparkasse **Bremen** | 
Finanzdienstleistung



General Information

Board of Managing Directors

Jürgen Oltmann

Chairman of the Board of Managing Directors

Dr. Tim Nesemann

Deputy Chairman of the Board of Managing Directors

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.	31.12.2007	31.12.2006	Change in %
Balance sheet total	11,282.3	10,970.0	2.8
Liabilities to customers and those resulting from debt securities	7,335.9	6,965.4	5.3
of which:			
Deposits on saving accounts	3,674.2	3,798.4	-3.3
Savings bank certificates	0.0	11.1	-100.0
Debt securities	441.6	436.9	1.1
Deposits on demand	2,168.2	1,844.6	17.4
Time deposits	1,051.9	874.4	20.3
Total claims on customers	7,770.1	7,727.3	0.6
of which			
Bills of Exchange	0	0	0.0
Short, medium and long-term receivables from customer	7,317.0	7,335.4	-0.3
of which:			
promissory notes acquired	151.7	262.8	-42.3
Transitory credits	18.8	18.6	1.1
Guarantees and endorsement liabilities	434.3	373.3	16.3
			Number
Branch head offices			5
Branches			63
Sparkassen-Shops			2
SB-Center			27
FinanzCentrum Am Brill			1
Asset Management			7
Private Banking			1
Corporate Customer Centre			5
Unternehmens- und Gründungsberatung			1
Number of staff			1,593
of whom staff actually engaged in banking operations			1,355

OUR BANK

Of the 446 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 182 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 sea-port, 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, Taipei, 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 of-

fices 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 63 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 2007

GENERAL ENVIRONMENT

ECONOMY – SLIGHTLY WEAKER BUT NEVERTHELESS FAVOURABLE

Economic growth in 2007 fell somewhat short of the positive growth of the previous year. The German Institute of Economic Research nevertheless considers the general situation to be more favourable than it has been for a long time.

The gross domestic product in Germany rose by 2.5 % (2006 2.7 %). The mainspring here was once again exports, accompanied by industrial production and rising domestic demand. This clearly eased the situation on the employment market. The number of people in employment increased by 1.7 %, to 39.7 million. By the same token, the number of people out of work, at just less than 3.4 million (around 8.2%), was at the lowest level in 15 years.

The worldwide turbulence on financial markets, triggered by the mortgage crisis in the USA in 2007, was a source of concern. Money markets and capital markets were severely unsettled in

its wake. It is only gradually that international and German banks operating in this loan segment are reporting their obviously immense need for valuation.

Bremen participated in the nationwide economic development in Germany. The number of people out of work dropped to 10.7 % – also the lowest level since 1993. Once again it was notably the areas of port economics and logistics, particularly the handling of automobiles, which were the key achievers.

Prospects for 2008 are not quite as bright. Growth throughout Germany is still anticipated at around 2 %. An end to the financial market crisis is not in sight. Private consumption is likely to benefit from the rising level of employment provided that the industrial partners manage to agree on modest wage and salary contracts.

SALES CAMPAIGN – FAIR, HUMAN AND CLOSE BY.

The financial services market is currently undergoing continuous change. New suppliers are appearing. New products and sales channels are the order of the day. Private big banks have re-discovered business with private customers. All of this challenges us to focus even more clearly on our own strengths and to optimistically make the most of opportunities presented to us.

Our response begins where we are strongest: proximity to our customers. It is this proximity that we wish to boost and give a new quality with our sales campaign

The new sales structure in business with private and with corporate customers was an essential and vital step here. Competent consulting services and sales of products in accordance with needs follow – while at the same time maintaining the high degree of local representation – in addition to the main business with private and corporate customers in seven wealth management and five corporate customer centres as well as in 27 market divisions with 63 staff-supported branches, 27 self-

service branches and two savings bank shops. This has been supplemented with a genuine multi-sales channel – including direct sales through our Internet sales platform which has been activated since May 2007 and our telephone banking service. Improvements to processes and the transfer of processes alleviate the Sales Division of administrative responsibilities.

All of this aims at creating scope – scope for more time for consultations and enhanced consulting quality and naturally the conclusion of more contracts. We support both our management staff and our employees here with comprehensive training and coaching activities in order to be able to intensively utilise the scope we have created. We are therefore confident that our sales campaign – with expertise, fairness and personal proximity and accompanied by competitive prices and good quality – will reinforce and evidence our market leadership position in Bremen – in accordance with the guiding principle of the 2007 German Savings Bank Conference: FAIR, HUMAN AND CLOSE BY.

NRS NORDDEUTSCHE RETAIL-SERVICE AG – SUCCESSFUL FIRST FULL BUSINESS YEAR

A consistent alignment towards becoming a retail savings bank – that is one side of the medal; pooling the resources of the risk management and service tasks is the other. The successful outsourcing of payment transaction services, credit processing, operation of our IT infrastructure and facility management at subsidiary, participating interest and external company levels are meaningful examples, the most recent of which is NRS Norddeutsche Retail-Service AG. This effective supplier of administration and service tasks now employs a staff of approximately 1,100 employees – together with its two subsidiaries, Kredit-Service-Center GmbH and ZVS Zahlungsverkehrs- und Transaktionsservicegesellschaft mbH, whose services are now being taken up by 38 savings bank – in Bremen, Hamburg and

Neumünster; a branch has been scheduled for Lübeck in 2008. NRS Norddeutsche Retail-Service AG used the accounting period to optimise internal processes and more than anything else to gain new customers. In addition to the founder savings banks in Bremen and Hamburg, Sparkasse Südholstein, Neumünster and Sparkasse Harburg-Buxtehude have been cooperating with NRS Norddeutsche Retail-Service AG since 2007. Sparkasse Mittelholstein AG, Rendsburg and the savings banks in Wedel and Hohenweststedt as well as Sparkasse zu Lübeck are to follow in 2008. NRS Norddeutsche Retail-Service AG is currently involved in the tendering process with other banks – news of success soon does the rounds.

