BLB Ihre Spezialisten. Ihre Bank.

Consolidated Financial Statements and Group Management Report of Bremer Landesbank in Accordance with IFRSs as at 31 December 2016

The Bremer Landesbank Group at a glance

Group statement of comprehensive income	1.1. – 31.12.2016 € million	1.1. – 31.12.2015 € million	Change € million	%
Net interest income	365	413	-48	–12
Loan loss provisions	–1,547	–341	–1,206	100
Net commission income	24	41	–17	–41
Profit/loss from financial instruments at fair value through profit or loss, including hedge accounting	0	57	–57	–100
Other operating profit/loss	12	9	3	33
Administrative expenses	212	193	19	10
Profit/loss from financial investments	3	10	–7	–70
Profit/loss from financial assets accounted for using the equity method	5	8	–3	–38
Profit/loss from restructuring	37	0	37	100
Earnings before taxes	**–1,387**	**4**	**–1,391**	**-100**
Income taxes	-5	–1	–4	100
Consolidated earnings	**–1,382**	**5**	**–1,350**	**-100**
Key ratios				
Cost-income ratio (CIR)	53.40%	36.50%	-	46
Return on equity (before taxes)	n/a	0.20%	-	-
Balance sheet figures	**31.12.2016**	**31.12.2015**	**Change**	
Reported equity	495[1)]	1,904	-1,409	-74
Regulatory equity	1,246	1,839	-593	-32
– of which Tier 1 capital (CRR)	601	1,487	-886	-60
Risk-weighted assets	11,361	13,815	-2,454	-18
Reported equity ratio	4.36%	13.78%	-	-68
Total capital ratio	10.97%	13.31%	-	-18
Core capital ratio	5,29%[2)]	10.76%	-	-51
Loans and advances to banks	3,701	3,480	221	6
Loans and advances to customers	22,346	22,781	-435	-2
Risk provisioning	-2,074	-1,063	-1,011	95
Financial assets at fair value through profit or loss	502	666	-164	-25
Financial assets	2,775	2,919	-144	-5
Financial assets accounted for using the equity method	125	118	7	6
Other assets	1,556	1,070	486	45
Total assets	**28,931**	**29,971**	**-1,040**	**-3**
Liabilities to banks	11,084	10,603	481	5
Liabilities to customers	9,738	9,892	–154	–2
Securitised liabilities	5,251	5,295	–44	–1
Financial liabilities at fair value through profit or loss	724	870	–146	–17
Provisions	422	333	89	27
Other liabilities	615	472	143	30
Subordinated capital	602	602	0	0
Reported equity including that attributable to non-controlling interests	495	1,904	–1,409	–74
Total liabilities and equity	**28,931**	**29,971**	**–1,040**	**–3**
Number of employees				
Total	1,069	1,098	–	–3
Current ratings (long-term rating)				
Fitch Ratings	A–	A–		

1) The reported equity is increasing by €400 million upon the implementation of the capital increase as of 21.3.2017.
2) When the capital increase has been implemented, the core capital ratio will be above 8% again.

Preliminary remarks about BLB's Consolidated Financial Statements

The development of business at Bremer Landesbank was impaired massively in 2016 by a further sharp deterioration in the shipping segment. The shipping segment is permanently being exposed to substantial burdens as a result of declining growth rates in the newly industrialised countries, a generally rather subdued trend in global trade and a surplus of transport capacities. This is manifesting itself in a highly disproportionate increase in risk provisioning in the financial year 2016, considerable pressure on the equity ratios, and the ongoing urgent necessity of rigorously restructuring and reducing the Group's involvement in this segment.

In ad-hoc announcements made in accordance with Section 15, German Securities Trading Act (WpHG), as well as the articles 17 MAR from 2 June and 23 November 2016 and the article from 9 March 2017, the bank referred to anticipated and/or already existing valuation allowances affecting the ship portfolio and consequently to the concomitant high losses for the year in 2016.

One consequence of the developments in 2016 was a downgrade by a rating agency within the scope of a rating that was not commissioned. The downgrade has resulted in uncertainties for BLB'S investors and refinancing partners, which in turn led to restrictions in the bank's activities on the capital markets. Upon completion of BLB's acquisition by NORD/LB, the rating agency in question improved BLB's long-term rating again on 10 January 2017.

As a result of the trend in 2016 described above, the forecast of a break-even result that was made in the annual financial report for 2015 has proven to be untenable.

In 2016 the bank continued with the measures that it initiated in the areas of RWA management and shortfall management with a view to stabilising its capital ratios. In the process, a further synthetic securitisation was issued, among other things.

As a consequence of the further deterioration of the market situation in the ship financing segment, the bank's risk provisioning was adjusted to the changed earnings expectations. The unchanged applicable input factors for assessing ship financing arrangements were validated regularly and adjusted from a qualitative standpoint. A sustained recovery in the shipping sector remains plagued with great uncertainty due to high levels of overcapacity. Bremer Landesbank's portfolio will therefore continue to be exposed to further burdens of risk provisioning in the field of ship financing in the near future. Based on the estimate of a medium-term recovery in charter rates, the anticipated annual risk provisioning process is being reduced considerably.

In June 2016, the bank's owners had come to an understanding that they would keep the bank's capital intact to an appropriate extent against the backdrop of a disproportionately high level of risk provisioning in relation to BLB's ship portfolio and the accompanying pressure on BLB's regulatory capital.

Then, at the end of August 2016, the owners of Bremer Landesbank (BLB) agreed that BLB would become a wholly-owned subsidiary of NORD/LB. Effective as from 1 January 2017, the Free Hanseatic City of Bremen (FHB) and the banking group Savings Banks Association of Lower Saxony (SVN) sold their shares in BLB to NORD/LB.

The pressure on capital ratios persisted throughout the remainder of the year. The regulatory capital requirements in accordance with CRR as well as the liquidity requirements as per LiqV and the LCR were complied with during the course of the year. As a consequence of the further significant increase in the minimum requirements for the core capital ratio as per the ad hoc announcement on 9 March 2017, these were ultimately no longer fulfilled retroactively by the end of the year. In a similar development, in accordance with Section 25a, German Banking Act (KWG), in conjunction with MaRisk (minimum requirements for risk management), the risk-bearing capacity for an economic going concern (pillar II) no longer applied at the end of 2016. In addition, the Group had large-volume exposures as defined by CRR. The substantial loss in the financial year 2016, the failure to achieve the statutory minimum core capital ratio and the lack of risk-bearing capacity constitute circumstances that could jeopardise the continued existence of the Bank. These were reported to the supervisory authority by the auditor in accordance with Section 29 para. 3, sentence 1, KWG.

In connection with the acquisition of all shares in BLB by NORD/LB, the two entities have concluded a controlling agreement approved by their respective owners that allows for loss compensation claims. There was also a hard letter of comfort for BLB from NORD/LB.

On 19 January 2017, an application to use a waiver in accordance with Sections 2a (1) and (2) of the German Banking Act (KWG), in conjunction with article 7 (1) CRR, was submitted to the competent supervisory authority. If approval is granted, particular supervisory requirements regarding BLB's capital base will cease to apply at individual bank level. The application was approved on 31.03.2016.

BLB's sizeable loss for the year necessitated a cash capital increase amounting to €400 m, which was carried out effective from 21 March 2017. This strengthened the bank's capital reserve and the regulatory capital ratios while again easing the burden on the large loan exposure limits.

Furthermore, an increase in the synthetic securitisation that originated in 2016 during the first half of 2017 is expected to lighten the load on the regulatory capital ratios.

Sustainable compliance with the capital ratios and risk-bearing capacity depends in particular on the approval of a waiver between NORD/LB and Bremer Landesbank. If the application is delayed or refused by the supervisory authority, the plan for the capital increase simultaneously provides for a resolution in favour of authorised capital so that a further €200 million can be used to strengthen Bremer Landesbank's capital base.

The bank's continued existence depends on how its plans involving the measures for easing the commercial conditions at the level of Bremer Landesbank, as described above, are implemented on the basis of the owners' resolutions dated 21 March 2017.

According to a statement by the owners on 31 August 2016, BLB is to remain intact as an active, valuable member of the NORD/LB Group. The bank will continue to be based in Bremen. The Oldenburg branch will remain operational. A participating interest in an important commercial enterprise with connections in the state of Bremen that was held until recently by BLB was transferred to FHB effective from the beginning of 2017.

A joint project with NORD/LB was initiated with the aims of creating of an overlap-free business model comprising both banks, an operational model adjusted to the two banks, and the working hypothesis for integrating BLB into NORD/LB. The results are currently being worked out within the project and will be presented to the management bodies of both banks for a decision after their finalisation.

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Group Management Report

In the following text the terms “Bank” and “Bremer Landesbank” are used. In all cases they refer to the Bremer Landesbank Group. The development of the Group is basically determined by the parent company.

1. The Group – Basic Information

1.1 Goals and Strategies

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – “BLB” is a registered public institute (Anstalt öffentlichen Rechts) established by the Free Hanseatic City of Bremen and the State of Lower Saxony. It is a public lending and Pfandbrief institute and has trustee status. Bremer Landesbank has branches in the two major cities in the metropolitan region in the north-west of Germany, with around 300 employees in Oldenburg and some 800 in Bremen. The north-west of Germany is the business region allocated to the Bank under an interstate agreement.

Until 31.12.2016, the owners of BLB were NORD/LB with 54.8343 per cent, the state of Bremen with 41.2 per cent and the Savings Banks Association of Lower Saxony with 3.9657 per cent. Effective from 1 January 2017, all of the shares in Bremer Landesbank were transferred to NORD/LB. This means that Bremer Landesbank is a wholly-owned subsidiary of NORD/LB.

In connection with the acquisition of all shares in BLB by NORD/LB, the two entities have concluded a controlling agreement approved by their respective owners that allows for loss compensation claims. In addition, there is a hard letter of comfort from NORD/LB for BLB.

On 19 January 2017, an application to use a waiver in accordance with Sections 2a (1) and (2) of the German Banking Act (KWG), in conjunction with article 7 (1) CRR, was submitted to the competent supervisory authority. If approval is granted, particular supervisory requirements regarding BLB’s capital base will cease to apply at individual bank level.

BLB is included and fully consolidated in the consolidated financial statements of the NORD/LB Group and is a significant company of the latter. BLB also prepares its own subgroup consolidated financial statements in accordance with international accounting standards.

The basis of consolidation, determined in accordance with IFRS 10, is as follows in the reporting year:

Parent company:

- Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen

Subsidiaries in which Bremer Landesbank directly or indirectly holds more than 50 per cent of the voting rights or may otherwise control:

- BLB Immobilien GmbH, Bremen
- BLB Leasing GmbH, Oldenburg
- Bremische Grundstücks-GmbH, Bremen
- NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen
- NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen
- BGG Bremen GmbH & Co. KG, Bremen
- BGG Marktcarré GmbH & Co. KG, Bremen
- Nord/LB AM ARB Europe (special fund)

In May 2016, the special fund Nord/LB AM ARB Europe with a volume of €50 million was reissued; the sole shareholder is BLB. The special-purpose company BGG Marktcarré GmbH & Co. KG was re-established in the second half of the year. Following the contribution of a sizeable property, BGG Bremen GmbH & Co. KG has been included in BLB's consolidated financial statements since October 2016 on grounds of materiality.

At the end of the financial year, the following affiliated companies were accounted for using the equity method in accordance with IAS 28:

- Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede
- BREBAU GmbH, Bremen
- Bremische Wohnungsbaubeteiligungsgesellschaft mbH, Bremen
- GSG OLDENBURG Bau- und Wohngesellschaft mbH, Oldenburg
- Lazard-Sparkassen Rendite-Plus-Fonds

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

BLB has anchored its strategic goals in a customer-oriented business model with the following five strategic segments and the eleven strategic business units (SBUs) assigned to them. In the second half of 2015 it partly restructured its segments and modified its structures. This pooling of areas of competence should increase the level of specialist know-how and improve the focus on customer needs.

- **Corporate Customers**

The strategic aim of the Corporate Customers segment is to be the leader in corporate customer business in the region and underpin this with a consistently growing market share. The segment wants to operate as a specialist partner and offer individual consultation with tailor-made solutions for its customers. The segment is broken down into the strategic Corporates, Commercial Customers and Social Welfare Facilities business units.

- **Private Customers**

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

- **Special Finance**

Special Finance covers the strategic Refinancing of Equipment Leasing and Factoring Companies business units, plus Renewable Energies with its Wind, Photovoltaics and Biogas subsegments. In the NORD/LB Group, Special Finance is part of the value driver Energy and Infrastructure Customers.

- **Ship Finance**

With its dominant portfolio, the Ship Finance segment's main strategic focus is on the rigorous continuation of its restructuring work in conjunction with a significant reduction in the portfolio and a realignment of business.

- **Financial Markets**

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

BLB

BLB acts as the landesbank (state bank) for the state of Bremen, is the leading savings bank in the area of Lower Saxony and Bremen and is also a commercial bank with a regional focus and supra-regional and selected international specialist business.

- BLB's strategy corresponds to its business model.
- Commercial bank with a regional focus and specialist international operations, landesbank and central savings bank.
- A particular focus is on problem-solving consulting for demanding customers and the promotion of the development of the north-western economic area.

The business segments are managed with a focus on returns. Profitability targets are set for each business segment on the basis of the strategy for the respective business segment. In addition, the Bank attaches particular importance in terms of risk to a sustainably high capital ratio and a correspondingly high degree of risk coverage in its business policy orientation. The credit policy is therefore designed in a conservative and risk-averse way in all five segments. It is documented in the specific form of the group's internally coordinated risk strategy and financing principles. As a result of the further deepening of the crisis on the shipping markets, the targets for the capital ratio and level of risk coverage could not be achieved in 2016. The capital ratios came under a great deal of pressure with a retroactive inability to maintain the regulatory core capital ratio as stated in the ad hoc announcement on 9 March 2017 and a complete absence of risk-bearing capacity. The Bank's most urgent objective at present is to comply with the regulatory minimum capital ratios.

The credit policy is therefore designed in a conservative and risk-averse way in all five segments. It is documented in the specific form of the group's internally coordinated risk strategy and financing principles. Against the backdrop of the further deepening of the crisis on the shipping markets, it can be stated with hindsight that the credit policy for the Ship Finance segment does not correspond to its fundamental orientation.

Overall, the focus of the Bank's business model on the core business with numerous branches in the north-western region and its simultaneous selective use of national and some international market opportunities has the objective of a balanced risk-return ratio.

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

Bremer Landesbank is a reliable partner with a long-term view for the region, the people, its customers and its employees. Its goals are to ensure the Bank's future success, achieve solid profitability and competitiveness through far-sighted action, and devise a business strategy that will preserve the Bank and work over the long term. For this reason, Bremer Landesbank combines the dimensions of economics, ecology and social matters as integral components in its understanding of sustainability.

To ensure a sustainable business model, BLB pursues a portfolio approach. This allows it to constantly check and optimise the Bank's income structure across all SBUs.

A joint project with NORD/LB was initiated with the aims of creating of an overlap-free business model comprising both banks, an operational model adjusted to the two banks, and the working hypothesis for integrating BLB into NORD/LB. The results are currently being worked out within the project and will be presented to the management bodies of both banks for a decision after their finalisation.

1.2 Integrated bank management

The Management Board is responsible for the risk-oriented management of returns and productivity at Bremer Landesbank. The goal of this control is the short- and medium-term optimisation of its returns and efficiency with the greatest possible income and cost transparency. Bremer Landesbank's Integrated Bank Management is value- and risk-based. It meets the legal requirements and provides decision-makers with key information for management purposes. Central control instruments of the Bank are the Income Statement with the main focus on annual earnings before taxes, the Contribution Margin Statement which is structured along the lines of segments and cost centres, the Cost Type Report, the Monthly Report and the Risk-Bearing Capacity Report (RBC Report) and, from a regulatory perspective, the Common Equity Tier 1 capital ratio. Two key metrics for profitability management at an integrated bank level are (return on equity = RoE)[1] and the cost-income ratio (CIR)[2].

Integrated bank management therefore guarantees a simultaneous view of externally and internally-oriented management processes.

The management process at Bremer Landesbank commences with a strategy review conducted in the spring of each year by the Management Board and the second management level. In addition to reviewing the Bank's strategy, future areas of business activity – for both the Bank as a whole and the business segments – are identified in a strategic workshop (the subsidiary controlling process also involves the key subsidiaries in the Group's planning and management process).

The strategy workshop defines the top-down targets for the business segments. The subsequent process of medium-term planning over a five-year horizon is concluded in the budget meeting in the autumn of each year. The final quantitative budget figures are significant inputs in the bank-wide target-agreement process.

This independent, established process of corporate control, with its integral element of risk and reward management, including the monitoring of target achievement levels, is constantly being improved and the instruments employed are continuously being refined.

1 RoE: Earnings before taxes/equity

2 CIR: Administrative expenses/(Interest surplus/Commission surplus/Profit/loss from financial instruments at fair value through profit or loss/Profit/loss from hedge accounting/profit/loss from financial assets and results from financial assets shown in the balance sheet in accordance with the equity method

2. Economic Report

2.1 General Economic and Industry-specific Environment

2.1.1 Economic Situation and Financial Markets

Global economy and outlook for 2017

According to International Monetary Fund (IMF) calculations, the global economy is expected to grow by 3.4 per cent after 3.1 per cent in 2016. The year 2016 was shaped and burdened by unexpected political twists and turns, including the UK's vote for Brexit and the election of Donald Trump as President of the USA.

The conditions for the development of the global economy are positive overall in 2017. Alongside the global availability of high liquidity and the policy of low interest rates which is anchored in the industrial nations, low energy and raw-material prices are basically generating positive impetus for the global economic climate.

Following some uncertainty in the run-up to the election of President Trump, the result immediately aroused hopes of growth in the USA which, although clearly evident in the sentiment indicators for months, have not yet become hard facts.

The political risk sources in Ukraine and the Middle East still constitute latent depressive factors. Furthermore, the themes dominating the upcoming elections in continental Europe, especially in France and probably in Italy, run the risk of neutralising the perception of the EU's reform successes as early as the run-up stage.

The US economy performed disappointingly in 2016. In the course of the year, public-sector debt increased sharply under the influence of the economic stimulus given to boost the economy and amounted to 5.6 per cent of GDP (source: US Treasury). For 2017 the IMF is expecting US economic output to grow by 2.3 per cent after 1.6 per cent in 2016.

Japan's economy failed to convince in 2016 with its economic growth rate of 0.9 per cent. For 2017 the IMF is again anticipating a disproportionately subdued economic performance of 0.8 per cent.

Positive aspects were and continue to be emphasised with regard to the realisation of the cross-border infrastructure project "One Belt –One Road" under China's leadership. The increasing raw-materials prices associated with the project are having a supportive effect on the economic situation in the producer countries. This is leading to a pronounced increase in the rate of economic growth in the emerging economies. In this segment of the global economy, the IMF anticipates growth of 4.6 per cent in 2017 following 4.1 per cent in 2016.

The ongoing reorganisation of the Chinese economic model from manufacturing and export to an economy more focused on the domestic market is having a subliminally dampening effect on the economic situation. At the same time, the infrastructural expansion is providing support within the scope of the "One Belt – One Road" project. According to the IMF, growth in 2016 was 6.7 per cent. For the current year the IMF is expecting Chinese GDP to increase by 6.5 per cent.

In 2016 India made a disappointing contribution with growth of 6.6 per cent that resulted from the restriction of cash transactions. For 2017 the IMF is forecasting growth of 7.2 per cent in that country.

Brazil's economic performance again disappointed in 2016 with a decline of 3.5 per cent in economic output. Governmental crises and losses of public trust against a backdrop and ongoing accusations of corruption are critical catalysts of this weakness. Stabilised raw-materials prices, for example iron ore, as well as population growth are playing a not insignificant part in this trend. The IMF expects the country's GDP to grow by 0.2 per cent in the current year.

As 2017 takes shape, the Russian economy continues to be affected by Western sanctions for the time being. The countermeasures implemented in Russia are bearing fruit. The IMF subsequently forecast an expansion of 1.1 per cent in its economic performance in 2017 after –0.6 per cent in 2016.

Europe

The eurozone bucked the trend of diminishing global economic dynamism in 2016. In contrast to the USA, the eurozone's growth is characterised mainly by recurring income and a reduction in public deficit spending (IMF forecast: 1.7 per cent of GDP in 2017) accompanied by falling levels of unemployment, which were down to their lowest level since 2009. In addition to Germany, the successful reforming countries Ireland and Spain are sustaining the eurozone's economic expansion. France is picking up speed to a moderate extent. During the second half of the year the growth forecasts of 1.4 per cent were revised to 1.7 per cent. For 2017 the IMF anticipates an expansion of 1.6 per cent in GDP.

Germany

The German economy was upbeat in 2016 with a growth rate of 1.7 per cent. As well as rising demand from the eurozone, private and public consumption were and remain the most significant drivers of the country's positive economic situation. For the current year 2017 the IMF is forecasting growth of 1.5 per cent in the overall economic performance.

Financial markets

A high level of volatility was the dominant factor on the financial markets in 2016 and it is likely that this trend will continue during the course of 2017.

The nervous attitude was and continues to be encouraged by a variety of trouble spots around the world. The still destabilised security situation in and around Ukraine, ongoing instability in the Middle

East, the Brexit vote, the elections in continental Europe, and the loss of dynamism in the US economy in 2016 that the mainstream had not been expecting had a negative psychological impact on the financial markets from time to time.

From its starting point of around 10,480 points at the beginning of the year, the DAX came under heavy pressure in 2016 before stabilising itself from its lowest levels around 8,700 points in February, accompanied by at times by hefty fluctuations, to its level of 11,481 at the end of the year. In the current year there was a consolidation at a high level which settled in a range from 11,410 – 11,893 points.

In view of a below-average valuation from a historical perspective and attractive dividend returns of currently around 3 per cent, as well as the simultaneous repression on the interest market, the stock market in 2017 is going to offer attractive investment opportunities in its weaker phases.

In 2016 the return on the ten-year German government bond started on a downward trend and reached lows of –0.21 per cent before gradually recovering despite buying-up by the ECB on the European bond market. At its highest point, peak returns of around 0.50 per cent were achieved at the beginning of the year. The tendency for prices to accelerate has been pronounced in the early stages of 2017 and will become more constant at a higher level during the course of the year. This provides further scope for higher returns up to around 1 per cent on the capital market for ten-year government bonds.

The zero and negative-interest-rate policy established by the ECB, however, basically limits the scope for excessively high returns on the capital market. In addition to that, the ECB’s predetermination regarding the zero-interest policy in 2017 implies a steep interest rate curve.

The euro held its own successfully against the main currencies at the beginning of 2016. Against the USD, the euro appreciated between January 2016 (1.08 USD) and the beginning of May (1.16 USD). In the run-up to the US election in particular, and even more so during the course of the election itself, there was a noticeable devaluation of the euro to around 1.03 against the USD. Since then the market has consolidated this euro weakness in a sideways movement.

The pronounced policy of monetary relaxation by the ECB, coupled with hesitant steps in the US interest-rate reversal on the one hand, and the hitherto positive performance of the eurozone economy, also from a qualitative point of view, on the other implies a further sideways trend with mildly positive portents in favour of the euro.

2.1.2 The region

Bremen and the surrounding region are defined by different economic structures. This divergence expresses itself in partially different assessments and considerations as far as the individual sectors in the different regions of Bremen, Oldenburg and Emden are concerned.

The current assessments in the three chamber-of-commerce districts reveal a basically robust economic trend, albeit with differing levels of dynamism.

Bremen

In 2016, according to Bremen's chamber of industry and commerce (IHK), the city's economy with its high export ratio was on a robust cross-sector course of growth. Following a temporary downturn in the commercial outlook caused by a diversity of risks (including the Brexit vote, issues concerning Turkey, sanctions against Russia and President Trump's potential trade policy), the economic climate improved by five points in the fourth quarter to 111 points, which was in line with the average of the past ten years.

The eye-catching aspect of this is the divergence between the positive assessment in the city of Bremen itself and the rather subdued situation in Bremerhaven, where the port economy plays a significant part.

Although a stable export outlook dominates the picture, the framework conditions are perceived to be the biggest risk. As far as employment is concerned, stability is on the agenda. The investment climate is moderately bright.

The economic position is positive in the construction industry, the property sector and the retail trade. The transport sector has recovered slightly, while expectations in wholesaling and foreign trade are subdued. The financial services sector, excluding lending business, is performing very well in economic terms.

Oldenburg

Oldenburg's economy finished 2016 on a successful note, with the services, construction and wholesaling sectors standing out. In the industrial, transport and retail sectors, on the other hand, the situation was a little restrained.

The regional IHK economic climate index fell as from the beginning of 2016 from 114.1 to 109.1 points at one stage before rising to 111.9 in the fourth quarter.

The expectations concerning domestic consumption are solid and, despite geopolitical risks with regard to foreign orders, optimistic. Along with the shortage of qualified staff, increasing raw-materials prices are classified as a growth risk.

Emden

2016 revealed a robust situation in Emden's IHK district. In the fourth quarter the economic climate indicator increased by 10 points to its long-term average of 112 following intermittent weakness.

Across the board in the fields of industry, retail and wholesaling, as well as in the transport sector, the level of dynamism is growing. In the services sector, on the other hand, the situation has taken a noticeable turn for the worse.

Expectations in the early part of the year are cautiously positive. Stabilised prospects in foreign business, a positive willingness to invest and a subliminally positive attitude towards taking on more employees are defining the current picture.

The shortage of suitably qualified employees, the trend in labour costs and the framework conditions are regarded as critical aspects.

2.1.3 Sector

According to the German Bundesbank's report on January 2017, economic growth in Germany has clearly gained momentum, especially in the last quarter of 2016. Increased exports of goods and a high level of incoming orders generated a pronounced boost for industrial production. The construction sector and private consumption, too, developed positively in 2016.

Despite the advantageous overall economic environment, the German banking system has been plagued for a long time by a structural earnings weakness that is evident particularly in the decline in the interest margin. This is caused by intense competition that makes it more difficult to accumulate capital buffers from retained earnings and by declines in margins caused by the low-interest environment. In addition to that, considerable risks have developed in some individual sectoral credit markets. As far as the northern German state banks are concerned, the transactions most vulnerable to default risks are shipping loans. Also important for the German banking system as a whole is that no excessive risks should develop from the granting of loans for residential properties in the low-interest environment in Germany.

Furthermore, the German financial sector's situation was still strongly influenced by developments in the regulatory environment in 2016. Within the scope of the "Supervisory Review and Evaluation Process" (SREP), a standardised pan-European scheme for assessing significant financial institutions was established. This scheme is linked with a comprehensive increase in what is required of banks in respect of their business model, internal control systems, risk-bearing capacity and liquidity management. As well as far more stringent equity requirements and a new model for assessing the risk-bearing capacity of a financial institution, there are additional liquidity requirements and a multiplicity of adjustments in the risk and business management areas.

The requirements governing the quality of IT systems have become far more demanding in European banks. The BCBS standard (239 (Basle Committee of Banking Supervisors), for example, demands from the institutions concerned that they make considerable adjustments to their risk data storage, assessment and the reporting based thereon.

For banking groups that prepare their annual accounts in accordance with international accounting principles, there are generally comprehensive project activities aimed at implementing the requirements contained in the standard IFRS 9 for the valuation of financial instruments that will be applicable as from 2018.

There are also far-reaching supervisory requirements concerning the banks' IT security which must be implemented in time- and cost-intensive projects.

In 2016, banking groups supervised directly by the ECB were obliged to undergo a Europe-wide bank stress test in which they had to demonstrate that, in certain scenarios arising from overall commercial or sector-specific developments, they had sufficient to cover any potential losses.

2.1.4 Markets

North-West

The individual sectors of the economy in north-western Germany have shown divergent levels of performance. Viewed as a whole, the economic situation is good and the prospects for the future are positive. There is a willingness to invest, although this is influenced by Hanseatic caution due to events in the recent past – as a result of which the financing needs of companies in the region are expanding only moderately. Modest increases in employment and income ensure a basically positive assessment of the prospects for private households, which is expressed in higher consumption. Wealthy private customers are much sought-after, though, and are themselves looking for alternative investment options as a result of low interest rates.

Shipping

The negative trend in commercial shipping that emerged in the previous year manifested itself in the new all-time low in the Baltic Dry Index in the first quarter. The shipbreaking activities that took place were favoured by the poor income situation in the sector and duly increased. As the bulk cargo industry recovered around the mid-year point, however, the scrapping activities declined somewhat with the result that the peaks achieved in the previous year totalling 30.6 million dwt were not exceeded. Thanks to increased iron ore demand from China in the fourth quarter, the rate indices managed to stage an end-of-year spurt. The discernible reluctance to order in the bulker segment during the course of the year is worth mentioning as a positive aspect.

The growth in the container sector in 2016 was considerably more hesitant than in the previous year. Although the container fleet increased by only approx. 1.5 per cent, it passed the 20 million TEU mark. The opening of new locks at the Panama Canal, in particular, led to distinct shifts in tonnage demand. As a result of another below-par high season and general lack of demand, in combination with increasing capacities, the rate levels fell below operating costs at times. The surprising insolvency of the Korean Hanjin shipping company, one of the top liner operators, led to further dislocations and accelerated consolidations in the market. Accordingly, the lay-up fleet increased in size and achieved a new all-time high of almost 1.6 million TEU towards the end of 2016. In the container sector, parallel to that, the number of scrappings in the second half of the year increased significantly. With an aggregate total of approx. 660,000 TEU, this is the largest amount of shipping volume ever to be removed from the market.

Leasing

In accordance with the overall economic environment in Germany, a fundamentally positive business climate prevails in the leasing sector in anticipation of sustained and possibly increased corporate investments. Bremer Landesbank is well positioned to guide leasing companies in this market environment.

Renewable Energies

The recent amendment to the German Renewable Energies Act (EEG) has provided certainty about the legal principles and the funding regime for this business segment. Despite a reduction in remuneration rates and the direct-marketing obligation for the operators of large energy plants, renewable energies remain a key growth segment for Bremer Landesbank. In this business segment the Bank can build on many years of experience and a prominent market position.

Social Welfare Facilities

The market environment for the “Social Welfare Facilities” segment has been defined by the new capacities created in past years and by a tougher competitive environment. The difficult environment at the present time means that there is only limited investment in new projects. The acquisition of existing operations is leading to increasing concentration in the sector. At the same time, this provides fertile ground for the continuation of professionalisation. The political discussions on the subject of nursing care are leading to the creation of alternative offerings such as outpatient residential services or assisted living. Furthermore, there is a trend towards “divided ownership” – the sale of partial ownership to investors.

Local real estate market

Despite the advantageous long-term interest rates, conditions for the local real-estate economy remain difficult for commercial and residential real estate. This is equally true for commercial and residential real estate and has an effect on all active business segments in the market.

2.1.5 Impact on Bremer Landesbank

The aforementioned developments have an impact on the Bank's business development in view of the increasingly slow globalisation of the international economy:

General impact

- The global economic trend influences the global commodity flows and therefore the transport volume in the shipping sector, with a corresponding impact on charter rates and market prices. As a consequence of the duration of the crisis on the shipping markets, effects that influence the level of the Bank's risk provisioning are emerging.
- The stability of the eurozone – and especially of the highly indebted states in southern Europe – is having an impact on the euro's exchange rate against other currencies, and therefore on the available export opportunities for business on the one hand and the valuation of securities and credit default swaps (CDS) on the other. In particular, the euro's exchange rate against the USD can unfold a perceptible effect on the extent of customer requirements, the RWA and the balance sheet total, but also on the interest surplus and the Bank's risk provisioning.
- The domestic and regional economic climate has an impact on the small and medium-sized corporate customers and their financing needs, and therefore also on Bremer Landesbank's lending business.
- The level of interest influences the attainable margins in lending operations on the one hand, but also – in conjunction with the anticipated economic developments – the financing needs of commercial undertakings and private individuals in the respective commercial territory on the other.
- The development of the share indices – especially the DAX – has an impact on the behaviour of private customers when they invest in securities, shares and alternative investments, and therefore also on Bremer Landesbank's net commission income.
- The development of the local real estate market has an impact on the success of the subsidiaries that are active in the real estate business.

Specific effects

- In 2016, Bremer Landesbank's earnings situation was determined primarily by the effects of the persistent and worsening crisis in commercial shipping. Due to the ongoing deterioration of the market situation, risk provisioning in the Ship Finance segment was adjusted to the changed earnings expectations. The comprehensive increase in risk provisioning meant that the financial year 2016 was concluded with a substantial loss. This also led to a change in the ownership structure at Bremer Landesbank, which was acquired in its entirety by NORD/LB.

- Further successes were achieved in the other business segments, however. Operations in the Renewable Energies segment, which is characterised by energetic competition among the banks, for example, was expanded further.

- As in the previous year, changes in the structure of banking supervision, plus regulatory requirements, had a significant influence on the Bank's costs situation. As well as a strong commitment to personnel resources and the necessity of acquiring new IT systems, influence on the Bank's management in particular is of paramount importance.

- The requirements governing the quality of IT systems, too, have become far more stringent at European banks. As part of the BCBS 239 project, Bremer Landesbank is implementing the required adjustments for risk data retention, analysis and the reporting based thereon in a multi-year process. Furthermore, comprehensive project activities are taking place for the implementation of the requirements contained in IFRS 9 as well as the implementation of supervisory aspects of IT. In this way, Bremer Landesbank is proactively facing up to the regulatory requirements and has already started to adjust its processes to risk and earnings management and its systems to future requirements.

- In 2016, Bremer Landesbank as a subsidiary of NORD/LB was subjected to a Europe-wide bank stress test – although the Group as a whole is regarded as stable and sufficiently capitalised from a regulatory viewpoint. In the last bank stress test, carried out by the European regulatory authorities in 2014, NORD/LB achieved a high CET1 core capital ratio even in the adverse scenario of a global recession.

Specific details of the effects on individual components of the Group's financial position, net assets and results of operations can be found in the respective subsections on the position of the Group.

2.2 Business performance

The development of business at Bremer Landesbank was impaired massively in 2016 by a further sharp deterioration in the shipping segment. The shipping segment is permanently being exposed to substantial burdens as a result of declining growth rates in the newly industrialised countries, a generally rather subdued trend in global trade and a surplus of transport capacities. This is manifesting itself in a highly disproportionate increase in risk provisioning in the financial year 2016, considerable pressure on the equity ratios, and the ongoing urgent necessity of rigorously restructuring and reducing the Group's involvement in this segment.

In ad-hoc announcements made in accordance with Section 15, German Securities Trading Act (WpHG), and the articles 17 MAR from 2 June and 23 November 2016 as well as from 9 March 2017, the bank referred to anticipated and/or already existing valuation allowances on the ship portfolio and consequently to the concomitant high losses for the year 2016.

One consequence of the developments in 2016 was a downgrade by a rating agency as part of a rating that was not commissioned. The downgrade has resulted in uncertainties for BLB'S investors and refinancing partners, which in turn led to restrictions in the bank's activities on the capital markets.

Upon completion of BLB’s complete takeover by NORD/LB, the rating agency in question increased BLB’s long-term rating again on 10 January 2017.

As a result of the trend in 2016 described above, the forecast of a break-even result that was made in the annual financial report for 2015 has proven to be untenable.

In 2016 the bank continued with the measures that it initiated in the areas of RWA management[3]and shortfall management[4] in order to stabilise its capital ratios. In the process, a further synthetic securitisation was issued, among other things.

As a result of the further deterioration of the market situation in the ship financing segment, the bank’s risk provisioning was adjusted to the changed earnings expectations. The unchanged applicable input factors for assessing ship financing arrangements were validated regularly and adjusted from a qualitative standpoint. A sustained recovery in the shipping sector remains plagued with great uncertainty due to high levels of overcapacity. Bremer Landesbank’s portfolio will therefore continue to be exposed to further burdens of risk provisioning in relation to ship financing in the near future. Based on the estimate of a medium-term recovery in charter rates, the anticipated annual risk provisioning is being reduced considerably.

In June 2016, the bank’s owners had come to an understanding that they would keep the bank’s capital intact to an appropriate extent against the backdrop of a disproportionately high level of risk provisioning in relation to BLB’s ship portfolio and the concomitant burden on the regulatory capital.

Then, at the end of August 2016, the owners of Bremer Landesbank (BLB) agreed that BLB would become a wholly-owned subsidiary of NORD/LB. Effective as from 1 January 2017, the Free Hanseatic City of Bremen (FHB) and the banking group Sparkassenverband Niedersachsen (SVN) sold their shares in BLB to NORD/LB.

The pressure on the capital ratios persisted throughout the remainder of the year. The regulatory capital requirements in accordance with CRR as well as the liquidity requirements as per LiqV and the LCR were complied with during the course of the year. As a consequence of the far greater stringency in the minimum requirements of the core capital ratio as per the ad hoc announcement on 9 March 2017, these were ultimately no longer fulfilled retroactively by the end of the year. Similarly, according to Section 25a, German Banking Act (KWG), in conjunction with MaRisk (minimum requirements for risk management), the risk-bearing capacity for an economic going concern (pillar II) no longer applied at the end of 2016. In addition, there were large-volume exposures as defined by CRR. The substantial loss in the financial year 2016, the failure to achieve the statutory minimum core capital ratio and the lack of risk-bearing capacity constitute circumstances that could jeopardise the continued

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[3] RWA: risk-weighted assets

[4] Shortfall: within the scope of the COREP own funds reporting procedure, the expected loss from credit commitments is compared with the valuation allowances that have already been formed. If there is a surplus of expected losses, this is referred to as a shortfall.

existence of the Bank. These were reported to the supervisory authority by the auditor in accordance with Section 29 para. 3, sentence 1, KWG.

In connection with the acquisition of all shares in BLB by NORD/LB, the two entities have concluded a controlling agreement approved by their respective owners that allows for loss compensation claims. There is also a hard letter of comfort for BLB from NORD/LB.

On 19 January 2017, an application to use a waiver in accordance with Sections 2a (1) and (2) of the German Banking Act (KWG), in conjunction with article 7 (1) CRR, was submitted to the competent supervisory authority. If approval is granted, particular supervisory requirements regarding BLB's capital base will cease to apply at individual bank level.

BLB's sizeable loss for the year necessitated a cash capital increase amounting to €400 million, which was carried out effective from 21 March 2017. This strengthened the Bank's capital reserve and the regulatory capital ratios while again easing the burden on the large loan exposure limits.

Furthermore, an increase in the synthetic securitisation that originated in 2016 during the first half of 2017 is expected to lighten the load on the regulatory capital ratios.

Sustainable compliance with the capital ratios and risk-bearing capacity depends in particular on the approval of a waiver between NORD/LB and Bremer Landesbank. If the application is delayed or refused by the supervisory authority, the plan for the capital increase simultaneously provides for a resolution in favour of authorised capital so that a further €200 million could be used to strengthen Bremer Landesbank's capital base.

The Bank's continued existence depends on how its plans involving the measures for easing the commercial conditions at the level of Bremer Landesbank, as described above, are implemented on the basis of the owners' resolutions dated 21 March 2017.

According to a statement by the owners on 31 August 2016, BLB should remain intact as an active, valuable member of the NORD/LB Group. The Bank will continue to be based in Bremen. The Oldenburg branch will remain operational. A participating interest in an important commercial enterprise with connections in the state of Bremen that was held until recently by BLB was transferred to FHB effective from the beginning of 2017.

A joint project with NORD/LB was initiated with the aims of creating of an overlap-free business model comprising both banks, an operational model adjusted to the two banks, and the working hypothesis for integrating BLB into NORD/LB. The results are currently being worked out within the project and will be presented to the management bodies of both banks for a decision after their finalisation.