INTERNAL PROJECTS – INVESTMENT IN A FUTURE

In addition to our sales campaign and our outsourcing activities, our internal projects also constitute an investment in the future.

In order to equip Sparkasse Bremen for future competitive challenges and legislative requirements, we have decided to transfer our IT applications to Sparkassen Informatik GmbH & Co. KG. The transition date is set for October 2008 – and it looks as though we will be well able to achieve this ambitious aim in good time.

The amendment to the German Mortgage Bond Act in line with the abolition of the mortgage bond privilege prompted us to launch our mortgage bond project. In the period up to autumn 2008 we intend to achieve a mortgage bond qualification for

Sparkasse Bremen in order to be able to reduce our refinancing costs permanently in future through issuing mortgage bonds.

Our internal projects also serve to fulfil regulatory and legislative requirements. After the integrated implementation of all three pillars of the equity regulations, Die Sparkasse Bremen was one of the first savings banks or one of the few banks to punctually submit an initial report in conformity with Basel II requirements on 30 June 2007. The practical implementation of the European financial market directive was duly concluded with great success on 31 October 2007.

All in all, since 2003 alone, we have used about 390 man-years for 400 projects and activities including the current projects – a remarkable achievement.

DEVELOPMENT OF BUSINESS

BALANCE SHEET TOTAL SLIGHTLY INCREASED

Die Sparkasse Bremen has held its own in a difficult environment and looks back on a relatively positive development of business in 2007. The balance sheet total was slightly raised by 2.8 % to € 11.3 billion.

On the asset side, our participating interests and notably our receivables from banks were markedly increased.

The financial market crisis triggered by mortgage business in America also affected developments on money markets and

capital markets. In order to counteract potential related risks, we considerably reduced our portfolio of securities by selling off debt securities and restricted fund investments.

In terms of liabilities, customers' deposits continued to increase substantially, while liabilities to banks were once again reduced.

LENDING BUSINESS

DEVELOPMENT OF LENDING BUSINESS (IN € MILLIONS)

	2007	2006	2005	2004	2003
Receivables from customers	7,770.1	7,727.3	7,829.3	7,881.7	7,657.5
of which:					
Bills of exchange	0.0	0.0	20.7	46.4	51.9
Short, medium and long-term receivables from customers	7,317.0	7,335.4	7,419.0	7,378.1	7,161.0
of which:					
Promissory notes acquired	151.7	262.8	262.4	257.2	6.2
Transitory credits	18.8	18.6	19.2	19.7	13.0
Guarantees and endorsement liabilities	434.3	373.3	370.4	437.5	431.6
Receivables from banks	1,955.5	1,127.2	998.5	939.8	545.3

Total receivables from customers (including promissory notes acquired, transitory credits, guarantees and endorsement

liabilities) amounted to € 7.8 billion on 31 December 2007.

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

	2007	2006	2005	2004	2003
Corporate customers *	4,634.2	4,477.9	4,447.5	4,364.0	4,350.1
Private customers *	2,699.7	2,773.7	2,918.7	2,978.9	2,987.7

* On the basis of regulatory reported data

Lending business with corporate customers increased by 3.5 % to € 4.6 billion. This increase was once again due to a positive development in investment loans.

Loans to private customers decreased by 2.7 % to € 2.7 billion. Although we were able to increase our new approvals over those of the previous year by almost € 125 million, earnings were

generally slightly down due to high amounts of principal repayments. This decline is in line with the trend in the sector and is confirmed in comparative analyses.

The clear rise in receivables from banks results from the re-investment of liquid funds released from our sales of securities.

INVESTMENT BUSINESS

DEVELOPMENT OF INVESTMENT BUSINESS (IN € MILLIONS)

	2007	2006	2005	2004	2003
Liabilities to customers and securitised liabilities	7,335.9	6,965.4	6,736.0	6,482.8	6,183.7
of which:					
Deposits on savings accounts	3,674.2	3,798.4	3,824.8	3,644.8	3,375.2
Savings bank certificates	0.0	11.1	20.7	30.1	72.2
Debt securities	441.6	436.9	509.7	649.4	701.6
Deposits on demand	2,168.2	1,844.6	1,645.8	1,509.3	1,393.2
Time deposits	1,051.9	874.4	735.0	649.2	641.5
Liabilities to banks	2,924.4	3,004.9	3,160.1	3,000.3	3,142.8

The amount of liabilities to customers and securitised liabilities was considerably raised by 5.3 % to € 7.3 billion. The rise in investments due on demand contributed most to this increase.

The positive development for customers' deposits enabled us to once again reduce liabilities to banks by 2.7 % to € 2.9 billion.

BUSINESS WITH SERVICES

Commission income shows that we were once again able to convince our customers that we are a competent provider of services. The excellent result of the previous year was exceeded by € 3.3 million and reached a new record high of € 59.1 million.

In addition to the positive development of business with securities, the areas of insurance and building society savings in particular contributed towards this income. This confirms the confidence which our customers place in us as a financial services enterprise.

DEVELOPMENT OF SERVICES BUSINESS WITH SECURITIES (IN € MILLIONS)

	2007	2006	2005	2004	2003
Shares and unit trusts	922.4	677.2	463.2	454.8	542.9
Fixed-interest securities	204.2	146.0	198.9	181.0	233.2
Own security issues	162.4	208.5	206.8	226.9	303.7

Despite turbulences on financial and capital markets, we reported a 36.2 % increase in shares and unit trusts, as well as an increase of just less than 40 % in the segment for fixed-interest

securities. Sales of our own security issues on the other declined significantly.

OWN-ACCOUNT INVESTMENTS IN SECURITIES

Within the framework of our interest book management activity, we decided in 2007 to take account of developments on capital markets and realised drops in share prices for bonds in order to protect ourselves against risks. We also accepted drops in share prices against those of 2006 and reduced the portfolio of

restricted funds by approximately € 533 million, hence generally considerably reducing the risk for own-account investments in order to be in a position to already avoid any further impairment risks resulting from potentially unfavourable developments on money and capital markets.

PARTICIPATING INTERESTS AND SHARES IN AFFILIATED COMPANIES

Our participating interests and shares in affiliated companies increased by € 43.2 million to € 225.9 million.

The increase is mainly the result of our assumption of participating interests in S-Finanzgruppe mbH & Co. KG for the majority acquisition in Landesbank Berlin Holding AG, called-in capital of Odewald & Compagnie GmbH & Co. Dritte Beteiligungsgesellschaft für Vermögensanlagen KG and the participating interest in the private equity umbrella fund Golding Mezzanine SICAV IV.

The majority acquisition of Landesbank Berlin Holding AG by S-Finanzgruppe mbH & Co. KG not only secures the maintenance of the »Sparkasse« brand – Berliner Sparkasse is included in the corporate group –, it also opens up diverse strategic options for Sparkassen-Finanzgruppe, for example within a centralised sales division for so-called »beacon products« (including building loans and consumer credits).

The increase was matched by a few reductions; notably repayments of capital of Odewald & Compagnie GmbH & Co. Kommanditgesellschaft für Vermögensanlagen to portfolio enterprises, the reduction in capital of Heptagon Capital Beteiligungsgesellschaft der Freien Sparkassen mbH & Co. KG and the completed liquidation of Park Hotel Bremen GmbH i. L. within the scope of scheduled exits, after Hotelimmobilie und -grundstück 2002 and PBE Parkhotel Bremen Dr. Herbert Ebertz KG had been transferred in a fund solution.

Changes in the area of participating interests 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

The rise in expenses for materials in 2007 also reflects the investments made in our forward-looking projects. On the one hand, with the restructuring of our Sales Division, we will also be making sure that in the years to come our income from business with customers remains at a high level while on the other hand

we are planning to transfer some of our IT divisions to Sparkassen Informatik GmbH & Co. KG, a move which aims at effectively reducing our costs in the long-term. We expect to see initial cost-reducing effects as early as in 2009.

HUMAN RESOURCES AND SOCIAL ISSUES

On 31 December 2007 Sparkasse Bremen had 1,593 employees, which is equivalent to 1,283 employees extrapolated on a full-time basis. This is a rise of 2.8 % over that of the previous year. The number of part-time employees and temporary employees is 408. The number of apprentices, at 88, was once again raised over that of the previous year (82).

In 2007 too, new or foreseeable legal regulations made considerable demands on our employees, both in terms of consulting services for our customers and in the area of administration. Our

offer of professional training and advanced professional training measures in the form of internal company seminars and external seminars ensures that our employees meet these expectations. This is reflected in the high level of training: more than 28 % of our employees are qualified bankers, around 44 % also have additional qualifications as specialised savings bank clerks/ bank officers, graduated savings bank business managers or bank business managers; another 9.1 % have successfully attended a university of applied science or a full university.

ASSETS POSITION

DEVELOPMENT OF SELECTED BALANCE SHEET ITEMS (IN € MILLIONS)

	2007	2006	2005	2004	2003
Receivables from banks	1,955.5	1,127.2	998.5	939.8	545.3
Receivables from customers	7,317.0	7,335.4	7,419.0	7,378.1	7,161.0
Securities	1,343.0	1,862.6	1,871.3	1,378.0	1,917.3
Liabilities to banks	2,924.4	3,004.9	3,160.1	3,000.3	3,142.8
Liabilities to customers	6,894.3	6,528.4	6,226.3	5,833.3	5,482.1

Receivables from customers are virtually at the same level as those of the previous year and account for 65 % of the balance sheet total. Investments in securities have declined by a total of just less than € 520 million or 28 %. A determining factor in this case – in addition to the increase in the portfolio of money-market instruments and debt securities – was the reduction in restricted funds to the amount of € 533 million carried out within the framework of the risk-related management of our portfolio. Short-term bank funds were available as an alternative investment, and considerably reduced receivables from banks, by € 828.3 million to just less than € 2 billion. This meant that the proportion of receivables from banks in the balance sheet to-

tal was raised from 10 % to around 17 %; at the same time the proportion of securities dropped from around 17 % to a current 12 %. There were no significant changes over figures for the previous year in terms of liabilities.

Sparkasse Bremen equity capital totals € 862.6 million after appropriation of profits. The resulting ratio between capital resources and weighted risk assets was once again positively raised to 10.9 % and now constitutes an adequate initial basis for further business development.

Direct-investment securities in fixed assets were partly valued at the lower of cost or market.

FINANCIAL POSITION

A significant indicator of short-term liquidity is Principle II, which represents material liquidity. The average liquidity ratio clearly exceeded that of the legally required minimum standard.

Our annual average standing credit balance at the Deutsche Bundesbank for the purpose of complying with minimum reserve regulations was € 119.6 million.

The amount of cash reserves, savings deposited at banks and fixed-interest securities totalled € 3 billion on the balance sheet reporting date. These resources and our liquidity management system will also ensure our liquidity in future.

EARNINGS

DEVELOPMENT OF THE EARNINGS BASE (IN € MILLIONS)

	2007	2006	2005	2004	2003
Net interest income ¹⁾	208.3	221.0	239.2	241.3	248.4
Net commission income	59.1	55.8	55.8	55.5	51.2
Net income from financial transactions	3.6	1.3	2.2	1.0	3.1
Staff expenses	106.4	119.3	113.8	116.0	123.0
Materials expenses ²⁾	105.7	95.1	79.0	82.8	89.5
Administrative expenses ²⁾	212.1	214.4	192.8	198.8	212.5
Result of evaluation	-65.3	-66.1	-92.0	-100.0	-50.6
Earnings-related taxes	0.3	-1.2	6.8	-10.0	34.7
Net income for the year	10.5	15.1	13.7	18.2	10.4
Dividend payout	0.4	0.5	1.1	0.9	0.6
Allocation to reserves	10.1	14.6	12.6	17.3	9.8

¹⁾ Including current income from profit pooling, profit transfer and partial profit transfer agreements

²⁾ Including depreciation

The presentation of earnings deviates from that of previous years and is shown on the basis of commercial figures. We continue to take account of the economic approach for our interim planning and monitoring activities. Both approaches are at all times mutually compliant. While the economic approach to the system employed by the German savings bank and giro association complies with the inter-company comparison and the exchange of know-how of the major savings banks, the method of commercial reporting we apply also enables us to conduct comparisons with private-sector banks.