2.3 Position of the Group

2.3.1 Earnings position

The Bremer Landesbank Group's earnings position developed inadequately in 2016 against the backdrop of the exceptionally high level of risk provisioning in the Ship Finance segment as announced in the published ad hoc reports.

Income Statement

	Notes	1.1.–31.12.2016 € million	1.1.–31.12.2015 € million	Change %
Interest income		1,117	1,260	–11
Interest expenses		752	847	–11
Net interest income	**19**	**365**	**413**	**–12**
Loan loss provisions	20	–1,547	–341	100
Net interest income after risk provisioning		**–1,182**	**72**	**–100**
Commission income		50	50	0
Commission expenses		26	9	100
Net commission income	**21**	**24**	**41**	**–41**
Trading profit/loss		–1	31	–100
Profit/loss from designated financial instruments		–	–	–
Profit/loss from financial instruments at fair value through profit or loss	**22**	**–1**	**31**	**–100**
Profit/loss from hedge accounting	23	1	26	–96
Profit/loss from financial assets	24	3	10	–70
Profit/loss from financial assets accounted for using the equity method	25	5	8	–38
Administrative expenses	26	212	193	10
Other operating profit/loss	27	12	9	33
Profit/loss from restructuring	28	37	–	100
Earnings before taxes		**–1,387**	**4**	**–100**
Income taxes	29	–5	–1	100
Consolidated profit/loss		**–1,382**	**5**	**–100**
of which: attributable to shareholders of the parent company		–1,382	5	–100
of which: attributable to non–controlling interests		–	–	–

Net interest income

The Bank had forecast that net interest income in the reporting year would be at the level of 2015.

The interest surplus declined by 12 per cent from €413 million to €365 million. The contributions from business operations with the Bank's customers remained at a robust level despite intense competitive pressure, even though the strategically desired reduction of the portfolio in the field of ship finance likewise made its presence felt with declining interest income. The persistently low interest rates on the money and capital markets, moreover, generally had a burdensome effect on the Bank's interest income. Negative interest rates have had no significant effects so far.

Significant contributions in customer-oriented business have, as before, been provided by the Ship Finance and Special Finance segments as well as by Corporate Customers. Ship finance as a proportion of interest income is on a clear downward trend. Business in the Renewable Energies segment almost emulated its result from the previous year, while net interest income with the regional corporate customers and with institutional customers showed a slight downward trend.

In the coming year we are determined to achieve a tangible improvement in our net interest income.

Loan loss provisions

Risk provisioning in lending operations increased to €1,547 million (previous year: €341 million) in 2016.

In the Group Management Report for 2015, the Bank had assumed that risk provisioning in the shipping segment would benefit from a slow reduction in expenses based on a gradual recovery in charter rates. It had nevertheless continued to expect problems from the shipping segment due to the possibility of a deterioration in the global economic environment and had stated that deviations from the assumed valuation parameters in the shipping segment (e.g. a further delay in the market recovery) and the exploitation and/or reduction of defaulted ship financing arrangements might continue to have a considerable impact on the level of risk provisioning.

The development of business at Bremer Landesbank was impaired massively in 2016 by the crisis in the Shipping segment. The Shipping segment is permanently exposed to substantial burdens as a result of declining growth rates in the newly industrialised countries, a generally rather subdued trend in global trade and a surplus of transport capacities. This is manifesting itself in a highly disproportionate increase in risk provisioning in the financial year 2016, considerable pressure on equity ratios, and the ongoing urgent necessity of rigorously restructuring and reducing the Group's involvement in this segment.

In the reporting year, risk provisioning was adjusted to the changed income expectations as a result of the further deterioration in the market environment in the Ship Finance segment. The still valid input factors for the valuation of ship financing arrangements were regularly validated and adjusted from a quantitative standpoint so that they would fully reflect the ongoing crisis in commercial shipping. As well as genuine defaults, this led to a highly disproportionate increase in risk provisioning.

Previous slight signs of recovery in freight and charter rates proved to be unsustainable. Short-term reductions in capacity are swiftly compensated for by the continuing existence of overcapacities. Lay-up numbers have shown no meaningful increase compared to last year. New-building activities are generally registering a slowdown with the result that, in the event of any future increase in the scrapping of old and no longer energy-efficient tonnage, states of equilibrium can come back into reach in the medium term and the rate-damaging predatory competition will recede. The relatively small tanker segment has weakened again following a comparatively positive course of business, while multi-purpose ships and especially bulk carriers remain in the doldrums. The larger container ships remain under considerable pressure – which likewise applies against the backdrop of the expansion of the Panama Canal and the displacement of in-demand size classes that this will entail. Smaller units in the container segment – the largest part of the BLB container portfolio – can stand their ground well at a low level because new-building activity has been very restrained for a long time and modern tonnage is in demand in this niche. On the tonnage demand side, no discernible economic recovery is in sight despite some cautiously positive signals from China.

A sustained recovery in the shipping sector remains beset with great uncertainty due to high levels of overcapacity. As a result, Bremer Landesbank's portfolio will continue to be exposed to further burdens from risk provisioning for ship finance in the near future. The estimates for a medium-term recovery in charter rates are considerably reducing the annual risk provisioning expectations. Deviations from the assumed valuation parameters in the shipping segment (e.g. a further delay in the market recovery) and the exploitation and/or reduction of defaulted ship financing arrangements can still have a substantial effect on the level of risk provisioning. When estimating the future development of the shipping sector, the Bank uses external forecasts from the valuation expert Weselmann and the leading market research institutes Marsoft and MSI.

The Bank takes account of risks that have presumably been entered into but are not yet recognised by carrying out portfolio allowances. In the reporting year there was, mainly as a result of new individual valuation allowances, a liquidation of the portfolio allowance amounting to €50 million (previous year: €0 million). The formation of individual valuation allowances resulted in expenditure of €0 million (previous year: €43 million).

Commission surplus

In its forecast, the Bank had assumed a lower commission result given that the framework conditions would continue to apply.

Net commission income fell from €41 million to €24 million and consequently by 41 per cent. Operationally, the traditional key elements have continued their development in a largely stable manner in line with the forecast from the previous year. The two securitisation transactions and guarantees carried out in the financial years 2015 and 2016 to stabilise the regulatory core capital ratio have, however, caused a significant reduction in the commission surplus as a result of the commissions due for payment.

The income from guarantee commissions was diminishing with regard to the guarantee commissions previously mentioned. It was even possible to increase the operating incomes from the traditional guarantee transaction.

A discernible increase in net income from securities transactions contrasts with a smaller decrease in commissions from foreign payment transactions. The income from credit commissions have settled moderately at below the previous year's level.

All of the other components, e.g. from domestic payment transactions, account management and foreign exchange transactions, have generally developed in a stable manner.

In 2017, a slightly negative tendency is still being anticipated because the two securitisation transactions are fully recognised as expenses.

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

In the forecast, the Bank continued to assume that it had a good chance of achieving a positive fair-value result.

The fair-value measurement of financial instruments leads to a negative profit contribution of €1 million while, in the comparative period, a profit totalling €31 million was generated. The difference can be attributed mainly to a lower valuation and net realised result from the financial instruments measured at fair value totalling €3 million (previous year: €31 million). A more stable level of interest and, concomitantly, improved control of interest risks in the reporting year led to an almost balanced result from financial instruments at fair value through profit or loss. In addition to this, a positive result of €7 million (previous year: €8 million) flowed from the the valuation of cross-currency swaps that serve to refinance USD-denominated operations.

The portfolio of CDS for which Bremer Landesbank operates as protection provider has diminished further as a result of maturities and in connection with the position resolutions that ensued within the scope of RWA control and now has only an insignificant volume. The CDS result consequently declined from €4 million to €0 million.

The Irish bank Permanent TSB (formerly Irish Life and Permanent) has been the subject of a restructuring credit event since 2010. No credit event notices have as yet been issued to the Bank for the remaining CDS contracts due in 2017 in the amount of €10 million and the Bank does not expect to receive any.

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

Bremer Landesbank's foreign exchange result fell by €8 million to €–6 million in the reporting year. This trend results in particular from increased refinancing costs, which in turn were caused by the divergent paths taken by the euro and USD interest-rate environments respectively.

Bremer Landesbank's trading business is customer-induced or serves to hedge interest rate and foreign currency risks in traditional banking business. Under these self-devised conditions, the Bank was again able to operate successfully in the money and capital markets in the past year.

The profit/loss from financial instruments at fair value through profit or loss is volatile due to the short-term nature of the business and market fluctuations, making it difficult to forecast. In its planning, however, the Bank still assumes that it has a good chance of being able to operate successfully in financial markets and to achieve a discernibly improved aFV profit/loss overall.

Profit/loss from hedge accounting

This item includes the net valuation results from effective hedges. The more effective hedges are, the lower their effects on income. For some considerable time now, Bremer Landesbank has employed micro fair value hedges and portfolio fair value hedges in fair value hedge accounting to reduce the effects on income of IAS-related accounting mismatches. Bremer Landesbank is continuously improving its reported interest-rate management.

The hedges designated by Bremer Landesbank generated a profit of €1 million in 2016, compared with €26 million in 2015. The low hedge result is attributable to high levels of hedge effectiveness in 2016. This resulted in particular from minor effects from tenor-basis-spread changes.

The Bank expects the profit/loss from hedge accounting to remain volatile over the next few years as hedge accounting continues to be used intensively and the interest rate landscape changes. The contributions to profit/loss from this item are therefore not recognised in the planning.

Profit/loss from financial assets

The result from available-for-sale (AfS) securities and investments amounts to € million as in the previous year. Whilst the previous year's profit came from disposals and valuation results from securities, in 2016 it was substantially influenced by the sale of a securities fund and investments.

Net profit/loss from entities accounted for using the equity method

The profit from investments accounted for using the equity method totalled €5 million in 2016, compared to €8 million in 2015. In the previous year a write-down of an affiliated company negatively affected the profit/loss.

Administrative expenses

In the 2015 consolidated financial statements, a slight decline in staff expenses and a noticeable increase in other administrative expenses was forecast for 2016.

Administrative expenses increased by 10 per cent from €193 million to €212 million.

The ongoing salary payments have increased slightly as a result of collective agreements and one-off payments for departed staff members. On the other hand, expenses for end-of year bonuses have largely been discontinued compared with the previous year due to the Bank's earnings situation. Due to the planned reduction in the workforce, allocations to the pension provisions have been reduced. All in all, this means that personnel expenses have been reduced by 5 per cent €from €103 million to €98 million.

Other administrative expenses increased by €24 million or 30 per cent to €104 million.

Substantially increased consulting expenses resulting from projects in 2016 as well as increases in the IT field can be specified as key cost drivers. In addition to that, the other administrative costs showed an upward trend due to the higher expenses incurred by way of the bank levy, which totalled €10 million (previous year: €6 million).

On the other hand, the expenses incurred for the EU deposit guarantee in 2016 was lower than in the previous year with a total annual contribution of €7 million, or €1 million less than the expenses of €8 million that had accrued by last year's balance sheet date. Thanks to the Bank's membership of in the institute-related security reserve maintained by the landesbanks and giro banks, as well as to the bank levy, compensation and support measures might lead to a situation where insufficient financing of these facilities prompt banks such as Bremer Landesbank to demand special payments. Whether and in what amount such payments will be made cannot currently be foreseen, also because of the calculation methods which also focus on a relative development of institute-specific parameters in comparison to the sector. Payment obligations of that kind, however, could lead to a general burden on the Bank's earnings, financial and assets position.

The amortisations and valuation allowances on intangible assets and property, plant and equipment are around the previous year's level at €10 million.

A slight increase in personnel expenses is expected in 2017. The other administrative expenses will continue to be influenced by large-scale projects in 2017. The Bank is nonetheless expecting to see a stable trend next year.

Other operating profit/loss

Other operating profit/loss amounts to €12 million, compared to €9 million in 2015

In addition to rental income from non-banking-related buildings amounting to €9 million (previous year: €8 million) and cost reimbursements to customers totalling €2 million (previous year: €2 million), this item contains reversals of other provisions amounting to €4 million (previous year: €2 million). The other income totalling €24 million (previous year: €7 million) largely comprises the proceeds from the disposal of an investment.

On the expenses side, rental and lease costs pertaining to non-banking-related buildings in the amount of €3 million (previous year: €2 million) as well as expenses from the repurchase of debt securities and inscribed stock amounting to €17 (previous year: €5 million) in particular are having an impact on earnings. Other expenses are accounted for largely by depreciations and trade tax refunds concerning an investment amounting to €4 million that was sold in 2016 (previous year: €0 million) as well as expenses incurred for loss or damage from operational risks totalling €1 million (previous year €1 million).

Profit/loss from restructuring

The profit/loss from restructuring is a consequence of the formation of a provision for restructuring purposes amounting to €37 million that is designed to cover the anticipated expenses of the Bank's realignment up until 2020.

Earnings before taxes

The Bank had forecast a considerable increase in earnings before taxes.

The Bremer Landesbank Group's earnings before taxes for 2016 totalled €–1,387 million and are therefore €1,391 lower than in 2015. The negative result was caused by the special risk situation in the ship portfolio and the concomitant exceptionally high level of risk provisioning.

With risk provisioning expenses that were still high but nonetheless significantly lower than in 2016 due to the continuing crisis on the shipping markets, the Bank estimates that while its pre-tax earnings will show a considerable improvement in 2017, a loss in the low hundreds of millions is possible.

Income taxes

The ongoing taxes from the Bremer Landesbank Group's income and earnings have fallen by €17 million since last year. The tax income from ongoing taxes amounts to €3 million (previous year: tax expense of €14 million). This situation was caused not only by the parent company's loss in 2016 but also by its fiscal adjustment for the previous year.

The deferred taxes that were recorded with a sum of €15 million in 2015 amount to income of €2 million for the year 2016, with the result that the income taxes as a whole have adapted from an expense of €1 million in 2015 to income of €5 million in the year under review.

Consolidated earnings

These total €–1,382 million (previous year: €5 million).

The continuing huge restrictions on the shipping markets again had a grave impact on Bremer Landesbank AöR's business result under the German Commercial Code (HGB) in 2016.

Although the Bank estimates that consolidated earnings will show a considerable improvement in 2017, a loss in the low hundreds of millions is possible.

2.3.2 Financial and assets position

Total assets

As in the previous years, the Bank concentrated increasingly on transactions that promise a good balance between profitability and pressure on equity.

On the assets side the interbank transactions developed negatively, especially the enquiries made to affiliated savings banks. Similarly, the own portfolio of securities diminished gradually. With regard to the refinancing operations, reductions in the liabilities to banks and the securitised liabilities are in evidence, while an increase is discernible in the liabilities to customers area.

As a result, a final balance sheet total of €30 billion was reduced to €28.9 billion.

Loans and advances to banks

Interbank business – essentially shaped by business activity with the affiliated savings banks – developed positively in the 2016 financial year. In view of the reporting date and therefore the higher receivables due on demand, loans and advances to banks have increased by €0.2 billion to €3.7 billion.

Loans and advances to customers

Receivables from customers diminished as a result of maturities above the new business and the contrary appreciation of USD-denominated loans and advances to customers by around €1 billion to approx. €21 billion. Loans and advances to customers as a proportion of the balance sheet total account for 77.2 per cent (previous year: 76.0 per cent). For a more differentiated consideration of this position, see the explanatory notes about the development of the business segments in the segment-reporting.

Risk provisioning

The Bremer Landesbank Group's portfolio of risk provisioning placed openly on the assets side increased again by 95.1 per cent or €1,011 million to €2,074 million and therefore amounts to 9.3 per cent of the portfolio of the loans and advances to customers (previous year: 4.7 per cent). The increase is attributable almost entirely to the ship finance segment.

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

This item records the market values in the category of financial instruments held for trading. Instruments with a positive market value are shown on the assets side, while those with negative market values are shown on the liabilities side. The portfolio of financial instruments with positive market values diminished in 2016 by €164 million to €502 million, while those with negative market values were down by €146 million to €724 million. Long-term derivative transactions for hedging interest-rate and foreign-currency risks recorded in the banking book that are shown in this item are generally concluded with countertrades and are not terminated.

Derivative transactions are basically used at Bremer Landesbank to manage and hedge interest-rate and foreign-currency risks. The nominal volume as at the end of 2016 totalled €30.7 billion following €37.3 billion in the previous year and therefore approx. 1.0 times (previous year: 1.0 times) the balance sheet total. In comparison with other institutes in the sector, then, Bremer Landesbank resorts to such transactions only to a relatively minor extent. For details of volumes, terms and lists of partners, please refer to the analysis contained in the appendix to the financial statements of Bremer Landesbank.

Positive/negative fair values from derivative hedges and balancing items for financial instruments hedged in the fair-value-hedge portfolio

The fair values from hedge derivatives have changed in 2016 in accordance with the overview shown in the Notes under numbers (36) and (50). The part of the change in value that is attributable to the interest-rate risk is countered by suitably contrary changes in value in the underlying transactions.

Financial investments/shares in entities accounted for using the equity method

The portfolio of financial investments has fallen slightly from €2.9 billion in 2015 to €2.8 billion in 2016. The reporting in this area largely involves securities, silent participations and non-consolidated entities in the AfS category along with their market values. The portfolio diminished as a result of due maturities and disposals within the scope of RWA management.

The portfolio of shares in entities accounted for using the equity method increased in the year under review by €7 million to €125 million.

Securities must be assigned either to the Management Board’s strategic position or to the so-called credit investment portfolio in the Financial Markets segment. In 2016 there were changes in the portfolios as a result of disposals and additions of financial investments and due to changes in the value of securities that continue to be held. These are shown in the revaluation reserve, a sub-position of equity.

Traditionally, Bremer Landesbank fulfils its public obligations as well as its obligations within its professional association partly by way of its investment portfolio. Good examples of this are its promotion of business by means of participations in guarantee banks (e.g. Bürgschaftsbank Bremen, Niedersächsische Bürgschaftsbank) and business development agencies.

The regional connection becomes particularly clear with the Bank’s participation in a number of building societies and/or housing associations, some of whose participating interests are listed in the Notes.

The participation activities are aimed primarily at strategic and operational utility and only secondly at their earnings potential. Within the scope of Bremer Landesbank’s strategic focus, there is therefore a prevailing assumption that the participationvolume will either stagnate or decline. New participations will be considered in the future only if they generate discernible added value for the Bank and the Region respectively.

Property, plant and equipment/Investment property/Intangible assets

Property, plant and equipment, in which factory and office equipment and operationally utilised buildings and parts of buildings are recorded, increased, especially due to building cost capitalisations for the construction of the new bank building at Domshof, by €14 million to €89 million.

Any properties belonging to the Group that are intended for third-party use or rented by third parties are shown under “Investment property.” After the construction costs for a building at Teerhof, Bremen, have been capitalised and fixed assets deducted, a portfolio in the amount of – as in the previous year – €84 million will be reported.

At €14 million, intangible assets remain at around their previous year’s level.

Actual income tax claims/Deferred tax assets/Other assets

Time-limited differences in values in the IFRS consolidated balance sheet for assets and liabilities compared to the tax valuations in the group companies will result in potential income tax reductions in the future which will be reported as deferred tax assets and which amounted to €165 million in 2016 (previous year: €149 million). Under Other Assets in the financial statements under German commercial law (HGB), moreover, there are already reported so-called current income tax claims in the amount of €4 million compared to €0 million in the previous year. This results in income tax claims totalling €169 million €compared to €149 million in the previous year.

As at 31 December 2016, other assets amounted to €89 million (previous year: €57 million). As well as higher levels of receivables in interim accounts due to the reporting date in the amount of €41 million €(previous year: €19 million), contained herein are receivables from applied initial margins amounting to €26 million (previous year: €16 million) and receivables from non-consolidated subsidiaries in the amount of €13 million €(previous year: €15 million).

Liabilities to banks

The Bank refinances itself partly by means of liabilities to banks. In the financial year 2016, these increased by €0.5 billion to €11.1 billion (previous year: €10.6 billion). Deposits from other banks showed a slight increase of €0.1 billion. Liabilities from money market transactions are at their previous year’s level of €1.2 billion. At the domestic banks, the downward trend in liabilities payable on demand, which amounted to €0.5 billion, was more than compensated for by an improvement in term liabilities, which amounted to €0.9 billion.

Liabilities to customers

Bank refinancing through liabilities to customers fell slightly by –1.6 per cent to €9.7 billion. Liabilities from money market transactions were down by €–0.2 billion. Other liabilities increased by €0.1 billion. With an unchanged volume of €0.2 billion, savings deposits play only a minor role in Bremer Landesbank’s refinancing.

Securitised liabilities

The Bank's securitised liabilities include Pfandbriefe, municipal debt securities and other debt securities. The volume of such liabilities has remained almost constant in comparison with the previous year at €5.3 billion.

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

Provisions

Provisions in the Bremer Landesbank Group totalled €422 million at the end of 2016 (previous year: €333 million) and have hence risen by 26.7 per cent.

Provisions for pensions and similar obligations account for easily the largest share, amounting to €364 million for the Group, compared with €307 million in the previous year. The present value of the defined benefit obligation is calculated actuarially using specific parameters, such as a Group-wide discount rate based on the yield of high-quality corporate bonds of the same maturity. Other parameters include salary, career and pension trends and employee turnover rates. Please also see the overview in Note (14) for the relevant parameters

The assets invested by the Bremer Landesbank provident fund (plan assets) are offset at fair value (€158 m, compared with €171 million in the previous year) against the defined benefit obligation.

In addition, the actuarial gains or losses resulting from a change in the discount rate are recognised under other comprehensive income. In the reporting year the cumulative volume of actuarial losses before deferred taxes was €–92 million (previous year: €–50 million).

Loan loss provisions amounted to €12 million at year-end, as they did at the end of the previous year.

Provisions for uncertain liabilities amounted to €46 million at the end of 2016 compared to €14 million in 2015. They relate mainly to personnel obligations, such as the provision for restructuring measures amounting to €37 million (previous year: €0). The provision for restructuring measures is a programme of staff cutbacks within the scope of the joint project launched by NORD/LB and BLB to integrate BLB more strongly into the NORD/LB Group. The backdrop to this project is the desire to organise these cutbacks in a socially responsible way, e.g. with the help of early retirement packages.

Furthermore, provisions for early retirement totalling €5 million (previous year: €11 million) and anniversary provisions in the amount of €2 million (previous year: €2 million) are being disclosed.

Current income tax liabilities/deferred tax liabilities/other liabilities

Potential future income tax burdens stemming from temporary differences between figures stated for assets and liabilities in the IFRS consolidated balance sheet and the tax values stated by group companies are reported as deferred tax liabilities and came to €2 million (previous year: €2 million). In the HGB financial statements, moreover, current income tax liabilities of €12 million are recognised (previous year: €16 million). As a result, income tax liabilities total €14 million (previous year: €18 million).

As at 31 December 2016, other liabilities amount to €95 million, against €41 million at the previous year-end. Of this sum, €61 million alone (previous year: €22 million) are attributable to liabilities from interim accounts. This item also includes the employee remuneration still to be paid totalling €2 million (previous year: €5 million) and liabilities from outstanding invoices amounting to €7 million (previous year: €3 million). Further amounts of €2 million (previous year: €1 million) are attributable to taxes and social security contributions still payable, and €19 million (previous year: €6 million) to Bremer Landesbank's liabilities to third parties. This year no allocation to the provident fund's cover fund (previous year: €2 million) was made.

Subordinated capital

At year-end 2016, the Bremer Landesbank Group's subordinated capital totalled €0.6 billion after maturities, compared with €0.8 billion in the previous year.

Equity

The Bremer Landesbank Group's equity amounts to €495 million as at the end of 2016, with €265 million relating to the share capital and €478 million to the capital reserves. The Bank's negative consolidated results were the cause of the decline of –1,409 million or –74.0 per cent (previous year's result: €1,904 million) in the Group's equity.

In 2016 the Bremer Landesbank Group's result for the year totalled €–1.382 million (previous year: €5 million), largely as a result of the disproportionately high level of risk provisioning in the Group. The actuarial gains arising from pension provisions, following a reduction in the actuarial interest rate from 2.65 per cent to its current rate of 1.95 per cent, amount to €–63 million (previous year: €–35 million). Due to the highly negative consolidated results, retained earnings as a whole now amount to €–462 million after reaching €953 million € at the end of the previous year.

The revaluation reserve in which the changes in value of the AfS assets are reflected rose by €6 million to €65 million in 2016. The rise was largely due to the write-up of an affiliated company.

Instruments of the additional regulatory core capital still amount to €149 million.

At year-end, the Tier 1 capital ratio of the parent company was 5.3 per cent (previous year: 10.8 per cent), see Note (73)).

Contingent Liabilities and Other Obligations

The volume of Bremer Landesbank's traditional off-balance sheet business, reported as guarantees, was almost unchanged at the end of the year at €1.2 billion (previous year: €1.2 billion).

Irrevocable credit commitments which were not taken up amounted to €1.9 billion on the balance sheet date (previous year: €1.8 billion).

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

Synthetic securitisation

BLB has used synthetic securitisation as an instrument for controlling credit risks since 2015. The aim of the securitisation activities is to reduce the burden on regulatory capital requirements. To diversify the credit portfolio the existing credit risks on the Bank's own books may be passed to other market participants.

After BLB had originated its first securitisation transaction in 2015 (initial volume €2,145 billion), the activities were continued in the first half of 2016. In the process, BLB originated a credit portfolio with an initial volume of around €3,420 billion from the asset classes Renewable Energies, Corporate Customers, Social Welfare Facilities, Commercial Real Estate and Leasing, thereby originating another synthetic securitisation. A guarantee with an initial volume of around €94 million was entered into with a private institutional investor with effect from 30 June 2016 in order to hedge the credit risks contained therein. The contractual term of the guarantee is ten years plus a maximum period of two years for processing unfinished utilisation cases.

The initial loss tranche from the first transaction held by Bremer Landesbank totals €10 million and has not been utilised to date.

2.3.3 Additional Information

Performance indicators

Earnings before taxes in the Bremer Landesbank Group for 2016 totalled €–1,387 million after €4 million in the previous year. This has been caused by the risk-provisioning expenses of €–1,547 million (previous year: €–341 million against the backdrop of the ongoing shipping crisis.

The return on equity (ROE), calculated using the formula defined in the Integrated Bank Management section, is firmly in negative territory after 0.2 per cent for financial year 2016. The negative level is due to the lower pre-tax profit for the year due to the significant increase in risk provisioning.

Additionally, the increased capital base following the issue of Additional Tier-1 bonds reduced the ratio.

The cost-income ratio (CIR) is 53.4 per cent; it was 36.5 per cent in 2015. An increase in administrative expenses is seen alongside an increase in ordinary earnings, resulting in an unchanged cost-income ratio. As a result, the key performance indicator always remains in the area around 40 per cent, which is generally viewed as good.

The risk ratio (defined as the ratio of the loan loss provision expense in the lending business to the risk-weighted assets) as at 31 December 2016 is 13.6 per cent, having been 2.5 per cent in the previous year. This increase is attributable to the significantly higher loan loss provisions, particularly for ship finance.

A condensed COREP report is not necessary for BLB because such matters are dealt with by the parent company NORD/LB. The equity requirement in accordance with the Capital Requirement Regulation [(CRR) Basel III] that has been applicable since 2014 amounts to some €0.9 billion for the BLB AöR as a whole (previous year: around €1.1 billion), which corresponds to risk assets in the amount of some €11.4 billion (previous year: €approx. 13.8 billion). The overall indicator amounts to 11.0 per cent following 13.3 per cent at the end of the previous year. The parent company's core capital ratio was 5.3 per cent at the end of the year (previous year: 10.8 per cent). The supervisory minimum ratio of 6.625 per cent was therefore not complied with at the year-end point.

The situation at BLB is influenced by the ongoing crisis on the shipping markets with relevance for the bank. This manifests itself particularly in a disproportionate increase in risk provisioning for the financial year 2016. The available risk cover amount was thereby consumed in its entirety by the end of 2016. As a result, the risk-bearing capacity required by an economic going concern was no longer given as per 31 December 2016 (Going Concern consideration (pillar II).

Steps for restoring risk-bearing capacity and adhering to the minimum ratio for supervisory core capital were taken (see see business development section).

Financing

In 2016, bearer and registered debt securities were once again the most important source of medium- to long-term refinancing for the Bank. Gross sales in issuing business at Bremer Landesbank totalled €1.1 billion as in the previous year. The volume of debt securities in circulation at the end of 2016 was €9.6 billion (previous year: €9.8 billion) and is broken down as follows:

€ million	Debt securities 31.12.2016	31.12.2015
Mortgage and ship mortgage bonds	899	925
Public mortgage bonds	3,130	3,578
Other debenture bonds	5,021	4,753
Medium-term notes	350	359
Additional Tier-1 bonds	150	150
Total	**9,550**	**9,765**

The volume of promissory notes used was €1.4 billion as at 31 December 2016 (previous year: €1.4 billion). The total volume of refinancing loans from the European Investment Bank (EIB loans) was approximately €77 million as at 31 December 2016 (previous year: €117 million) The KfW programme Globaldarlehen Leasing was utillised as of 31 December 2016 in the amount of €128 million (previous year: €50 million). There is no volume in circulation in the European Commercial Paper Programme (ECP Programme) as at 31 December 2016. (Previous year-end with no portfolio

As part of refinancing and liquidity management during the year, Bremer Landesbank has also made sporadic use of the various instruments of the European Central Bank, in addition to the interbank and repo markets in 2016.

For further information, please refer to the Risk Report and the sections on the development of the business segments.

Investment activity

Bremer Landesbank invests substantially in modernising and redesigning its buildings. The construction work on the new bank building in Bremen commenced in 2014 and continues to progress according to plan. The work on the outer shell of the building is complete, and the interior work is progressing rapidly. The building will be used for banking purposes from the middle of 2016. The total investment volume will be in the high double-digit millions.

Personnel and sustainability

In the financial year 2016 the strategic focus on sustainability continued. The transfer of the guidelines approved by the Management Board into the written rules of procedure is complete.

As in the previous year, sustainability issues were included in the target-agreement process and therefore had an impact on the measurement of budgets for variable remuneration.

In the third quarter of 2016 the Bank published its third Sustainability Report, which was prepared for the first time in accordance with the requirements of the Global Reporting Initiative (GRI) in the G4 Standard.

The Bank continues to participate regularly in events, workshops and seminars run by external institutions to quickly identify current developments and trends and to continue its progress in the area of sustainability. Additionally, Bremer Landesbank takes part in the regular discussions between sustainability officers of the NORD/LB Group.

Remuneration system for the Management Board

The remuneration of the Management Board is made up of a fixed annual salary and a variable component.

The Supervisory Board decides on the level of the variable component, taking account of the targets and results achieved. The degree to which the Management Board has achieved its targets is measured by comparing results against targets at Bank and individual level. The degree to which individual targets are met is measured by comparing results against not only personal targets, but also departmental targets.

Bank targets comprise the following quantitative targets:

- Annual earnings before taxes (IFRS individual financial statement), taking account of the 3-year average
- RWA+[5]
- productivity[6]
- Cost-income ratio
- Common Equity Tier 1 capital ratio

and is weighted 70 per cent overall. The individual target consists of quantitative and qualitative criteria and is weighted at 20 per cent. The criteria reflect the Bank's position, the success of the department for which the Management Board member is responsible and the individual tasks and performance, taking the risks taken into account.

Since financial year 2014 the variable component of the Management Board remuneration is to be spread over a retention period of five years and paid-in instalments, taking risk criteria into account. 50 per cent of the variable remuneration component is linked to a sustainable rise in the enterprise value.

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[5] The Bank understands RWA+ to be the capital requirements converted to risk-weighted assets, increased by the shortfall converted to risk-weighted assets.

[6] RWA productivity is defined as ((contribution margin 3 + risk provisioning - risk premium)/RWA+ on deadline).

Further information on the Management Board's remuneration and the structure of the remuneration systems is published in the Disclosure Report in accordance with Section 16 of the Institute Remuneration Act (Institutsvergütungsverordnung) in conjunction with article 450 of the CRR.

2.3.4 Development of the Segments and Subsidiaries

Corporate Customers

The Corporate Customers segment comprises business conducted by the Bank with corporate customers in the north-west of Germany. It is a reliable and innovative financial services partner for this target group.

The strategic aim of the Corporate Customers segment is to be the leading bank in corporate customer business in the region and underpin this with a consistently growing market share. The segment wants to operate as a specialist partner and offer individual consultation with tailor-made solutions for its customers.

Traditionally, Bremer Landesbank has a reputation in the region for being a steady, reliable and competent partner. This high level of trust is also regularly confirmed in customer-satisfaction analyses. This is viewed as a strong basis for acquiring new customers and for assuming the role of the house bank for even more renowned companies.

The original income from lending business showed a slight downward trend despite a moderate increase in volume. A downturn in credit margins and a softening of the standards are becoming evident as a result of the challenging competitive situation in the corporate customers segment. Furthermore, many of the customers have a very healthy liquidity situation which is demonstrated in particular by the further increase in deposits. In the current environment of negative interest rates, however, no additional income can be generated. The utilisation of short-term loans nevertheless showed a discernible increase compared to the previous year. On the other hand, the development of risk-related costs is slightly in excess of the plan.

The hedging of agricultural portfolios offered by Bremer Landesbank as part of its agricultural commodity trading continued to develop positively. To expand its product range, Bremer Landesbank has since last year been offering its customers who operate in the milk sector the opportunity to benefit from the hedging opportunities of commodity forward contracts via milk contracts.

Special Finance segment

Special Finance covers the strategic refinancing of the Equipment Leasing and Factoring Companies business units, plus Renewable Energies with its Wind, Photovoltaics and Biogas subsegments. In the NORD/LB Group, Special Finance is part of the value driver Energy and Infrastructure Customers.

Bremer Landesbank's Special Finance segment continued to develop well in 2016 and continued along its growth path. Income forecasts were almost met and in future income will be increased with the gradual increase in assets. Renewable Energies are the strongest growth driver in this respect with an above-average level of new business. The segment's risk provisioning remains at a moderate level. Only in the Biogas segment were notable valuation allowances recorded – this is currently in a restructuring phase and in the medium term there will be a portfolio reduction. Risk weighting for the segment as a whole remains low.

In the refinancing of equipment leasing companies, Bremer Landesbank maintained its position as a leading financier of middle-market leasing firms in 2016 in accordance with its own market observations. All in all, i.e. also with banks' and manufacturers' leasing subsidiaries, new business went according to plan, the income forecast was not entirely met due to the pleasing syndication business in recent years, and the accompanying, likewise recent portfolio reduction in connection with the intensified competitive pressure has never quite been achieved due the persistent low-interest environment. Overall, the segment is closely linked to the wider economy and investment demand. The refinancing of factoring companies is still being gradually expanded and rounds off the portfolio. Additionally, the refinancing of contracting standard price claims was initiated this year, with leasing companies acting as intermediaries in the first instance. This has extended the existing product range and puts the business approach on an increasingly broad footing, which means that any reduced potential for new business due to consolidation tendencies at the target SME segment can be compensated for. By concluding a KfW global loan, Bremer Landesbank has strengthened its refinancing basis for the segment. The competence centre function within the NORD/LB Group provides further potential for growth.

In the Renewable Energies segment, new business developed positively in 2016 and was above expectations. This results from, among other things, anticipatory effects in relation to Wind onshore with a view to the upcoming amendment of the German Renewable Energies Act (EEG), which took place in mid-2014 and continues to provide the requisite planning certainty for project finance and corresponding business potential, as does the pleasing new business in France. Some delayed project implementations resulted in the volume of assets being slightly below plan, although this is gradually being rectified. Earnings remain within the ambitious growth corridor but the competitive situation on the German market continues to intensify. The sub-segment of Onshore Wind Power in Germany, including the increasing share accounted for by repowering, remained the main earnings driver and confirmed the strong market position it had predicted. As expected, due to the EEG amendment the Photovoltaics sub-segment offers low potential for new business compared to previous years, with smaller individual projects. Within the NORD/LB Group, Bremer Landesbank is the competence centre for biogas and photovoltaics in Germany. It also supports experienced customers in selected ventures in other European countries. Despite anticipated EEG amendments and increasing market components such as the invitation-to-tender process in the Wind Power segment, strong future growth opportunities also exist in the context of the shift in energy policy, which remains a goal.

Bremer Landesbank's Special Finance segment believes that, with its segments and focus on long-term, reliable customer relationships, it is well positioned and will be able to achieve sustained growth.

Ship Finance

Ship finance remained under pressure in 2016. Compared with the previous year there were no appreciable signs of recovery and even a number of factors, some of a grave nature, that aggravated the market further. The oversupply of ship tonnage continues to burden the markets and discernible market adjustments cannot be expected in the short to medium term. The Bank's crisis management and portfolio reduction were carried out rigorously and will again play an important role in 2017.

BLB has further reduced the level of ship exposure and the number of financed ships. New business will be conducted only very selectively against the backdrop of restructuring requirements and/or to maintain the vessels' seaworthiness. All in all, the segment's earnings side was unable to fulfil expectations. In 2016 the portfolio was shielded by a significant increase in risk provisioning, with the use of valuation allowances making it possible to continue adjusting the problem loans and reducing the exposures. The risk provisioning in ship finance puts a great deal of pressure on BLB's results.

Previous slight signs of recovery in freight and charter rates proved to be unsustainable. Short-term reductions in capacity are swiftly compensated for by the continuing existence of overcapacities. Lay-up numbers have shown no meaningful increase compared to last year. New-building activities are generally registering a slowdown with the result that, in the event of any future increase in the scrapping of old and no longer energy-efficient tonnage, states of equilibrium can come back into reach in the medium term and the rate-damaging predatory competition will recede. The relatively small tanker segment has weakened again following a comparatively positive course of business, while multi-purpose ships and especially bulk carriers remain in the doldrums. The larger container ships remain under considerable pressure – which likewise applies against the backdrop of the expansion of the Panama Canal and the displacement of in-demand size classes that this will entail. Smaller units in the container segment – the largest part of the BLB container portfolio – can stand their ground well at a low level because new-building activity has been very restrained for a long time and modern tonnage is in demand in this niche. On the tonnage demand side, no discernible economic recovery is in sight despite some cautiously positive signals from China.

The exposure in the Ship Finance segment will continue to be reduced significantly.

Private Customers

The past year was again affected by the debt crisis in the European Union. The resultant, and increasingly dramatic, low-interest policy pursued by the European Central Bank influences the Bank's private-customer business continuously. Offshoots from the financial-markets crisis and the sovereign-debt crisis in the EU are very much in evidence.

The continuing high level of volatility on the capital markets, in conjunction with low interest rates, led to uncertainties among our customers. Contributory factors in this are the Bank's current situation and the change of ownership. There is a great need for information. The customer advisers are handling the situation actively with professional customer management.

In the asset management area, too, events are reflecting the customers' need for all-encompassing advice. The asset portfolio, which is managed by the asset and portfolio management as a competence-centre-controlled asset-management portfolio, were convincing with their self-conceived and implemented SIP® investment process. It is used in both in asset management and in the SIP® fund product family and the advisory process. At the beginning of 2016, moreover, the SIP® fund product family was expanded with another innovative investment strategy, the BLB Global Opportunities Fund.

Not only the customer's personal life situation, but also all-round advice on the financial aspects of the respective business person are taken into consideration. The private customers area has an advisory approach that it calls 'entrepreneurs' banking' and cooperates with other market segments within the bank. This thematic area will continue to be expanded successfully and cements existing customer relationships for BLB.