Our profit for the year did not match that of the previous year. The problematic economic environment led to shifts between individual items.

The drop in net interest income is the result of the current interest-rate situation and is equivalent to the general trend in the sector this year as well. It declined by 5.7 %, or € 12.7 million, to € 208.3 million. While interest income rose by 35.7 to € 552.2 million, we reported a rise in interest expenses (including the balanced net interest income resulting from derivatives) of 16.4 % or € 48.4 million to € 343.9 million. In this case it was in particular the increased level of interest rates – which rose more than anticipated – on the money and capital markets that had a negative effect. While we tend to specify fixed interest rates for short terms for funds taken up and had to pay a higher interest rate as a result of rises in short-term interest rates, borrowed funds are to a large extent characterised by long-term fixed interest rate agreements. 2007 was distinguished by a flat interest rate curve. We were in some instances able to counteract this standard trend in the sector by releasing interest rate swaps and recognising their income. This income mostly comes from

hedging swaps, so that the resulting income corresponds with share-price losses in the area of securities.

Commission income shows that we were once again able to convince our customers that we are a competent provider of services. The excellent result of the previous year was exceeded by € 3.3 million and reached a new record high of € 59.1 million. In this case we are already seeing – as had been expected – the positive effects of our projects to promote sales, within the framework of which we have reorganised the sales structure so that commission from securities and insurance business in particular have developed extremely positively.

Staff expenses were significantly reduced against those of the previous year. This is due to considerably lower allocations to provisions for old-age pensions on the basis of an actuarial report. The first full accounting period after the operating and employee transition to NRS Norddeutsche Retail-Service AG in mid-2006 resulted in a reduction of staff expenses.

On the other hand materials expenses rose markedly by 11.1 % or € 10.6 million, to € 106.7 million (previous year € 95.1 million) – in addition to the operative transition this is the result of our forward-looking projects as well as of the pending outsourcing of IT applications to Sparkassen Informatik GmbH & Co. KG and our sales campaign. These effects had been anticipated as such and are in the end far lower than had been projected.

In the year under report the cost-income ratio was 73.8 % (previous year: 73.3 %).

The positive development of net income from financial transactions results mainly from trading foreign currency with corporate customers.

The result of evaluation improved slightly in general due to anticipated positive development in the lending division. Evaluation of our stock of securities to the amount of € 1.3 billion necessitated depreciation to the amount of just over € 16 million. Developments on the capital and money markets as a result of financial market turbulences have prompted us to significantly reduce portfolios of restricted funds, with the related possible requirement of modest valuation, in order to avoid indirect effects of the American mortgage crisis in future.

SUPPLEMENTARY REPORT

There were no occurrences of any special significance that needed to be reported on subsequent to closure of the 2007 accounting period.

RISK REPORT

The success of banking operations is to a great extent contingent on risks taken. Consciously taking risks hence has a direct effect on the measure of success achieved and is essential for generating an adequate yield.

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

Return on equity before taxes from this development amounted to 2.1 % (previous year 2.8 %).

Tax expenses amount to € 0.3 million.

The profit for the year dropped by € 4.6 million below that of the previous year, to € 10.5 million. Of this sum, € 0.4 million (previous year € 0.5 million) is to be paid to the financial holding of Sparkasse Bremen and € 10.1 million (previous year € 14.6 million) is to be allocated to retained earnings in order to reinforce capital.

must be expected.

Given the current general economic framework, active risk and portfolio management in lending business is a central element in ensuring success and the continued existence of a company.

OVERALL BANK MANAGEMENT

Die 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 integrated 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. The regulation of the units and functions outsourced to NRS Norddeutsche Retail-Service AG is carried out on the basis of a detailed performance management system within the Controlling and Group Accounting/Tax departments.

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 of 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 for regularly monitoring the guarantee fund and risk management ensures that the risk-bearing capacity of the bank is guaranteed at all times on the basis of an economic and an income statement based control cycle. Business aspects are

focussed on here and external risk-bearing capacity requirements are taken into account as an additional condition. The limit system is aligned towards the potential to cover risk in economic terms. To this purpose the overall risk determined across all the types of risk is regularly compared with value-based reported capital on consideration of withdrawable silent reserves.

SUMMARISED PRESENTATION OF THE RISK SITUATION

For all the risks which could have a significant impact on the assets, financial and earnings situation of the bank, an effective risk management and risk control system is implemented and can be supplemented with individual analyses of selected exposures, portfolios and items, in particular in view of current money market and capital market developments. Risks relating to the future development of the bank which could put the portfolio at risk are monitored with a comprehensive early warning system and supervised with regular stress test analyses. Risks were not discernible, even after the risk inventory and risk map had been conducted. The risk-bearing capacity is sufficient and was in place at all times during 2007.

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 savings bank and in order to secure its existence in the long term, lending business is controlled in terms of yield and risk in the credit management unit and in the »credit risk control« committee.

The savings bank 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

Implementation of the new equity capital requirements (Basel II) and the minimum requirements for risk management (MaRisk) have been concluded as planned with the first report as at 30 June 2007.

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

The ratio between recognised equity capital and the sum of weighted risk-bearing assets and risks resulting from market risk items (previously Principle I) clearly exceeded the minimum of 8.0 % stipulated by the bank regulatory authorities at a total of 10.9 % as at 31 December 2007.

Solvency coefficient (= Principle I)	31.12.2007	31.12.2006	31.12.2005
Overall ratio	10.9 %	10.4 %	9.5 %

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

are adequately estimated. This involves employing different processes of the Savings Bank Organisation in order to determine the individual credit rating of each customer. Within the framework of implementing bank regulatory requirements, the DSGV rating systems for real-estate business and for minor customers were implemented in 2007 in order to effectively back up the system for assessing credit ratings and the pricing system. The implementation of other rating procedures for specific customer segments has been initiated.

Decision-making authority for the approval of individual credits is graduated according to credit volumes 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 savings bank decides on whether significant risks are to be included or not.

No increases in loans at any price – total receivables from customers (including promissory notes acquired, transitory credits, guarantees and endorsement liabilities) stabilised at € 7.8 billion in 2007.

Loan loss provisions have been significantly reduced due to the general economic data and cautious loan approval and collateral strategies have been employed over the past few years. The situation is expected to ease further in 2008.

Employees with special know-how work in a unit 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 2007 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). These include the implementation of other rating procedures as well as supplementary methods to regulate lending business.

Participation risks, as a special form of borrower's default risk, are controlled with the help of an independent participation controlling and reporting system which is regularly applied.

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 savings bank. 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 € 178.0 million in 2007.

DEVELOPMENT OF VALUE AT RISK (VaR) OF ALL THE MARKET PRICE RISK ITEMS



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 and monitored due to its significance. This is carried out in an institutionalised procedure by the Overall Bank Control Committee and the Treasury Committee, with the Treasury Division 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 bank orientates itself towards a benchmark (REX-P) 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 specified target VaR.

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 liquidity index in accordance with the German liquidity regulation.

In order to enhance the transparency of short-term liquidity risk and of the current liquidity situation of the Sparkasse, liquidity-at-risk is also calculated on a monthly basis and the diversification of the capital structure is analysed.

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 general rating migrations and specific shortages of liquidity on trading transactions are simulated.

The average liquidity ratio in accordance with the German liquidity regulation was twice the required minimum standard in 2007.

Liquidity Regulation (= Principle II)	31.12.2007	31.12.2006	31.12.2005
Liquidity index	1.75	2.05	1.96

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.

Die 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 quantitative part (assessment of loss potential).

The loss databank serves to systematically record losses incurred as a result of operational risks and to record the resulting measures. Actual losses resulting from operational risks in 2007, as in previous years, were far below the amount reserved for examining the risk-bearing capacity of the bank.

In order to assess operational risk, an analysis of primarily IT-related scenarios was carried out within the framework of a focused risk map so that potential risks resulting from the scheduled migration of the computer centre could be evaluated.

The respective corporate divisions are responsible for evaluating and controlling the results determined in all the methods. 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 Die 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. We make good use of the technical possibilities available for processing information in order to ensure that our business processes 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, staff-related, 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 tests carried out and 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

In the following we report on the expected development of Sparkasse Bremen during the current and the coming accounting period. Our forecast is based on our current expectations and assumptions which are in turn based on the generally anticipated overall economic development, our operative planning, our medium-term earnings projection and yearlong experience. We do not generally expect to see any fundamental changes in 2008 or 2009 over 2007; any statement on future events naturally nevertheless carries the risk that the actual development will be different.

In addition to the ongoing process of economic recovery we expect our sales structure projects in the areas of private and corporate customers to ensure that our business transacted with customers continues to grow in 2008 and 2009. This will also be shown in a corresponding increase of our balance sheet total.

Growth in lending business will be stringently controlled in terms of risk aspects in order to ensure that the results of evaluation continue to develop positively.

On consideration of growth generated which is still driven by business with customers, we plan only to prolong maturing items in the area of own-account investments, especially since we reduced the portfolio of annuity items in 2007. In response to the current development in interest rates.

Our attractive product variations in the area of investment business have already enabled us to expand our customer investments at a rate in excess of the branch itself over the past few years. We expect this trend to continue in the coming few years.

The scheduled increase in business with customers will have a positive effect on net interest income. The interest rate structure curve, which is having a negative effect on the interest margin in terms of investment business, means that growth in volume here will only be moderate. We also expect our mortgage bond project to also have a positive effect on our net interest income as of 2009.

We see increases in net commission income in the coming years too, since our »new private customer sales structure« and »new corporate customer sales structure« projects will enter the earnings phase and will set a new course in business with services.

While administrative expenses will rise in 2008 as a result of the forthcoming migration of parts of our IT architecture to Sparkassen Informatik GmbH & Co. KG, we are optimistic that we will be realising corresponding savings potential in terms of both staff expenses and materials expenses as early as in 2009. Besides, as of 2008, the systems for human resources and material costs will contribute towards enabling us to further increase the efficiency of our cost management system.

The cost-income ratio will be at around 74 % in 2009.

We believe that the result of evaluation from business with securities will be significantly improved in the coming few years. Die Sparkasse Bremen always pays close attention to a balance risk structure for its direct investments, so that neither commitments in the securitised mortgage loans of private individuals with a weak credit rating (sub-prime mortgage loans) nor commitments in any other asset backed-securities were undertaken. There are no sub-prime risks in our restricted funds. We presume that the result of evaluation for lending business will be equivalent to that of the previous year.

The aforesaid developments will generally mean that the profit for the year will increase moderately, but by all means positively. The return on equity will also rise as a result in the following few years.

FINAL STATEMENT

We have drawn up a report on relationships with affiliated companies in accordance with § 312 of the German Companies Act (AktG). The report closes with the following statement: »In accordance with § 312 Paragraph 3 of the German Companies Act, we, the Board of Management of Die Sparkasse Bremen AG, Bremen, declare that in the 2007 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 the legal transactions conducted

with affiliated companies or for all 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 2008