In lending business, the Private Customers segment works for individual investors and freelancers as well as offering standard financial arrangements. With the sales campaign SIM (starter package for international medics), BLB is the only financial institution to collaborate with a start-up firm with the aims of integrating foreign doctors and solving the Germany-wide shortage of suitably qualified staff. This can serve to increase the level of commitment on the healthcare market. Despite the low interest rate and intense competitive pressure – discernible with standard business in particular – the high-grade advice and made-to-measure solution proposals are convincing.

Financial Markets segment

Bremer Landesbank's Financial Markets segment provides access to the domestic and international financial markets for the private, commercial and institutional customer groups. Refinancing projects by Bremer Landesbank within a year or over several years are likewise implemented in the Financial Markets segment.

As part of refinancing and liquidity management during the year, Bremer Landesbank has also made sporadic use of the various instruments of the European Central Bank, in addition to the interbank and repo markets in 2016.

The volume of business generated by Bremer Landesbank's Financial Markets segment via the customer and counterparty portfolio makes a noteworthy quantitative and qualitative contribution to the Group's balance-sheet portfolio.

The focal points of such trading were the control of liquidity and interest-rate risks, the consistent safeguarding of the Bank's liquidity and providing the commercial customers with money- and capital-market products.

The money- and capital- market business was carried out in a European market environment that in 2016 was still marked by the ongoing consequences of the euro crisis for the financial real markets in the euro's participant countries. In Europe and all over the world there were new political and economic issues, particularly with regard to the Brexit vote and the outcome of the US elections.

On the financial markets in 2016 there were cautious signs of increasing interest-rate levels without any clear trend towards a changing interest policy being in evidence. Throughout the year the stock markets generally showed a distinctly positive trend. Despite the demanding market environment, the treasury, trading and selling activities of Bremer Landesbank's Financial Markets units proved to be pleasingly stable during the course of the year.

Public-Sector Customers

A stable focus of business activities in the network is the refinancing of the public sector, which experienced strong demand in 2016. Apart from offering finance to regional authorities, sales activities for the previous year also included supporting the Savings Bank Network in the area of public-sector finance.

Savings banks

In an economic environment in 2016 that was again anything but easy and featured robust competition, the Financial Markets segment has so far managed to achieve a satisfactory result in operations with affiliated savings banks by means of holistic support in credit, money and capital-market business. In underwriting business with corporate customers of the affiliated savings banks, the sales focus was not only on traditional financing business, but also – again – on interest-rate and currency management as well as international documentary business. In addition, Bremer Landesbank integrated the network savings banks into its successful special and project-financing business vis syndication activities.

Institutional Customers

In the money and capital market, which continues to be influenced by the economic and political environment, the segment's sales units in 2016 recorded sustained, intensive demand for consultancy and hedging for liquidity, interest rate, commodity and currency management for the customers they advise.

In 2016, the resultant sales in customer business developed at the previous year's level. In connection with this, it was possible to further expand risk management for customers in the commodity sector and complement them with customers from the dairy sector.

Subsidiaries

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

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

2.3.5 Overall Assessment

The development of business at BLB in 2016 suffered from the huge impairments in the shipping markets had a severe impact on Bremer Landesbank's consolidated profits – and the year was the first in which BLB did not succeed in offsetting the highly disproportionate risk provisioning with operating income and/or the realisation of existing reserves. The financial year 2016 will therefore close with a very significant loss. The Bank regards the results as insufficient.

With the full takeover by NORD/LB that took effect at the beginning of 2017, the conclusion of a controlling agreement with loss compensation claim with the parent company, a hard letter of comfort for BLB, the implementation of a capital increase and the application for a waiver, the Bank believes that it is on the right track.

A joint project with NORD/LB was initiated with the aims of creating of an overlap-free business model comprising both banks, an operational model adjusted to the two banks, and the working hypothesis for integrating BLB into NORD/LB. The results are currently being worked out within the project and will be presented to the management bodies of both banks for a decision after their finalisation.

3. Subsequent events

With the exception of those described below, there were no events of special significance for the economic situation of the Bank between the end of the financial year 2016 and the preparation of the financial statements.

In a letter dated 19 January 2017, the German Financial Reporting Enforcement Panel (DPR) announced its intention to conduct an audit of the Consolidated Financial Statements as at 31 December 2015 and the associated Group Management Report for the financial year 2015 with regard to the “Risk provisioning” item in accordance with Section 342b para. 2 sentence 3 (2), German Commercial Code (HGB). (Audit at the request of the German Federal Financial Supervisory Authority.) With regard to the effects on the administrative expenses in the financial year 2017 that may result from the initiation of the aforementioned audit, no reasonable estimate can be made because the type and scope of the tying-up of what were essentially internal resources cannot yet be estimated reliably.

In a further ad-hoc announcement in accordance with Article 17 MAR from 9 March 2017, the Bank referred to another unexpected increase in the valuation allowances on the ship portfolio and consequently also to even higher losses for the year 2016.

As a consequence of the significantly increased risk provisioning, the minimum requirements of the core capital ratio as per the ad hoc announcement made on 9 March 2017 were ultimately no longer fulfilled retroactively as at the end of the year. Likewise, in accordance with Section 25a, German Banking Act (KWG), in conjunction with MaRisk (minimum requirements for risk management), the risk-bearing capacity required for an economic going concern (pillar II) no longer applied at the end of 2016. In addition, there were large-volume exposures as per CRR. The substantial loss in the financial year 2016, the failure to achieve the statutory minimum core capital ratio and the lack of risk-bearing capacity constitute circumstances that could jeopardise the continued existence of the Bank. These were reported to the supervisory authority by the auditor in accordance with Section 29 para. 3, sentence 1, KWG.

In connection with the acquisition of all shares in BLB by NORD/LB, the two companies have concluded a controlling agreement approved by their respective owners that allows for loss compensation claims. In addition, there is a hard letter of comfort from NORD/LB for BLB.

On 19 January 2017, an application to use a waiver in accordance with Sections 2a (1) and (2) of the German Banking Act (KWG), in conjunction with article 7 (1) CRR, was submitted to the competent supervisory authority. If approval is granted, particular supervisory requirements regarding BLB’s capital base will cease to apply at individual bank level.

BLB’s sizeable loss for the year necessitated a cash capital increase amounting to €400 million, which was carried out effective from 21 March 2017. This strengthened the bank’s capital reserve and the regulatory capital ratios while again easing the burden on the large loan exposure limits.

Sustainable compliance with the capital ratios and risk-bearing capacity depends in particular on the approval of a waiver between NORD/LB and Bremer Landesbank. If the application is delayed or refused by the supervisory authority, the resolution providing authorised capital in the amount of €200 million could be used to strengthen the Bank’s capital base.

The Bank’s continued existence depends on how its plans involving the measures for easing the commercial conditions at the level of Bremer Landesbank as described above are implemented.

4. Forecast and Opportunities Report

4.1 Opportunities

The continuing huge restrictions on the shipping markets again had a grave impact on Bremer Landesbank's commercial results in 2016.

In all likelihood, this will also be felt sharply in the coming year. If the market recovers more quickly than generally anticipated, there will be opportunities for an improvement in the Bank's result.

Business is also expected to be boosted by the large projects that have now been realised, for example in the port industry as well as the expansion of business in future industries and the more focused positioning of the segments.

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

Given the competitive advantages offered by its locally-based advisers, short decision-making channels, local capital market and foreign business expertise and an extensive range of products and services, however, Bremer Landesbank remains confident that it will not only be able to hold its own in this low-risk, high-income business, but even grow its market share. The sustainably strengthened cooperation with associated savings banks and landesbanks, plus quick response times, create a promising environment for further solid earnings growth in the Bank's core segments.

4.2 Forecast

Significant assumptions in the forecast

The Bank’s planning is based on the Group-wide “Medium Term Forecast 2020” for the years 2017 to 2021. Basic assumptions constitute a framework for global economic development, real global trade volumes, the crude oil price, GDP growth in the USA, economic growth in emerging markets and the performance of the US dollar. Within this framework, the macroeconomic forecasts are made for Germany, the eurozone and key foreign markets. The detailed forecast for interest rates and spreads will include individual financial instruments in various maturity bands. The forecast for exchange rates is provided for significant, relevant exchange rates. The medium-term forecast anticipates an initially low-interest environment and a slow recovery in the planned interest rates as from 2018. The US dollar will remain strong against the euro over the planning horizon, with the latter diminishing in value only slightly.

In the area of other administrative expenses, the forecast is for a price increase in central cost pools such as IT, rent, etc.

Based on the assumption of a persistent crisis in commercial shipping with initially only weak signs of recovery for 2017, pressure on earnings is expected to continue. Looking further ahead, the recovery of the charter rates at different points in time is forecast for the respective shipping segments. Then a diminishing level of risk provisioning will lead to a situation where the other segments’ successes will see them play a larger role in Bremer Landesbank’s overall results again.

Due to the change in its ownership structure, Bremer Landesbank is likely to operate in future with a changed business model. A project has been initiated in conjunction with NORD/LB with the aim of launching a non-overlapping business model consisting of both banks, an operating model based thereon and the working hypothesis of BLB’s integration into NORD/LB. The results are currently being developed within the project and will be presented to both institutions’ management bodies for a decision after their finalisation. The objective is to achieve extensive synergies that help to achieve a significant improvement in the NORD/LB Group’s cost structure. All forecasts in this report refer to the existing business model, as we have no conclusive results from the aforementioned project and all business activities within the NORD/LB- Group’s organisational framework are being continued.

Assets, financial and earnings position

According to the Bank’s plans, net interest income will improve appreciably in 2017. The increase in the volume of business in the Renewable Energies segment as well as in other segments contrasts with falling net interest income from ship financing. This trend results from a downturn in the credit volume and margin waivers within the scope of restructuring. Pressure on the overall bank’s net interest earnings arise additionally in this context on the liabilities side due to a persistent low-interest environment, with the result that existing growth trends, especially in the Corporate Customers and Private Customers segments, are weakening.

In the year under review, risk provisioning was adjusted to the changed income expectations because of the further deterioration in the market situation in the Ship Finance segment. The unchanged valid input factors for assessing ship financing were validated regularly and adjusted from a quantitative standpoint in order to reflect fully the continuing crisis in commercial shipping. The level of risk provisioning will again be high at first in 2017, though it will remain well below the level of 2016. The estimate that charter rates are going to recover in the medium term has led to a significant reduction in the annual expectations for risk provisioning.

Thanks to activities aimed at increasing risk-bearing capacity, such as the successful utilisation of synthetic securitisations in 2015 and 2016, the Bank estimates that net commission income is falling in 2017 to slightly below its level of the preceding years. A redemption-related reduction in the volume of the synthetic securitisations that were carried out beyond the planning horizon is leading to a slow recovery in net commission income.

The profit/loss from financial instruments at fair value through profit or loss is volatile due to the short-term nature of the business and market fluctuations, making it difficult to forecast. In its planning, however, the Bank still assumes that it has a good chance of being able to operate successfully in financial markets and to achieve an appreciably improved aFV profit/loss overall. Beyond the planning horizon the expectations are for a stable aFV profit/loss at the level expected for 2017.

A slight increase in personnel expenses is expected for 2017. The other administrative expenses are again likely to be influenced by large-scale projects during the course of the year. The Bank nevertheless expects to see a stable trend. Due to the ongoing pressure on costs resulting from regulatory activities, any recovery in the coming years will be only gradual in view of the current high costs.

With risk provisioning expenses that were still high but nonetheless significantly lower than in 2016 due to the continuing crisis on the shipping markets, the Bank estimates that while its pre-tax earnings will show a considerable improvement in 2017, a loss in the low hundreds of millions is possible. It will be some time before another positive result appears on the planning horizon

Performance indicators

Although the Bank estimates that earnings before taxes will improve significantly in 2017, a loss in the low hundreds of millions is nevertheless possible. In a concomitant development the return on equity, which is still negative for 2017, is expected to improve appreciably.

The cost-income ratio increased appreciably in 2016 due to regulatory pressure. It will fall in the subsequent years after remaining high in the years from 2018 to 2021. A greatly improved cost-income ratio is expected in 2017 because of an extraordinary effect.

Risk provisioning expenses are going to fall sharply in comparison with 2016 but will initially remain at a high level. The far-reaching adjustment of the Bank's ship portfolio is expected to bring about a substantial decrease in the overall bank's risk provisioning in the years to come.

With regard to the existing pressure on the risk-bearing capacity and the capital ratios, a waiver was applied for risk-bearing capacity and the capital ratios so that these quantities can in future be managed and complied with in collaboration with NORD/LB AöR and Deutsche Hypo.

Development of the Segments and Subsidiaries

In its planning and forecasting, Bremer Landesbank differentiates between the important dimensions: income before risk, (interest surplus before risk, commission surplus, income from financial instruments measured at fair value) and earnings before taxes.

Income before risk of the operating segments

As a result of portfolio reductions and margin waivers within the framework of restructuring, income from the Ship Finance segment is on a clear downward trend. In the first planning years, this development is being countered by a substantial unwinding effect. The Special Finance segment, on the other hand, is maintaining its income growth of the previous years and can therefore offset part of the income downturn in the Ship Finance segment. The income from the Corporate Customers segment shows growth that is volume-driven but slowed down on the liabilities side by the persistent low-interest environment. In the Private Customers segment, too, business activity can be expanded and growth generated despite burdens on the liabilities side. Income remained stable in the Financial Markets segment. Downward trends in, say, currency trading can be offset by new commercial initiatives income from this segment always exceeded the planners' expectations new commercial initiatives. In the preceding years, income from this segment always exceeded the planners' expectations.

Income before taxes of the operating segments

With administrative expenses still increasing slightly, the income situation at Bremer Landesbank continues, even in 2017, to be shaped by risk provisioning in the shipping segment. Following an distinctly negative income contribution from this segment in 2017, the next neutral result will not be achieved until 2018. This target, however, is heavily dependent on further developments in commercial shipping and regulatory requirements

The poor income position in the Ship Finance segment that resulted from a high level of risk provisioning is compensated for by the other segments. In the Special Finance Segment, income growth continues to be achieved with the kind of growth rates that used to be achieved in previous years. In the other segments, too, no noteworthy formation of risk provisioning is necessary and stable administrative expenses are expected. This means that even with earnings before taxes, the positive income expectations can be confirmed for the other segments as well.

Subsidiaries

The BLB subsidiaries that operate in the real estate sector are assuming that overall results will be stable.

BLB Leasing GmbH is planning to increase its volume of new business as well as its operating result in 2017.

4.3 Overall Assessment

In 2016, a deepening crisis in the commercial shipping sector led to a significant increase in risk provisioning and a substantial loss for the bank as a whole.

In the reporting year, risk provisioning was adjusted to the changed income expectations as a result of the further deterioration in the market environment in the Ship Finance segment. The still valid input factors for the valuation of ship financing arrangements were regularly validated and adjusted from a quantitative standpoint so that they would fully reflect the ongoing crisis in commercial shipping. Based on an estimate that charter rates would fall in the medium term, the risk provisioning that is expected annually is considerably lower than before.

The earnings performance in the Ship Finance segment continues to be shaped by the shipping crisis. A market recovery in the form of increasing charter rates and market values for the ships can be applied either not at all or at some other time or in a form different from anything in the plans so far – with corresponding risks, but also opportunities for the Bank's risk provisioning, earnings performance and equity ratios. Deviations in the implementation of the planned portfolio reduction, in conjunction with the market trend, might make additional valuation allowances necessary. Further shipping company insolvencies could also lead to a deviance in the anticipated formation of risk provision. At the same time, the general "investment emergency" provides an opportunity for opportunistic investors to find value-preserving post-bankruptcy set-ups.

The burdens that had arisen with regard to capital ratios and risk-bearing capacity were dealt with adequately by applying for a capital waiver. Furthermore, Bremer Landesbank's shareholding structure was changed as a consequence of the loss suffered by the Bank and the institution was acquired in its entirety by NORD/LB. In the long term, this step will facilitate a sustainable boost to earnings for the NORD/LB Group by making use of synergies and fashioning a non-overlapping business model. All statements within the Group Management Report initially refer to the existing business model. This does not include possible future synergy effects or restructuring costs.

With risk provisioning expenses that were still high but nonetheless significantly lower than in 2016 due to the continuing crisis on the shipping markets, the Bank estimates that while its pre-tax earnings will show a considerable improvement in 2017, a loss in the low hundreds of millions is possible.

BLB will not return to profitability on a sustainable basis until some years have elapsed.

5. Risk report

The Risk Report of Bremer Landesbank and the sub-group Bremer Landesbank as at 31 December 2016 was prepared on the basis of IFRS 7. Furthermore, the requirements of the German Commercial Code (HGB) and the more specific German Accounting Standards (DRS) 20 were taken into account.

5.1 Management Systems

5.1.1 General Risk Management

Risk management – fundamentals and area of application

The risk reporting includes all the companies in the group of consolidated companies in accordance with IFRS.

The materiality analysis required under the Minimum Requirements for Risk Management for Bremer Landesbank showed for 2016 that all of its direct and indirect subsidiaries are immaterial in terms of risk. Bremer Landesbank therefore does not qualitatively address any risks arising from its subsidiaries in its IFRS notes. Significant or specific risks are nevertheless discussed irrespective of the results of the materiality test.

All subsidiaries make only an immaterial contribution to the individual risks in a qualitative sense from the Group's point of view. The risks included in these companies are treated as investment risk and also explained through qualitative reporting within the scope of the investment risk, if need be.

Bremer Landesbank defines risk from an operational perspective as the possibility of direct or indirect financial losses arising when actual results from ordinary activities are unexpectedly lower than forecast.

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

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

Of the significant risks, credit risks constitute the most important risks for BLB as a lending bank. Market price risks and liquidity risks are also highly significant. The other significant risks, participation risk and operational risk, are of lesser importance.

<table>
<tr><th colspan="5">Risk/sub-risk (risk universe)</th><th>relevant</th><th>material</th></tr>
<tr><td rowspan="7">Address risks</td><td rowspan="6">Credit risks</td><td colspan="3">Traditional credit risk</td><td rowspan="6">X</td><td rowspan="6">X</td></tr>
<tr><td rowspan="5">Default risk from trading</td><td colspan="2">Counterparty risk from trading</td></tr>
<tr><td colspan="2">Replacement risk</td></tr>
<tr><td rowspan="2">Settlement risk</td><td>Pre-settlement risk</td></tr>
<tr><td>Clearing risk</td></tr>
<tr><td colspan="2">Issuer risk</td></tr>
<tr><td>Investment risks</td><td colspan="3"></td><td>X</td><td>X</td></tr>
<tr><td rowspan="26"></td><td rowspan="7">Market price risks</td><td colspan="3">Interest rate risks</td><td rowspan="6">X</td><td rowspan="6">X</td></tr>
<tr><td colspan="3">Currency risks</td></tr>
<tr><td colspan="3">Share-price risks</td></tr>
<tr><td colspan="3">Fund-price risks</td></tr>
<tr><td colspan="3">Volatility risks</td></tr>
<tr><td colspan="3">Credit-spread risks</td></tr>
<tr><td colspan="3">Commodity risks</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">Liquidity risks</td><td colspan="3">Traditional liquidity risk</td><td rowspan="2">X</td><td rowspan="2">X</td></tr>
<tr><td colspan="3">Liquidity-spread risks</td></tr>
<tr><td rowspan="10">Operational risks</td><td colspan="3">Operational risks (narrow def.)</td><td rowspan="10">X</td><td rowspan="10">X</td></tr>
<tr><td colspan="3">Legal risks</td></tr>
<tr><td colspan="3">Compliance risks</td></tr>
<tr><td colspan="3">Outsourcing risks</td></tr>
<tr><td colspan="3">Insourcing risks</td></tr>
<tr><td colspan="3">Conduct risk</td></tr>
<tr><td colspan="3">Fraud risks</td></tr>
<tr><td colspan="3">Model risks</td></tr>
<tr><td colspan="3">IT risks</td></tr>
<tr><td colspan="3">Personnel risks</td></tr>
<tr><td rowspan="7">Other risks</td><td colspan="3">Business and strategic risks, including group risks</td><td>X</td><td>–</td></tr>
<tr><td colspan="3">Reputational risks</td><td>X</td><td>–</td></tr>
<tr><td colspan="3">Real-estate risks</td><td>X</td><td>–</td></tr>
<tr><td colspan="3">Pension risks</td><td>X</td><td>–</td></tr>
<tr><td colspan="3">Residual-value risks</td><td>–</td><td>–</td></tr>
<tr><td colspan="3">Actuarial risks</td><td>–</td><td>–</td></tr>
<tr><td colspan="3">Collective risks</td><td>–</td><td>–</td></tr>
</table>

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

In risk reporting, risks are predominantly described with regard to the application of risk-reducing measures. The description of credit exposure constitutes an exception to this.

Risk management – strategies

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

Bremer Landesbank promotes the conscious management of risks in line with principles of a risk-oriented corporate culture. The competencies and responsibilities in the Bank are clearly set out. The Management Board has overall responsibility for the key elements of risk management.

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

Risk management – structure and organisation

The Management Board has installed a risk management system that meets both the legal requirements and internal management requirements. The risk management system includes all organisational arrangements and measures to identify risks and handle the risks relating to the banking business. The risk management process is subject to ongoing review and development in terms of its structures and procedures, the method of risk quantification and the relevance of respective parameters.

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

The risk handbook published across the Bank serves as an umbrella document and combines the three dimensions of strategies, methods and processes. It contributes to a uniform understanding of risk within the Bank, is the basis for the further development of risk awareness and creates the necessary transparency. Specification and details are dealt with in risk handbooks, master documents and working instructions for specific risk types and complemented by resolutions that the Management Board adopts. As part of the requirements for written rules of procedure, the documents of the risk management system are regularly updated.

The Bank has installed early-warning indicators specific to the types of risk that enable potential risks to be identified, analysed at an early stage and passed to the relevant decision-makers.

Fundamentally the Management Board and the organisational units (OUs) involved in the risk management system are involved in Group-wide committees to comply with the determinations of the NORD/LB Group's risk strategy. This ensures and develops group-wide methodical standards and enables any deviating rules for specific institutes to be agreed.

At overall bank level, the Risk Control Division is responsible for identifying the various risks, making them measurable, evaluating them and communicating them. In consultation with the NORD/LB Group, the Market Risk/Evaluation Methods, Supervisory/Liquidity Risk and Risk-Bearing Capacity/Credit Risk units develop methods, implement the requisite systems, monitor the overall risk management process and report on risks.

The Process/Project Management Group is responsible for the methodology of the ICS as a part of process-led and risk-oriented structures and procedures and therefore promotes process security and risk awareness in the company. The ICS is uniformly structured at Bremer Landesbank. The ICS framework implemented for this purpose is based on the framework of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) for internal controls and includes a specific operational and organisational structure. The application of standardised methods and processes should ensure a bank-wide suitable and effective ICS, whilst making it possible to achieve sustainable optimisation.

The Compliance unit acts as a central consultation and monitoring point for complying with the requirements on the Bank, including in the areas of securities compliance, prevention of money laundering, financial sanctions and prevention of other punishable acts and also risk compliance. It reports directly to the Management Board.

Internal Audit is an instrument of the Management Board and in the context of risk management is deemed the Bank's third line of defence. It conducts risk-oriented and process-independent audits on the adequacy, efficiency, cost-effectiveness and correctness of the Bank's commercial operations to foster the further development of the management and monitoring processes. Remaining independent and avoiding conflicts of interest, it supports key projects and acts in an advisory capacity.

The new product process governs dealings with new products, new markets, new sales channels and new services. The main objective of the new product process is to demonstrate, analyse and evaluate all effects of new business activity on the risk profile and risk management prior to commencing business. The Management Board then takes the decision on whether to commence the new business activity.

The risk reporting system ensures that risks are identified at an early stage and provides the Management Board with the information it requires for managing risk, as well as making additional analyses and interim reports available upon request and supporting local risk management in the business segments.

Reports are made to the Risk Committee, a committee of the Supervisory Board, five times a year. In regular meetings, the Risk Committee monitors, in particular, the Management Board's ongoing management in accordance with the Supervisory Board's instructions and prepares the Supervisory Board meetings.

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

Risk management – risk-bearing capacity model

The risk potential identified from Bremer Landesbank's material risks have to be covered at all times by risk capital. Monitoring takes place on the basis of the risk-bearing capacity model (RBC model).

The RBC model consists of three scenarios:

- The first scenario represents the "going concern" view and assumes continued operations on the basis of the existing business model, even if all available risk cover funds have been depleted by risks coming to pass. This scenario is critical for an assessment of the risk-bearing capacity in accordance with MaRisk. In 2016 risks were measured using a confidence level of 95 per cent and the total economic risk potential is compared with risk capital. The risk capital is determined from the free regulatory capital in accordance with CRR at specified minimum rates (total capital and Tier 1 capital) during a bottleneck analysis and adjusted subject to a range of factors. The focus is on this first scenario.

- The second scenario is structured as a "gone concern" view (liquidation scenario) and is included as a secondary requirement. It assumes that, in the event of a fictitious liquidation (without recourse to liquidation values) creditors can be satisfied in full. The gone concern scenario includes a higher confidence level of 99.9 per cent for determining risk potential. This assumes severe events that statistically speaking only occur once every 1,000 years at this level. On the capital side, the tests include all the equity and equity-related components as well as hidden liabilities. Effects on risk capital arising during the year are also taken into account. In the event of the capital required to cover risks in the gone concern scenario being consumed, it would basically no longer be possible for the bank to continue under otherwise changed assumptions.

- In the third scenario (regulatory scenario) the risk-bearing capacity is reviewed on the basis of regulatory provisions. On the capital side, the tests include all regulatory capital components. This perspective must be complied with as a strict condition.

The design of the RBC model ensures that the gone concern scenario can provide stimulus for the going concern scenario, which is relevant for the assessment of the risk-bearing capacity. Operating limits for risk types identified as material are derived from the consideration of risk-bearing capacity taking into account the allocation of risk capital in the risk strategy based on the going concern scenario. Taking the Bank’s risk appetite into account, a buffer for risks that are not explicitly quantifiable is provided for. In parallel, RWA caps for the Bank’s segments are specified. The above ratios and limits are monitored as part of the monthly reporting. Diversification effects between individual risk types are not taken into account for conservative valuation reasons.

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

When selecting the stress scenarios, Bremer Landesbank’s key business areas and risks are consciously used. The selection is based on the extended interview method performed at the NORD/LB Group. These highlighted risk areas are prioritised and, if they are deemed significant, are subjected to a detailed scenario analysis. This scenario analysis is initially triggered by the assumptions concerning concentration and diversification made in the measurement of risk potentials. In this respect this process constitutes an independent method for assessing concentrations. The aim is to develop scenarios in which all of the material consequences can be captured in the bank’s relevant key indicators.

The scenarios selected in the Group are rated at Bremer Landesbank in terms of relevance and if required expanded with institute-specific scenarios that are compatible with the individual business focus areas. All of the scenarios and parameters are reviewed regularly and if necessary updated.

For the management of its credit portfolio, BLB has implemented limit systems derived from risk-bearing capacity at address, country and sector level. The focuses of concentration emerging from the business strategy jn the shipping and energy supply segments are managed to prevent concentrations of risk within the framework of the segment limit system.

Bremer Landesbank aims to achieve a high level of diversification in its business portfolio with asset classes that have different market cycles. Accordingly, it aims to achieve a portfolio structure in the long term that ensures a balance of large-volume special financing business with shipping and energy customers on the one hand and granular business from activities with private and corporate customers on the other. This structure should limit cluster risks and make the portfolio as a whole less vulnerable to cyclical risks.

The monthly Risk-Bearing Capacity Report (RBC Report) is the central instrument of the internal risk reporting at individual institute level for the Management Board and the supervisory bodies. Compliance with the specifications of the risk strategy on risk appetite and on the allocation of risk capital to the material risk types is therefore reviewed regularly. The report also contains a forecast of the development of the key ratios and indicators on the risk-bearing capacity for the current and coming year.

5.1.1 Credit Risk – Management

Credit risk – strategy

Bremer Landesbank is a commercial bank with a regional focus and supra-regional specialist business. For the Bank, lending business and the associated management of credit risk is a core competence which must be permanently enhanced and extended.

In order to do justice to the specific requirements of each individual segment, the Bank has stipulated financing policies for each market segment which are binding guidelines for new lending business in the respective market division. In new lending business, the focus is clearly on concluding agreements with customers with a good credit rating. The credit investment portfolio has been substantially reduced. In the Ships segment, new business was limited to financing within the framework of restructuring existing loan exposures.

Credit risk – structure and organisation

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

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

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

- Settlement risk comprises pre-settlement and actual settlement risk. Pre-settlement risk is the risk that, when it comes to settling a contract, the counterparty fails to provide consideration for a contract on which the Bank has already made advance delivery or, when performance is mutually offset, no compensation payment is made. Pre-settlement risk can be prevented by acquiring the transaction value from the counterparty in advance under good value or on a reciprocal basis or if sufficient cover exists. Actual settlement risk is the risk of a transaction not being mutually settled on or after the contractual settlement date.
- Issuer risk is the risk of loss stemming from an issuer's or reference entity's (credit derivative's) failure to pay or deterioration in an issuer's or reference entity's credit rating.

With regard to counterparty-specific risks, please refer to the description in the Notes.

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

The model chosen by the Bank for the separation of functions in the loan-decision-making process is consistent with its strategic direction of being a commercial bank with a regional focus and supra-regional specialist business; the loan decision requires a high-quality risk analysis by the market division for its vote as well as a second vote by the back office division, which assumes an independent and consistent quality assurance function for risk assessment in lending business. In addition to preparing the second vote, the back office is responsible for reviewing and setting rating levels, reviewing collateral values, processing and supervising debt rescheduling/liquidation of defaulted exposures, risk provisioning and designing processes and rules for the Bank's lending business. The Back Office unit independently monitors the risks at individual borrower or sub-portfolio level independently of the market sectors. This unit is also responsible for optimising and assuring the quality of the entire lending process (market and back office division) and bears central responsibility for regulations and reports in accordance with art. 392 of the CRR or for seven-figure loans in accordance with § 14 of the German Banking Act.

Decisions are made by the Management Board, the Risk Committee or its chairman for transactions above a certain volume

The procedural instructions and internal policies contained in the Bank's organisational policies, especially the lending, competency, voting, collateral and rating policies, form the basis of operations in the lending business.

The Risk Control Division is responsible for all the methods used (rating, scoring, risk modelling and validation).

Credit risk – collateral

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

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

The Bank's credit policies and lending principles specify what basic types of collateral can be accepted and the maximum loan-to-value ratio. Guarantees, collateral similar to guarantees, assignments of claims and other rights, claims and other rights assigned as security, liens on real estate and registered liens as well as movable property assigned as security are accepted as collateral. This collateral will, however, not reduce the unsecured portion of an exposure.

All the relevant collateral is entered in the Collateral Management System (CMS) in order to calculate credit-risk mitigation. A realistic estimation of proceeds from the collateral or the loss given default as well as the exposure at default and the probability of default enable the loss potential associated with an exposure to be quantified.

The legal portfolio of collateral is stored in a special system for the management of collateral. This also forms the basis for the netting of collateral in the calculation of the capital charge as well as the regulatory notifications.

Standard contracts are generally used. Deviations from standard contracts or individual agreements are produced or approved by the legal department. In individual cases, external appraisers are obtained and the contracts are prepared by authorised law firms. At the same time,the Bank constantly monitors the relevant legal codes. For foreign collateral, this takes place on the basis of monitoring processes at international law firms.

Credit risk – control and monitoring

A specific limit is set for each borrower in order to manage risks at transaction level. The significant parameters applied in setting such limits are the borrower's creditworthiness, expressed as a rating, and funds available for making principal repayments.

The risk of the exposure is valued in a rating procedure and in defined lending processes. In existing business, any need to take action is identified in operational departments on the basis of the results generated by the rating methods applied regularly or ad hoc. Significant declines in ratings or creditworthiness trigger the preparation of a status report or credit-control documents, depending on the rating-or credit rating level and the volume of an exposure.

In addition, the Bank ensures that exposures with a higher probability of default are managed by specially qualified employees in separate organisational units. In accordance with credit regulations, higher exposure risks result in specific obligations in terms of processing and management. These exposures are submitted much more frequently (twice a year or ad hoc in the case of negative information). Depending on the rating category and the volume of an exposure, the approval process goes as far as the Management Board. The following allocation always applies:

1. Exposures in rating category 9 and above are closely watched. The causes of deterioration in a situation and the exposure strategy are analysed taking into account costs and benefits. If necessary, collateral is improved, terms are adjusted and the customer's reporting duties are intensified. The market division unit remains responsible for managing the exposure, while the back office unit previously responsible for processing continues to handle it. The new exposure strategy must be discussed with and approved by the organisational unit Back Office Debt Rescheduling (OU BO Debt Rescheduling).
2. From a rating of 13 or higher, an exposure is transferred to Back Office Debt Rescheduling for management and processing. This unit is part of Back Office Financing. It examines the viability and feasibility of debt rescheduling, consulting external advisers if necessary. A re-evaluation of the exposure strategy with regard to costs and benefits is required. The rescheduledloan may be secured by further adequate collateral, the terms may be adjusted or a decision to terminate the business relationship made.

3. If acute default risks are identified, the Bank initiates a standard process which ensures the prompt recognition, recording and communication of a specific valuation allowance (SVA). These commitments must be re-evaluated. The steps mentioned above are triggered by this classification. If considerable new or additional risk provisioning is required (from €2.0 million or more in the current year), the Management Board is informed immediately via the head of the back office.

4. Terminated exposures are handled by the Liquidated unit.

The Bank uses an LEM (Large Exposure Management) limit model for identifying and monitoring risk concentrations at affiliated customer group level. Limitation is done on the basis of groups of affiliated customers in accordance with art. 4 para. 1 no. 39 of the CRR. The model allows evaluation of the risk concentration of an exposure, taking into account the Bank's available risk capital and management's risk preferences, as well as the creditworthiness of the borrower and the collateral provided for the exposure.

The limit model defines limits for every large exposure on the basis of an exposure which is rated as unproblematic (white area), susceptible to risk concentration (grey area) or very susceptible to risk concentration (black area). The aim is to reduce the exposures in the black area and to obtain a balance between risk and return in the grey area. This provides protection against excessive concentrations at counterparty level.

Risks are managed at portfolio level on the basis of a sector limit system (BEM). Specified risk parameters exposure at default (EAD), loss at default (LAD) and expected loss (EL) are used to identify the sectors requiring limitation. The level of the sector limit is calculated from the limit capital provided for credit risks in the going concern scenario (continuation scenario). The limit is reviewed monthly in the RBC Report. The large exposure thresholds and the sector limit are agreed at least once annually by the Management Board and the relevant supervisory bodies.

Credit risk – securitisation

The instrument of synthetic securitisation is available to Bremer Landesbank for managing credit risks. The aim of these securitisation activities is to optimise the yield/risk profile of the loan portfolio and to ease regulatory equity requirements. To diversify the credit portfolio the existing credit risks on the Bank's own books may be passed to other market participants. In 2015 Bremer Landesbank originated a first synthetic securitisation for a credit portfolio with a volume of around €2.145 billion from the asset classes Renewable Energies, Corporate Customers, Social Welfare Facilities, Commercial Real Estate and Shipping. A guarantee with a volume of around €106 million was entered into with effect from 16 December 2015 with a private guarantor to hedge the credit risks contained therein. The contractual term of the guarantee is twelve years. The initial loss tranche held by Bremer Landesbank totals €10 million and has not been utilised to date. The transaction contributes to an improvement in RWA, the equity ratio and risk-bearing capacity.

A further transaction followed on the reporting date 30 June 2016. The second securitisation concerns a loan portfolio of €3.421 billion and contains the asset classes Renewable Energies, Corporate Customers, Social Welfare Facilities, the local real estate market and Leasing. To hedge the credit risks contained therein, a guarantee was concluded effective from 30 June 2016 with a volume of around €94 million and with a private guarantor. The contractual term of the guarantee is 10 years.

Credit risk – valuation

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

With the help of these rating methods, the probability of default of borrowers and counterparties is calculated and allocated to a rating category. Bremer Landesbank uses the master scale of the German Savings and Giro Bank Association (DSGV).

Initiative for Germany as a Financial Location	DSGV master scale	Mean probability of default	Customer category
Very good to good	1 (AAAA)	0.00%	Normal
	1 (AAA)	0.01%	
	1 (AA+)	0.02%	
	1 (AA)	0.03%	
	1 (AA-)	0.04%	
	A 1:	0.05%	
	A 1:	0.07%	
	A 1:	0.09%	
	2	0.12%	
	3	0.17%	
	4	0.26%	
Good/adequate	5	0.39%	
	6	0.59%	
Still good/adequate	7	0.88%	
	8	1.32%	
Increased risk	9	1.98%	
	10	2.96%	Close watch
High risk	11	4.44%	
	12	6.67%	
Very high risk	13	10.00%	Debt rescheduling
	14	15.00%	
	15	20.00%	
	15B	30.00%	
	15C	45.00%	
Default (=Non-performing loans)	16	100.00%	
	17	100.00%	
	18	100.00%	Liquidation

The rating methods are an instrument for active risk management. The forecast quality of the rating methods for each individual rating component and their interaction is regularly examined by the Bank and the rating service agencies by backtesting and validating using the data pools. These quality controls not only confirm compliance with minimum standards, they also provide input for enhancements.

The rating methods are validated by the two central rating service agencies of the Savings Banks Finance Group, Sparkassen Rating und Risikosysteme GmbH (S Rating), a subsidiary of the DSGV, and Rating Service Unit GmbH & Co. KG (RSU), a company founded with other landesbanks. The two rating service agencies ensure an internal rating in accordance with the regulatory requirements. In a structured process, the banking supervisory authorities are regularly informed of changes to and enhancements of the rating methods and other IRBA systems.

Bremer Landesbank’s data is pooled at the two rating service agencies. The task of Bremer Landesbank in each case is to prove that the rating modules validated at pool level are adequate for the Bank’s internal portfolio (proof of representativeness).

The Bank has met the regulatory requirements and since 2008 has secured its default risks based on the Internal Ratings-Based Approach (IRBA) with capital.

The Bank is involved in enhancing the methodology of the RSU rating systems. The focus here is on ship, project and lease finance, a field in which the Bank has particular expertise. The Bank is involved in ensuring the quality of the communication of S Rating's system results within the Sparkasse Financial Group.

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

The rating modules Banks, Corporates, Country and Transfer Risk, Leasing as well as DSGV Standard Rating and DSGV Minor Customer Rating are based on scorecard methods which identify attributes and factors for distinguishing between good and bad borrowers. A sufficient number of relatively homogeneous borrowers is required for using scorecards.

Since this requirement is frequently not met in the case of special finance, simulations are primarily used here. In this case financing arrangements for projects, ships and national properties are valued with the help of cash flow simulation models. The main source of income for the repayment of liabilities is generated by the financed asset. Credit risk is thus determined by fluctuations in income and expenses relating to the asset. In simulations, the asset's cash flow is shown in various scenarios which vary in terms of macroeconomic and industry conditions and reflect the future development of factors such as leases and charter rates. Scenarios in which a borrower must be considered to have defaulted can subsequently be identified from the large number of scenarios.

In addition to quantitative factors, qualitative factors are also considered in the scorecard and simulation methods in the rating modules. Override options for revising a rating are also available; however, rating improvements are only possible to a limited extent. Warning signals and the background of the enterprise are also considered. A final rating result is only obtained once these aspects have been taken into account.

The full evaluation of the borrower or transaction forms the basis for the decision to extend credit, for credit-risk management and for the risk-adjusted loan pricing of the expected loss. The probability of default of a borrower or a transaction reflected in the rating results plays a significant role. However, beyond the probability of default, loss given default, terms, exposure at default as well as other transaction-related risks (including currencies and products) are important.