The Board of Management

DIE SPARKASSE BREMEN AG

ANNUAL ACCOUNTS

ANNUAL BALANCE SHEET AS 31 DECEMBER 2007

ASSETS	€				Previous Year
	€	€	€	€	T€
1. Cash reserve					
a) Cash on hand			95,266,039.31		76,345
b) Balances with central banks			<u>161,235,261.43</u>		203,355
<i>of which: with the Deutsche Bundesbank</i>	161,235,261.43				203,355
				256,501,300.74	279,700
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			--		--
<i>of which: eligible for refinancing with the Deutsche Bundesbank</i>	--				--
b) Bills of exchange			--		--
<i>of which: eligible for refinancing with the Deutsche Bundesbank</i>	--				--
				--	--
3. Receivables from banks					
a) Due on demand			204,896,239.39		269,263
b) Other claims			<u>1,750,608,258.93</u>		857,934
				1,955,504,498.32	1,127,197
4. Receivables from customers				7,316,974,736.38	7,335,378
<i>of which:</i>					
<i>secured by mortgages</i>	2,424,073,912.67				2,489,008
<i>public sector loans</i>	176,647,075.24				280,511
5. Debt securities and other fixed-interest securities					
a) money-market instruments					
aa) From public issuers		--			--
<i>of which:</i>					
<i>eligible as collateral with the Deutsche Bundesbank</i>	--				--
ab) Issued by other borrowers		<u>172,181,990.45</u>	172,181,990.45		45,459
<i>of which:</i>					
<i>eligible as collateral with the Deutsche Bundesbank</i>	172,181,990.45				--
b) Bonds and debt securities					
ba) From public issuers		50,596,424.23			196,450
<i>of which:</i>					
<i>eligible as collateral with the Deutsche Bundesbank</i>	50,596,424.23				196,450
bb) Issued by other borrowers		<u>515,335,933.00</u>	565,932,357.23		359,736
<i>of which:</i>					
<i>eligible as collateral with the Deutsche Bundesbank</i>	462,969,784.90				336,669
c) Debt securities issued by the institution itself			<u>15,508,933.55</u>		18,405
<i>Nominal amount</i>	15,501,981.06				18,222
				753,623,281.23	620,050
6. Shares and other variable-yield securities				589,384,151.71	1,242,585
7. Participating interests				118,904,986.59	74,935
<i>of which:</i>					
<i>in banks</i>	11,943,964.79				11,944
<i>in financial institutions</i>	--				--
8. Shares in affiliated companies				107,020,019.47	107,807
<i>of which:</i>					
<i>in banks</i>	13,024,405.30				13,221
<i>in financial institutions</i>	--				--
9. Assets held in trust				19,717,759.24	19,513
<i>of which:</i>					
<i>loans on a trust basis</i>	18,842,683.18				18,606
10. Equalisation claims against public authorities including debt securities resulting from their exchange				--	--
11. Intangible assets				8,302,079.49	8,071
12. Tangible assets				112,017,626.33	117,989
13. Other assets				41,644,593.51	33,792
14. Prepaid income				2,690,066.83	3,027
Total assets				11,282,285,099.84	10,970,044

LIABILITIES	€	€	€	€	Previous Year T€
1. Liabilities to banks					
a) Due on demand			45,932,776.57		76,772
b) With an agreed term or notice period			<u>2,878,472,384.53</u>		2,928,166
				2,924,405,161.10	3,004,938
2. Liabilities to customers					
a) Deposits on savings accounts					
aa) With an agreed notice period of three months		2,837,511,548.35			3,384,089
ab) With an agreed notice period of more than three months		<u>836,664,204.96</u>	3,674,175,753.31		414,307
b) Other liabilities					
ba) Due on demand		2,168,232,446.20			1,844,570
bb) With an agreed term or notice period		<u>1,051,923,367.52</u>	<u>3,220,155,813.72</u>		885,460
				6,894,331,567.03	6,528,426
3. Securitised liabilities					
a) Issued debt securities			292,931,020.55		267,179
b) Other securitised liabilities			<u>---</u>		-
of which:					
money-market instruments	--				-
own acceptance and promissory notes in circulation	--				-
				292,931,020.55	267,179
4. Liabilities held in trust				19,717,759.24	19,513
of which:					
loans on a trust basis	18,842,683.18				18,606
5. Other liabilities				44,378,096.03	33,808
6. Deferred income				8,080,925.07	10,891
7. Provisions					
a) Provisions for pensions and similar obligations			241,557,677.00		240,742
b) Tax provisions			3,695,942.00		3,324
c) Other provisions			<u>32,360,955.19</u>		29,298
				277,614,574.19	273,364
8. Special account with reserve characteristics				---	-
9. Subordinated liabilities				148,664,990.74	169,708
10. Participatory capital				147,225,837.62	147,226
of which:					
due within two years	10,225,837.62				-
11. Equity					
a) Subscribed capital					
aa) Subscribed capital		370,000,000.00			370,000
ab) Participations from silent partnerships		<u>53,000,000.00</u>	423,000,000.00		53,000
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		<u>44,393,693.03</u>	44,393,693.03		29,835
d) Balance sheet profit			<u>10,499,515.56</u>		15,114
				524,935,168.27	514,991
Total liabilities				11,282,285,099.84	10,970,044
1. Contingent liabilities					
a) Contingent liabilities on bills rediscounted and settled			--		-
b) Liabilities from securities and guarantee agreements			434,328,540.31		373,336
c) Obligations from the registration of securities for third-party liabilities			<u>---</u>		-
				434,328,540.31	373,336
2. Other obligations					
a) Repurchase obligations from fictitious repurchase operations			--		-
b) Placement and underwriting obligations			--		-
c) Irrevocable credit commitments			<u>401,227,750.52</u>		218,802
				401,227,750.52	218,802