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

The risk metrics of expected loss and unexpected loss are used to quantify the risk of default (credit and investment risk). Expected loss is calculated on the basis of one-year probabilities of default in conjunction with the loss given default. The risk premium which must be collected in order to cover expected loss is calculated using the Credit Pricing Calculator (CPC) software.

In contrast to expected loss, unexpected loss resulting from risk-bearing transactions, i.e., the risk that actual losses are higher than anticipated, constitutes the actual risk potential for the Bank.

Unexpected loss is quantified for different confidence levels and a time frame of one year. In this connection, Bremer Landesbank introduced a Group-wide standard economic credit-risk model in 2009, validating and revising it again in 2015 in conjunction with NORD/LB. The model is used to estimate the probability of unexpected losses in combination with portfolio effects (concentration and diversification effects due to correlations in the portfolio). The aim is to monitor and limit credit risks at portfolio level, in particular considering counterparty and industry concentrations. The credit-risk model is constantly being enhanced.

Credit risk – reporting

As part of risk reporting, monthly reports are prepared for the Management Board: a report on close watch and problem exposures and on the development of risk provisioning (IPE Report), a report on the monitoring of concentration risks in groups of affiliated customers (LEM Report) and, quarterly, a Credit Portfolio Report.

- In the report on individual borrowers drawn up by Back Office Financing for close watch and problem exposures, the development of potentially problematic and defaulted borrowers is closely monitored. This may also reveal short-term or long-term structural changes in this portfolio or related sub-portfolios and areas where measures to mitigate or reduce risk may be undertaken.
- The LEM report on concentration risks in borrower groups addresses groups of affiliated customers with a notable risk concentration as identified in respect of BLB’s available risk capital, its management’s risk preferences, the creditworthiness of the borrower in question and the collateralisation of the exposure.
- The Risk Control Division prepares a Credit Portfolio Report containing a differentiated presentation of the credit portfolio. The Bank’s quarterly Pfandbrief Report is part of the Credit Portfolio Report and provides information on the risks associated with Pfandbrief business. These reports prepared at individual institute level meet the requirements of Section 27 of the Covered Bond Act (Pfandbriefgesetz, PfandBG).

The management approach is applied for risk reporting in accordance with IFRS 7. Internal and external risk reporting is fundamentally based on the same terms, methods and dates.

5.1.2 Investment Risk – Management

Investment risk – strategy

The Bank meets its special responsibility toward the North-West region of Germany with its investments. Shares in regional companies therefore constitute a focus of investment portfolio activities, in addition to investments within the framework of the Sparkasse Financial Association. With its investments, the Bank contributes equally towards fulfilling its public mandate and strengthening the regional economy.

The subsidiary BLB Immobilien GmbH is integrated into the Bank's strategic process.

Investment risk – structure and organisation

Investment risk is the risk of loss resulting from making equity available to third parties. Investment risk also includes the risk of loss from other financial obligations (e.g., Gewährträgerhaftung (public guarantee under which the owners of savings banks are jointly and severally liable to the banks' creditors), profit-and-loss transfer agreements) except where it is covered by the other risk types.

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

Investment risk – control and monitoring

Significant affiliated companies are consistently controlled and managed by evaluating and analysing regular reports and by exercising influence in their governing bodies (shareholder meetings and supervisory, administrative or advisory boards).

Investment risk – valuation

The Bank's investments fundamentally undergo a rating process along the lines of the lending process. This does not occur if Bremer Landesbank's share in the carrying amount of strategic investments not involving loans does not exceed €750,000 in accordance with Section 19 para. 2 of the German Banking Act. The complete quantification takes place by means of a scoring model on the risk inventory.

Investment risk – reporting

Risk management is conducted in a systematic, ongoing process and comprises the identification, analysis, evaluation, documentation and communication of any risks which may arise. Credit risks associated with investments are communicated in the monthly Risk-Bearing Capacity Report. In addition to this report, the Management Board is informed at least every six months about the key issues relating to investments in the form of an investment report.

5.1.3 Market Risk – Management

Market risk – strategy

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

With regard to interest-rate risk, the Bank aims to transform maturities and participate in general market developments within the scope of its risk limits.

Market risk – structure and organisation

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

- Interest-rate risk comprises the components of general and specific interest-rate risk. General interest-rate risk occurs when the value of a position or a portfolio reacts to changes in one or more interest rates or in entire yield curves and when such changes may subsequently impair the position. In line with the regulatory definition, specific interest-rate risk includes potential changes in value resulting from rating migrations or the default of issuers (for securities) or reference entities (for credit derivatives). For Bremer Landesbank, specific interest-rate risk is the same as issuer risk.

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

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

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

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

- Credit-spread risk describes potential changes in value arising from changes in the credit spread applicable to the issuer, borrower or reference entity used to mark a position to market.

- Commodity risk is the risk of a loss in value of a position (including indices and derivatives) because of a change in the price of the underlying commodity (e.g., oil, wheat). Commodity risk currently has no relevance for Bremer Landesbank because it does not have any open positions in this area.

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

The trading desks in the Financial Markets unit may take on market risk in their trading transactions and positions. The functions and activities of the trading desks are defined by the trading strategy of Bremer Landesbank, the unit business strategies and the portfolio strategies for all of the organisational units which, in accordance with MaRisk, conduct trading activities or in which market, liquidity or counterparty risks, as defined by the trading strategy, arise. These functions and activities are set forth in the procedural instructions of the various units.

Open market-risk positions in the Financial Markets segment are managed by the trading desks and Asset/Liability Management, which also centrally plans and manages market risks relating to deposit and lending business for terms of more than 12 months. Money Market Trading manages interest-rate risk for maturities up to 12 months, while Foreign Exchange Trading is responsible for foreign currency of all maturities.

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

Reporting functions are performed via external reports of the market risks in accordance with the CRR. Bremer Landesbank applies the standardised approach prescribed by the supervisory authorities.

Market risk – control and monitoring

The controlling of asset book positions is handled centrally by the Asset Liability Committee (ALCO), whilst the operational implementation is the responsibility of the Financial Markets unit. ALCO is a decision committee with the goal of optimising the risk/returns of the bank portfolios, the long-term funding, controlling of the market and liquidity risk positions and the investment portfolios, balance sheet structure management, income statement control, investment guidelines. The committee consists of the Management Board and representatives of the Financial Markets segment and the Risk Control Division, Finance units and the Financial Markets back office division. The committee usually meets monthly. The Management Board makes the decisions.

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

Please refer to the information in the notes to the financial statements for details on the accounting treatment of hedging instruments and the type of hedges (particularly Note (35) Positive fair values from hedge accounting derivatives and Note (49) Negative fair values from hedge accounting derivatives).

Market risk – valuation

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

The basis for the calculation of the Value at Risk (VaR) consists of the historical changes in the risk factors (interest rates/spreads, exchange rates, stock prices/indices and volatility in value) over the last twelve months. The model implicitly considers correlation effects between the risk factors (including the valuation volatility of option positions), the risk types, the currencies and the (sub)-portfolios.

The VaR models are primarily suited for the measurement of market risks in normal market environments. In order to cover extraordinary market movements, special stress tests are carried out to gauge the sensitivity of the portfolio in relation to large market changes. Group-wide stress parameters are defined for each risk.

Limits derived from the loss limits specified by the Management Board for each trading desk are stipulated for VaR. Any trading desk losses are immediately deducted from the loss limits, thereby reducing VaR limits in accordance with the principle of self-absorption. The limits specified are broken down into structure limits for the various risk categories for Financial Markets and for strategic positions.

The daily VaR calculations are checked in the Market Risk/Valuation Methods unit on the basis of backtesting analyses. In the backtesting, the daily fluctuations in the profits/losses of the trading desk are compared with the VaR forecast from the previous day. Forecast models and parameters used for quantifying market risk are regularly reviewed and adapted to current market developments if necessary.

The requirements for a prudent valuation have been expanded and further specified by CRR art. 34 in conjunction with art. 105. Following the removal of a de minimis threshold, the Bank has introduced a valuation reserve for all assets reported at fair value which is deducted from Common Equity Tier 1.

Each month the Bank calculates an interest-rate shock in accordance with the requirements of a circular issued by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin). This analyses the effects of a parallel shift of the interest-rate structure curve by 200 base points up and down. BaFin reviews the parallel shift at least once a year and adjusts the amount of the interest-rate shock in the event of significant deviations.

The EBA GL/2014/13 and EBA GL/2015/08 guidelines published by EBA demand divergent viewpoints with regard to the risk of interest rate changes in the banking book (IRRBB). In addition to the economic value, an earnings-based approach is required. In 2016 the Bank enhanced its strategic interest-book management with an earnings-based perspective. The earnings-based approach is aimed at planned future earnings and therefore the capacity to generate capital. The objective of the existing positions in the banking book economic-value approach is to determine the value of the positions in the banking book that involve interest-rate risks for the reporting date in question and to define a rather longer time frame in order to measure the risks resulting from the above. In 2017 the Bank will continue to work on the reliable provision of a consistent and integrated observation of the two control circuits (simultaneously economic and periodical).

Market risk – reporting

In accordance with MaRisk, the Market Risk/Valuation Methods unit reports to the Management Board on the market risks on a daily basis with regard to VaR and the profits from the assumption of market risks by Bremer Landesbank.

The full Management Board receives information about market risks and the results of backtesting and stress testing in the monthly Risk-Bearing Capacity Report. The Risk Committee reports five times a year.

5.1.4 Liquidity Risk – Management

Liquidity risk – strategy

Ensuring liquidity at all times is an operational, strategic and regulatory requirement for the Bank. While traditional liquidity risk is principally avoided by maintaining sufficient liquid assets (especially central bank-eligible securities), the refinancing risk stems from a structural transformation of liquidity maturities. Risks in both cases are contained using suitable limits. The factors of securing sufficient liquidity, risk-bearing capacity and utilisation of the opportunity to contribute to earnings from the maturity transformation profit source typical of banking business are taken into account when measuring liquidity risk limits. Liquidity risk limits provide the Bank's business segments with the operational framework essential for reaching targets.

Liquidity risk – structure and organisation

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

Accordingly, the liquidity risk is broken down into traditional liquidity risk and liquidity-spread risk.

- Traditional liquidity risk is the risk that payment obligations cannot be met or cannot be met in due time. This risk is limited on the basis of the analysis of a dynamic stress scenario, which is characterised by the most likely crisis situation. Such risks may arise due to a general disruption in the liquidity of the money markets affecting individual banks or the entire financial market. Market disruptions can also mean that collateral from significant asset classes can no longer be realised. Alternatively, unexpected events in the Bank's own lending, deposit or issue business can lead to liquidity shortages. Bremer Landesbank's focus is on the next 12 months
- The term liquidity-spread risk refers to the potential financial losses that occur on the money or capital market. These can be caused by a change in the Bank's credit standing as a result of other market participants or a general market trend. The potential losses are described as market liquidity risk that must be borne if, due to low levels of liquidity in individual market segments, transactions must be concluded on terms that do not correspond to the fair market values. BLB takes the view that the placement risk is likewise part of the liquidity risk. It describes the danger that own emissions on the market can be placed either not at all or on less favourable conditions.

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

Money Market and Foreign Exchange Trading and Treasury are responsible for managing liquidity risk positions and for the profits and losses resulting from changes in the liquidity situation. The basis for Asset Liability Management is the liquidity maturity balance sheet. Refinancing risk is also reported to the ALCO; proposals for strategic planning activities are also discussed if necessary. At operational level, ALCO is situated above the liquidity management working group, which is made up of representatives of Financial Markets and the Risk Control Division. The main tasks of the working group are to optimise liquidity management and clarify related issues promptly, with an emphasis on the fast-reacting management of new business and funding activities. The enhancements developed are implemented in day-to-day management by the Working Group.

The Risk Control Division is responsible for the installation and development of internal procedures for measuring, limiting and monitoring liquidity risk. This unit also calculates refinancing and traditional liquidity risks and monitors compliance with limits. The utilisation of the liquidity ratios defined by the German Liquidity Regulation (Liquiditätsverordnung, LiqV) and the Liquidity Coverage Ratio (LCR) defined by the ITS of the CRR is calculated and reported. The reporting acts as a service function in connection with this. The Risk Control Division is responsible for ensuring that the liquidity ratio defined by the German Liquidity Regulation is met. A corresponding process for the LCR[7] is being prepared.

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[7] The LCR has been ascertained by means of a delegated legal act since September 2016.

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

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

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

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

Liquidity risk – control and monitoring

A Global Group Liquidity Policy has been drawn up in connection with Group risk management which, consistent with Bremer Landesbank's liquidity policy, lays down the framework for Group-wide liquidity management of the NORD/LB Group. This notably involves the specification of goals and responsibilities for liquidity management in different scenarios. Both the liquidity policy and the global group liquidity policy are updated annually.

The liquidity contingency plan governs activities and management in crisis situations. The aim of this plan is to preserve the solvency of the Bank should an extreme, unforeseen market situation arise. The contingency plan for liquidity management is also consistent with the contingency plan of the NORD/LB Group.

The Bank employs the following instruments to manage traditional liquidity risk:

In accordance with the German Liquidity Regulation, the Bank is deemed to have sufficient liquidity if the cash and cash equivalents it has available within the next 30 days at least cover its anticipated liquidity outflows during this period. A comparison of cash and cash equivalents and payment obligations results in the liquidity ratio, which must be at least one.

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

The LCR has to be reported monthly to the Deutsche Bundesbank and as part of Group reporting to NORD/LB. The LCR is a short-term stress ratio (time frame of 30 days) and requires banks to maintain a liquidity buffer in the form of highly liquid assets in order to be able to compensate for net cash outflows over a period of 30 days in a stress case.

The Bank performs liquidity stress tests (LSTs) on a daily basis to simulate the impact of unexpected events on the Bank's liquidity. This allows the Bank to plan ahead and prepare itself for emergencies with the aim of preventing liquidity bottlenecks. The Bank's forward liquidity exposures are observed in one dynamic and three static scenarios over a period of up to one year. Specific assumptions about the cash flows the Bank has at its disposal in the event of a crisis are simulated in the different scenarios. The liquid, freely-available securities deposited with the central bank act as a safeguard in the contingency scenarios.

Bremer Landesbank has implemented a limit system to mitigate traditional liquidity risk. A traffic-light system (number of days of liquidity surplus) triggers the necessary management measures if the simulated liquidity surplus in the dynamic stress scenario is due to last for 90 days or less. At the Bank, management control signals from the static stress test do not automatically trigger countermeasures, prompting instead a more in-depth analysis of the present liquidity situation and a factoring-in of the key drivers of the statistical scenario based on the current probability of the crisis stress scenario.

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

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

Liquidity risk – valuation

In addition to managing liquidity for the aggregate exposure in €, the Bank also defines its USD foreign exchange exposure as material. All other foreign currencies are immaterial for the Bank's liquidity management. Refinancing risks from maturity transformation in material foreign currencies are included in the calculation of risk-bearing capacity. Material foreign currencies are also managed in terms of traditional liquidity risk. The materiality of foreign currencies is regularly validated.

Liquidity risk – reporting

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

The Management Board is also informed on a monthly basis about liquidity risks in the context of the Bank's risk-bearing capacity. In addition, the Credit Portfolio Report informs the Management Board about the risks related to the Pfandbrief business.

The Management Board is also informed by Risk Control on a weekly basis about liquidity risks in the context of the Bank's risk-bearing capacity. The BLB management units dealing with money and foreign exchange trading, as well as Treasury, receive additional daily structural information from the liquidity process review.

5.1.5 Operational Risk – Management

Operational risk – strategy

The guidelines for dealing with operational risks are formulated in the Bank's risk strategy. As far as such risks are concerned, the Bank largely adheres to a strategy of prevention that is reflected in e.g. an internal control system, Business Continuity Management BCM) and by taking up insurance cover.

Operational risk – structure and organisation

Operational risks are possible and, from the point of view of the Bank, consist of unintended events that result from an inappropriate circumstance or the failure of internal workflows, employees or technology, or as a result of external influences, and lead to a loss or serious negative consequences for the Bank (e.g. violation of the law). Legal risks are included, strategic risks and business risks are not.

According to this definition, operational risks include legal risks and risk from changes in the law, compliance risks, outsourcing risks, misconduct risks, dilution risks, fraud risks, model risks, IT risks and vulnerabilities within the scope of the emergency and crisis management. As part of the risk inventory that was carried out in the year under review, insourcing and personnel risks were supplemented while false-debt risk is no longer included.

- Legal risk is the risk of loss caused by failure to comply fully or partly with the legal framework defined by laws and court rulings.
- The risk of changes in the law reflects the risk of a loss due to new laws or requirements, a disadvantageous change in existing laws or requirements and their interpretation or application by courts.
- Compliance risk is the risk of penalties being imposed by courts or authorities or disciplinary measures resulting from non-compliant procedures, processes, etc. (due to failure to comply with laws, regulations, rules of conduct and standards) within the Bank.
- Outsourcing risk is the risk resulting from the outsourcing of activities and processes.
- Insourcing risk describes risks that result from the rendering of services for third parties.
- Conduct risk is the term used to describe the existing or future risks to a bank that might arise as a result of the inappropriate rendering of financial services, including intentional or negligent misconduct. The following aspects in particular indicate the existence of conduct risk: selling products based on false facts, forced cross-selling of products, conflicts of interest in sales or business relationships, manipulation of reference interest rates or exchange rates, impeding the

exchange of financial products or service providers, prolongation of products or payment of exit penalties and unfair treatment of customer complaints.

- Fraud risk is the risk of an avoidable pecuniary loss or damage to the Bank's reputation resulting from punishable acts against the Bank.
- Model risk refers to "…the potential loss incurred by a bank as the consequence of decisions that may be due to the result of internal models if there are errors in the design, implementation or use of these models."
- IT risks are all risks for the asset and earnings position of the banks that arise as a consequence of defects that affect IT management or control, availability, confidentiality, integrity and authenticity of data, the internal control system of the IT organisation, IT strategy, IT guidelines or the use of information technology.
- The personnel risk results from the following elements:
    - Bottleneck risk: potential risks from shortages in requirements, gaps in potential or recruitment
    - Adjustment risk: potential risks from adaptation in respect of competencies, readiness or flexibility
    - Exit risk: potential risks from the departure of top performers; retention management or employer efforts
    - Performance risk: potential risks arising from performance in respect of commitment, inner resignation and performance

The Bank's Management Board, the Risk Control Division and all other units are involved in the process of managing operational risk. The Management Board stipulates the basic framework for addressing operational risk, based on the risk situation at the overall bank level. Risk Control is responsible for the central monitoring of operational risk and the independent reporting of any such risks. Responsibility for managing operational risk within the general framework specified is local and lies with the individual units.

The general requirements of the NORD/LB Group were implemented in the Bank's own security standard due to its responsibility for adequate technical-organisational equipment and for a suitable contingency concept at group level in accordance with Sections 25a and 25c of the German Banking Act. At Bremer Landesbank this is made up of a security strategy embedded in the risk strategy, security guidelines, a catalogue of threats and security policies and contains security stipulations for the topics of information security, data protection, protection of infrastructure and buildings, health and safety at work as well as the cross-departmental processes BCM and emergency and crisis management.

The Bank's BCM and its contingency and crisis management are intended to prepare and handle contingencies and crises. A significant element here is avoiding the interruption of critical business processes and/or the limiting of possible effects. This also includes the preparation for events that result in risks which cannot be reduced or cannot be sufficiently reduced by preventive measures.

Human Resources Management analyses, evaluates and manages the quantity and quality of the various human resources risks such as bottleneck risk, exit risk, adjustment risks, motivation risks and the risk of insufficient and inadequate staffing in an integrated personnel risk management process. Targeted personnel development for employees in line with requirements is the primary responsibility of the respective managers with significant support from Human Resources Management. Human Resources Management advises and supports the departments in their personnel activities. The requirements of the Bank Remuneration Regulation (Institutsvergütungsverordnung) are implemented in the Bremer Landesbank Group.

In the IT department, procedural instructions, alternative capacities and backups ensure that the IT infrastructure is adequately stable. Security and recovery plans supplement the safeguards in place to prevent loss or damage resulting from the failure or the manipulation of systems and information.

The Bank has adequate insurance cover in key risk areas. The structure of insurance cover will be inspected regularly. As regards certain risks, the Bank has chosen not to enter into corresponding insurance solutions having weighed up the risk potential.

The Bank is required under Section 25a and Section 25h of the German Banking Act to establish appropriate business and customer-related safeguards in order to prevent other criminal acts to the detriment of the Bank and its subsidiaries. The Management Board considers any attempt at fraudulent, dishonest and/or other criminal acts to be a serious and intolerable offence ("zero tolerance"). The Bank does everything in its powers to prevent other criminal acts or at least identify such acts as early as possible and to keep such risks to a minimum and carry out controls. Any instances of crime are dealt with in close cooperation with the criminal prosecution authorities. In addition to its established policies and procedures, the Bank has conducted a detailed risk analysis and developed and implemented a comprehensive fraud prevention organisation. One element of this fraud prevention organisation is the creation of a fraud management position that is being filled by the Bank's anti-money laundering officer. The anti-money laundering/fraud management function is a head office function and, as such, is part of the Compliance unit and reports directly to the member of the Management Board responsible for risk.

In order to safeguard against legal risks, the Legal Department is to be consulted for example when legal action is to be taken and when contracts which are not based on approved standard contracts are concluded.

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

Operational risk – control and monitoring

The Bank collects data on loss events resulting from operational risks and classifies these events by cause and effect. The collected loss data is entered by the NORD/LB Group in the DakOR data consortium initiated by the Bundesverband Öffentlicher Banken Deutschlands, VÖB (Association of German Public Sector Banks).

The data on historical losses is supplemented with future components using the self-assessment carried out at the Bank on an annual basis. Expert estimates provide a detailed insight into the risk situations of the individual departments. The first step in the self-assessment process is completion of a catalogue of qualitative questions. In a second step, a scenario is calculated to quantify operational risk for areas with significant operational risk.

In order to identify potential risks early on and to take countermeasures, risk indicators are used in the NORD/LB Group. Indicators are chosen with a view to risk and reviewed regularly for relevance.

The results from the loss database, the collected risk indicators and self-assessment are analysed and any necessary measures are initiated by the units concerned.

The Bank has met the regulatory requirements with the methods and procedures in place to manage operational risk. Work to improve the methods is currently being carried out in consultation with the NORD/LB Group.

In 2017 we are going to continue along the path that we have embarked upon for optimising integrated OpRisk Management. Our overriding goals are to further harmonise the methods and data used in the second line of defence, generate efficiencies and enhance risk management – also in the interests of the broader regulatory requirements.

Operational risk – valuation

Defining and developing the methods, procedures and concepts employed as well as the continuous enhancement of these methods, procedures and concepts is the responsibility of the Risk Control Division. All enhancements are made in close consultation with the NORD/LB Group.

A uniform VaR method and a group-wide allocation model are used to determine risks within the NORD/LB Group as part of the RBC model.

In the refinement of the risk monitoring in 2016, individual risk indicators were revised and amended.

The standardised approach will continue to be used for operational risk-capital charges.

Operational risk – reporting

The Governance, Operational Risk and Compliance Report reports on the material operational risks and need for action by the Bank and also complies with the regulatory requirements.

5.2 Internal Control and Risk Management System in Relation to the Group Financial Reporting Process

As Bremer Landesbank is a capital market-oriented corporation within the meaning of Section. 264d of the German Commercial Code, it is required by § 315 para. 2 no. 5 of the German Commercial Code to describe the main features of its internal control and risk management system relating to the financial reporting process.

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

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

Bremer Landesbank considers information to be significant for the purposes of Section 315 para. 2 no. 5 of the German Commercial Code (HGB) when its omission could affect the economic decisions made by users on the basis of the consolidated financial statements and other elements of the financial reporting. Whether information is significant is determined by reference to the issue at hand, and depends on the nature and scope of the issue. When deciding whether an issue is significant, Bremer Landesbank considers its significance in relation to the consolidated financial statements.

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

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

As regards the Group's financial reporting process, the following structures and processes have been implemented at Bremer Landesbank:

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

The Management Board is responsible for preparing the consolidated financial statements and the Group Management Report. It has clearly defined responsibilities for individual Group financial reporting components and work steps in organisational policies and delegated these to specific OUs.

Bremer Landesbank prepares its consolidated financial statements in accordance with IFRSs as they are applied in the EU. The national provisions of Section 315a of the German Commercial Code (HGB) and the German Accounting Standards (DRS) are also considered.

For consolidation purposes, subsidiaries and affiliated companies prepare Group reporting packages in accordance with Group instructions.

The process of preparing the consolidated financial statements and the consolidated accounting is primarily managed and performed by Finance. It performs the following key functions:

- Monitoring changes in the law
- Preparing and updating financial statement instructions
- Compiling the consolidated financial statements and the Group Management Report
- Providing the information for the Group Segment Report
- Providing specific disclosures for the notes to the consolidated financial statements

The following work is delegated to other units in the consolidated accounting process:

- Entry and processing of data/transactions for the consolidated accounting process in the IT applications in accordance with the regulations
- Calculation of personnel and pension provisions and provision of related disclosures for the notes to the consolidated financial statements
- Draft of decision documents for specific valuation allowances on German and foreign loans
- Provision of relevant information for the notes to the consolidated financial statements and the Group Management Report
- Providing the information to be disclosed about market price, credit, liquidity and operational risk

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

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

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

Before being approved, the consolidated financial statements and the Group Management Report must be audited by the auditor appointed by the Supervisory Board.

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

Pertaining to the Group’s financial reporting process, Bremer Landesbank regards the main features of the internal control and risk management system to be those which may have a significant impact on the accounts and on the overall picture conveyed by the consolidated financial statements together with the Group Management Report. These include:

- Identification of the main risk fields and control areas relevant to the Group financial reporting process
- Cross-segment controls for monitoring the Group financial reporting process
- Preventive controls in the Bank’s finance and accounting functions, the strategic business segments and in operating processes that generate key information for preparing the consolidated financial statements and the Group Management Report, including functional segregation and pre-defined approval processes in relevant areas
- Measures to ensure the orderly computer-assisted processing of Group accounting transactions and data
- Measures to monitor the Group accounting-related internal control and risk management system

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

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

Proper specialist treatment of the business transactions is ensured by accounting standards and other regulations that are verified continuously and adjusted as and when necessary. Bremer Landesbank uses the SAP system for its for its accounting entries. Over and above that, use is made of individual data-processing tools whose structuring is examined within the scope of IDV monitoring.

Appropriate instructions in the policies mitigate the risk of non-compliant preparation of the consolidated financial statements. The group reporting packages are audited for conformity with the group accounting handbook. The quality of the consolidated financial statements is assured by Finance. Procedures relating to the consolidated financial statements are explained and changes to IFRSs are communicated at regular information events for subsidiaries.

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

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

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

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

5.3 Risks from the Strategic Business Segments

BLB has anchored its strategic goals in a customer-oriented business model with the following five strategic segments and the ten strategic business units assigned to them:

Strategic business segments	Corporate customers	Private Customers	Ship Finance	Special Finance	Financial Markets
Strategic business units	• Corporates • Construction industry • Food industry • Social Welfare Facilities	• Private Banking • Private Customers	• Shipping	• Renewable Energies • Leasing	• Public-Sector Customers • Savings banks • Institutional customers

The main risk for BLB lies in the Ships SBU. Risks are managed according to risk types, primarily in the central organisational units.

As is standard in the banking industry, the internal risk of credit, market and liquidity risks from the strategic business units is transferred to the central organisational units via the rating of the customers, the associated risk-adjusted acquisition prices and the consideration of liquidity premiums. This is ensured in the strategic business units by way of the consistent use of financing principles and by taking into account the rules pertaining to risk management. Operational, business and strategic risks are managed in a largely decentralised manner in the strategic business units.

The appropriate credit, operational, business and strategic risks can be allocated clearly to the strategic business units (SBUs).

Traditional credit risk dominates in all of the SBUs. In the Ships SBU in particular, concentration risks caused by aggravated risk profiles resulting from the lengthy crisis in the shipping sector are very widespread. To diminish this risk, the portfolio is being reduced further from a value-preserving perspective.

Commercial and strategic risks affecting the SBUs are resulting from, among other things, unexpected changes in their competitive respective position and unexpected economic and market developments. A good example of this is the Group's refinancing activities that are managed in the Financial Markets segment, whose sales figures depend partly on market conditions. For the Ships SBU, the uncertain development of the shipping market, coupled with the uncertainties of the US dollar's exchange rate, are prominent factors. In the Social Welfare Facilities SBU there are also business and strategic risks in the form of regulatory interventions in the nursing-care market. In the Renewable Energies SBU, business and strategic risks are evident particularly in the increasing portfolio concentration on wind power due to the tightening of the German Renewable Energies Act (EEG) for photovoltaics and biogas, as well as the change in eligibility conditions on the key markets of Germany and France.

5.4 Extended Risk Report

5.4.1 Risk-bearing Capacity

Development in 2016 and outlook

Compared to the presentation of risk-bearing capacity as at 31 December 2015, the risk situation has deteriorated hugely as a result of the ongoing crisis on the shipping markets with relevance for the bank during the course of the financial year 2016. This is manifesting itself in a highly disproportionate increase in risk provisioning for the financial year 2016.

The supervisory capital requirements in accordance with CRR were complied with during the course of the year. Due to the further significant increase in risk provisioning, both the Tier 1 ratio and the core capital ratio were reduced to 5.29 per cent as at 31 December 2016. The Tier 1 core capital ratio was consequently above the regulatory minimum ratio, including the minimum allocation to the capital conservation buffer of 5.125 per cent that is required for 2016. The statutory minimum requirements of the core capital ratio of 6.625 per cent were ultimately no longer fulfilled retroactively as at year-end, as was reported in the ad-hoc announcement dated 9 March 2017.

The regulatory uncommitted core capital (risk capital) that is relevant for the calculation of risk-bearing capacity, which still contained €814 million at the end of 2015, diminished gradually in the course of the year due to the increasing allocations of risk provisioning and was ultimately used up by the end of 2016. The risk-bearing capacity was therefore no longer included in the economic going-concern considerations (pillar II) as at 31 December 2016.

The table below shows the results of the risk-bearing-capacity calculation as at per 31 December 2016 in comparison to the previous year-end.

Utilisation rate of risk capital in the going concern scenario (confidence level of 95 per cent)

Risk-bearing capacity[1)] € million	31.12.2016	31.12.2015
Risk capital	**0**	**814**
Credit risks	393	365
Investment risks	12	17
Market risks	44	38
Liquidity risks	14	20
Operational risks	17	15
Other[2)]	–164	–98
Total risk potential	**316**	**358**
Utilisation level	**n/a**	**44%**

[1)] Differences between totals are due to rounding.
[2)] Contains correction positions from the comparison of regulatory and economic loss expectations.

In the course of 2016, the Bank's regular forecast calculations – with regard to the future development of the capital ratios, risk cover potential and risk-bearing capacity – gave an early indication that a capital enhancement was required. The bank has therefore, within the scope of its active risk management, generated discernible capital-relief effects through the realisation of a further synthetic securitisation transaction as well as guarantee measures. These steps, however, were insufficient to absorb the unexpected additional risk-capital consumption towards the end of the year by means of risk provisioning.

Effective from 1 January 2017, BLB is now the wholly-owned subsidiary of NORD/LB. In connection with this acquisition, a controlling agreement was concluded between NORD/LB and BLB as a risk-mitigating measure, also effective as from 1 January 2017, and including a loss compensation agreement and a hard letter of comfort from NORD/LB to BLB. In addition to that, NORD/LB has has carried out a cash capital increase totalling €400 million effective from 21 March 2017. This strengthened the Bank's capital reserve and brought additional relief to the supervisory capital ratios. It is also intended, moreover, that an increase in the synthetic securitisation originated in 2016 should provide further relief in this risk situation during the first half of 2017.

On 19 January 2017, BLB applied for a waiver to make it easier to utilise certain alleviations for fulfilling its capital requirements in accordance with Section 2a para. 1 and 2 KWG in conjunction with Art. 7 para. 1 CRR. Upon approval of the application, certain supervisory requirements concerning BLB's capital base will lapse at individual institution level. BLB's risk-bearing capacity will then be ascertained and secured at the level of an integrated control unit. In the process, NORD/LB's risk-bearing capacity model that was comprehensively enhanced in 2016 and is standard within the Group will be applied accordingly.

Sustainable compliance with the capital ratios and risk-bearing capacity depends in particular on the approval of a waiver between NORD/LB and BLB. If the application for such a waiver is delayed or rejected by the supervisory authority, the plan for a capital increase simultaneously provides for a resolution for authorised capital so that a further €200 million could be used to enhance BLB's capital.

5.4.2 Credit risk

Credit risk – development in 2016

The maximum default risk amount for balance-sheet and non-balance-sheet financial instruments was around €33 billion as at the reporting date and has fallen by 1.5 per cent in the year under review.

Risk-bearing financial instruments **€ million**	**Maximum default risk amount** **31.12.2016**	**31.12.2015**
Loans and advances to banks	3,701	3,480
Loans and advances to customers	22,346	22,781
Adjustment item for financial instruments included in the fair value hedge portfolio		
asset-side	62	49
liability-side	–240	–212
Financial assets at fair value through profit or loss	502	666
Positive fair values from hedge accounting derivatives	580	541
Financial assets	2,775	2,919
Subtotal	**29,726**	**30,224**
Liabilities from guarantees and warranties as well as irrevocable credit commitments	3,065	3,082
Total	**32,791**	**33,306**

In comparison with the following tables on the subject of overall exposure, which are based on the internal data made available to management, the maximum default risk amount in the foregoing table is shown at the carrying amounts. The maximum default sums from the utilisation of irrevocable credit commitments and/or other off-balance-sheet items correspond to all of the authorised lines.

The divergences between the overall exposure sum in accordance with the internal reporting on the one hand, and the maximum default risk amount on the other, results from the different field of application, the definition of overall exposure for internal purposes, and different accounting and valuation methods.

The calculation of overall exposure is based on the utilisations of funds (the nominal value with guarantees, the carrying amount with securities) and the credit equivalent from derivatives (including add-on and taking netting into account). Irrevocable and revocable credit commitments are included proportionally in the overall exposure, while collateral provided to Bremer Landesbank is not included. In addition, investments are also included in the overall exposure.

Analysis of overall exposure

The Bank's credit exposure as at 31 December 2016 amounts to some €32.521 million and has therefore decreased by around 1.2 per cent since last year.

The credit risk is essentially shaped by the ship portfolio. In the ship-customer segment, BLB concentrated mainly on reducing the size of the portfolio last year.

The year 2016 was initially shaped by developments in bulk shipping in particular. The sharp decline in charter rates that had begin in the previous year persisted. In the first quarter of 2016, the Baltic Dry Index reached an all-time low. In the fourth quarter the rate indices then managed an end-of-year spurt. Furthermore, the bulkers' discernible caution as far as orders are concerned can be regarded as positive in the bulker sector. All in all, the market remained highly volatile at a very low level.

Following a slight recovery on the charter market for container ships in the first half of 2016, which with the smaller ships was enough to effect partial redemptions, the late summer brought a renewed downturn in charter rates. The backdrop to this development was the unchanged constant intake of new tonnage, which did not abate until the end of the year.

The tanker segment was unable to build on its market trend from 2015. Due to the growth of the fleet, charter rates came under increasing pressure in the course of the year but largely remained able to service their loans. This was followed by OPEC's announcement of a reduction in crude oil production, whose effects were similarly negative.

In 2016 the market for multi-purpose ships remained under the massive influence exerted by the development of container and bulk shipping. Ships for transporting project cargoes suffered under the generally low oil and commodity prices.

All in all, the growth in global trade in 2016 was again to generate positive momentum in the ship finance portfolio. Ailing ships were able to receive support from shipping companies only in exceptional cases. Against this backdrop, the need for valuation allowances in the ship finance segment increased again. As well as stricter parameters in estimating risk provisioning, the continued commercial existence of numerous borrowers could not be confirmed, with the result that the risk provision used was well in excess of the level that prevailed in the preceding years.

Wind energy remains the most important sub-segment in our financing of renewable energies with robust growth in recent years. The framework conditions for wind-energy financing remained attractive and reliable in the year under review. In view of the amendment to the German Renewable Energies Act (Erneuerbare-Energien-Gesetz (EEG)), especially regarding a switch to a tender procedure as from 2017 at Wind onshore, building activity in the sector again increased strongly in 2016. In addition, historically low interest rates and the increased efficiency of plant technology helped to improve profitability. To date, the risks of wind-park project financing have been manageable. There have not been any individual valuation allowances or (EWB) or provisions for wind-park project financing.

The table below compares the credit portfolio's rating structure with that of the previous year. The classification used corresponds to the standard IFD rating scale that the combined banks, savings banks and associations agreed on in the "Initiative Finanzstandort Deutschland (IFD)" to promote Germany as a financial location. Its aim is to improve the comparability of the different rating classifications of the individual financial institutions.

The rating classes of the 27-step DSGV rating master scale applied at the Bank may be transposed directly to the IFD categories.

Credit business by rating structure

Rating structure[1)6)] € million	Loans[2)]	Securities[3)]	Derivatives[4)]	Other[5)]	Total 31.12.2016	Total 31.12.2015
	31.12.2016					
good to very good	10,845	2,644	615	6,913	**21,017**	**20,938**
still good/adequate	2,257	-	66	591	**2,914**	**2,818**
still good/adequate	1,357	50	39	286	**1,732**	**2,102**
increased risk	470	-	21	61	**552**	**912**
high risk	486	-	2	98	**586**	**1,151**
very high risk	1,511	-	3	74	**1,588**	**1,658**
Default (=NPL)	4,115	-	2	15	**4,132**	**3,350**
Total	**21,042**	**2,694**	**748**	**8,038**	**32,521**	**32,929**

1) Differences in totals are due to rounding.
2) Contains utilised or promised loans, sureties, guarantees and other non-derivative off-balance-sheet assets whereby, analogous to the internal reporting, the irrevocable and revocable credit commitments are included on a pro-rata basis.
3) Contains the own securities holdings of third-party issuers (only investment book).
4) Contains derivative financial instruments such as financial swaps, options, futures, forward rate agreements and currency transactions.
5) Contains other products such as pass-through and administered loans.
6) Allocation in accordance with IFD rating classes.

The high proportion in the classes "very good" and "good" results from the major significance of the interbank market and/or business with public budgets. All in all, the loan portfolio's risk structure deteriorated in 2016. The increase in exposure among the non-performing loans (NPL) was caused by the ongoing shipping crisis.

Distribution by region:

Regions[1] € million	Loans	Securities 31.12.2016	Derivatives	Other	Total 31.12.2016	Total 31.12.2015
Euro countries	20,063	2,646	481	8,035	**31,226**	**31,455**
- of which Germany	18,257	2,455	410	7,616	**28,738**	**29,010**
Other Europe	182	33	215	3	**432**	**512**
North America	24	15	51	0	**90**	**96**
Latin America	82	-	-	-	**82**	**81**
Middle East/Africa	56	-	-	-	**56**	**117**
Asia/Australia	635	-	-	-	**635**	**667**
Sundry	-	-	-	-	**-**	**-**
Total	**21,042**	**2,694**	**748**	**8,038**	**32,521**	**32,929**

[1] to [5] see previous table about the rating structure.

The breakdown of total exposure by region demonstrates that the country risk is of subordinate importance for the Bank. The eurozone remains by far the Bank's most important commercial territory. The exposure in den PIIGS states largely securities and credit derivatives) is shown in Note (66).

The deviations between the aggregate sum in accordance with the foregoing table by regions and those for the financial instruments contained in the balance sheet result from different valuations and other add-ons.

Lending business by industry groups

Industry groups[1] € million	Loans	Securities 31.12.2016	Derivatives	Other	Total 31.12.2016	Total 31.12.2015
Financing institutions/Insurers	2,837	674	503	2,791	**6,805**	**6,748**
Service industries/other	6,880	2,010	65	674	**9,629**	**9,897**
of which real estate and housing	1,247	–	33	190	**1,470**	**1,583**
- of which public administration	3,232	2,010	14	121	**5,376**	**5,789**
Transport, communications	6,430	9	20	143	**6,603**	**7,433**
- of which shipping	6,119	0	14	32	**6,164**	**6,929**
Manufacturing	616	–	35	130	**781**	**799**
Energy, water supply and mining	2,321	–	67	3,932	**6,319**	**5,813**
Trade, maintenance and repairs	1,371	–	56	114	**1,541**	**1,493**
Agriculture, forestry and fishing	119	–	1	192	**312**	**306**
Construction	468	–	1	62	**531**	**441**
Sundry	–	–	–	–	**–**	**–**
Total	**21,042**	**2,694**	**748**	**8,038**	**32,521**	**32,929**

[1] up to [5] see previous table about the rating structure.

Much of the decrease in overall exposure can be attributed to the active reduction in the size of the ship portfolio. The loan volume in the shipping sector has, in euros, diminished by a substantial €765 million compared to the last year-end. The proportion of financing institutions/Insurers with an involvement in the overall exposure nevertheless remains relatively high at 21 per cent (previous year: 20 per cent) and is still characterised by institutions with very good ratings.

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Non-Performing Loans

The Bank makes specific valuation allowances for acute default risks if there are objective indications of such risks. The need for a valuation allowance is based on a present value analysis of expected interest and redemption payments as well as on proceeds from the realisation of collateral. Risks relating to off-balance sheet transactions (guarantees, endorsement liabilities and loan commitments) are accounted for by a loan loss provision.

The credit exposure of impaired receivables increased again in 2016 as a result of the ongoing shipping crisis. The portfolio of specific valuation allowances and provisions for credit transactions again increased substantially in 2016 primarily as a consequence of the increase in valuation allowances for the ship portfolio. The portfolio of specific valuation allowances as a proportion of total exposures is 6.1 per cent (previous year: 2.8 per cent).

The past-due or impaired receivables at Bremer Landesbank are primarily secured by standard collateral and other credit enhancements valued on the basis of lending principles. The gross book value of the non-performing loans with a need for valuation allowances before deduction of collateral is covered to the extent of 36.2 per cent (previous year: 32.5 per cent) by specific valuation allowances.

Risk provisioning is well above expectations at around €1.708 million. Taking wastage into account, the portfolio of specific valuation allowances plus provisions is €1.987 million. Details about risk provisioning in credit business can be found in Note (20).

Risk provisioning requirements by industry groups

Industry groups[1]	Credit exposure of past-due impaired receivables[2]		Portfolio individual valuation allowances		Portfolio of provisions for lending business		Changes in specific valuation allowances/ provisions	
€ million	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Financial institutions/insurance companies	9	24	7	10	–	–	–3	3
Service industries/other	39	60	26	27	1	1	–1	–5
of which real estate and housing	8	23	6	6	–	–	1	–1
- of which public administration	–	–	–	–	–	–	–	–
Transport, communications	3,322	2,343	1,844	807	2	2	1,037	266
- of which shipping	3,318	2,339	1,840	787	–	–	1,053	249
Manufacturing	28	33	24	27	1	0	–2	–3
Energy, water supply and mining	65	39	48	25	3	3	24	4
Trade, maintenance and repairs	7	8	7	5	1	0	2	–2
Agriculture, forestry and fishing	14	3	10	2	0	0	8	1
Construction	19	20	13	14	1	1	–1	–4
Sundry	–	–	–	–	–	–	–	–
Total	**3,504**	**2,531**	**1,979**	**917**	**8**	**8**	**1,061**	**261**

[1] Differences between totals are due to rounding.
[2] The term “impaired” refers in this instance solely to specific individual valuation allowances and flat-rate allowances General valuation allowances are not included.

Risk provisioning requirements by regions

Regions[1) 2)] € million	Credit exposure of impaired receivables 2016	2015	Portfolio of specific individual valuation allowances 2016	2015	Portfolio of provisions for lending business 2016	2015	Changes in specific valuation allowances/ provisions 2016	2015
Euro countries	3,269	2,298	1,886	857	7	7	1,029	232
Other Europe	13	8	8	4	0	0	4	3
North America	–	–	–	–	–	–	–	–
Latin America	–	–	–	1	–	–	–1	0
Middle East/Africa	45	57	10	20	–	–	–10	20
Asia/Australia	177	167	75	35	1	1	40	6
Sundry	–	–	–	–	–	–	–	–
Total	**3,504**	**2,531**	**1,979**	**917**	**8**	**8**	**1,061**	**261**

1) Differences between totals are due to rounding.
2) The term “impaired” refers in this instance solely to specific individual valuation allowances and flat-rate allowances General valuation allowances are not included.

Presentation of the past-due receivables by industry groups

The following tables provide information about the defaulted but not yet impaired receivables portfolio. All receivables that have entered their first excess day are shown as defaulted.

Industry groups[1)] € million	Credit exposure of past-due non-impaired receivables[2)] 2016	2015	Portfolio valuation allowances 2016	2015	Net allocations/ reversal of portfolio valuation allowances 2016	2015
Financial institutions/insurance companies	51	67	1	1	0	0
Service industries/other	150	199	9	7	2	–3
of which real estate and housing	5	38	2	2	1	–1
- of which public administration	113	112	0	0	0	0
Transport, communications	272	711	77	132	–55	–50
- of which shipping	272	708	82	132	–49	–50
Manufacturing	12	13	3	2	0	0
Energy, water supply and mining	121	213	6	3	2	–1
Trade, maintenance and repairs	6	25	2	2	0	0
Agriculture, forestry and fishing	5	17	1	1	0	0
Construction	0	16	2	1	1	0
Sundry	–	–	–	–	–	–
Total	**618**	**1,262**	**99**	**149**	**-51**	**-55**

1) Differences between totals are due to rounding.
2) The term “impaired” refers in this instance solely to specific individual valuation allowances and flat-rate allowances Portfolio valuation allowances are not included.

Presentation of the past-due receivables by region

Regions[1)] € million	Credit exposure of past-due non-impaired receivables[2)] 2016	2015	Portfolio valuation allowances 2016	2015	Net allocations/ reversal of portfolio valuation allowances 2016	2015
Euro countries	577	1,151	86	139	–53	–54
Other Europe	35	51	0	0	0	0
North America	–	–	0	0	0	0
Latin America	0	–	2	0	1	0
Middle East/Africa	–	–	0	0	0	0
Asia/Australia	6	60	11	9	1	0
Sundry	–	–	–	–	–	–
Total	**618**	**1,262**	**99**	**149**	**-51**	**-55**

[1)] Differences between totals are due to rounding.
[2)] The term “impaired” refers in this instance solely to specific individual valuation allowances and flat-rate allowances Portfolio valuation allowances are not included.

Default duration of past-due non-impaired financial receivables by region

Regions	Credit exposure of past-due, non-impaired receivables											
	up to 1 month		1 to 3 months		3 to 6 months		6 or more months		Total		Portfolio valuation allowances	
€ million	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Euro countries	383	738	69	99	25	39	100	275	**577**	**1,151**	86	139
Other Europe	35	46	–	5	–	–	–	–	**35**	**51**	0	0
North America	–	–	–	–	–	–	–	–	**–**	**–**	0	0
Latin America	0	–	–	–	–	–	–	–	**0**	**–**	2	0
Middle East/Africa	–	–	–	–	–	–	–	–	**–**	**–**	0	0
Asia/Australia	0	3	6	–	–	–	–	56	**6**	**60**	11	9
Sundry	–	–	–	–	–	–	–	–	**–**	**–**	–	–
Total	**418**	**787**	**75**	**104**	**25**	**39**	**100**	**332**	**618**	**1,262**	**99**	**149**

[1)] Differences between totals are due to rounding.
[2)] The term “impaired” refers in this instance solely to specific individual valuation allowances and flat-rate allowances. Portfolio valuation allowances are not included.

The exposure of past-due, non-impaired receivables has been reduced appreciably by the rigorous application of risk provisioning in 2016. The portfolio of past-due, non-impaired receivables consists of 20 per cent (29 per cent) redemption payments more than 90 days past due. 68 per cent (previous year: 62 per cent) of the receivables are up to one month past due.

In the year under review, direct receivables write-downs on loans were carried out in the amount of €196 million (previous year: €43 million). The payments on loans written off amounted to €3 million (previous year: €9 million. No direct write-downs for securities in the category loans and receivables (LaR) were carried out at BLB.

By means of collateral allowances and/or netting, the risk-weighted assets as at 31 December 2016 were reduced by €0.97 billion (previous year: €1.34 billion), which corresponds to a proportion of 10 per cent (previous year: 10 per cent) of the entire credit-risk RWA. The process mainly involved sureties and guarantees from states and banks, financial collateral and mortgages.

In connection with the utilisation of collateral held and other credit improvements due to the non-performance of borrowers, the Bank did not acquire any assets in the last financial year. By taking possession of collateral held in the form of securities items or by utilising other credit protection, BLB likewise received no assets in the period under review.

Credit risk – outlook

The Bank will continue to enhance its credit-risk control system in 2017. In this context, the risk parameters and the credit-risk model will be validated, as in every year. Additionally, the RWA management will be further structured in line with risk-return management and a buffer created for future crises. The credit-risk analyses focusing on risk concentration at counterparty and loan portfolio level will be intensified and result in further efficiency improvements in credit-risk management at the Bank.

Since 2010, risk provisioning at Bremer Landesbank has been determined largely by developments in the merchant shipping sector. A long-term recovery in the shipping sector remains uncertain due to high levels of overcapacity. For the risk provisioning in the shipping segment, gradually falling expenses are assumed on the basis of a gradual recovery in charter rates. In its risk management the Bank is for now assuming that the uncertain development will continue in merchant shipping over the next few years and is taking adequate measures, protecting against risks by making an appropriate allocation to risk provisioning, and will actively pursue the risk-oriented reduction of the Ship Finance portfolio in the next few years.

5.4.3 Investment risk

Investment risk – development in 2016

“Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH” is a very important investment for BLB. Its identification as an important investment is shown appropriately by its stand-alone risk disclosure. Within the scope of RTF reporting, the relevant key risk figures for this investment are appreciated and commented on accordingly. The quantification of the investment’s risk potential (“risk type investments”), however, is not changed.

In June 2016, in respect of the shares in Deutsche Factoring Bank Deutsche Factoring GmbH & Co. and its general partner, Deutsche Factoring GmbH, a contract of sale was concluded and implemented as planned in August 2016. Beyond that there were – for the investment portfolio as a whole – no significant changes since 31 December 2015

The investment portfolio’s risk potential disclosed in the going concern-considerations fell to €12 million (€17 million) in 2016.

Investment risk – outlook

The investment portfolio has now been largely optimised.

Within the framework of BLB's acquisition by NORD/LB, an investment previously held by BLB in an important company related to the federal state of Bremen was transferred to the Free Hanseatic City of Bremen effective from the beginning of 2017.

5.4.4 Market risk

Market risk – development in 2016

The interest-rate risk (including credit spread risk) is the crucial market risk for BLB. In 2016 this risk proved to be considerably less volatile than in the previous year. The interest-rate level in 2016 remained at a low level compared to the previous year. The bank is well-positioned to deal with increases in interest rates. The credit spreads increased slightly in 2016. Slightly falling spreads are expected in 2017.

The table below shows the Bank's market risks (not including the credit investment portfolio) in the year under review and in the previous year.

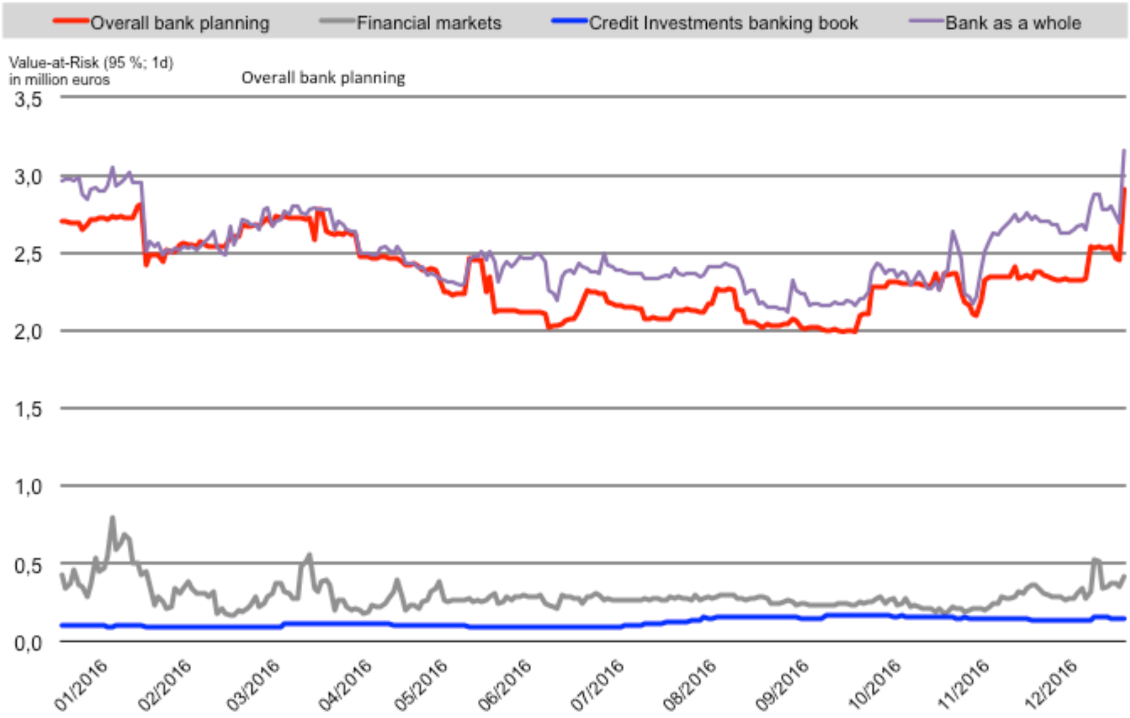
Market risks – overview

	Maximum		Average		Minimum		Year-end total	
€(thousand)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Interest-rate risk (VaR)	3,111	5,270	2,364	4,202	2,037	2,535	**3,111**	**2,535**
Currency risk (VaR)	85	118	24	32	1	4	**19**	**5**
Share-price and fund-price risk (VaR)	596	517	280	170	20	16	**245**	**20**
Volatility risk (VaR)	48	85	14	43	4	11	**8**	**12**
Overall risk (VaR)	**3,158**	**4,770**	**2,468**	**4,043**	**2,099**	**2,563**	**3,158**	**2,563**

The utilisation of the Bank's market risk limit was 44 per cent on average during the year (the maximum utilisation was 53 per cent, the lowest 37 per cent). As at the reporting date 31 December 2016, the Bank's value-at-risk (VaR) confidence level of 95 per cent and a holding period of one day amounted to €3.16 million. In the reporting year 2016, the average utilisation of the OE financial markets' risk limits was 29 per cent, that of the overall disposition 43 per cent.

The course of the VaR in the bank as a whole (including the credit investment portfolio) is shown in the table below for 2016.

Market risks Value-at-Risk processes



In the reporting year 2016, the stress tests carried out gave the entire bank level a maximum risk of €98 million and an average risk of €78 million with a minimum of €58 million. As at the balance-sheet date 31 December 2016, the stress-test value for the bank as a whole was €96 million.

In the reporting year 2016, the risk of changing interest rates in respect of the liable equity was 6.1 per cent on average after 8.5 per cent in 2015. The results show that the Bank is far from being classified as an "institute with above-average interest-rate risks". Equity components that are permanently at the institute's disposal are not included in the present-value calculation of the risks of changing interest rates.

Market risk – outlook

As regards the year 2017, the Bank is still expecting a largely stable market environment for BLB's portfolio. A clear and lasting level shift cannot be expected either for credit spreads or for interest rates.

In 2017, special attention will be paid to the further development of strategic interest-book control. In 2016 the Bank had extended present-value strategic interest-book control with an income-oriented viewpoint (periodical treatment). In 2017 the Bank is going to continue working on safeguarding a consistent and integrated treatment of the two control circuits (economic and at the same time periodical). It also intends to establish selective methodical or procedural enhancements in the context of market-risk control.

5.4.5 Liquidity risk

Liquidity risk – development in 2016

During the first five months of 2016, the Bank's liquidity supply was satisfactory at all times. The dynamic liquidity stress test as a control instrument for traditional liquidity risk also showed an adequate liquidity position under tightened stress parameters. In its ad-hoc announcement on 2 June 2016, BLB provided information about an expected sharp increase in the risk-provisioning requirements. As a result of this, a rating agency with which a contractual relationship no longer exists downgraded BLB's short- and long-term rating solely on the basis of publicly available information. The downgrade led to uncertainties among investors and refinancing partners in regarding BLB which in turn led to restrictions in the Bank's access to the capital market. As the change in the rating also necessitated adjustments regarding the depiction of the credit risk and the demand deposits in the stress test, the Bank was relegated to yellow status in the dynamic liquidity stress test in June despite an adequate liquidity position. It was possible to return the Bank from yellow status to green status within a maximum of two days by way of short-term borrowings (demand deposits) at NORD/LB. In the course of the year, these demand deposits were prolonged prematurely for further liquidity protection.

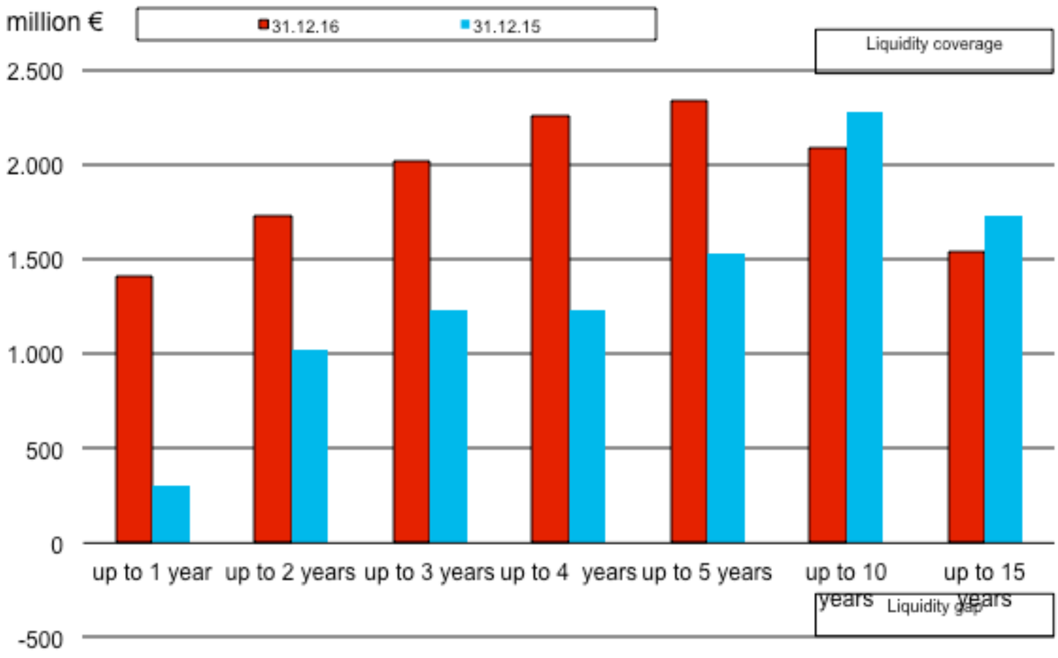
During the second half of 2016, the liquidity situation was stabilised at a satisfactory level with the result that there were no further downgrades below green status. Due to the persistently unsatisfactory rating situation and partially disrupted access to the money and capital market, BLB controlled the liquidity situation tightly and held daily meetings of the crisis group sub-committee throughout the year. On 23 November 2016, BLB held a second ad-hoc announcement that gave notice of a further increase in risk-provisioning requirements, and therefore of a higher loss for the year. As it was already foreseeable at this point that NORD/LB was going to acquire all the shares in BLB, this led to no further reactions on the part of the investors or the money and capital market. The acquisition of BLB by NORD/LB effective as of 1 January 2017 was confirmed on 14 and 15 December 2016 by Bremen's state parliament and the Lower Saxony state parliament respectively.

The requirements of the liquidity buffer to be maintained in accordance with MaRisk were complied with at all times throughout the year; the liquidity buffer's utilisation in one week was 0 per cent due to high short-term liquidity surpluses as at the reporting date. The utilisation of the liquidity buffer for one month amounted to 25 per cent as at the reporting date (previous year: 38 per cent).

In contrast to the dynamic stress scenario that always depicts the most likely estimated stress scenario for the Group, the liquidity progress review shows from expected inflows and outflows of the Bank's portfolio business as per 31 December 2016 that the long-term liquidity situation has not changed signifcantly. In contrast to the dynamic stress test, which contains scenario assumptions for stochastic cash flows, the liquidityprogressreview (LAB) has a rather determining view of the Bank's portfolio business. The LAB manages the long-term structural liquidity. Cash flows from future or merely planned transactions are therefore not taken into account in the LAB.

Cumulative liquidity progress

The liquidity progress review used for the internal control of the refinancing risk is as follows as at the reporting date:



The outcome of the liquidity management was that the accumulated liquidity surpluses essentially remained firm compared to the previous year.

The Bank's liquidity progress review therefore shows a satisfactory liquidity situation as at 31 December 2016. The liquidity limits used for control purposes (volume structure limits) were complied with at all times in the past financial year.

The present-value limit used to restrict the refinancing risk was never exceeded at any time during 2016. In the period under review the liquidity index was between 2.43 and 3.67, and therefore considerably higher than the minimum level of 1.00 demanded by the supervisory authority. The Liquidity Coverage Ratio (LCR) has been monitored daily by risk controlling since the second half of 2016. The prescribed minimum ratio (70 per cent) was adhered to consistently and remained between 97 per cent and 180 per cent in daily monitoring.

Liabilities € million	Volume	Share	Volume	Share
	31.12.2016		31.12.2015	
Banks	11,084	38%	10,603	35%
Customers	9,738	34%	9,892	33%
Securitised liabilities	5,251	18%	5,295	18%
Capital	495	2%	1,904	6%
Rest	2,363	8%	2,277	8%
Total liabilities and equity	**28,931**		**29,971**	
Covered refinancing (total)[1)]	4,029		4,513	
Public Pfandbriefe	3,130	78%	3,587	79%
Mortgage Pfandbriefe	797	20%	753	17%
Ship Pfandbriefe	102	2%	173	4%

[1)] Covered refinancing: reported at the nominal amount

The refinancing of BLB essentially consists of liabilities to banks, which account for 38 per cent (previous year: 35 per cent), liabilities to customers with 34 per cent (previous year: 33 per cent) and securitised liabilities with 18 per cent (previous year: 18 per cent). As well as uncovered securities, BLB uses covered securities for this purpose, including public Pfandbriefe and real-estate and ship Pfandbriefe. The proportion accounted for by covered refinancing is 14 per cent previous year: 15 per cent).

Liquidity risk – outlook

BLB's situation in 2017 will primarily be one of ongoing integration into the NORD/LB Group. By acquiring BLB on 10 January 2017, NORD/LB raised BLB's long-term rating, which is based solely on publicly available information, back into the investment-grade area.

As a result of a further increase in the risk provisioning in the ship loans portfolio, BLB, in an ad-hoc announcement given on 9 March 2017, provided information about the concomitant loss for the year. The announcement led to no further reactions on the part of investors and/or the money and capital markets. The liquidity situation is satisfactory, as before, and continues to be managed strictly.

It can therefore be assumed that the BLB emissions can again be placed successfully on the capital market.

5.4.6 Operational risk

Operational risk – development in 2016

The damaging events that occurred in 2016 were assessed overall as immaterial from the viewpoint of the bank as a whole. The gross amount of all reported damaging events (including cases that also concern the credit risk) totalled €3.7 million in 2016 (previous year: €2.4 million). Taking mitigation of damage into account, a net loss/damage sum of €2.6 million remains.

Net losses as a percentage of total losses (not including losses relating to lending)

Loss database	Share 31.12.2016	Share 31.12.2015[1)]
External events	44.3%	25.9%
Internal processes	0.0%	39.5%
Employees	55.7%	40.8%
Technology	0.0%	–6.2%

1) Negative value due to the subsequent reduction of a loss from 2014.

Legal risks on account of the German Federal Supreme Court’s case law on invalid revocation instructions in consumer loan agreements and loan fees cannot be ruled out. Claims against the Bank have been enforced only to a manageable extent. Loan fees for loans to private customers were reimbursed if they were enforced at an unexpired time. It has not yet been decided by the Supreme Court whether the ruling is transferable to loans to commercial customers. To, date only isolated claims for a refund have been made and these claims were rejected. The formation of a provision has not been regarded as necessary so far.

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

Operational risk – outlook

The Bank is assuming that in 2017, too, loss or damage from operational risks will be of an immaterial nature as in the previous years.

5.5 Other risks

Over and above the credit, investment, market, liquidity and operational risks that have already been described, any other risks are of secondary importance for the Bank.

5.6 Overall statements

Overall statement on the risk situation

The situation at BLB is influenced by the ongoing crisis on the shipping markets with relevance for the bank. This manifests itself particularly in a disproportionate increase in risk provisioning for the financial year 2016. The available risk cover amount was thereby consumed in its entirety by the end of 2016. As a result, the risk-bearing capacity required by an economic going concern was no longer given as per 31 December 2016 (Going Concern consideration (pillar II).

The supervisory capital requirements in accordance with CRR were complied with in the course of the year. The capital requirements as per 31 December 2016 amount to some €0.9 billion. This corresponds to risk-weighted assets totalling around €11.4 billion. The total capital ratio is 10.97 per cent.

As a result of the further considerable increase in risk provisioning expenses, both the Tier 1 ratio and the core capital ratio were reduced to 5.29 per cent as per 31 December 2016. The Tier 1 capital ratio was thereby higher than the regulatory minimum requirements. The statutory minimum requirements of the core capital ratio of 6.625 per cent were, according to the ad-hoc announcement on 9 March 2017, ultimately no longer fulfilled retroactively by the end of the year.

With a view to the additionally required risk provisioning as per 31 December 2016 and the further raising of the minimum capital requirements in 2017 in accordance with Basel III, it became necessary to execute a cash capital increase via NORD/LB in the amount of €400 million that was carried effective from 21 March 2017. As a result of this, the Bank's capital reserves were strengthened and the supervisory capital ratios were again provided with some relief. In addition, an increase in the synthetic securitisation that was originated in 2016 is expected to provide further relief in the risk situation in the second half of 2017.

On 19 January 2017, BLB applied for a waiver to make it easier to utilise certain alleviations for fulfilling its capital requirements in accordance with Section 2a para. 1 and 2 KWG in conjunction with Art. 7 para. 1 CRR. Upon approval of the application, certain supervisory requirements concerning BLB's capital base will lapse at individual institution level. BLB's risk-bearing capacity will then be ascertained and secured at the level of an integrated control unit. In the process, NORD/LB's risk-bearing capacity model that was comprehensively enhanced in 2016 and is standard within the Group will be applied accordingly.

Sustainable compliance with the capital ratios and risk-bearing capacity depends in particular on the approval of a waiver between NORD/LB and BLB. If the application for such a waiver is delayed or rejected by the supervisory authority, the plan for a capital increase simultaneously provides for a resolution for authorised capital so that a further €200 million could be used to enhance BLB's capital.

Due to the developments in 2016, uncertainties in relation to BLB have arisen among investors and refinancing partners. In addition to that, moreover, BLB had to suspend its issuing activity due to subsequent obligations in relation to the issue prospectus in 2016. In spite of that, the Bank's liquidity position was not in danger at any time.

One consequence of the ad-hoc announcement from 2 June 2016 was a downgrade by a rating agency in a rating that was not commissioned. After the full acquisition of BLB by NORD/LB was completed, the rating agency in question raised BLB's long-term rating again on 10 January 2017.

The Bank expects that 2017 will be another year of difficult shipping markets. Over and above that, uncertainty about the USD exchange rate could have negative effects in this business segment due to the high proportion of USD-financed arrangements in it.

The pressure on weight-bearing capacity and capital ratios will continue to prevail due to the aforementioned uncertainties as well as prospects of increasing minimum requirements with regard to CRR (Capital Requirements Regulation). Against this backdrop, the Bank will continue to make intensive use of the measures initiated within the framework of the RWA (risk-weighted assets) and capital management. The reduction in the ship portfolio will be continued.

Thanks to the completed acquisition of BLB by NORD/LB and the intended measures to be taken, BLB regards itself as well-equipped and future-oriented for its further course of business. However, unforeseeable developments on the shipping markets will be impossible to rule out in the future as well. Developments on the credit and capital markets will continue to be observed and analysed with care.

In addition to the risks referred to above, the BLB Group currently sees no further aspects that would not have been dealt with adequately with appropriate prevention measures.

6. Disclaimer – Forward-Looking Statements

This report contains forward-looking statements concerning the development of business and earnings at Bremer Landesbank which are based on current plans, estimations, forecasts and expectations. The forward-looking statements contain risks and uncertainties. These statements entail risks and uncertainties since there are numerous factors which influence Bremer Landesbank's business, many of which are beyond its control. These notably include economic developments, the state of financial markets worldwide and potential loan losses. Actual results and developments may therefore differ considerably from the assumptions made in the report. They are therefore only valid at the time of publication. Bremer Landesbank assumes no obligation to update forward-looking statements in the light of more recent information or unexpected events.

Consolidated income statement

Income Statement

	Notes	1.1.–31.12.2016 € million	1.1.–31.12.2015 € million	Change %
Interest income		1,117	1,260	–11
Interest expenses		752	847	–11
Net interest income	**19**	**365**	**413**	**–12**
Loan loss provisions	20	–1,541	–341	100
Net interest income after risk provisioning		**–1,176**	**72**	**–100**
Commission income		50	50	0
Commission expenses		26	9	100
Commission surplus	**21**	**24**	**41**	**–41**
Trading profit/loss		–1	31	–100
Profit/loss from designated financial instruments		–	–	–
Profit/loss from financial instruments at fair value through profit or loss	**22**	**–1**	**31**	**–100**
Profit/loss from hedge accounting	23	1	26	–96
Profit/loss from financial assets	24	3	10	–70
Profit/loss from financial assets accounted for using the equity method	25	5	8	–38
Administrative expenses	26	212	193	10
Other operating profit/loss	27	12	9	33
Reorganisation result	26	37	–	100
Earnings before taxes		**–1,381**	**4**	**–100**
Income taxes	28	–5	–1	100
Consolidated profit/loss		**–1,376**	**5**	**–100**
of which: attributable to shareholders of the parent company		–1,376	5	–100
of which: attributable to non-controlling interests		–	–	–

Statement of Comprehensive Income

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

	Notes	1.1.–31.12.2016 € million	1.1.–31.12.2015 € million	Change %
Consolidated profit/loss		**–1,382**	**5**	**–100**
Other comprehensive income that is not reclassified to the income statement in subsequent periods				
Revaluation of net debt from defined benefit plans		–42	66	–100
Financial assets accounted for using the equity method – share of other income		5	0	100
Deferred taxes	52	13	–21	100
Other comprehensive income that is reclassified to the income statement in subsequent periods under certain conditions				
Change from available-for-sale (AfS) financial instruments				
Unrealised gains/losses		6	12	–50
Reclassifications due to realised gains/losses		0	–1	–100
Deferred taxes	52	0	2	–100
Other comprehensive income		**–18**	**58**	**–100**
Total comprehensive income		**–1,400**	**63**	**–100**
of which: attributable to shareholders of the parent company		–1,400	63	–100
of which: attributable to non-controlling interests		–	–	–

You will find detailed explanations on the apportionment of the deferred taxes to the individual components of the statement of comprehensive income in Note (30) concerning the statement of comprehensive income.

Consolidated Balance Sheet

ASSETS

	Notes	31.12.2016 € million	31.12.2015 € million	Change %
Cash reserve	30	438	73	100
Loans and advances to banks	31	3,701	3,480	6
Loans and advances to customers	32	22,346	22,781	–2
Risk provisioning	33	–1,668	–1,063	57
Adjustment item for financial instruments hedged in the fair value hedge portfolio	47	62	49	27
Financial assets at fair value through profit or loss	34	502	666	–25
Positive fair values from hedge accounting derivatives	35	580	541	7
Financial assets	36	2,775	2,919	–5
Financial assets accounted for using the equity method	37	125	118	6
Property and equipment	38	115	89	29
Investment property	39	84	76	11
Intangible assets	40	14	14	0
Designated assets held for sale	41	5	22	–77
Current income tax assets	42	4	0	100
Deferred income taxes	42	165	149	11
Other assets	43	89	57	56
Total assets		**29,337**	**29,971**	**–2**

LIABILITIES

	Notes	31.12.2016 € million	31.12.2015 € million	Change %
Liabilities to banks	44	11,084	10,603	5
Liabilities to customers	45	9,738	9,892	–2
Securitised liabilities	46	5,251	5,295	–1
Adjustment item for financial instruments hedged in the fair value hedge portfolio	47	240	212	13
Liabilities at fair value	48	723	870	–17
Negative fair values from hedge accounting derivatives	49	266	201	32
Provisions	50	422	333	27
Current income tax liabilities	51	12	16	–25
Deferred income taxes	51	2	2	0
Other liabilities	52	95	41	100
Subordinated capital	53	602	602	0
Equity	55	902	1,904	–53
Subscribed capital		265	265	0
Additional paid-in capital		478	478	0
Capital reserves		-55	953	
Revaluation reserve		65	59	10
Equity attributable to BLB shareholders		753	1,755	–57
Instruments of the additional regulatory Tier 1 capital		149	149	0
Shareholdings with no controlling influence		–	–	0
Total liabilities and equity		**29,337**	**29,971**	**–2**

Statement of Changes in Equity

Changes in equity:

€ million	Notes	Subscribed capital	Capital reserve	Retained earnings	Revaluation reserve	Equity before minority interests	Instruments of add. reg. Tier 1 capital	Consolidated equity
Equity 1.1.2016		**265**	**478**	**902**	**46**	**1,691**	**-**	**1,691**
Change in the fair value of AfS financial instruments		–	–	–	11	**11**	–	**11**
Financial assets accounted for using the equity method – share of other comprehensive income	25	–	–	0	–	**0**	–	**0**
Revaluation of net debt from defined benefit plans		–	–	66	–	**66**	–	**66**
Deferred taxes on changes in value recognised directly in equity	29	–	–	–21	2	**–19**	–	**–19**
Consolidated profit/loss		**–**	**–**	**45**	**13**	**58**	**–**	**58**
Consolidated profit/loss		–	–	5	–	**5**	–	**5**
Total comprehensive income		**–**	**–**	**50**	**13**	**63**	**–**	**63**
Issue of instruments of additional regulatory equity		–	–	1	–	**1**	149	**150**
Distributions		–	–	–	–	**–**	–	**–**
Capital increase		–	–	–	–	**–**	–	**–**
Equity 31.12.2015		**265**	**478**	**953**	**59**	**1,755**	**149**	**1,904**
Equity 31.12.2016		**265**	**478**	**953**	**59**	**1,755**	**149**	**1,904**
Change in the fair value of AfS financial instruments		–	–	–	6	**6**	–	**6**
Financial assets accounted for using the equity method – share of other comprehensive income	25	–	–	5	–	**5**	–	**5**
Revaluation of net debt from defined benefit plans		–	–	–42	–	**–42**	–	**–42**
Deferred taxes on changes in value recognised directly in equity	29	–	–	13	0	**13**	–	**13**
Consolidated profit/loss		**–**	**–**	**–24**	**6**	**–18**	**–**	**–18**
Consolidated profit/loss		–	–	–1,382	–	**–1,382**	–	**–1,382**
Total comprehensive income		**–**	**–**	**–1,406**	**6**	**–1,400**	**–**	**–1,400**
Interest payments on instruments of additional regulatory equity		–	–	–9	–	**–9**	–	**–9**
Distributions		–	–	–	–	**–**	–	**–**
Capital increase		–	–	–	–	**–**	–	**–**
Equity 31.12.2016		**265**	**478**	**-462**	**65**	**346**	**149**	**495**

You will find detailed explanations on the Cash Flow Statement under Note (57).

Cash Flow Statement

€ million	Notes	1.1.–31.12.2016	1.1.–31.12.2015
Consolidated profit/loss		**-1,382**	**5**
Adjustment for non-cash items			
Depreciation, impairment and write-ups of property and equipment, intangible assets and financial assets	26	15	10
Change in provisions		81	–249
Profits/losses from the sale of property and equipment, intangible assets and financial assets		–22	–8
Change in other non-cash items		992	278
Other adjustments (net)		–325	–373
Sub-total		**–641**	**–337**
Change in assets and liabilities from operating activities after adjustment for non-cash items			
Loans and advances to banks and customers		211	320
Trading portfolio and hedge accounting derivatives		10	1
Other assets from operating activities		–32	–8
Liabilities to banks and customers	45+46	348	328
Securitised liabilities		–27	–2,024
Other liabilities from operating activities		35	–17
Interest received		960	1,144
Dividends received		3	5
Interest paid		–626	–781
Income tax paid		–5	–10
Cash flow from operating activities		**236**	**–1,379**
Cash receipts from the disposal of			
Financial assets	24	728	1,961
Property and equipment and intangible assets		0	0
Cash payments for the acquisition of			
Financial assets		–534	–673
Property and equipment and intangible assets		–46	–28
Cash receipts from the disposal of consolidated companies and other business units		0	0
Cash flow from investment activities		**148**	**1,260**
Cash receipts from equity capital contributions		0	0
Cash receipts from the issue of instruments of additional regulatory Tier 1 capital		–9	149
Cash receipts from the raising of subordinated capital		0	0
Cash payments to owners and non-controlling interests (dividends)		0	0
Repayment of subordinated capital		0	–150
Interest paid for subordinated capital		–10	–18
Cash flow from financing activities		**–19**	**–19**
Cash and cash equivalents at the end of the prior period		73	211
Cash flow from operating activities		236	–1,379
Cash flow from investment activities		148	1,260
Cash flow from financing activities		–19	–19
Cash and cash equivalents at the end of the period	**31**	**438**	**73**

You will find explanations on the cash flow statement under Note (57).

Notes to the Consolidated Financial Statements

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen, Oldenburg (Bremer Landesbank) (Domshof 26, 28195 Bremen) has its registered office in Bremen (local court of Bremen; HRA no. 22159), Germany, and has branches in Bremen and Oldenburg.

Until 31.12.2016, NORD/LB with 54.8343 per cent of the share capital, the state of Bremen with 41.2000 per cent and the Savings Banks Association of Lower Saxony with 3.9657 per cent were the owners of BLB. Effective from 1 January 2017, all of the shares in Bremer Landesbank were transferred to NORD/LB. Since that point, Bremer Landesbank has been a wholly-owned subsidiary of NORD/LB. NORD/LB is the direct and ultimate parent company of Bremer Landesbank.

Accounting Policies

(1) Basis of Preparation of the Consolidated Financial Statements

The consolidated financial statements of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – , Bremen, Oldenburg (Bremer Landesbank) as at 31 December 2016 were prepared on the basis of Regulation (EC) No. 1606/2002 of the European Parliament and the Council of 19 July 2002 (IAS Regulation) in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and endorsed by the EU. The standards published and adopted by the European Union as at the balance sheet date were applied. The national provisions of the German Commercial Code were also observed in accordance with Section 315a of the German Commercial Code.