**PROFIT AND LOSS ACCOUNT FOR THE PERIOD
FROM 1 JANUARY TO 31 DECEMBER 2007**

	€	€	€	€	Previous Year T€
1. Interest income from					
a) Lending and money market transactions		460,471,397.57			428,712
b) Fixed-interest securities and book-entry securities		<u>30,270,860.97</u>	490,742,258.54		15,914
2. Interest expense			<u>343,902,411.22</u>		295,517
				+ 146,839,847.32	+ 149,109
3. Current income from					
a) Shares and other variable-yield securities			47,965,943.31		59,572
b) Participating interests			4,050,687.11		4,126
c) Shares in affiliated companies			<u>6,382,647.28</u>		2,425
				58,399,277.70	66,123
4. Income from profit-pooling, profit transfer and partial profit transfer agreements				3,110,639.96	5,757
5. Commission income			64,672,960.59		61,610
6. Commission expenses			<u>5,579,930.08</u>		5,847
				+ 59,093,030.51	+ 55,763
7. Net income or net expenditure from financial transactions				+ 3,641,391.85	+ 1,334
8. Other operating income				24,350,123.48	25,743
9. Income from the release of special reserve items				--	--
10. General administrative expenses					
a) Staff expenses					
aa) Wages and salaries		75,845,952.52			76,842
ab) Social contributions and expenditure on pension schemes and other benefits of which: for pension schemes	18,305,930.37	<u>30,558,190.56</u>	106,404,143.08		42,451
b) Other administrative expenses			<u>94,760,203.59</u>		29,332
				201,164,346.67	83,970
					203,263
11. Depreciation of and provisions against intangible assets and tangible assets				10,918,725.42	11,116
12. Other operating expenses				5,952,369.80	8,452
13. Write-downs and value adjustments to claims and certain securities and allocations to provisions for lending business			37,841,999.01		68,215
14. Earnings from write-ups on claims and certain securities and the reversal of accruals in lending business			--	- 37,841,999.01	- 68,215
15. Depreciation of and provisions against participating interests, shares in affiliated companies and securities treated as fixed assets			27,472,446.65		--
16. Income from write-ups of participating interests, shares in affiliated companies and securities treated as fixed assets			--	- 27,472,446.65	2,115
				757,104.08	402
17. Expenses on assumption of losses				--	--
18. Allocation to special reserve items				--	--
19. Profit (loss) on ordinary activities				+ 11,327,319.19	+ 14,496
20. Extraordinary income				--	--
21. Extraordinary expenses				--	--
22. Profit (loss) on extraordinary activities				--	--
23. Taxes on income and earnings			279,953.30		-1,176
24. Other taxes			<u>547,850.33</u>		558
				827,803.63	- 618
25. Profit (loss) for the year				10,499,515.56	15,114
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			<u>--</u>	--	--
29. Transfer to retained earnings					
a) To legal reserves			--		--
b) To reserve for own shares			--		--
c) To statutory reserves			--		--
d) To other retained earnings			<u>--</u>	--	--
30. Balance sheet profit				10,499,515.56	15,114

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 statutes. Sub-consolidated accounts in accordance with § 340 i of the German Commercial Code (HGB) in conjunction with § 296 Paragraph 2 of the German Commercial Code 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.

—RECEIVABLE FROM CUSTOMERS AND BANKS

Balance sheet items were entered at their nominal value. Specific loan loss 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

Investment securities for which close examination showed that they were not subject to permanent impairment were for the first time partly valued at the lower of cost or market in accordance with a legal option. This applies for securities whose market value on the reporting date was below the book value and whose redemption has been agreed at the nominal value. All the other securities were valued on application of the strict principle of the lower of cost or market.

—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

Appropriate valuation adjustments took account of impairments and discernible risks in the case of other assets.

—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 permissible fiscal interest rate.

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 end-of-year 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 recognised.

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. Increases in evaluation were offset in recognition of profit or loss against the amount of corresponding impairments. The attributable value in this case was calculated on the basis of an option price model. No permanent gains were recognised. Evaluation is carried out in accordance with the provisions of § 340 h of the German Commercial Code with the approval of the banking committee of the Institute of Chartered Surveyors.

—DERIVATES

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 reported in accordance with the BFA 2/1995 statement. Structured products were handled in accordance with IDW RH BFA 1.003 and IDW RS BFA 1.

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

— ASSETS

On 3. Receivables from banks

Other receivables from banks - sub-item b) – include receivables with residual terms of

– up to 3 months	538,257
– more than 3 months but less than 1 year	905,157
– more than 1 year but less than 5 years	245,871
– more than 5 years	165

Item 3 includes:

– Receivables from affiliated companies (previous year: 1.986)	1,049
– Receivables from companies in which the bank has shareholdings (previous year: 44.156)	173
– Receivables from the bank's own central giro institution	70,530
– Subordinated receivables (previous year: –)	–

On 4. Receivables from customers

Receivables from customers include receivables

– with an indefinite term	329,191
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and receivables with residual terms of

– up to 3 months	922,870
– more than 3 months but less than 1 year	439,182
– more than 1 year but less than 5 years	2,005,500
– more than 5 years	3,612,237

Item 4 includes:

– Receivables from affiliated companies (previous year: 35.123)	35,953
– Receivables from companies in which the bank holds shares (previous year: 393.797)	376,385
– Subordinated receivables (previous year: 32.561)	31,608
– including receivables from affiliated companies (previous year: 1.526)	1,608
– Receivables from companies in which the bank holds shares (previous year: 1.034)	–

On 5. Debt securities and other fixed-interest securities

The following amount of debt securities and other fixed-interest securities will become due payable in the coming year 232.821

Item 5 includes:

– Marketable securities and listed securities	725,391
– Marketable securities and unlisted securities	28,232
– Investment securities (previous year: 413.828)	737,496
– Securities not evaluated at the lower of cost or market value (previous year: –)	562,343
– Current value of these securities (fixed-interest securities)	556,034
– Debt securities issued by the institution itself (5c) incl. subordinated debt securities (previous year: 737)	328

On 6. Shares and other variable-yield securities

Item 6 includes:

– Marketable securities and listed securities	5,000
– Marketable securities and unlisted securities	5,682
– Investment securities (previous year: 1.236.884)	578,702
– Securities not evaluated at the lower of cost or market value (previous year: –)	–
– Subordinated securities (previous year: –)	–
– Shares in restricted funds	568,560

In accordance with § 92 InvG (German Investment Act), investment certificates in restricted 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.

On 7. Participating interests

– Marketable securities and listed securities	23
– Marketable securities and unlisted securities	–

On 8. Shares in affiliated companies

Item 8 does not include any marketable securities.