The consolidated financial statements as at 31 December 2015 comprise the consolidated income-statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the statement of changes in equity, the cash flow statement and the notes. The segment Report is contained in Note (18). Risk reporting in accordance with IFRS 7 is chiefly contained in a separate report on the opportunities and risks relating to future development as part of the Group Management Report.

Assets are basically measured at amortised cost. Financial instruments in accordance with IAS 39 are exempt from this and valued at fair value. Recognition and measurement were performed on a going-concern basis. Income and expenses are apportioned on a pro rata temporis basis. They are recognised and reported in the period to which they are attributable. The significant accounting policies are described below.

The preparation of the consolidated financial statements was also based on the assumption that the entity in question would continue to exist, as the measures referred to in the supplementary report have a risk-mitigating effect on existence-threatening facts.

Uncertainties regarding the assumption of the entity's continued existence result from the unexpected increase in the valuation allowances for the ship portfolio and the concomitant loss for the financial year 2016 that were reported in the ad-hoc announcement on 9 March 2017, with the result that as at 31 December 2016, the statutory minimum capital ratio was not fulfilled, the risk-bearing capacity was non-existent and the large-loan ceilings had been exceeded.

Effective from 1 January 2017, a controlling agreement with loss compensation agreement was concluded between NORD/LB and BLB and a binding letter of comfort was sent by NORD/LB to Bremer Landesbank. In addition, effective from 21 March 2017, a capital increase was executed in the amount of €400 million by way of a cash contribution. Further risk-mitigating measures are the application made on 19 January 2017 for the utilisation of a waiver in accordance with Section 2a (1) and (2) KWG in conjunction with art. 7 (1) CRR, as well as the planned increasing of a synthetic securitisation that originated in 2016 during the first half of 2017. To cover the risk of the supervisory authority delaying or rejecting the application, the plan for the capital increase provides simultaneously for a resolution for approved capital so that a further €200 million could be used to enhance BLB's capital.

Estimates and judgments by management required under IFRS accounting are made in accordance with the respective standard, are continuously reviewed and are based on experience and other factors, including expectations as to future events which appear reasonable under prevailing circumstances. Estimates and judgments are made with regard to the following matters: determining the fair values of Level 2 and Level 3 financial assets and liabilities, including assessing the existence of an active or inactive market Notes (7) and (58)), measurement of pension provisions in terms of determining the underlying parameters, gauging loan loss provisions in relation to future cash flows, and determining deferred tax assets with regard to the recoverability of unused tax losses (Notes (16) and (52)).

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

Apart from the estimates, the following important discretionary decisions by management should be noted in reference to the accounting and valuation in the Group: There is no categorisation of financial instruments as held to maturity (HtM) (Note (7)), no application of the reclassification rules of IAS 39 (Note (7)); there is a separation of finance leases and operating leases (Note (10)), disclosure of provisions (Note (14) and (15)), and there are designated assets held for sale (Note 13) and an evaluation of control in the case of shares in companies (Note (3)).

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

These consolidated financial statements were signed by the Management Board and released for distribution to the Supervisory Board on 15 March 2016.

(2) Applied IFRSs

All standards, interpretations and amendments which were endorsed by the EU and are relevant for the Bremer Landesbank Group in financial year 2016 have been applied in these consolidated financial statements.

In the period under review, the following standards and changes in standards were considered in the Bremer Landesbank Group for the first time on 1 January 2016:

- **Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations**

  Within the scope of the amendments to IFRS 11 that are to be applied as from 1 January 2016, it is explained how the acquisition of interests in joint operations that are a business as defined by IFRS 3 are to be accounted for. All principles for the accounting of business combinations laid down in IFRS 3 or other standards are to be applied and the corresponding disclosure requirements are to be considered in relation to the interest acquired.
  In the Bremer Landesbank Group there is currently no application case for the alterations to IFRS 11.

- **Amendments to IAS 1 – Presentation of Financial Statements**

  With the amendment to the standard published on 18 December 2014, the initial immediately implementable proposals to amend IAS 1 Presentation of Financial Statements were implemented. The amendments stress the concept of materiality in order to improve the disclosure of relevant information in IFRS financial statements. This should be achieved by the non-disclosure of immaterial information, allowing additional subtotals and greater flexibility in the structure of the notes to the financial statements. Furthermore, it provides a clarification of the breakdown of other comprehensive income (OCI) in the statement of comprehensive income.
  The amendments to IAS 1 applicable to reporting periods beginning on or after 1 January 2016 had no material effects on Bremer Landesbank's consolidated financial statements.

- **Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation**

  On 12 May 2014 the IASB published amendments to IAS 16 – Property, plant and equipment and IAS 38 – Intangible assets - that relate to permissible methods that enable the appropriate presentation of the consumption of the future economic benefits. These amendments clarified that, in the case of property, plant and equipment, depreciation on the basis of revenue generated by

goods produced by such assets was inappropriate and for intangible assets with a limited useful life only permissible in explicitly stated exceptional cases.
As the depreciation method is not used within the Bremer Landesbank Group, the amendments to IAS 16 and IAS 38 are not expected to have any impact.

- **Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions**

The amendment to IAS 19 – Employee Benefits, which was published in November 2013, specifies the requirements that address the classification of employee contributions and contributions by third parties for service periods if the contributions are linked to the service period. In addition, it allows relief if the amount of the contributions is independent of the number of years of service.
The amendments to IAS 19 will not require any adjustment from Bremer Landesbank.

- **Improvements in the IFRS cycle 2010 – 2012 and cycle 2012 – 2014 within the scope of the IASB annual improvements process**

As part of the annual improvements process, formations are adjusted in individual IFRS for the clarification and/or improvement of existing rules. The cycle 2010 – 2012 contained alterations to the standards IFRS 2, IFRS 3, IFRS 8 and IFRS 13 as well as IAS 16, IAS 24 and IAS 38, while the cycle 2012 – 2014 encompasses adjustments to the standards IFRS 5 and IFRS 7 as well as IAS 19 and IAS 34.
These annual improvements in IFRS will have no significant impact on Bremer Landesbank's consolidated financial statements.

We permissibly declined to prematurely apply the following standards, as well as alterations to standards, adopted into EU law that do not need to be implemented in Bremer Landesbank's consolidated financial statements until after 31 December 2016:

- **IFRS 9 – Financial Instruments**

Following its adoption into EU law in November 2016, the application of IFRS 9 – Financial Instruments is mandatory for financial years that begin on or after 1 January 2018. The Bremer Landesbank Group permissibly declines to voluntarily bring forward the date for first-time application of the standard.

With regard to IFRS 9, we are expecting a substantial impact on the accounting, valuation and reporting in future consolidated financial statements. The effects of IFRS 9 are currently being evaluated for the Bremer Landesbank Group. For this purpose we arranged for a programme whose projects are oriented towards the phases of IFRS 9.

Upon publication of the final version of IFRS 9 – Financial Instruments, the following regulatory areas with relevance for the Bremer Landesbank Group must be adjusted:

Classification and valuation of financial assets and financial obligations

While categorisation under IAS 39 focuses primarily on the type of financial asset (see Note (7) Financial Instruments), classification under IFRS 9 emphasises the entity's intended commercial purpose and the structuring of the financial instruments. IFRS 9 sees three possible business models for financial instruments: "Hold", "Hold and sell" and "Do not hold". Furthermore, the classification of a financial instrument by way of the so-called payment flows criterion, within the scope of which the financial instrument is examined as to whether or not the contractual payment flows are solely redemption and interest payments. The classification and valuation of financial assets in this case focuses on the combination of the business model and the nature of the payment flows.

IFRS 9 provides for a fundamental valuation of all financial assets at fair value. A subsequent accounting procedure at amortised cost is then permissible only if the financial instrument was allocated to a portfolio with the business model "Hold" and has payment flows that constitute redemption payments on the financial instrument's capital at contractually predetermined times. A subsequent accounting procedure including the fair-value changes in the other comprehensive income (OCI) is permissible only if the financial instrument was allocated to a portfolio with the business model "Hold and sell" and has payment flows that solely constitute redemption payments on the financial instrument's capital at contractually predetermined times. If the payment flows do not fulfil this requirement, the asset must be measured at fair value through profit or loss. Derivatives must generally be measured at fair value through profit or loss. The valuation methods are not different under IFRS 9.

Financial assets – loans

In its credit activities, Bremer Landesbank predominantly adheres to the "Hold" business model. For syndication or asset-trading portfolios in the credit area the "Do not hold" business model is applied. These portfolios currently have a modest volume compared to the overall loan portfolio. A decision concerning the usage of the "Hold and sell" business model in lending business will be made during the further course of the project.

As part of an analysis, the Bremer Landesbank Group is assessing its loan portfolio business and the contract components that are currently being used in respect of those components or side agreements that are relevant for the classification of the transactions as “to be measured compulsorily at fair value through profit or loss”. The analysis, which is still being conducted, provisionally permits the conclusion that the new IFRS 9 classification model, in comparison with classification as per IAS 39 in the Bremer Landesbank Group in the credit area will lead to an expansion of fair-value measurement that will be restricted to particular segments. Until now under IAS 39, loans measured at amortised cost would thereby have to be classified in a fair-value category under IFRS 9. A quantification of the first-time-application effects is not fully possible in the present status because the assessment of the payment-flow criterion has not yet been completed.

Financial assets – securities

The Bremer Landesbank Group is currently planning to use all three business-model securities variants on the assets side as a general policy. The intention at the current stage of the project is that portfolios with longer-term investment intentions should be allocated to the “Hold” business model. For portfolios intending to conduct short- or medium-term liquidity management, the plan is to allocate them to the “Hold and sell” business model because of the active management and the not generally applicable desire to go the full distance. Portfolios intending to trade will belong to the trade portfolio in the “Do not hold” business model as before.

The Bremer Landesbank Group has also decided to measure all equity instruments at fair value though profit or loss.

Securities of a debt nature can, analogous to loans, be measured at amortised cost if they are managed in the “Hold” business model and the payment-flow criterion is fulfilled. Fair-value changes in securities of a debt nature must be reported in other comprehensive income (OCI) if they are managed in the “Hold and sell” business model and the payment-flow criterion is fulfilled.

The Bremer Landesbank Group is currently assuming that there will be largely unchanged use of fair-value measurement provided that it is permissible under IFRS 9.

Due to the classification and valuation rules in IFRS 9, the Bremer- Landesbank Group expects that part of the securities portfolio restricted to selected portfolios and measured with no effect on income as per IAS 39 will be measured at amortised cost as from 2018. A quantification of the first-time-application effects is not entirely possible in the current status because the allocation of the securities to the business models has not yet been completed.

Financial obligations

The most significant difference compared to the previous rule concerns the reporting of results from instruments in the fair-value option. The credit-rating-induced changes in the measurement of financial obligations must basically be shown in OCI with no effect on income under IFRS 9, with the remaining part of the change in value posted to income. The Bremer Landesbank Group is not expecting any valuation or reporting anomalies from this new rule, which is why the fair-value changes relating to its own credit risk for financial obligations in the fair-value option are currently always shown in OCI).

Impairment of financial assets

IFRS 9 marks the introduction of a new impairment model that is designed to provide information useful for decision-makers more quickly and adequately than before. The procedure's intention is that expected loan losses are recorded not when the credit event ultimately takes place, but in the event of access on the basis of an expected loss (EL) model. According to the new impairment model, financial instruments, credit commitments and financial guarantees – provided they are not accounted for at fair value through profit or loss, depending on the change in their credit quality,compared to the access point divided into three stages. In stage 1, the credit defaults are calculated in the amount of the expected loss with an observation period of one year. In stages 2 and 3, the expected credit defaults are calculated over the term of the financial instrument (expected lifetime loss) Stage 3 contains the already defaulted receivables in compliance with the existing IAS 39 procedure and regulatory requirements.

At Bremer Landesbank, risk provisioning is calculated at the level of the individual financial instrument. For all portfolios at stages 1 and 2 as well as for insignificant transactions in stage 3, it is intended that a parameter-based determination of risk provisioning should take place, together with plans for an expert-based approach and significant transactions.

Various criteria are being used to define stages 1 and 2. As per the current stage of the concept, there is a quantitative criterion for which precisely defined conditions must be fulfilled cumulatively. This is supplemented by three qualitative criteria which when fulfilled can trigger a stage transfer to stage 2.

The methodical conception for using forward-looking information within the scope of scenarios for calculating risk provisioning in the Bremer Landesbank Group has not yet been completed. As a result of the new categorisation rules in IFRS 9 with regard to the business model and the assessment of the payment flow criterion, the composition of the business, too, is going to change in future, which must be seen in the context of impairment. The effects of impairment cannot be quantified until the classification of the financial assets has been completed, which at present is not the case at the Bremer Landesbank Group. A reliable estimate on the subject and with regard to the overall effects of risk provisioning will not be possible until the project has progressed further.

Hedge accounting

With regard to hedge accounting, the IASB has decided to split this issue into two sections, general hedge accounting and macro hedge accounting. Macro hedge accounting is not a part of the published IFRS 9 and is being revised by the IASB as an independent project.

Until the new rules for macro hedge accounting have been published, for portfolio fair value hedge of interest-rate risks will continue to apply. For the standard for general hedge accounting, there is the option of applying this from 1 January 2018 or continuing to use the rules of IAS 39.

The changed categorisation rules in IFRS 9 mean that in future, the composition of the underlying transactions in the portfolio fair-value hedge for interest-rate risks is going to change as well. From there the Bremer Landesbank Group is expecting only immaterial first-time application effects until the classification of the financial assets has been completed.

In accordance with the classification and valuation rules of IFRS 9, the Bremer Landesbank Group is going to direct its reporting activities in respect of financial instruments more rigorously in the direction of valuation categories. The reporting permissibly pays no attention to a retrospective application of IFRS 9, with the result that the IFRS 9 previous-year values in 2018 will be compared with previous year's figures calculated in accordance with IAS 39 for the year 2017.

- **IFRS 15 – Revenue from Contracts with Customers**

The previously applicable standards IASB and FASB published a joint accounting standard on the recognition of revenue in May 2014, which combines a number of the previous rules and at the same time sets uniform basic principles that are applicable to all sectors and all categories of revenue transactions. As well as introducing a new five-step model to determine the revenue to be recognised, the standard also includes rules for issues such as transactions with multiple elements and the treatment of service contracts and contract amendments, as well as a number of new disclosure requirements. IFRS 15 will replace the content of IAS 18 – Revenue and IAS 11 – Construction Contracts as well as the interpretations IFRIC 13, IFRIC 15 and IFRIC 18 and SIC 31. The EU endorsement was granted in the fourth quarter of 2016, which means that the standard's full and/or modified retrospective application is mandatory for reporting periods that begin on or after 1 January 2018. The effects are currently being investigated within the scope of a project for implementing IFRS 15, whose integration into EU law is still outstanding. The reason for the rather brief portrait is that a reliable quantification is not yet possible.

The standard must basically be used for all contracts with customers of the Bremer Landesbank Group, although in many cases it is not pertinent for the Group because large parts of the income in the statement of comprehensive income are subject to the rules of other standards. A lot of income recorded by Bremer Landesbank falls into e.g. the application field of IFRS 9. IFRS 15 is applicable especially with regard to the balance-sheet reporting of commission income, i.e. for the Group's service activities.

The following topics, among others, are in focus: identification of subsequent contractual modifications, (more precise) estimate of variable remuneration, regular check of the transaction price and variable remuneration, identification of the obligations per contract (time period vs. point in time), identification of the costs associated with the contracts that are not apportioned as per IFRS 9 in the manner of effective interest and might be possible to capitalise as an asset, identification of services with refund clause and accounting for a refund obligation rather than a provision, identification and depiction of asset-side and liability-side contractual items and the enhancement of the existing disclosures in the Notes.

The following standards, alterations to standards, and interpretations still await their adoption into EU law by the European Commission on the day of preparation of the consolidated financial statements:

- **IFRS 16 – Leases**

On 13 January 2016, the IASB published the new standard IFRS 16 for the balance-sheet reporting of leases that succeeds the previous standard IAS 17 in conjunction with the interpretations IFRIC 4, SIC-15 and SIC-27. Its field of application basically includes all contracts with which the right to use and/or control an asset for an agreed period of time is transferred in return for remuneration.

Subject to the still outstanding endorsement by the EU, the mandatory first-time application of IFRS 16 will ensue for financial years that begin on or after 1 January 2019. Premature application together with the full application of IFRS 15, Revenue from Contracts with Customers, is not currently being planned.

The effects on the new standards particularly concern the balance-sheet reporting of the Bremer Landesbank Group as a lessee due to the discontinuation of the previous differentiation between finance and operating leases. In IFRS 16, there will in future be a standardised balance-sheet accounting model for lessees with which – with certain exceptions for short-term leases and low-value leased objects – right-of-use assets and lease obligations for lease agreements to be recorded on the balance sheet. Effects on the Bremer Landesbank Group’s assets, financial position and results of operations arise in particular as a result of a balance-sheet extension as a consequence of the accounting obligation for rights of use and liabilities for leases that are currently accounted for under IAS 17 as operating leases. Furthermore, due to the division of the expenses into a redemption and an interest component using the effective interest method, there develops a degressive course of expenses with a forward displacement into the earlier periods in the term of a lease.

A detailed analysis and quantification of the effects is currently being carried out within a project for implementing IFRS 16. Potential for executing the right to choose granted in accordance with IFRS 16 is usually seen in connection with leases for factory and office equipment or for residential properties rented at short notice. In addition, the Bremer Landesbank Group is going to use the rights to choose in order to account for lease agreements via other intangible assets, not in accordance with IFRS 16, and show the cumulative effect modified and retrospectively in equity.

- **Amendments to IAS 7 Statement of Cash Flows – information initiative**

The goal of the amendment to IAS 7 applicable as from 1 January 2017 is to improve the information about the changes regarding the indebtedness of the entity. After the alterations, a business enterprise provided information about the changes in such financial liabilities whose incoming and outgoing payments are shown in cash flow from financing activities.
With regard to IAS 7, there are additional reporting requirements for Bremer Landesbank's consolidated financial statements.

- **Amendments to IAS 12 – recognition of deferred tax assets for unrealised losses**

The alterations to IAS 12 serve to clarify how a number of rules are to be applied when estimating deferred tax assets from acquired debt instruments measured at fair value. They also make it clear that in general, there must be an assessment for all deductible temporary differences as to whether there is likely to be an adequate taxable result for their utilisation in the future.
The alterations to IAS 12 that must be applied as from 1 January 2017 will not have any impact on Bremer Landesbank's consolidated financial statements.

- **Amendments to IAS 40 – transfers of investment property**

On 8 December 2016, the IASB published alterations to IAS 40 in order to clarify the guidelines for transferring investment property into or out of the investment-property portfolio. It was made clear that such a transfer can take place only with changes of use for which there are appropriate documents and where this principle likewise applies for properties that are under construction or at the development stage. The list of documents in IAS 40.57 was changed into an incomplete list. The alterations to IAS 40 will take effect for financial years that begin on or after 1 January 2018.
In the Bremer Landesbank Group there is currently no application case for the alterations to IAS 40.

- **Improvements in the IFRS (cycle 2014 – 2016) within the scope of the IASB annual improvements process**

As part of the annual improvements process, alterations were made to the three standards IFRS 1, IFRS 12 and IAS 28. Adjustments to the individual IFRS are accompanied by the annulment of short-term exemptions for first-time users and a clarification of the existing rules with regard to the scope of disclosure requirements and/or the exercising of rights to choose. The alterations that affect Bremer Landesbank are mandatory within the Group for financial years that begin on or after 1 January 2017 or 1 January 2018.
The clarifications of the annual improvements to the IFRS (cycle 2014 – 2016) are not expected to have any influence on Bremer Landesbank's consolidated financial statements.

Furthermore, the following alterations to standards, as well as interpretations of standards, have not yet been integrated into EU law:

- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Clarifications concerning IFRS 15 – Revenue from Contracts with Customers
- IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration

These alterations are currently not expected to have any influence, significant or otherwise, on Bremer Landesbank’s consolidated financial statements.

The alterations to standards described above should be implemented for the first time upon their first-time application.

(3) Consolidation Principles

The Bremer Landesbank Group's consolidated financial statements, prepared in accordance with uniform Group accounting policies, comprise the financial statements of the parent company Bremer Landesbank and the subsidiaries controlled by it. Control is present when a parent company possesses decision-making power over the significant business activities of another company, has a claim or a right to variable returns and can influence the amount of these variable returns through its decision-making power.

In addition to original investments, the Group also examines its customer relationships for circumstances of control.

The evaluation as to whether the Group controls loan-financed project companies that have financial difficulties, e.g., due to the ongoing difficult situation in the shipping markets, and therefore must be included in the consolidated financial statements as subsidiaries represents a significant discretionary decision. The Group is constantly exposed to variable returns due to its loan relationship with companies. To answer the question of whether the Group controls the respective company, it needs to be determined whether it has decision-making power over the company due to its rights from the credit agreement or whether the shareholders assume the position as principal or as agent of Bremer Landesbank. The Bank assesses the latter on the basis of the following three factors: (1) Type and scope of the participation of the shareholders in the opportunities and risks of the company, (2) scope of the decision-making power and (3) termination rights of the bank. The Group reassesses the consolidation obligation if a credit event (event of default) occurred or the structure of the company changed.

Business combinations are accounted for using the acquisition method. All assets and liabilities of subsidiaries are recognised at fair value, taking deferred taxes into account, on the date on which control is acquired. In the initial consolidation, any resulting goodwill is reported under intangible assets. Goodwill is reviewed at least annually for impairment and may be subject to unscheduled depreciation. Shares in the equity of subsidiaries which are not attributable to the parent company are reported as non-controlling interests under consolidated equity.

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

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

A joint venture is a joint agreement where the parties that hold the joint leadership of the agreement possess the rights to the net assets of the agreement.

An associate is a company over which the investor has significant influence.

Joint ventures and associates are measured using the equity method and are reported as investments accounted for using the equity method. In accordance with the equity method, the Bremer Landesbank Group's shares in associates or joint ventures are initially recognised at acquisition cost. Afterwards, the stake is increased or decreased by the Group's share in the profits or losses or other comprehensive income of the associate or joint venture. If the Bremer Landesbank Group's stake in the losses of an affiliated company or a joint venture corresponds to the value of the stake in this company or exceeds it, no other loss components will be recognised unless the Group has entered into legal or factual obligations or makes payments to the place of the company valued at equity.

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

An entity is de-consolidated on the date on which control or significant influence ceases to exist.

(4) Consolidated companies

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

- BLB Immobilien GmbH, Bremen
- BLB Leasing GmbH, Oldenburg
- Bremische Grundstücks-GmbH, Bremen
- NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen
- NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen
- BGG Bremen GmbH & Co. KG, Bremen
- BGG Marktcarré GmbH & Co. KG, Bremen
- Nord/LB AM ARB Europe (special fund)

In May 2016, the special fund Nord/LB AM ARB Europe with a volume of €50 million was reissued; the sole shareholder is BLB. The special-purpose company BGG Marktcarré GmbH & Co. KG was re-established in the second half of the year. Following the contribution of a sizeable property, BGG Bremen GmbH & Co. KG has been included in BLB's consolidated financial statements since October 2016 on grounds of materiality.

At the end of the financial year, the following affiliated companies were accounted for using the equity method in accordance with IAS 28:

- Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede
- BREBAU GmbH, Bremen
- Bremische Wohnungsbaubeteiligungsgesellschaft mbH, Bremen
- GSG OLDENBURG Bau- und Wohngesellschaft mbH, Oldenburg
- Lazard-Sparkassen Rendite-Plus-Fonds

The associate Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede, was accounted for using the equity method with a different balance sheet date (31 December 2014) as the entity does not prepare its financial statements until after the Bremer Landesbank Group.

Bremische Wohnungsbaubeteiligungsgesellschaft mbH, Bremen, incorporated during the reporting year along with a company that is outside the Group as a joint venture to pool the investments in a housing company in a single company, was included in the consolidated financial statements of Bremer Landesbank using the equity method on 31 December 2015.

Subsidiaries, associates and investments are shown in the list of shareholdings (Note 85).

(5) Currency translation

Monetary assets and liabilities in foreign currencies and non-monetary items measured at fair value are translated using the ECB reference rates as at the valuation date. Non-monetary items recognised at acquisition or production cost are measured using historical rates. Expenses and income in foreign currencies are translated using market exchange rates. Currency differences relating to monetary items are reported in the income statement; such differences relating to non-monetary items are recognised either at profit or loss under other comprehensive income or in the income statement.

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

(6) Interest and Commission

Income is accounted for when the economic benefit of the transaction will accrue to the to the BLB Group with a sufficient degree of certainty and the amount of the income, and associated expenses, may be determined reliably. It is measured at the fair value of the consideration received or receivable.

Interest from interest-bearing assets and liabilities are recognised on a pro rata temporis basis applying the effective interest method and is reported under interest income or interest expenses.

Expenses and income from negative interest rates are posted on the basis of the underlying transaction corresponding to the respective circumstances. Negative interest on receivables shown in the balance sheet is therefore recognised as a deductible item under interest income and negative interest on liabilities shown in the balance sheet is recognised as a deductible item under interest expenses. For reasons of transparency, effects on the income and expenses side are presented in a separate column in Note (19).

In the case of impairments of interest-bearing assets, the interest income is determined on the basis of the interest rate used to determine the impairment (unwinding).

Dividend income is recognised under interest income when the legal right to the dividend arises.

Commission income is recognised in the income statement at the time the service is provided. If services are provided over multiple periods, income from services is recognised based on the degree of completion of the transaction as at the reporting date.

(7) Financial instruments

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

The financial instruments contain financial guarantees in accordance with the definition in IAS 39.

Classification in accordance with IFRS 7.6 is in line with the IAS 39 holding categories which correspond to individual balance sheet items. The cash reserve, hedge accounting derivatives, financialguarantees and irrevocable loan commitments each form additional classes. The explanations of the composition of these items allow the classes to be reconciled with the balance sheet items. The risk classes under IFRS 13 are primarily based on the balance sheet items and are presented in Note (58). In individual cases, balance sheet items are broken down by product type and the fair values are therefore stated in accordance with the risk class.

Addition and disposal of financial instruments

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

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

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

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

Classification of financial assets and liabilities and their measurement

Financial assets and financial liabilities are initially recognised at fair value. The net method is used for financial guarantees reported in the consolidated financial statements. For financial instruments in the categories LaR, held to maturity (HTM), AfS and other liabilities (OL), transaction costs are included in the cost if they are directly attributable. They are added to the nominal value or the amount repayable as part of allocation of premiums and discounts using the effective interest method. For financial-instruments of the aFV category the transaction costs will be recorded though profit or loss with immediate effect.

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

Loans and receivables (LaR)

Non-derivative financial assets with fixed or determinable payments which are not listed in an active market are allocated to this category provided they have not been classified as aFVs or AfSs. The LaR category is the largest in the Group as it comprises the entire traditional credit and lending business. Subsequent measurement is at amortised cost using the effective interest method. Premiums and discounts are recognised in profit or loss over the term. On each balance sheet date and if there is an indication of a potential impairment, LaRs are tested for impairment and written down if necessary (see Note (34)). In the event of impairment, this is recognised in profit or loss when calculating amortised cost. Reversals of of impairment losses are recognised in profit or loss. Impairment losses can be reversed up to the amount of the amortised cost which would have been recognised on the date of measurement had impairment losses not been charged. Interest income is recognised in net interest income; commission income is recognised in net commission income.

Financial instruments held to maturity (HtM)

Non-derivative financial assets with fixed or determinable payments and a fixed term are classified in this category if they are intended and able to be held until maturity. Subsequent measurement is at amortised cost using the effective interest method. The HtM category is currently not used in the consolidated financial statements.

Financial Assets or Financial Liabilities at Fair Value through Profit or Loss (aFV – erfolgwirksam zum Fair Value bewertete finanzielle Vermögenswerte oder Verpflichtungen)

This category comprises two sub-categories:

Held for trading (HfT)

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

Designated at Fair Value through Profit or Loss (dFV – zum Fair Value designierte Finanzinstrumente)

Any financial instrument can be allocated to this sub-category, known as the fair value option, provided that certain requirements are met. Exercising the fair value option eliminates or significantly reduces the recognition and measurement mismatches which stem from different measurement methods (e.g., from accounting for economic hedging relationships without the restrictive requirements of hedge accounting). Allocation to this category also means that hybrid (combined) products do not need to be separated. Information on the nature and scope of the application of the fair value option in the Group is provided in Note (68). Financial instruments for which the fair value option is exercised are reported in the respective balance sheet items and are measured at fair value through profit or loss upon subsequent measurement. There is no amortisation at constant effective interest rates in net interest income. Interest income and expenses are reported under net interest income. Results from the fair value measurement and the net commission income are reported in financial instruments at fair value through profit or loss.

Available for Sale (AfS – zur Veräußerung verfügbare finanzielle Vermögenswerte)

All non-derivative financial assets which have not been assigned to any of the above categories are allocated to this category. It primarily comprises bonds and debt securities, shares and investments that are not measured in accordance with IFRS 10, IFRS 11 or IAS 28. Subsequent measurement is at fair value; if the fair value of financial investments in equity instruments, such as certain shares or investments that do not have a quoted price in an active market (and the related derivatives), is not reliably measurable, such assets are measured at cost. The profit/loss from measurement at fair value is recognised under other comprehensive income in a separate equity item (revaluation reserve). In the event of the sale of the financial asset, the cumulative valuation results recognised in the revaluation reserve are reversed and recognised in the income statement.

Differences between the cost and amount repayable in the case of debt instruments are amortised through profit or loss using the effective interest method. Interest income is recognised in net interest income; commission income is recognised in net commission income.

An impairment takes place only if there is a rating-induced impairment. The review of a rating-induced impairment is made on the basis of certain objective factors. In this connection, objective factors are trigger events listed in IAS 39 such as particularly serious financial difficulties for the issuer or debtor or a breach of contract, as well as a default or a delay in interest or principal payments. For equity instruments, a significant or permanent decline in the fair value below the acquisition cost is an objective indication of an impairment.

For rating-induced impairments, the difference between the carrying amount and the current fair value is recognised in the income statement. Reversals of impairment losses for debt instruments are recognised through profit or loss in the income statement and also in other comprehensive income (OCI) for the portion of the reversal that corresponds to the impaired amount. Reversals of impairment losses for equity instruments, if not measured at acquisition cost, are always recognised in other comprehensive income (OCI).

Other liabilities (OL)

This category includes in particular liabilities to banks and to customers, securitised liabilities and subordinated capital. Subsequent measurement is at amortised cost using the effective interest method. Interest expenses are recognised in net interest income; commission expenses are recognised in net commission income.

The carrying amounts and net results for each measurement category can be found in Notes (59) and (60).

Reclassification

In accordance with the provisions of IAS 39, reclassifications of financial instruments from the category of HfT (held for trading) to the categories of LaR, HtM and AfS, or reclassifications from the category of AfS to LaR and HtM are permitted under certain circumstances. The Bremer Landesbank Group did not make use of the reclassification option rights.

Measurement of fair value

The unit underlying the determination of the value of financial instruments (unit of account) is always determined using IAS 39. In the Bremer Landesbank Group, the individual financial instrument represents the valuation unit unless IFRS 13 provides for any exceptions.

The fair value of financial instruments in accordance with IAS 39 in conjunction with IFRS 13 reflects the price at which an asset can be sold or a liability transferred in the course of a standard transaction between market participants on the valuation date, i.e. the fair value is a market-related and not a company-specific value. In accordance with IFRS 13 the fair value is the price that can either be directly observed or a price determined using a valuation method that would be achieved in a standard transaction, i.e. a sale or a transfer on the main market or most advantageous market on the valuation date. This is therefore an exit price, i.e. the valuation on the valuation date is always subject to a fictitious possible market transaction. If a main market exists, the price on this market represents the fair value, irrespective of whether the price can be directly observed or is determined on the basis of a valuation method. This also applies if the price on a different market is potentially more advantageous.

a) Financial instruments reported at fair value in the balance sheet

The Bremer Landesbank Group uses the three level fair value hierarchy and the terminology stipulated in IFRS 13: Level 1 (mark to market), Level 2 (mark to matrix) and Level 3 (mark to model).

The level is determined by the inputs used for measurement and reflects the significance of the variables used in the measurement of the fair value. If when determining the fair value input data from different levels of the hierarchy is used, the resulting fair value of the respective financial instrument is allocated to the lowest level with input data that has a significant impact on the fair value measurement.

<u>Level 1</u>

Under the fair value hierarchy, a financial instrument is categorised in Level 1 if it is traded on an active market and is used to establish the fair value of publicly listed market prices or prices actually traded on the over-the-counter market (OTC market). There is an active market if listed prices are easily and regularly obtainable from an exchange, from a trader, broker, an industry group, a pricing service or a supervisory authority and such prices represent current and regularly-occurring market transactions at arm's length. If no market prices or prices actually traded on the OTC market are available, the feasible prices quoted by dealers or brokers are used for measurement purposes in the valuation, with prices quoted by other banks or market makers being applied when price sources other than stock exchange quoted prices are used. These instruments are then assigned to Level 1 if there is an active market for these broker quotes, i.e. that bid-ask spreads are narrow and there are several providers of prices whose prices differ only partially and prices are determined on a regular basis. If the broker quotations are for (mixed) prices or if the price is established on a non-active market, these are not assigned to Level 1, but to Level 2 of the measurement hierarchy, if the quotations concern binding offers, observable prices or market transactions.

The Level 1 prices are adopted without any adjustment. Level 1 financial instruments include trading assets as well as financial assets reported at fair value.

Level 2

In the event that no price quotes are available, the fair value is calculated by means of recognised measurement methods or models as well as by means of external pricing services, if measurement in this case is carried out either fully or to a significant degree using observable input data such as spread curves (Level 2). For measuring financial instruments, these methods include valuation models which are established on the market under normal market conditions (e.g., discounted cash flow method & White model for options) whose calculations arealways based on inputs available on the market. Factors that market players would have considered in quoting prices are considered in the valuation process. Wherever possible, the relevant inputs are taken from the markets on which the instruments were issued or acquired.

Valuation models are employed primarily for OTC derivatives and for securities in inactive markets. The models include a range of parameters such as, for example, market prices and other market quotations, risk-free interest-rate curves, risk premiums, exchange rates and volatilities. The parameters for the models are always chosen using prevailing market methods.

Market data which forms the basis of risk controlling is generally applied for these Level 2 measurements.

For securities on the assets side for which there is no active market and for which measurement can no longer be based on market prices, fair value is determined on the basis of discounted cash flows for measurement purposes. For the discounted cash flow methods, all payments are discounted by using a risk-free yield curve adjusted to the credit spread. Spreads are determined on the basis of comparable financial instruments (e.g. comparable in terms of the respective market segment and the issuer's credit rating).

The financial instruments in the Bremer Landesbank Group to be measured in this manner are ascertained on the basis of individual securities and a subsequent separation into active and inactive markets. A change in the assessment of the market is continuously used for measurement. The identification, analysis and valuation of financial instruments in inactive markets take place in several areas of the Group, whereby the inactivity is assessed as objectively as possible. The valuation model for financial instruments for which there are no usable quoted prices on active markets is based on term-specific interest rates, the credit rating of the respective issuer and, if relevant, further components such as foreign currency premiums.

Level 2 financial instruments include trading assets and liabilities, hedge accounting derivatives, other assets as well as financial assets reported at fair value.

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

Level 3

Financial instruments for which there is no active market and for which measurement must, to a significant degree, rely on non-observable market parameters are allocated to Level 3. As compared and opposed to Level 2 measurement, under the Level 3 measurement both bank-specific models are used and data included to a substantial extent which is not observable in the markets. The input parameters used in these methods contain assumptions about cash flows, loss estimates and the discount interest rate and are collected as close to the market as possible.

Level 3 financial instruments include financial assets recognised at fair value.

Fair value measurement

All the valuation models used in the Group are reviewed periodically. The fair values are subject to internal controls and procedures in the Bremer Landesbank Group. These controls and procedures are performed or coordinated in the Finance/Risk Control Division. The models, the data used in them and the resulting fair values are reviewed regularly.

In measuring the value all relevant factors such as bid-ask spread, counterparty default risks or discounting factors that are typical for the business are properly taken into account. In the context of the bid-ask spread a valuation is always performed using the average price or average notation. Affected financial instruments are in particular securities or liabilities whose fair values are based on average prices on active markets as well as financial instruments such as OTC derivatives whose fair value is determined by using a valuation method and for which the average notation represents an observable input parameter of the valuation method.

Additionally, use was made of the option to determine the counterparty default risk (credit value adjustment (CVA)/Debit value adjustment (DVA)) on the basis of the net risk position in accordance with IFRS 13.48. An allocation of the CVA/DVA to individual segments on the balance sheet takes place on the basis of the so-called relative credit adjustment approach.

For derivatives from OTC markets there are not usually any quoted prices, meaning that the fair value is determined using other valuation techniques. The valuation is initially performed using cash flow models without taking the credit default risk into account. For the correct measurement of fair values, both the credit default risk of the counterparty (CVA) and the bank’s own credit default risk (DVA) need to be considered. The credit default risk is considered by way of an add-on procedure.

To measure the collateralised OTC derivatives, the Bremer Landesbank Group mainly switched to the current Overnight Index Swap Discounting (OIS discounting). This means that collateralised derivatives are no longer discounted using the tenor-specific interest rate, but instead using the OIS interest rate curve. The discount in the scope of the fair value of uncollateralised derivatives is still performed with a tenor-specific interest rate.

In the NORD/LB Group, moreover, a funding valuation adjustment (FVA) was applied for the first time since the first quarter of 2016 and represents market-implied refinancing costs for non-collateralised derivative positions. For the reporting period this results in an effect amounting to €1.3 million on the trading result

b) b) Financial instruments shown at fair value for disclosure purposes

The same provisions apply to determining the fair value of financial instruments for which a fair value is determined solely for disclosure purposes as apply to financial instruments whose fair value is shown on the balance sheet. These financial instruments include for example the cash reserve, loans/advances and liabilities to banks and customers, certain debt securities and shares in companies as well as securitised liabilities and subordinate capital.

The nominal value is considered the fair value for the cash reserve as well as short-term loans/advances and liabilities to banks and customers (deposits at call) due to their short-term nature.

In practice, similar to the financial instruments recognised at fair value in the balance sheet, various valuation formulas are used for securities and liabilities (e.g. market or comparative prices or valuation models), although usually a valuation method (discounted cash flow model) is used. To determine this valuation model, a risk-free yield curve is frequently used and adjusted for risk premiums and any other necessary components. For liabilities, Bremer Landesbank's own credit default risk is regarded as a risk premium. A corresponding level allocation to the existing fair value hierarchy is performed depending on the significance of the input data.

No observable market prices are available for long-term loans/advances and liabilities to banks and customers and also deposits as there are neither observable primary nor secondary markets. The fair value for these financial instruments is measured using recognised valuation techniques (discounted cash flow model). The input data of for this model are the risk-free interest rate, a risk premium as well as any further premiums to cover administrative costs and the cost of capital.

Accordingly, financial instruments are allocated to Level 3 if the internal ratings from the internal ratings-based approach (as per Basel II) used by Bremer Landesbank are used in the procedure. This is true regardless of the fact that the internal data for regulatory approval were calibrated using data from published ratings which form the basis for price decisions made by market players.

Further disclosures on the fair value hierarchy and the fair values of financial instruments are provided in Note (58).

Measurement of investments that do not fall under IFRS 10, IFRS 11 or IAS 28

Investments that do not fall under IFRS 10, IFRS 11 or IAS 28 are measured at fair value. If the fair value of financial investments in equity instruments, for which there is no quoted price in an active market, cannot be determined reliably, the measurement takes place at acquisition cost.

If investments in an active market are traded, the market/listed price is used to determine the fair value. If it is not possible to obtain a price listed in an active market, the fair value is determined using recognised measurement methods. These include the earnings method used in the Group. Provided it can be reliably determined, this method is assigned to Level 3 in the fair value hierarchy in accordance with IFRS 13 (see Note (58).

In the earnings method, the fair value is based on the present value of the future net inflows to the company shareholders (future value of profits) which are connected with the ownership of the company.

The net earnings of the owners, which are discounted in order to calculate the capitalised earnings value, chiefly stem from the distributions of the net cash flows generated by the entity. The calculation of the fair value of the investment is therefore based on a forecast of earnings performance in 2016 and a detailed budget for 2017 and, if applicable, a medium-term forecast for up to four subsequent years (planning phase I). The entity is generally assumed to have a perpetuallife for subsequent years beyond the planning horizon. For this purpose, a perpetual annuity is calculated (planning phase II). Future earnings are discounted to thebalance sheet date taking planned distributions into account.

The discount rate used is derived from a capital market model and represents the return on an alternative investment that adequately matches the investment in the affiliated company in terms of maturity and risk. The discount rate comprises the components of risk-free interest rate as well as the risk premium based on the risk relating to future net cash flows. The risk premium is the product of an average market-risk premium and the beta factor, which expresses the specific risk structure of the entity being valued. As a relative measure, the beta factor describes the extent to which the return on the relevant security held in the affiliated company stands in relation to the return on the market portfolio.

To value investments in unlisted companies, groups of comparable listed instruments are formed (peer groups) and the beta factor is calculated for each position in relation to the respective national index. The beta factor of the peer group so calculated is used as a key multiplier to determine the capitalisation rate.

Raw beta is the historical beta factor of a company derived from a linear regression of the share return against the return on the market portfolio. As an alternative to using raw beta, adjusted beta is an estimation of the future development of the beta factor. Adjusted beta was used as part of a standardised approach within the Bremer Landesbank Group in order to smooth out the volatility of the valuation over the course of time.

Hybrid (combined) products

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

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

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

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

Hedge accounting

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

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

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

Only hedging relationships which meet the restrictive requirements of IAS 39 may be accounted for using the hedge accounting rules. Hedge accounting requirements, in particular proof of the effectiveness of hedges, must be met for each hedging relationship on each balance sheet date. The market data shift method and the regression method are applied in the Group for prospective effectiveness tests. The modified dollar offset method is used for retrospective effectiveness tests.

This method includes an additional tolerance limit to account for the problem related to the law of small numbers that arises when there are marginal changes in the value of the underlying and hedge transactions. Changes to CVA/DVA are taken into account in hedge transaction in hedge accounting.

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

In accordance with the rules of fair value hedge accounting, derivative financial instruments used to hedge fair values are accounted for as positive or negative fair values from hedge accounting derivatives (Note (36) or (50) respectively). Changes in value are recognised through profit or loss (Note (23)). Changes in fair value resulting from the hedged risk for hedged assets or hedged liabilities are also recognised through profit or loss in profit/loss from hedge accounting.

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

In micro hedge accounting, financial instruments measured at amortised cost are adjusted in the balance sheet, both on the asset and liability side, by the change in fair value attributable to the hedged risk (hedge adjustment).

When hedging against interest-rate risks, the changes in the fair values of underlying transactions on the asset and liability side in relation to the hedged risk are reported in the “Adjustment item for financial instruments included in the portfolio fair value hedge” on the asset or liability side of the balance sheet. Underlying transactions of AfS financial instruments on the assets side continue to be reported under financial assets at full fair value. There are asset and liability portfolios in the fair value hedge portfolio at the present time.

A hedge is terminated when the underlying or hedging transaction expires, is sold or exercised or when the hedge accounting requirements are no longer met; see Note (67) for underlying transactions in effective hedges.

Securities sale and repurchase agreements and securities lending

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

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

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

With regard to the extent and the volume of securities repurchase agreements and securities-lending transactions, please see Note (71).

Financial guarantees

The net method is used for financial guarantees reported by the BLB Group. Initial recognition is at fair value, which is generally zero due to the present value of claims and obligations generally offsetting each other. Thereafter, fair value is not carried forward. Income premium payments are recognised in the income statement. Provisions are made in accordance with IAS 37 if a claim is expected.

Securitisations

Various financial assets from lending business are securitised. This may be accomplished via a synthetic securitisation using credit derivatives as well as the option of conducting a true sale of receivables to a special purpose entity (SPE) which in turn issues securities to investors (true-sale securitisations). Interest and repayments from the securities are directly related to the performance of the underlying receivable, not to that of the issuer.

The accounting treatment of such transactions depends of the manner of securitisation. In the case of synthetic securitisations, the assets remain on the balance sheet and are accounted for together with the contracted credit derivatives in accordance with the rules of IAS 39. In the case of true-sale securitisations, the assets are derecognised in cases where the opportunities and risks related to such assets have been (nearly) completely transferred to the SPE. In the event (nearly) all opportunities and risks related to the assets have not been transferred, the assets remain on the BLB Group balance sheet to the extent the Group continues to participate in such opportunities and risks (continuing involvement). As a rule, in the case of securitisation transactions within the BLB Group (nearly) all opportunities and risks are transferred to the SPE or acquirer respectively. In the event the SPE is included within the scope of consolidation, the assets continue to be recognised on the consolidated balance sheet.

(8) Risk provisioning

Specific valuation allowances and general valuation allowances are made to cover risks in lending business. The following principles apply in this context:

All credit commitments are monitored constantly. All of the significant receivables are reviewed for impairment at individual transaction level. Risk provisioning covers all identifiable credit risks with specific valuation allowances. A specific valuation allowance needs to be made if observable criteria show that not all contractually-agreed interest and principal payments will be made or other obligations will be met on time. Significant criteria for the presence of an impairment are, for example, a default or delay in interest or principal payments of more than 90 days or significant financial difficulties for the debtor as well as mathematical or actual insolvency or a sustained negative development in restructuring. These criteria also include concessions by the creditor such as exemptions from interest payments, the waiving of claims or the postponement of principal payments as well as pending insolvency or pending other restructuring.

In ship financing, there are significant indications of impairment in the case of postponements of interest and/or principal payments, concessions such as in particular the granting of restructuring credit to support the liquidity of the borrower or individual ships, as well as the risk of insolvency.

The amount of specific valuation allowances is the present value of all future cash flows determined by the difference between the carrying amount and recoverable amount. The expected incoming payments cover in particular all expected interest and redemption payments as well as receipts from the realisation of securities; this takes into account any recovery costs incurred.

The estimation of the extent to which risk provisioning should be formed is frequently made on the basis of information that is partly temporary (e.g. planned restructuring of the borrowers) or prone to fluctuations (e.g. collateral values of ships and real estate). This gives rise to an increased level of estimation uncertainty with regard to significant parameters of risk provisioning. The highest degree of uncertainty resides in the estimation of the expected cash flows that are dependent on the overall economic environment, the current economic trend, borrowers and the individual sector. The assumptions made are reviewed regularly and – if necessary – adapted to changed conditions.

To cover impairments that have occurred, but have not yet been identified, a general valuation allowance is made. This is calculated based on historical probabilities of default and loss ratios; in addition, the portfolio-specific loss identification period factor (LIP factor) is also taken into account.

The parameters used in the calculation of the general valuation allowance are derived from the economic control system.

The total risk provisioning for the reported receivables is reported as a separate item on the asset side of the balance sheet.

Risks relating to off-balance sheet transactions (guarantees, endorsement liabilities and loan commitments) are accounted for by a loan loss provision. Risks relating to contingent liabilities are assessed on a case-by-case basis applying the principles used for specific valuation allowances.

The accounting for country risks includes checking compliance with country limits (rating procedure for country and transfer risks). Specific valuation allowances are calculated on a case-by-case basis. Provisions for country risks are calculated using consistent principles.

Irrecoverable loans and advances for which there is no specific valuation allowance are written off immediately. Payments received for written-off loans and advances are recognised through profit or loss.

(9) Property and Equipment

Property and equipment is recognised at cost on the date of addition. Subsequent acquisition or production costs are recognised in the carrying amounts of assets to the extent that they contribute towards significantly improving the asset and hence towards enhancing the future economic benefit from the asset. Upon subsequent measurement, property and equipment subject to wear and tear is reported less straight-line depreciation over its economic life. Impairment losses are charged at the amount by which the carrying amount exceeds the higher of the asset's fair value less costs to sell and its value in use. If reasons for impairment no longer exist, write-ups (reversals of impairment losses) are carried out, but not in excess of depreciated cost. Scheduled depreciation is recognised in administrative expenses, and impairments and reversals of impairments are reported in other operating profit/loss.

Property and equipment is depreciated over the following periods:

	Useful life in years
Land and buildings	25 to 50
Operating and office equipment	3 to 15

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

(10) Leases

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

Finance lease

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

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

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

Operating lease

For operating leases, the Bremer Landesbank Group reports lease payments made at the contractually stipulated deadline as expenditure under other administrative expenses. Initial direct costs (such as costs for appraisers) are recognised immediately through profit or loss.

Agreements concluded by Bremer Landesbank as an operating lessee are of minor significance. No contracts were concluded with the Bremer Landesbank Group as an operating lessor.

(11) Investment property

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

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

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

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

Investment property is depreciated over the following periods

	Useful life in years
Investment property	25 to 50

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

(12) Intangible Assets

Intangible assets comprise acquired software and internally-developed intangible assets. Intangible assets that have been purchased by the Group are recognised at cost. Intangible assets developed internally are capitalised at cost if the Group is likely to gain economic benefits, and the expenses can be determined reliably. If the capitalisation criteria are not met, the costs are recognised immediately through profit or loss. The capitalised costs for software developed internally include expenses for internal and external services that are incurred in the development phase and are directly attributable (particularly for customising and test activities).

Subsequent acquisition or production costs are recognised in the carrying amounts of assets to the extent that they contribute toward significantly improving the asset and hence toward enhancing the future economic benefit from the asset.

Intangible assets with a finite useful life are amortised straight-line over their economic lives. For intangible assets with a finite useful life, impairment losses are charged at the amount by which the carrying amount exceeds the higher of the asset’s fair value less costs to sell and its value in use. If the reasons for applied impairment no longer apply, impairment losses are reversed up to a maximum of amortised cost. Scheduled depreciation is recognised in administrative expenses, and impairments and reversals of impairments are reported in other operating profit/loss.

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

	Useful life in years
Software	3 to 5

Intangible assets with an indefinite useful life are tested for impairment at least once per year in the fourth quarter. The impairment test of goodwill is performed on the basis of cash generating units (CGUs)

There are no intangible assets with an indefinite useful life.

(13) Designated Assets Held for Sale

Non-current assets and disposal groups for which the carrying amount is realised through a sale and not through operational use are recognised in separate balance sheet items if they are available for immediate sale in their current condition and a sale is highly probable. A sale is highly probably if the responsible level of management has committed to a plan to sell the asset and has actively started to look for a buyer and implement the plan. Further, the non-current assets or disposal group must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

The assets concerned are then measured at fair value less costs of sale if these are lower than the carrying amount. Non-current assets held for sale are no longer subject to scheduled depreciation from the time of their reclassification. However, impairment expenses related to non-current assets and disposal groups are taken into account.

Designated assets held for sale also include discontinued operations. A discontinued operation is a component of an entity held for sale that represents a separate major line of business or geographical area of operations, is part of a plan to dispose of the same or is a subsidiary acquired exclusively with a view to resale.

No entire business units were discontinued in 2016 or 2015.

(14) Provisions for Pensions and Similar Obligations

Direct and indirect pension obligations from defined benefit plans are calculated in accordance with IAS 19 Employee Benefits by independent actuaries as at the balance sheet date in accordance with the projected unit credit (PUC) method. Plan assets that are invested to cover defined pension entitlements and similar benefits are measured at fair value and offset against the corresponding liabilities.

Variations between the assumptions made and the developments that actually occurred as well as changes to the assumptions for the valuation of defined pension schemes and similar obligations result in actuarial gains and losses that are recorded in equity in the other comprehensive income (OCI) in the year they arise.

The balance of defined pension entitlements and similar benefits as well as plan assets (net pension obligations) bears interest at the discount interest rate underlying the valuation of the gross pension obligation. The resulting net interest expenditure is recorded in the Group income statement under interest expenditure. The remaining expenditure resulting from the grant of pension entitlements and similar benefits resulting largely from claims accrued in the financial year are taken into account in the consolidated income statement under administrative expenses.

For the determination of the case values of the defined pension entitlements, the discount rate determined under the Mercer yield curve approach (MYC) for high-quality corporate bonds and rates of salary and pension increase expected in future was taken into account in addition to the biometric assumptions. The 2005 G “Mortality Tables” by Klaus Heubeck are used to map mortality and invalidity. Profits or losses from the reduction or payment of a defined benefit plan are recognised through profit or loss at the time of reduction or payment.

The following actuarial assumptions underlie the measurement of the defined obligation:

	31.12.2016	31.12.2015
Discount rate	1.95%	2.65%
Salary trends	2.00%	2.00%
Pension development		
Management Board/permanent employees	2.50%	2.50%
Total benefits	3.50%	3.50%
Top-up benefits	2.00%	2.00%
Garantie Plus (new pension plan)	1.00%	1.00%
Rate of cost increase for health insurance benefits	3.50%	3.50%
Mortality, invalidity etc.	RT Heubeck 2005 G	RT Heubeck 2005 G

Description of the pension plans

The Bremer Landesbank Group pension scheme is a defined benefit plan.

Employees acquire entitlements to pensions in which benefits are fixed and dependent on factors such as anticipated wage and salary increases, length of service and a pension trend forecast (defined benefit plan).

There are pension entitlements from defined benefit plans based on direct and indirect commitments. Benefits from direct pension entitlement are paid directly by Bremer Landesbank, whereas benefits related to indirect pension entitlements are paid by the legally-independent Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen ("Unterstützungseinrichtung"). The executive bodies of the Unterstützungseinrichtung comprise employer and employee representatives of the Bremer Landesbank Group. The Unterstützungseinrichtung is endowed on a lump-sum basis (pauschaldotiert) (in relation to existing pension recipients) and partially reinsured (in the case of members of the plan who are not yet receiving benefits) and liquidity is provided by Bremer Landesbank within the limits allowed by law in order for the Unterstützungseinrichtung to provide its pension benefits. As the funding company for the pension obligations, Bremer Landesbank additionally has subsidiary liability for the payment of benefits by the Unterstützungseinrichtung.

In the year under review the responsibility for meeting the pension obligations was transferred for a substantial part of the existing pension obligations with the involvement of the existing Unterstützungseinrichtung. As a result, an amount totalling €148 million was allocated to the Unterstützungseinrichtung.

In order to satisfy entitlements to pensions under defined benefit plans, part of the cover funds were transferred to Unterstützungseinrichtung in 2005. The fair value of the plan assets is deducted when recognising provisions for pensions.

Different pension schemes are in at Bremer Landesbank, whereby entitlement is based on service agreements setting out collective rights or individual contractual entitlements. All benefit entitlements provide benefits for old age, invalidity, widow/widower and orphans. For what are known as total benefits from the statutory pension scheme and additional insurance scheme are included. With the exception of the new company pension scheme Garantie Plus (see below), the pension schemes are final salary pension schemes.

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

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

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

In addition, provisions for future health insurance benefits in the amount of €8 million (previous year: €8 million were reported. This provision is calculated based on the average amount of health insurance benefits paid in the past few years and the assumption of a dynamic cost trend.

Bremer Landesbank made a direct commitment to a portion of the management to provide a company pension plan in the form of a total provision based on the final salary, using the rules on retirement salary, benefits for dependents and accident insurance applicable to civil servants in Germany as a point of reference.

The members of the Management Board receive from Bremer Landesbank a direct commitment to a company pension plan in the form of variable total benefits based on final salary.

Risks from the defined benefit plans

The Bremer Landesbank Group is exposed to various risks in connection with the defined pension plans.

As a registered public institute (Anstalt öffentlichen Rechts), Bremer Landesbank was subject to Gewährträgerhaftung (public guarantee under which the owners of savings banks are jointly and severally liable to the bank's creditors) up to and including 17 July 2001. This means that creditors, and therefore also employees, are entitled in respect of their pension entitlements to have the amounts owed to them paid by the respective guarantors of the registered public institute.

As at 17 July 2001, the European Commission abolished the public guarantee for savings banks and Landesbanken. This means that all benefit entitlements agreed up to that point fall under the public guarantee without limitation. All benefit entitlements issued up to 18 July 2005 are also covered by the public guarantee if the benefit can be claimed before 31 December 2015. Bremer Landesbank has insured all benefit entitlements agreed since 18 July 2001 and all entitlements not covered by the transitional provision against insolvency with the pension insurance association for payment of a contribution.

Both obligations under defined pension entitlements and also plan assets may fluctuate over time. This may affect the financing status positively or negatively. The fluctuations in the defined pension obligations result in particular from the modification of financial assumptions such as discount rates as well as changes to demographic assumptions such as altered life expectancy. As a consequence of existing benefit entitlements the level of the agreed entitlements depends for example on the development of pensionable income, the additional insurance to which the beneficiary is entitled within the scope of the total benefits and social security benefits. If these factors develop differently than provided for in the provision calculations, a refinancing requirement may arise.

The Bremer Landesbank Group regularly assesses the planning for the pension payments (liquidity management), investment strategy and level. The basis for calculating the level of investments and pension payments on each reference date relates to the actuarial appraisals.

The average interest-rate risk is managed using the interest rate for measuring value concept. Theoretical scenarios within the interest rate for measuring value concept are used within the valuation and planning of pension provisions. These theoretical scenarios are used to divide the portfolio into a fixed and a fluctuating portfolio. The fixed portfolio is invested on a long-term basis rolling over the term for ten years at market conditions. The average interest-rate risk is managed by the Treasury Division as part of interest book management.

The fluctuating portfolio is used for liquidity management during the financial year. The management of the liquidity risk, influenced for example by pension payments, is described in the Risk Report.

At the level of Unterstützungseinrichtung, the respective executive bodies have established conditions for the investment of funds in the respective investment policies. At Unterstützungseinrichtung, funds invested for purposes of financing pension benefits are predominantly invested in low-risk investments (debt instruments, cash and cash equivalents and rights under re-insurance). The executive bodies may engage third parties to manage the assets of the respective fund.

(15) Other Provisions

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

Other provisions in accordance with IAS 37 have been made for uncertain liabilities to third parties and anticipated losses from pending transactions if a current legal or factual obligation results from an event in the past, utilisation is likely and its amount can be reliably determined. Provisions are measured based on the best-possible estimate of the amount which might reasonably be expected to be required to meet the current obligation (or to transfer the obligation to an independent third party) on the balance sheet date. Management is responsible for this estimate. Historical values from similar transactions and where applicable actuarial reports or statements from experts are included. Risks and uncertainties are taken into account through an evaluation of the obligation with the most likely event from a range of possible events. Future events that can influence the amount required for the fulfilment of an obligation are taken into account if there are objective indications that they might occur. Provisions are discounted if the effect is material.

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

(16) Income taxes

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

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

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

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

In the balance sheet, the income tax claims and obligations are reported separately and broken down into current and deferred assets and liabilities in the year under review. The carrying amount of a deferred tax asset is reviewed for impairment on the balance sheet date.

Income tax expense and income is recognised in the income taxes item in the consolidated income statement.

(17) Subordinated capital

The subordinated capital item comprises securitised subordinated liabilities and silent participations. For regulatory purposes in accordance with the German Banking Act, they are primarily recognised as liable equity.

Subordinated capital is recognised at amortised cost. Premiums and discounts are spread over the term in accordance with the effective interest method and are recognised in the income statement under net interest income. Accrued interest not yet due is allocated directly to the corresponding item in subordinated capital.

Segment reporting

(18) Classification by Business Segment (Primary Reporting Format)

€ million	Corporate Customers	Special Finance	Ship Finance	Private Customers	Financial Markets	Group Controlling /Others	Reconciliation	Group total
31.12.2016								
Net interest income	74	80	111	22	66	14	–2	**365**
Loan loss provisions	10	17	1,454	0	–1	53	14	**1,547**
Net interest income after risk provisioning	**64**	**63**	**–1,343**	**22**	**67**	**–39**	**–16**	**–1,182**
Commission surplus	15	14	5	9	2	–19	–2	**24**
Profit/loss from financial instruments at fair value through profit or loss	2	1	1	0	5	–11	1	**–1**
Profit/loss from hedge accounting	0	0	0	0	0	0	1	**1**
Profit/loss from financial assets	0	0	0	0	3	0	0	**3**
Profit/loss from financial assets accounted for using the equity method	0	0	0	0	0	0	5	**5**
Total income	**81**	**78**	**–1,337**	**31**	**77**	**–69**	**–11**	**–1,150**
Administrative expenses	30	12	17	24	13	115	1	**212**
Other operating profit/loss	0	0	0	0	0	2	10	**12**
Reorganisation result	0	0	0	0	0	0	37	**37**
Earnings before taxes	**51**	**66**	**–1,354**	**7**	**64**	**–182**	**–39**	**–1,387**
Segmental assets	5,475	6,554	6,961	1,150	7,586	2,503	–1,298	**28,931**
Segmental liabilities	2,511	4,739	1,894	1,429	11,433	5,883	547	**28,436**
Committed capital/sustainable capital	241	193	1,310	65	56	67	–1,437	**495**
CIR[1)]	32.8%	12.7%	14.2%	76.6%	16.6%	–	–	**53.4%**
RoRaC[2)]	14.4%	21.2%	–103.4%	7.6%	61.0%	–	–	**–**
ROE[3)]	–	–	–	–	–	–	–	

[1)] Administrative expenses/Total income before risk provisioning + other profit.
[2)] Return on Risk-adjusted Capital.
[3)] Earnings before taxes/Sustainable capital.

€ million	Corporate Customers	Special Finance	Ship Finance	Private Customers	Financial Markets	Group Controlling/ Others	Reconciliation Group total	Group as whole
31.12.2015								
Net interest income	78	82	153	27	78	7	–12	**413**
Loan loss provisions	–4	6	388	–2	0	–47	0	**341**
Net interest income after risk provisioning	**82**	**76**	**–235**	**29**	**78**	**54**	**–12**	**72**
Commission surplus	14	10	8	8	3	–1	–1	**41**
Profit/loss from financial instruments at fair value through profit or loss	2	1	2	0	11	14	1	**31**
Profit/loss from hedge accounting	0	0	0	0	0	0	26	**26**
Profit/loss from financial assets	0	0	0	0	4	6	0	**10**
Profit/loss from financial assets accounted for using the equity method	0	0	0	0	0	0	8	**8**
Total income	**98**	**87**	**–225**	**37**	**96**	**73**	**22**	**188**
Administrative expenses	32	12	17	24	14	93	1	**193**
Other operating profit/loss	0	–1	0	0	0	8	2	**9**
Earnings before taxes	**66**	**74**	**–242**	**13**	**82**	**–12**	**23**	**4**
Segmental assets	4,999	5,833	7,982	1,181	8,942	2,194	–1,160	**29,971**
Segmental liabilities	2,564	4,231	2,449	1,385	12,304	7,028	–1,894	**28,067**
Committed capital/sustainable capital	295	266	1,832	75	80	70	–714	**1,904**
CIR[1]	34.4%	13.3%	10.1%	67.1%	14.3%	–	–	**36.5%**
RoRaC[2]	19.3%	25.8%	–13.2%	15.4%	68.9%	–	–	**–**
ROE[3]	–	–	–	–	–	–	–	**0.2%**

[1] Administrative expenses/Total income before risk provisioning + other profit.
[2] Return on risk-adjusted capital.
[3] Earnings before taxes/Sustainable capital.

Reconciliation of the segment results to the consolidated financial statements

Classification by business segment

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

This pooling of areas of competence should increase our specialist know-how and improve the focus on customer needs.

Corporate Customers

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

Special Finance

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

Ship Finance

With its important portfolio, Ship Finance now constitutes a dedicated segment and is no longer part of Special Finance. The segmenting criterion for Ship Finance is the customer sector and therefore particularly the object of finance as the core business in customer relations. The products are geared on an industry-specific basis towards the projects that customers are focusing on and their financing.

Private Customers

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

Financial Markets

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

Group Controlling/Others

Group Controlling/Others includes all the other results that are directly connected with the operating activities. They include the results of all staff departments (including net interest income from sales of investments and administrative expenses of segments not directly allocatedto sales), strategic measures (primarily net interest income from investments and the cost of liquidity maintenance), investment and financing results which are not directly allocated to the segments, the consolidation of subsidiaries in the sub-group and loan loss provisions other than specific valuation allowances. Information about additions to longer-term assets other than financial instruments includes: the additions of operating and office equipment (property and equipment) that are mainly attributable to IT equipment primarily acquired for supervisory purposes. Intangible assets relate to system and application software. and are reported under Group Controlling/Others.

Reconciliation

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

Net interest income

The net interest income of the individual segments is determined using the market-interest-rate method. This includes, among others, interest income from the lending and deposit business as well as from the investment and financing business. The interest income and expenses are reported as a net amount under net interest income. This grouping takes place since most of the sales revenue in the segment is generated through interest. Segment management is primarily based on the net interest income in order to assess profitability and make decisions on the allocation of resources. All directly allocable investment and financing income is allocated to the segments. Other components of investment and financingincome are presented under "Group Controlling/Others" instead of "Reconciliation". The Group's net interest income is calculated as actual interest income less interest expenses.

Loan loss provisions

In this item, specific valuation allowances are allocated to the business segments; other loan loss provisions are allocated to "Group Controlling/Others" for internal reporting purposes.

Commission surplus

Loan commissions in the segments are shown in the net interest income.

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

This position's reconciliation result is the outcome of various effects which are not apportioned to the individual areas, especially payments and the valuation result from derivatives.

Profit/loss from hedge accounting

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

Profit/loss from financial assets

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

Net profit/loss from entities accounted for using the equity method

This item is allocated to the "Group Controlling/Others" segments rather than directly to the four sales-oriented segments.

Administrative expenses

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

Other operating profit/loss

This item is not allocated to the segments.

Segment assets/segment liabilities

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

Sustainable capital

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

Segment profitability ratios

In line with the management accounts and Group reporting, the RoRaC is also stated in the external reporting.

Bank RoE

This ratio is calculatedidentically throughout the Group for comparison purposes.

Notes to the Consolidated Income Statement

(19) Net interest income

In addition to interest income and interest expenses, the interest income and expenses items include pro rata amortisation of premiums and discounts resulting from financial instruments.

	1.1.–31.12.2016 € million	1.1.–31.12.2015 € million	Change %
Interest income			
Interest income from lending and money market transactions	710	788	–10
Interest income from fixed-interest securities and registered debt	22	35	–37
Interest income from financial instruments at fair value through profit or loss			
Trading portfolio and hedge accounting derivatives	274	351	–22
Interest income from the use of the fair value option	–	–	–
Current income			
from shares and other non-fixed-interest securities	0	0	0
from investments	1	4	–75
Interest income from other amortisation			
from the adjustment item for the portfolio fair value hedge	53	46	15
from hedge accounting derivatives	57	36	58
Total interest income	**1,117**	**1,260**	**–11**
Interest expenses			
Interest expenses from lending and money market transactions	305	362	–16
Interest expenses from securitised liabilities	77	87	–11
Interest expenses from financial instruments at fair value through profit or loss			
Interest expenses from the trading portfolio and hedge accounting derivatives	238	280	–15
Interest expenses from subordinated capital	9	18	–50
Interest expenses from other amortisation			
Interest expenses from the adjustment item for the fair value hedge portfolio	16	11	45
Interest expenses from hedge accounting derivatives	99	78	27
Interest expenses for provisions and liabilities	8	11	–27
Other interest expenses and interest-like expenses	0	0	0
Total interest expenses	**752**	**847**	**–11**
Total	**365**	**413**	**–12**

Interest income from lending and money market transactions contain interest income from the unwinding of impaired assets in the amount of €39 million (previous year: €36 million).

Total interest income relating to financial instruments which are not measured at fair value through profit or loss amounted to €786 million (previous year: €873 million). Total interest expenses relating to financial instruments which are not measured at fair value through profit or loss amounted to €415 million (previous year: €489 million).

Other interest income and similar income mainly include investment income and amortisation items from hedge accounting.

Other interest expenses and similar expenses were not incurred to a relevant amount.

The expenses from negative interest rates and income from positive interest rates result from call money and time deposits in interbank business and in business with non-banks as well as securities-lending transactions. In all cases a negative reference interest rate (usually the EURIBOR rate for different maturity ranges) produced the effects described.

(20) Loan loss provisions

	1.1.–31.12.2016 € million	1.1.–31.12.2015 € million	Change %
Income from loan loss provisions			
Reversal of specific valuation allowances for loans and advances	106	188	–44
Reversal of general valuation allowances on loans and advances	44	12	100
Reversal of loan loss provisions	2	2	0
Additions to receivables written off	3	10	–70
Income from loan loss provisions	**155**	**212**	**–27**
Expenses for loan loss provisions			
Allocation to specific valuation allowances for loans and advances	1,098	507	100
Allocation to portfolio-based valuation allowances	0	–	0
Allocation to provisions in credit business	2	3	–33
Direct receivables write-downs	195	43	100
Premium payments for loan loss insurance	0	0	0
Commission expenses from banking business	**1,295**	**553**	**100**
Total	**–1,140**	**–341**	**100**

(21) Commission surplus

	1.1.–31.12.2016 € million	1.1.–31.12.2015 € million	Change %
Commission income			
Commission income from banking business			
Lending and guarantee business	15	11	36
Security and custodian business	12	11	9
Account management and payment transactions	9	10	–10
Trust business	0	0	0
Brokerage business	1	1	0
Other standard bank commission income	12	15	–20
Commission income from non–banking business			
Real–estate business	1	2	–50
Total commission income	**50**	**50**	**0**
Commission expenses			
Commission expenses from banking business			
Security and custodian business	2	3	–33
Trust business	0	0	0
Brokerage business	1	1	0
Lending and guarantee business	22	4	100
Other standard bank commission expenses	1	1	0
Total commission expenses	**26**	**9**	**100**
Total	**24**	**41**	**–41**

Other commission income includes a total of €11 million (previous year: €14 million) from loan commissions.

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

Income from guarantee commission increased slightly as a result a stable development in operating activities. This was countered by guarantee expenses from measures to increase the Bank's Tier 1 capital ratio which took effect for the first time.

The improvement in commission income from account management business and payment transactions is due among other things to increased commission and sales income; the downward trend in the account management and payment transactions area results from a slight decrease from foreign payment transactions.

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

	1.1.–31.12.2016 € million	1.1.–31.12.2015 € million	Change %
Trading profit/loss			
Realised profit/loss			
Profit/loss from debt securities and other fixed-interest securities	3	0	100
Profit/loss from derivatives	8	0	100
Total realised profit/loss	**11**	**0**	**100**
Valuation result			
Profit/loss from derivatives	–6	31	<–100
Total valuation result	**–6**	**31**	**<–100**
Foreign exchange profit/loss	–6	0	<–100
Other comprehensive income	0	0	0
Total trading profit/loss	**–1**	**31**	**<–100**
Profit/loss from the fair value option			
Realised profit/loss			
Profit/loss from debt securities and other fixed-interest securities	–	–	0
Valuation result			
Profit/loss from debt securities and other fixed-interest securities	–	–	0
Total profit/loss from designated financial instruments (fair value option)	**–**	**–**	**0**
Total	**–1**	**31**	

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

The foreign exchange profit/loss includes all the income realised from disposals and the valuation of all the Bank’s foreign currency positions in the current financial year.

(23) Profit/loss from hedge accounting

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

	1.1.–31.12.2016 € million	1.1.–31.12.2015 € million	Change %
Profit/loss from micro fair value hedges			
from hedged underlying transactions			
in the available-for-sale (AfS) category	–6	–9	–33
categorised as other liabilities (OL)	24	33	–27
From derivative hedging instruments	–19	–26	–27
Total micro fair value hedges	**–1**	**–2**	**–50**
Profit/loss from portfolio fair value hedges			
from hedged underlying transactions			
in the loans and receivables (LaR) holding category	20	–8	100
in the Available for Sale (AfS) holding category	30	–8	100
in the Other Liabilities (OL) holding category	–81	48	<–100
from derivative hedging instruments	33	–4	100
Total portfolio fair value hedge	**2**	**28**	**–93**
Total	**1**	**26**	**–96**

(24) Profit/loss from financial assets

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

The profit/loss from financial assets in the category AfS breaks down as follows:

	1.1.–31.12.2016 € million	1.1.–31.12.2015 € million	Change %
Profit/loss from the disposal of			
debt securities and other fixed-income securities	–	–	0
Shares and other variable-yield securities	2	4	–50
Shares in companies	1	6	–83
Total from disposals	**3**	**10**	**–70**
Profit/loss of value adjustments of			
shares in companies	–	–	–
Other financial assets in the AfS category	–	–	–
Total profit/loss from value adjustments	**–**	**–**	**0**
Total	**3**	**10**	**–70**

The reclassification of valuation gains that were previously reported in other comprehensive income from the revaluation reserve to the consolidated income statement was, as in the previous year, not necessary.

Income from shares in Group undertakings include income of €911 thousand from the disposal of shares in four investments. There were no depreciations or amortisations in the year under review (previous year: €6,418 thousand).

(25) Profit/Loss from Financial Assets Accounted for Using the Equity Method

	1.1.–31.12.2016 € million	1.1.–31.12.2015 € million	Change %
Shares in group undertakings			
Income	6	8	–23
Expenses	1	0	100
Total	**5**	**8**	**–40**

(26) Administrative expenses

Administrative expenses in the Group consist of personnel expenses, material expenses (other administrative expenses), and scheduled depreciations of property and equipment and investment property, as well as intangible assets.

The details of these expenses are as follows

	1.1.–31.12.2016 € million	1.1.–31.12.2015 € million	Change %
Personnel costs			
Wages and salaries	76	78	–3
Social security contributions	12	12	–
Pension and welfare costs	10	13	–23
of which current service cost	9	12	–25
Total personnel expenses	**98**	**103**	**–5**
Other administrative expenses			
IT and communication costs	47	38	24
Premises costs	5	6	–17
Marketing, communication and entertainment costs	6	5	20
Person-related other administrative expenses	5	3	67
Legal, audit, appraisal and consulting fees	18	9	100
Dues and contributions	20	17	18
Expenses for factory and office equipment	1	1	0
Other administrative expenses	2	1	100
Total other administrative expenses	**104**	**80**	**30**
Depreciation and amortisation			
Property and equipment	5	4	25
Intangible assets	3	4	–25
Investment properties	2	2	0
Total depreciation and amortisation	**10**	**10**	**0**
Total	**212**	**193**	**10**

Personnel expenses include expenses for defined contribution plans amounting to €9 million (previous year: €12 million).

(27) Other operating profit/loss

	1.1.–31.12.2016 € million	1.1.–31.12.2015 € million	Change %
Other operating income			
from rental and lease income	9	8	13
from cost reimbursements	2	2	0
from disposals of assets	0	0	0
from the reversals of other provisions	4	2	100
Other income	23	7	>100
Total other operating income	**38**	**19**	**100**
Other operating expenses			
from rental and lease expenses	3	2	50
from the repurchase of issued debt securities	2	0	>100
from the repurchase of inscribed stock	15	5	>100
Other expenses	6	3	100
Total other operating expenses	**26**	**10**	**>100**
Total	**12**	**9**	**33**

Other income consists mainly of a capital gain from the disposal of an investment totalling €21 million (previous year: €0 million).

Other expenses consist largely of depreciations of and trade tax reimbursements in connection with a disposed-of investment amounting to €4 million (previous year: €0 million) as well as expenses for claims from operational risks totalling €1 million (previous year: €1 million).

(28) Profit/loss from restructuring

The profit from restructuring in the amount of €37 million (previous year: €0 million) results from activities whose objectives are to secure the future and maintain the competitiveness of the NORD/LB Group. These are staff reduction measures carried out in a socially responsible manner that involves early retirement schemes among other things.

(29) Income taxes

The Group's income taxes break down as follows:

	1.1.–31.12.2016 € million	1.1.–31.12.2015 € million	Change %
Current income taxes			
Current year	0	15	–100
From previous years	–3	–1	>100
Total	**–3**	**14**	**>–100**
Deferred taxes			
From the emergence/reversal of temporary differences	–5	–15	–67
From a change in tax rates	0	0	–
From temporary differences from previous years	3	0	>100
Total	**–2**	**–15**	**–87**
Total income tax expenses	**–5**	**–1**	**>100**

The following tax reconciliation statement shows an analysis of the difference between the expected income tax expense that would result if the German income tax rate were applied to IFRS earnings before taxes and the income tax expense actually reported:

	1.1.–31.12.2016 € million	1.1.–31.12.2015 € million	Change %
IFRS profit/loss before taxes	**–1.387**	**4**	**>–100**
Anticipated income tax expense	–444	1	>–100
Offsetting and reconciliation effects			
Effects of differing tax rates	4	–1	>100
Taxes from previous years reported in the financial year	0	–1	–100
Value adjustments and losses carried forward	443	–	>100
Effects from changes in tax rates	0	0	–
Non-deductible operating expenses	12	9	33
Effects of tax-free income	–2	–13	–85
Permanent accounting-related effects	0	0	–
Effects of assessment base transfers	–8	9	>–100
Other effects	–10	–5	100
Reported income tax expenses	**–5**	**–1**	**>100**

The expected income tax expenses in the tax reconciliation statement is calculated on the basis of the corporation tax rate of 15 per cent plus the solidarity surcharge of 5.5 per cent, and the average local business tax rate of of approximately 15.6 per cent in Germany in 2016. This results in a domestic income tax rate of 31.5 per cent (previous year: 31.5 per cent). The deferred taxes will be measured using the current or future valid tax rate as at the balance sheet date, namely 31.5 per cent (31.5 per cent).

(30) Statement of Comprehensive Income

The income tax effects are apportioned to the individual components of comprehensive income as follows:

€ million	Amount before taxes	Income tax effect	Amount after taxes	Amount before taxes	Income tax effect	Amount after taxes
Change from available-for-sale (AfS) financial instruments	6	0	6	11	2	**13**
Financial assets accounted for using the equity method – share of other comprehensive income	5	–	5	0	0	**0**
Revaluation of net debt from defined benefit plans	–42	13	–29	66	–21	**45**
Other profit/loss	**–31**	**13**	**–18**	**77**	**–19**	**58**

Notes to the Consolidated Balance Sheet

(31) Cash reserve

	1.1.–31.12.2016 € million	1.1.–31.12.2015 € million	Change %
Cash on hand	7	4	75
Balances at central banks	431	69	>100
Total	**438**	**73**	**>100**

The bank balances at central banks are all bank balances at Deutsche Bundesbank, as in the previous year. The minimum reserve balance was maintained at all times in the year under review and totals €57 million at year-end (previous year: €57 million).

(32) Loans and advances to banks

	31.12.2016 € million	31.12.2015 € million	Change %
Loans and advances from money market transactions			
German banks	228	142	61
Foreign banks	0	0	–
Total loans and advances from money market transactions	**228**	**142**	**61**
Other loans and advances			
German banks			
Payable on demand	257	22	>100
Limited term	3,111	3,207	–3
Foreign banks			
Payable on demand	105	37	>100
Limited term	0	72	–100
Total other loans and advances	**3,473**	**3,338**	**4**
Total	**3,701**	**3,480**	**6**

Of the loans and advances to German banks, €2,768 billion (previous year: €2,715 billion) are loans and advances to associated savings banks. Of the total amount, €2,882 billion (previous year: €2,816 billion) are loans and advances which will only be realised or settled after a period of more than twelve months.