On 9. Assets held in trust

Assets held in trust are

– Receivables from customers	18,843
– Other assets	875

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	30,769	263,160
Additions	2,596	3,078
Disposals	1,174	2,520
<u>Accumulated depreciation</u>	<u>23,889</u>	<u>151,700</u>
Balance-sheet values at year-end	8,302	112,018
Depreciation in the accounting period	2,143	8,776

Item 12 on tangible assets includes:

– Land and buildings utilised within the scope of Sparkasse activities	67,486
– Operating and office equipment	16,178

On 13. Other assets

Item 13 includes:

– Financial assets (previous year: 77)	79
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Exceptional individual items:

– Claims for tax refunds	10,551
– Receivables from affiliated companies	9,932
– Subordinated assets (silent participations)	10,000

On 14. Prepaid expenses

Item 14 includes:

– Discount on liabilities (previous year: 1.229)	1,123
– Premiums on receivables (previous year: 4)	–

– LIABILITIES

On 1. Bank loans and overdrafts

Bank loans and overdrafts with an agreed term or notice period – Sub-item b) – include liabilities with residual term of

– up to 3 months	129,365
– more than 3 months but less than 1 year	488,496
– more than 1 year but less than 5 years	1,374,251
– more than 5 years	815,760

Item 1 includes:

– Liabilities to affiliated companies (previous year: 307)	7,396
– Liabilities to companies in which the bank has shareholdings (previous year: 37.487)	6,342
– Liabilities to the bank's own giro institution	40,874

Assets amounting to € 713.9 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-items a) ab) – include liabilities with residual terms of

– up to 3 months	236,307
– more than 3 months but less than 1 year	483,075
– more than 1 year but less than 5 years	114,118
– more than 5 years	3,164

Other liabilities to customers with an agreed term or notice period – Sub-items b) bb) – include liabilities with residual terms of

– up to 3 months	420,023
– more than 3 months but less than 1 year	60,618
– more than 1 year but less than 5 years	172,647
– more than 5 years	374,097

Item 2 includes:

– Liabilities to affiliated companies (previous year: 40.429)	44,341
– Liabilities to companies in which the bank has shareholdings (previous year: 40.021)	63,307

On 3. Securitised liabilities

The following amount will become due in the coming year for issued debt securities 57,514

Item 3 includes:

– Liabilities to affiliated companies (previous year: 1.010)	332
– 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:

– Bank loans and overdrafts	17,701
– Liabilities to customers	2,017

On 5. Other liabilities

Exceptional individual items:

– Customers' interest discount tax retained	21,195
– Repayment obligations from closed-end real-estate investment funds	4,305
– Trade payables	3,864

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

On 6. Deferred income

Item 6 includes premiums and discounts on liabilities (previous year: 10.546): 7,863

On 9. Subordinated liabilities

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

In 2007 the following interest expenses were incurred for liabilities recognised under this item. 7,742

The portfolio refers to bearer and registered debentures denominated in Deutschmarks and Euros bearing fixed interest rates and with maturity dates from 2008 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 2007 accounting period no new registered participation certificates were issued.

On 11. Equity

The registered capital of the bank amounts to € 370 million and comprises 370,000 no-par value denominated shares. The shares are all held by the financial holding of Die Sparkasse in Bremen. Subscribed capital includes a silent participation to the amount of € 13 million with a residual term of three years and a silent participation to the amount of € 40 million with a residual term of nine years.

In accordance with a resolution passed at the Annual General Meeting held on 23 May 2007, € 14.6 million of the profit shown on the balance sheet for 2006 was appropriated to other retained earnings.

The Board of Management proposes to the Annual General Meeting that € 10.1 million of the profits shown on the balance sheet for 2007 to the amount of € 10.5 million be allocated to retained earnings and € 0.4 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) 42
– Liabilities to companies in which the bank has shareholdings (previous year 3,166) 1,833

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 € 166.1 million and € 156.4 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 € 9.2 million p.a.

In the participating interest section, unpaid call-in obligations and obligations to make additional contributions currently amount to € 19.6 million. On the basis of a declaration revoked due to the fact that the shareholding in Bankhaus Carl F. Plump & Co. GmbH & Co. KG, Bremen is no longer a majority shareholding on 6 April 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 operation-related dismissals as they would need to be met for employees of Sparkasse Bremen in the event of operation-related dismissals. This applies for as long as Sparkasse Bremen is a majority shareholder in the respective subsidiaries.

— INFORMATION ON THE NOTES IN ACCORDANCE WITH §160 PARAGRAPH 1 NO. 8 OF THE GERMAN COMPANIES ACT (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 of the German Companies Act 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.

Transactions relating to foreign currencies are primarily trade deals with customers which were virtually fully insured against changes in exchange-rates. Issuers also had a right to cancellation in the case of a structured bond.

Residual term	More than 1 year			Total EUR million	Market values EUR million	Book values EUR million	Balance-sheet items
	Less than 1 year EUR million	Less than 5 years EUR million	More than 5 years EUR million				
Interest-rate related transactions							
OTC products	1,022.3	1,232.4	1,161.4	3,416.1	-4.8	1.8 / 1.8	A13 / P5
Stock-exchange transactions	-	-	-	-	-	-	-
Currency-related transactions							
OTC products	615.3	24.9	-	640.2	-0.7	0.7 / 0.8	A13 / P5
Stock-exchange transactions	-	-	-	-	-	-	-
Transactions bearing other risks							
OTC products	-	25.4	-	25.4	0	-	-
Stock-exchange transactions	-	-	4.4	4.4	4.2	4.3	A5
Total			4.086,1				

Interest-rate swaps

The current value is the balance 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 implied forward rates.

Caps / Floors

With the help of the modified Black model, the current value is calculated as the total of theoretical prices discounted with the zero bond yields of each individual caplet on the date of evaluation.

Forward exchange contracts

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

Currency options

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

IV. EXPLANATORY NOTES TO THE STATEMENT OF INCOME

On 1.a) Interest income

This item includes around 5 % of income relating to other periods mainly resulting from interest-rate book control measures.

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 € 10.3 million in reimbursements of administration expenses by subsidiaries, € 2.9 million in ordinary income from land and buildings and € 2.1 million in other fees for lending business.

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