(33) Loans and advances to customers

	31.12.2016 € million	31.12.2015 € million	Change %
Loans and advances from money market transactions			
German customers	262	312	–16
Foreign customers	23	17	35
Total loans and advances from money market transactions	**285**	**329**	**–13**
Other loans and advances			
German customers			
Payable on demand	1,155	1,331	–13
Limited term	17,885	18,183	–2
Foreign customers			
Payable on demand	436	290	50
Limited term	2,585	2,648	–2
Total other loans and advances	**22,061**	**22,452**	**–2**
Total	**22,346**	**22,781**	**–2**

Of the overall portfolio,16,726 million (previous year: €17,316 million) consists of loans and advances that will not be realised or completed until more than twelve months have passed. The loans and advances to customers include receivables from finance leases amounting to €22 million (previous year: €24 million). The gross investment of the lease transactions amounts to €23 million (previous year: €26 million). See Note (76) for more information about leases.

(34) Risk provisioning

	31.12.2016 € million	31.12.2015 € million	Change %
Risk provisioning for loans and advances to banks			
German banks	–	–	–
General valuation allowances on loans and advances	–	–	–
Total risk provisioning for loans and advances to banks	**–**	**–**	**–**
Risk provisioning for loans and advances to customers			
German customers	1,979	917	>100
Foreign customers	0	0	–
General valuation allowances on loans and advances	95	146	–35
Total risk provisioning for loans and advances to customers	**2,074**	**1,063**	**95**
Total	**2,074**	**1,063**	**95**

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

€ million	Specific valuation allowances		General valuation allowances (on balance)		Total		Loan loss provisions[1]	
	2016	2015	2016	2015	2016	2015	2016	2015
Loans and advances to banks 1.1.	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Changes recognised directly in equity								
Allocations	–	–	–	–	**–**	**–**	–	–
Reversals	–	–	–	–	**–**	**–**	–	–
Unwinding	–	–	–	–	**–**	**–**	–	–
Changes recognised directly in equity								
Utilisations	–	–	–	–	**–**	**–**	–	–
Reclassifications	–	–	–	–	**–**	**–**	–	–
31.12.	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loans and advances to customers 1.1.	**917**	**656**	**146**	**201**	**1,063**	**857**	**12**	**11**
Changes recognised directly in equity								
Allocations	1,510	507	–	–	**1,510**	**507**	2	3
Reversals	–106	–188	–50	–12	**–156**	**–200**	–2	–2
Unwinding	–39	–36	–	–	**–39**	**–36**	–	–
Changes recognised directly in equity								
Utilisations	–336	–82	–1	–	**–337**	**–82**	–	–
FX effects	34	17	–	–	**34**	**17**	–	–
Reclassifications	–1	43	–	–43	**–1**	**0**	–	–
31.12.	**1,979**	**917**	**95**	**146**	**2,074**	**1,063**	**12**	**12**
Total	**1,979**	**917**	**95**	**146**	**2,074**	**1,063**	**12**	**12**

[1] incl. portfolio valuation allowances off balance sheet

The aggregate sum of loans for which no interest payments are made totalled €179 million (previous year: €183) as at the balance-sheet date. Specific valuation allowances were formed for an aggregate volume of €3,503 million (previous year: €2,700 million).

As at 31 December 2016, the outstanding interest demands on these loans amounted to €1 million (previous year: €1 million). In the year under review there were direct bad-debt expenses totalling €195 million (previous year: €43 million). The payments on written-off claims amounted to €3 million (€(previous year: €9 million).

The maximum default risk for financial assets in accordance with IFRS 7.36 (a) corresponds to the carrying amount of the respective instruments.

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

Rating	Very good to good		Good/ satisfactory		Still good/ adequate		Increased risk		High risk		Very high risk		No rating	
€ million	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Loans and receivables (LaR)														
Loans and advances to banks	3,701	3,480	–	–	–	–	–	–	–	–	–	–	–	–
Loans and advances to customers	12,150	12,071	2,257	2,234	1,357	1,741	470	767	486	1,005	1,885	1,627	3,741	3,336
Available for sale (AfS														
Financial assets	2,775	2,904	–	–	–	–	–	15	–	–	–	–	–	–
Total	**18,626**	**18,455**	**2,257**	**2,234**	**1,357**	**1,741**	**470**	**782**	**486**	**1,005**	**1,885**	**1,627**	**3,741**	**3,336**

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

Rating			Past due but not impaired							
	Neither past due nor impaired		Less than 3 months		3 to 6 months		3 to 6 months		More than 12 months	
€ million	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Loans and receivables (LaR)										
Loans and advances to banks	3,701	3,480	–	–	–	–	–	–	–	–
Loans and advances to customers	18,043	18,819	571	891	59	39	107	129	63	203
Available for sale (AfS)										
Financial assets	2,775	2,919	–	–	–	–	–	–	–	–
Total	**24,519**	**25,218**	**571**	**891**	**59**	**39**	**107**	**129**	**63**	**203**

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

	Carrying amounts		Valuation allowances	
€ million	2016	2015	2016	2015
Loans and receivables (LaR)				
Loans and advances to banks	–	–	–	–
Loans and advances to customers	3,503	2,700	1,973	917
Available for sale (AfS)				
Financial assets	–	–	–	–
Total	**3,503**	**2,700**	**1,973**	**917**

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

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

Of the debt securities and other fixed-interest securities measured at fair value through profit or loss and the shares and other non-fixed-interest securities, there were €0 in the year under review (previous year: €52 million).

	31.12.2016 € million	31.12.2015 € million	Change %
Trading assets			
Debt securities and other fixed-interest Securities			
Bonds and debt securities			
Issued by the public sector	0	10	–100
Issued by other borrowers	0	42	–100
Total debt securities and other fixed-interest securities	**–**	**52**	**–100**
Positive fair values from derivatives in connection with:			
Interest rate risks	488	593	–18
Currency risks	14	20	–30
Credit derivatives	0	1	–100
Total positive fair values from derivatives	**502**	**614**	**–18**
Total trading assets	**502**	**666**	**–25**
Designated financial assets reported at fair value			
Debt securities and other fixed-interest securities	–	–	–
Total designated financial assets reported at fair value	**–**	**–**	**–**
Total	**502**	**666**	**–25**

Of the total amount, €428 million (previous year: €575 million) are financial assets which will only be realised or settled after a period of more than twelve months.

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

(36) Positive fair values from derivatives in connection with:

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

	31.12.2016 € million	31.12.2015 € million	Change %
Derivatives from micro fair value hedges	99	131	–24
Derivatives from portfolio fair value hedges	481	410	17
Total	**580**	**541**	**7**

Of the total amount, €503 million (previous year: €480 million) are hedging instruments which will only be realised or settled after a period of more than twelve months. Interest-rate swaps are used as hedging instruments.

(37) Financial Assets

The balance sheet item for financial assets includes all the debt securities and other fixed-interest securities which are classified as available for sale (AfS), shares and other non-fixed-interest securities as well as shares in companies that are not accounted for in accordance with IFRS 10, IFRS 11 or IAS 28.

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

	31.12.2016 € million	31.12.2015 € million	Change %
Available-for-sale financial assets (AfS)			
Debt securities and other fixed-interest securities			
Issued by the public sector	2,094	2,496	–16
Issued by other borrowers	627	380	65
Total debt securities and other fixed-interest securities	**2,721**	**2,876**	**–5**
Shares and other non fixed-interest securities	17	3	>100
Shares in non-consolidated entities	23	24	–4
Other financial assets in the AfS category	14	16	–13
Total	**2,775**	**2,919**	**–5**

Of the total amount, €2,412 billion (previous year: €2,189 billion) are available-for-sale (AfS) financial assets that will only be realised or settled after a period of more than twelve months.

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

€ million	Financial companies	Insurance companies	Other companies
Figures from the last approved annual financial statements			
Assets	15	37	91
Liabilities	0	31	58
Sales revenue	0	11	26
Profit/loss	2	1	2

(38) Financial assets accounted for using the equity method

Reported under this item in accordance with IAS 28 are investments in associates accounted for using the equity method. Investments accounted for using the equity method break down as follows:

	31.12.2016 € million	31.12.2015 € million	Change %
Associates			
Banks	0	–	–
Other companies	125	118	6
Total	**125**	**118**	**6**

The carrying amounts of associates developed as follows:

€ million	**Associates**
01/01/2015	**93**
Additions	41
Reclassifications	–21
Depreciation and amortisation	0
Write-ups	5
31.12.2015	**118**
01/01/2016	**118**
Depreciation and amortisation	0
Write-ups	7
31.12.2016	**125**

Shares in companies accounted for using the equity method have a term of more than twelve months.

(39) Property and Equipment

	31.12.2016 € million	31.12.2015 € million	Change %
Land and buildings	98	43	>100
Operating and office equipment	16	5	>100
Other property and equipment	1	41	–98
Total	**115**	**89**	**29**

In the reporting year 2016, Advance payments amount to €0.5 million (previous year: €40 million) following the completion of the Bremen branch’s reconstruction that had begun in 2013. In-house market value appraisals identified hidden reserves of €7 million in land and buildings (previous year: €8 million). The historical acquisition cost of property and equipment which had been fully amortised by the balance sheet date but which is still in use is €9 million (previous year: €7 million).

(40) Investment Property

	31.12.2016 € million	31.12.2015 € million	Change %
Investment property	84	76	11
Total	**84**	**76**	**11**

The fair value of investment property amounts to €133 million (previous year: €144 million). The letting out of this property earned €9 million in the year under review (previous year: €8 million. Direct operating expenses (including repairs and maintenance) excluding depreciation amounted to €3 million (previous year: €3 million. There are no contractual obligations to purchase investment property in the next financial year.

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

	Used for banking operations				**Not used for banking operations**
€ million	Land and buildings	Operating and office equipment	Prepayments made/constructio n in process	**Total**	Investment property
Historical acquisition and production costs 1.1.2015	**88**	**21**	**23**	**132**	**91**
Additions	–	1	17	**18**	**1**
Disposals	–	–2	–	**–2**	–
Total 31.12.2015	**88**	**20**	**40**	**148**	**92**
Accumulated depreciation 1.1.2015	**–43**	**–14**	**–**	**–57**	**–15**
Scheduled depreciation	–2	–2	–	**–4**	**–1**
Unscheduled depreciation	–	–	–	–	**–**
Disposals	–	2	–	**2**	**–**
Total 31.12.2015	**–45**	**–14**	**–**	**–59**	**–16**
Closing balance 31.12.2015	**43**	**6**	**40**	**89**	**76**
Historical acquisition and production costs 1.1.2016	**88**	**20**	**40**	**148**	**92**
Additions	55	14	30	**99**	**17**
Disposals	–2	–2	–69	**–73**	**–2**
Total 31.12.2016	**141**	**32**	**1**	**174**	**107**
Accumulated depreciation 1.1.2016	**–45**	**–14**	–	**–59**	**–16**
Scheduled depreciation	–2	–3	–	**–5**	**–7**
Unscheduled depreciation	–	–	–	**–**	**–**
Disposals	4	1	–	**5**	**–**
Total 31.12.2016	**–43**	**–16**	**–**	**–59**	**–23**
Closing balance 31.12.2015	**98**	**16**	**1**	**115**	**84**

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(41) Intangible Assets

The main intangible assets of the Bremer Landesbank Group are set out below:

	Carrying amount € million		Remaining depreciation period (in years)	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Software developed internally				
Architecture of FI migration interfaces	3	3	2	2
SPOT	1	1	3	3
Purchased software				
Other	4	3	0 to 5	0 to 5
Prepayments OptiMA (SAP BA 8.0)	6	7	–	–
Total	**14**	**14**		

Intangible assets relate to system and application software. These involve exclusively purchased software and internally-developed intangible assets. In 2016, development costs of €1 million (previous year: €1 million) were recognised as an intangible asset developed internally for the implementation of the integration architecture (SPOT). There were no non-capitalised research expenses. Furthermore, prepayments in the amount of €6 million were made for the launch of SAP Bank Analyzer 8.0. The remaining useful life of intangible assets is between 1 and 59 months. The historical acquisition costs of intangible assets which had been fully amortised by the balance sheet date but which are still in use is €10 million (previous year: €10 million).

Intangible assets developed as follows:

€ million	Purchased	Internally developed	Prepayments	Total
Historical acquisition and production costs 1.1.2015	**15**	**13**	**1**	**29**
Additions	2	–	6	**8**
Disposals	–1	–	–	**–1**
Total 31.12.2015	**16**	**13**	**7**	**36**
Accumulated depreciation 1.1.2015	**–12**	**–7**	**–**	**–19**
Scheduled depreciation	–2	–2	–	**–4**
Disposals	1	–	–	**1**
Total 31.12.2015	**–13**	**–9**	**–**	**–22**
Closing balance 31.12.2015	**3**	**4**	**7**	**14**
Historical acquisition and production costs 1.1.2016	**16**	**13**	**7**	**36**
Additions	3	0	1	**4**
Disposals	–1	–	–	**–1**
Total 31.12.2016	**18**	**13**	**8**	**39**
Accumulated depreciation 1.1.2016	**–13**	**–9**	**–**	**–22**
Scheduled depreciation	–	–2	–	**–4**
Disposals	–	–	–	**1**
Total 31.12.2016	**–14**	**–11**	**–**	**–25**
Closing balance 31.12.2014	**3**	**4**	**7**	**14**

(42) Designated Assets held for Sale

As at 31 December 2016, the designated assets held for sale in accordance with IFRS 5 with a carrying amount totalling €5 million (previous year: €21 million) comprise financial assets in the amount of €5 million (previous year: €21 million.) The designated assets held for sale are shares in two affiliated companies that were classified for the first time as being held for sale in the second quarter of 2016. To date they have been accounted for using the equity method. A sale of the shares held for sale in the Group is planned to take place in the first half of 2017. The carrying amount will still be allocated to the Reconciliation segment.

(43) Current Income Tax Assets and Deferred Income Taxes

	31.12.2016 € million	31.12.2015 € million	Change %
Current Income Tax Assets and Deferred Income Taxes	4	0	100
Deferred tax assets	165	149	11
Total	**169**	**149**	**13**

Deferred tax assets show potential income tax relief from temporary differences in the carrying amounts of assets and liabilities in the IFRS consolidated balance sheet and their tax base in accordance with the tax regulations governing group entities. As at 31 December 2016, deferred tax assets in the amount of €29 million (previous year: €16 million) were offset directly against equity.

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

	31.12.2016 € million	31.12.2015 € million	Change %
Loans and advances to banks	1	6	–83
Risk provisioning	30	33	–9
Financial assets at fair value through profit or loss	411	385	7
Financial assets	1	1	0
Property and Equipment	25	27	–7
Intangible assets	2	2	0
Other assets	17	16	6
Liabilities to banks	1	4	–75
Liabilities to customers	31	34	–9
Securitised liabilities	9	15	–40
Financial liabilities at fair value through profit or loss	5	4	25
Negative fair values from hedge accounting derivatives	161	131	23
Provisions	114	95	20
Total	**808**	**753**	**7**
Netting	643	604	6
Total	**165**	**149**	**11**

In addition to the deferred taxes that are shown in the consolidated income statement, the deferred tax claims from provisions contain €29 million (previous year: €16 million) that are reported under other comprehensive income (OCI).

For losses carried forward as per 31 December 2016 from corporation tax in the amount of €431 million (€0 million) and from trade tax in the amount of €448 million (€0 million), no deferred tax claims were formed due to a planning horizon that was restricted time-wise and the resultant insufficient possibility of usage. Of the tax loss carryforwards in existence as at 31 December 2016, only loss carryforwards amounting to €236 million (corporation tax) and €245 million (local income tax/trade tax) will be usable without time restrictions in the next few years.

In addition, no deferred taxes were recognised for temporary differences eligible for unrestricted carryforwards in the amount of €955 million (€0 million).

(44) Other assets

	31.12.2016 € million	31.12.2015 € million	Change %
Receivables in interim accounts	41	19	100
Initial margin payments	26	16	63
Receivables from non-consolidated subsidiaries	13	15	–13
Leasing agreements in preparation (prepayments)	4	2	100
Receivables from German banks	–	–	–
Tax refund claims from other taxes	1	0	100
Other assets	4	5	–20
Total	**89**	**57**	**56**

The receivables in interim accounts mostly involve receivables in connection with lending and transactions in payment transaction accounts.

All the amounts recognised in other assets are due within the next twelve months.

(45) Liabilities to banks

	31.12.2016 € million	31.12.2015 € million	Change %
Deposits from other banks			
German banks	489	456	7
Foreign banks	50	–	>100
Total deposits from other banks	**539**	**456**	**18**
Liabilities from money market transactions			
German banks	1,234	1,171	5
Foreign banks	14	28	–50
Total liabilities from money market transactions	**1,248**	**1,199**	**4**
Other liabilities			
German banks			
Payable on demand	76	573	–87
Limited term	8,969	8,073	11
Foreign banks			
Payable on demand	4	2	100
Limited term	248	300	–17
Total other liabilities	**9,297**	**8,948**	**4**
Total	**11,084**	**10,603**	**5**

Of the total amount, €8,151 billion (previous year: €7,347 billion) are liabilities to banks which will probably only be realised or settled after more than twelve months.

Of the liabilities to German banks, €536 million (previous year: €706 million) relates to associated savings banks.

(46) Liabilities to customers

	31.12.2016 € million	31.12.2015 € million	Change %
Savings deposits			
With an agreed period of notice of three months			
German customers	184	194	–5
Foreign customers	7	8	–13
With an agreed period of notice of more than three months			
German customers	4	4	0
Foreign customers	1	1	0
Total savings deposits	**196**	**207**	**–5**
Liabilities from money market transactions			
German customers	1,401	1,629	–14
Foreign customers	24	66	–64
Total liabilities from money market transactions	**1,425**	**1,695**	**–16**
Other liabilities			
German customers			
Payable on demand	2,797	3,306	–15
Limited term	4,952	4,427	12
Foreign customers			
Payable on demand	132	151	–13
Limited term	236	106	>100
Total other liabilities	**8,117**	**7,990**	**2**
Total	**9,738**	**9,892**	**–2**

(47) Securitised liabilities

	31.12.2016 € million	31.12.2015 € million	Change %
Issued debt securities			
Pfandbriefe	461	472	–2
Municipal debt securities	1,237	1,454	–15
Other debt securities	3,503	3,369	4
Total issued debt securities	**5,201**	**5,295**	**–2**
Money market securities			
Commercial papers	50	–	>100
Other money market securities	–	–	–
Total money market securities	**50**	**–**	**>100**
Total	**5,251**	**5,295**	**–1**

Of the total amount, €4,240 billion (previous year: €4,545 billion) are securitised liabilities to banks which will probably only be realised or settled after more than twelve months.

In accordance with IAS 39, debt securities issued and held by the Group itself were deducted in the nominal amount of €187 million (previous year: €33 million) directly from debt securities issued.

Of the securitised liabilities existing on the balance sheet date, no bearer debt securities were transferred into bearer debt securities.

The following list contains the significant debt securities issued in 2016 with an issue volume of €10 million and higher.

Security abbreviation	Nominal	Currency	Maturity	Interest rate
BREM.LB.KR.A.OLD.PF.44VAR	100,000,000.00	EUR	27 May 2019	0.0000
BREM.LB.KR.A.OLD.PF.47	85,000,000.00	EUR	08 September 2021	0.0100
BREM.LB.KR.A.OLD.OPF 130	25,000,000.00	EUR	25 May 2021	0.3110
BREM.LB.KR.A.OLD.IS.271	250,000,000.00	EUR	20 January 2021	1.0000
BREM.LB.KR.A.OLD.IS.274	300,000,000.00	EUR	3 March 2020	0.7500
BREM.LB.KR.A.OLD.IS.276	10,000,000.00	EUR	25 May 2020	0.4900
BREM.LB.KR.A.OLD.IS.278	20,995,000.00	EUR	23 July 2026	1.4000
BREMER LDSBK TR.1133	50,000,000.00	EUR	17 January 2017	0.0000

(48) Adjustment Items for Financial Instruments Hedged in the Fair Value Hedge Portfolio

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

	31.12.2016 € million	31.12.2015 € million	Change %
Asset items			
Adjustment items for financial instruments hedged in the fair value hedge portfolio (LaR)	62	49	27
Liability items			
Adjustment items for financial instruments hedged in the fair value hedge portfolio (LaR)	240	212	13

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

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

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

	31.12.2016 € million	31.12.2015 € million	Change %
Trading liabilities			
Negative fair values from derivatives in connection with:			
Interest-rate risks	495	584	–15
Currency risks	228	284	–20
Credit derivatives	1	2	–50
Total trading liabilities	**724**	**870**	**–17**
Total	**724**	**870**	**–17**

Of the total amount, €573 million (previous year: €714 million) are financial instruments at fair value which will only be realised or settled after more than twelve months.

(50) Negative Fair Values from Hedge Accounting Derivatives

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

	31.12.2016 € million	31.12.2015 € million	Change %
Derivatives from micro fair value hedges	16	22	–27
Derivatives from portfolio fair value hedges	250	179	40
Total	**266**	**201**	**32**

Of the total amount, €234 million (previous year: €181 million) are hedging instruments which will only be realised or settled after a period of more than twelve months.

Interest-rate swaps are used as hedging instruments.

(51) Provisions

	31.12.2016 € million	31.12.2015 € million	Change %
Provisions for pensions and similar obligations	364	307	19
Other provisions			
Loan loss provisions	12	12	0
Provisions for uncertain liabilities	46	14	>100
Total	**422**	**333**	**27**

The other provisions are provisions made for uncertain liabilities. A distinction is made between “loan loss provisions” and “other provisions for uncertain liabilities”.

Of the loan loss provisions, €3 million (previous year: €4 million) relates to portfolio-based valuation allowances. In the case of loan loss provisions, the expected settlement date is currently after a holding period of less than one year. Uncertainties in respect of the amount and date lie in the overall economic development for the individual borrower groups. Reimbursements are not anticipated.

The provisions for uncertain liabilities mostly include provisions that are connected with personnel obligations and a provision for interest obligations related to the payment of tax arrears.

The most noteworthy aspect of the provisions for personnel obligations is the provision for restructuring measures.

The provision for restructuring measures concerns staff reduction measures carried out in a socially responsible manner with early retirement schemes among other things.

With regard to the personnel obligations, the expected date of settlement depends on how the event occurs for the employee. Uncertainties with regard to the amount and date depend on the employee’s length of service as well as external and internal obligations (collective wage agreements, bank-specific agreements). Uncertainties with regard to the amount and date depend on the employee’s length of service as well as external and internal obligations (collective wage agreements, bank-specific agreements). Reimbursementsare not anticipated. Reimbursements are not anticipated.

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations break down as follows:

	31.12.2016 € million	31.12.2015 € million	Change %
Present value of defined benefit obligation	522	478	9
Less fair value of plan assets	–158	–171	–8
Underfunding (net liability)	**364**	**307**	**19**

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

	Present value of the liability		Fair value of plan assets		Underfunding/net liability		Change
€ million	2016	2015	2016	2015	2016	2015	%
Opening balance 1.1	**478**	**537**	**172**	**30**	**307**	**507**	**-39**
Current service cost	9	11	–	–	9	11	–18
Interest expense/interest income (-)	12	12	4	0	12	12	0
Past service cost	0	1	–	–	–4	1	<–100
Changes from consolidation	–	–	–	–	–	–	–
Effects from severance payments/transfers (compensation payments)	–	–	–	–	–	–	–
Changes from currency translation	–	–	–	–	–	–	–
Benefits paid	–16	–16	–16	–16	–	–	–
Employee contributions	–	–	1	158	–1	–158	–99
Sub-total	**483**	**545**	**161**	**172**	**323**	**373**	**–13**
Revaluations							
Experience adjustments	–20	–6	–	–	–20	–6	>100
Gains/losses from changes in demographic assumptions	–	–	–	–	–	–	–
Gains/losses from changes in financial assumptions	59	–61	–	–	59	–61	>100
Income from plan assets (not including interest income)	–	–	–3	–1	2	1	100
Closing balance 31.12	**522**	**478**	**158**	**171**	**364**	**307**	**19**

The present value of the obligation is funded in the amount of €513 million (previous year: €470 million) and unfunded in the amount of €9 million (previous year: €8 million).

The fair value of plan assets comprises the following:

		31.12.2016 € million	31.12.2015 € million	Change %
Cash/ cash equivalents	Active market	92	134	–31
	Inactive market	–	–	–
Equity instruments	Active market	4	0	>100
	Inactive market	–	–	–
Debt instruments	Active market	29	19	53
	Inactive market	–	–	–
Other assets	Active market	33	18	83
	Inactive market	–	–	–
Total		**158**	**171**	**-8**

The cover funds of Bremer Landesbank's Unterstützungseinrichtung (provident fund) are reported as plan assets. Funds which are not required for current pension payments have been invested in annuity bonds and equities and other assets under an asset management agreement. Other assets include €13 million for certificates (previous year: €5 million) and receivables from a reinsurance policy in the amount of €20 million (previous year: €13 million).

Plan assets are measured at fair value.

The fair value of the plan asset contains financial instruments issued by Bremer Landesbank in the "debt instruments" category totalling €1 million (previous year: €1 million). The Bank's equity instruments, property for own use and other assets for own use are not included in the fair value of plan assets.

The following overview shows the maturities of the undiscounted defined benefit obligations:

	Pension payments	
€ million	**31.12.2016**	**31.12.2015**
Less than 1 year	17	17
Between 1 and 2 years	17	17
Between 2 and 3 years	18	18
Between 3 and 4 years	18	19
Between 4 and 5 years	19	19
Total	**89**	**90**

The duration of the defined pension obligations is 17 years (previous year: 18 years) and is assessed annually by the actuary.

The contribution payments for defined benefit plans, including interest expenses for defined benefit obligations are expected to total €18 million during the next reporting period. The anticipated addition to the pension fund's cover fund for 2017 is €0 million.

The actuarial assumptions mean that defined benefit obligation is subject to change. The following sensitivity analysis shows the effects of the listed changes to the respective assumption on the level of the defined benefit obligation under the premises that there are no correlations and the other assumptions remain unchanged.

€ million	Increase 31.12.2016	31.12.2015	Decrease 31.12.2016	31.12.2015
Discount rate	50	43	43	37
Salary trends	4	5	5	5
Pension development	16	15	15	14
Cost increase for health insurance benefits	2	2	2	1
Mortality	27	23	26	23

A sensitivity of –/+ 0.5 per cent was assumed for the discount rate,–/+ 0.25 per cent each for the salary and pension trend and 1 per cent for health insurance benefits. To determine the effect on the scope of the obligation that results if life expectancy changes, the assumption was made that the life expectancy of a 65-year old pensioner increases or decreases by one year.

The employer's share of the statutory pension insurance or pension plan totalled €6 million in the year under review (previous year: €7 million).

Other provisions

The other provisions developed as follows:

€ million	Loan loss provisions	Provisions for uncertain liabilities: Provisions for personnel obligations	Other provisions for other uncertain liabilities	Total
Opening balance 1.1.2015	**11**	**17**	**1**	**29**
Utilisations	0	–4	0	**–4**
Reversals	–2	–1	0	**–3**
Allocations	3	1	0	**4**
Reclassifications	0	–	–	**0**
Closing balance 31.12.2015	**12**	**13**	**1**	**26**
Opening balance 1.1.2016	**12**	**13**	**1**	**26**
Utilisations	0	–3	0	**–3**
Reversals	–2	–4	0	**–6**
Allocations	2	38	0	**40**
Reclassifications	0	–	1	**1**
Closing balance 31.12.2016	**12**	**44**	**2**	**58**

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

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

Loan loss provisions were not discounted during this year as the holding period for the remaining loan loss provisions is less than one year.

Personnel-related commitments generally comprise provisions for early retirement and anniversary bonuses. This year, however, BLB additionally formed a provision for restructuring measures.

The anticipated date of fulfilment for the personnel obligations depends on the occurrence of the event for the employee. Uncertainties with regard to the amount and date depend on the employee’s length of service as well as external and internal obligations (collective wage agreements, bank-specific agreements). Reimbursements are not anticipated.

Provisions for personnel obligations comprise restructuring measures totalling €37 million, provisions for early retirement totalling €5 million (previous year: €11 million) and anniversary provisions in the amount of €2 million (previous year: €2 million).

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

None of the provisions are expected to be utilised within twelve months.

(52) Current Income Tax Liabilities and Deferred Income Taxes

Income tax liabilities break down as follows:

	31.12.2016 € million	31.12.2015 € million	Change %
Current income tax liabilities	12	16	–25
Deferred tax liabilities	2	2	0
Total	**14**	**18**	**–22**

Deferred tax liabilities show potential income tax charges from temporary differences in the carrying amount of assets and liabilities in the IFRS consolidated balance sheet and their tax base in accordance with the tax regulations governing group entities. As at 31 December 2016, €8 million (previous year: €8 million) in deferred tax liabilities were offset directly against equity.

Deferred tax liabilities relate to the following balance sheet items:

	31.12.2016 € million	31.12.2015 € million	Change %
Loans and advances to customers	6	7	–14
Positive fair values from hedge accounting derivatives	204	187	9
Financial assets	22	19	16
Property and equipment	1	2	–50
Investment property	4	2	100
Other assets	1	1	0
Financial liabilities at fair value through profit or loss	387	365	6
Provisions	0	22	–100
Other liabilities	18	1	>100
Subordinated capital	2	0	>100
Total	**645**	**606**	**6**
Netting	643	604	6
Total	**2**	**2**	**0**

In addition to the deferred taxes which are reported in the consolidated income statement, there are deferred tax liabilities from financial assets in the amount of €8 million (previous year: €8 million), which are reported in other comprehensive income (OCI).

(53) Other Liabilities

	31.12.2016 € million	31.12.2015 € million	Change %
Liabilities in interim accounts	61	22	>100
Liabilities to third parties	19	6	>100
Liabilities from short-term employee remuneration	2	5	–60
Liabilities from outstanding invoices	7	3	>100
Liabilities from payable taxes and social security contributions	2	1	100
Deferred items	0	1	–100
Liabilities to pension fund	–	–	–
Other liabilities	4	3	33
Total	**95**	**41**	**>100**

The liabilities in interim accounts mostly involve liabilities in connection with transactions in payment transaction accounts.

The liabilities to third parties are primarily liabilities from the new branch building and supplies and services from NORD/LB.

All the amounts recognised in other liabilities will be realised within the next twelve months.

(54) Subordinated capital

	31.12.2016 € million	31.12.2015 € million	Change %
Subordinated liabilities	602	602	0
Total	**602**	**602**	**0**

Subordinated liabilities would not be repaid until the claims of all senior creditors had been satisfied. On the balance sheet date, subordinated liabilities of €600 million (previous year: €600 million) will meet the requirements of art. 63 of the EU Regulation No. 575/2013 (Capital Requirements Regulation for banks and securities firms (CRR) which has been in effect since the beginning of 2014) for recognition as Tier 2 capital in accordance with art. 62 of the CRR.

Interest expenses for subordinated liabilities amount to €11 million (previous year: €19 million). Accrued interest not yet due is reported in subordinated capital under subordinated liabilities.

At the end of 2016, the following subordinated liabilities (not including proportionate interest) were outstanding:

Nominal amount € million	Maturity	Interest rate
150	16 November 2027	6M-Euribor + 3.500%
50	6 December 2027	6M-Euribor + 3.500%
50	11 September 2028	6M-Euribor + 3.400%
200	28 June 2030	6M-Euribor + 0.395%
85	21 March 2031	6M-Euribor + 0.350%
65	5 April 2041	6M-Euribor + 0.380%
600		

(55) Instruments of Additional Regulatory Tier 1 Capital

During 2015, subordinated bearer debt securities were issued in the total amount of €150 million (of which €100 million to NORD/LB), these are reported under equity as “instruments of additional regulatory equity”. The Additional Tier 1 bonds issued have no maturity.

The purpose of these subordinate bearer debt securities is to provide Bremer Landesbank with additional Tier 1 capital for an indefinite period of time. The bonds have a fixed-interest rate of 8.50 per cent for the first five years for tranche 1 (€50 million) and 9.50 per cent for tranche 2 (€100 million), at which point they switch to a variable interest phase.

Bremer Landesbank has the right to cancel interest payments in whole or in part at its discretion, in particular (although not exclusively) if this is necessary to prevent the Common Equity Tier 1 capital ratio from falling below the minimum CET1 ratio or to comply with a condition imposed by the relevant regulatory authorities. Cancelled interest payments will not be paid retrospectively. The cancellation of an interest payment does not entitle the creditors to terminate the debt securities and does not represent an act of default on the part of Bremer Landesbank.

Bremer Landesbank may first terminate the debt securities as a whole, but not in part and subject to the prior approval of the responsible regulatory authority, no earlier than 29 June 2020 and thereafter on each interest payment date by redeeming the redemption sum plus any interest accrued by the repayment date. Conversely, a premature termination for regulatory or tax reasons is possible at any time subject to certain conditions.

The redemption and nominal amount of the bonds may be reduced by a triggering event. A triggering event is where the Common Equity Tier 1 capital ratio of Bremer Landesbank (“Common Equity Tier 1 capital ratio”) falls below 5.125 per cent (the “Minimum CET1 ratio”). The triggering event may occur at any time and the relevant Common Equity Tier 1 capital ratio is not only determined with respect to specific key dates. Once a devaluation has taken place, the nominal amount and the redemption amount of each debt security may be revalued in each of Bremer Landesbank’s financial years following the reduction up to the full amount of the original nominal amount (provided they have not been previously repaid or purchased and cancelled) if a corresponding annual surplus was available and therefore did not produce or increase an annual shortfall.

The creditors are not entitled to terminate the debt securities.

According to IAS 32, the AT1 bonds are equity instruments as these financial instruments do not include any contractual obligations to provide a different company with liquid funds (or other assets). The AT1 bonds neither have a final maturity date nor an option for the holder to redeem the debt securities prematurely. They are also interest-bearing debt securities for which Bremer Landesbank, as the issuer, has the right to cancel interest payments at its discretion and not to retrospectively pay any cancelled interest payments. The AT1 bonds do not grant voting rights or a residual claim to the net assets of Bremer Landesbank. The AT1 bonds are a special kind of financial instrument that are reported separately within equity in the item “instruments of additional regulatory Tier 1 capital”.

The accounting treatment of the payments on AT1 bonds follows the instrument’s classification as an equity instrument. Distributions to holders of equity instruments must be directly deducted from the equity instruments and not recorded in the income statement. This therefore also applies to the interest payments on the AT1 bonds.

(56) Notes on Equity

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

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

Bremer Landesbank's shareholders are as follows (due to the legal form, the shares do not have any nominal value):

	31.12.2016
NORD/LB Norddeutsche Landesbank – Girozentrale	54.8343%
Federal State of Bremen	41.2000%
Savings Banks Association of Lower Saxony	3.9657%
Total	**100%**

Effective as from 1 January 2017, all shares in Bremer Landesbank were transferred to NORD/LB. This means that Bremer Landesbank is a wholly-owned subsidiary of NORD/LB.

By contract, Bremer Landesbank's share capital is not divided into a specific number of shares or nominal amounts. Voting rights and the right to dividends are in proportion to the owners' shares in the capital.

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

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

- The first scenario represents the "going concern" view and assumes continued operations on the basis of the existing business model, even if all available risk cover funds have been depleted by risks coming to pass. This scenario is critical for an assessment of the risk-bearing capacity in accordance with MaRisk. In 2016 risks were measured using a confidence level of 95 per cent and the total economic risk potential is compared with risk capital. The risk capital is determined from the free regulatory capital in accordance with CRR at specified minimum rates (total capital and Tier 1 capital) during a bottleneck analysis and adjusted subject to a range of factors. The focus is on this first scenario.
- The second scenario is structured as a "gone concern" view (liquidation scenario) and is included as a secondary requirement. It assumes that, in the event of a fictitious liquidation (without recourse to liquidation values) creditors can be satisfied in full. The gone concern scenario includes a higher confidence level of 99.9 per cent for determining risk potential. This assumes severe events that statistically speaking only occur once every 1,000 years at this level. On the capital side, the tests include all the equity and equity-related components as well as hidden liabilities. Effects on risk capital arising during the year are also taken into account. In the event of the capital required to cover risks in the gone concern scenario being consumed, it would basically no longer be possible for the bank to continue under otherwise changed assumptions.

- In the third scenario (regulatory scenario) the risk-bearing capacity is reviewed on the basis of regulatory provisions. On the capital side, the tests include all regulatory capital components. This perspective must be complied with as a strict condition.

€ million	Risk capital 31.12.2016
Going Concern	0
Gone Concern	1,770
Regulatory capital in accordance with the COREP report	10.97%

In connection with the acquisition of all shares in BLB by NORD/LB, the two entities have concluded a controlling agreement approved by their respective owners that allows for loss compensation claims. There is also a hard letter of comfort for BLB from NORD/LB.

On 19 January 2017, an application to use a waiver in accordance with Sections 2a (1) and (2) of the German Banking Act (KWG), in conjunction with article 7 (1) CRR, was submitted to the competent supervisory authority. If approval is granted, particular supervisory requirements regarding BLB's capital base will cease to apply at individual bank level.

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

(57) Notes to the Cash Flow Statement

The cash flow statement shows the change in funds in the financial year based on the cash flows from operating, investment and financing activities.

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

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

In accordance with the recommendations of the IASB, payments from loans and advances to banks and customers, trading portfolio, liabilities to banks and customers and securitised liabilities are recognised in the cash flow from operating activities.

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

The cash flow from financing activity includes cash flows from changes in capital, interest payments on subordinated capital and dividend payments to the owners of the parent Bremer Landesbank. Cash flow from AT1 bonds issued in 2015 are included as well.

The change in other non-cash items includes in particular the change in risk provisioning to €1,011 billion (previous year: €206 million) as well as hedging and valuation effects.

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

In the reporting year 2016, interest paid totalled €645 million (previous year: €799 million).

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

Please see the comments in the risk report regarding the Bremer Landesbank Group’s liquidity risk management.

Notes on Financial Instruments

(58) Fair value hierarchy

The fair values of financial instruments are compared in the table below with carrying amounts:

€ million	Basis of measurement	31.12.2016		31.12.2015	
		Fair value	Carrying amount	Fair value	Carrying amount
Assets					
Cash reserve	Fair value	438	438	73	73
Loans and advances to banks	Amortised cost	3,864	3,701	3,628	3,480
Loans and advances to customers	Amortised cost	20,038	22,346	21,777	22,781
Finance lease receivables	Amortised cost	22	23	24	24
Risk provisioning		–	–2,074	–	–1,063
Adjustment item for financial instruments hedged in the fair value hedge portfolio	Fair value	–	62	–	49
Financial assets at fair value through profit or loss					
Trading assets	Fair value	502	502	666	666
Financial assets					
Financial assets in the AfS category	Fair value	2,775	2,775	2,919	2,910
Financial assets in the AfS category	At cost	–	–	–	9
Positive fair values from hedge accounting derivatives	Fair value	580	580	541	541
Other assets in the LaR category	Amortised cost	26	26	35	35
Total assets		**28,223**	**28,356**	**29,639**	**29,481**
Liabilities					
Liabilities to banks	Amortised cost	11,266	11,084	10,750	10,603
Liabilities to customers	Amortised cost	10,393	9,738	10,449	9,892
Liabilities from finance leases	Amortised cost	–	–	–	–
Securitised liabilities	Amortised cost	5,311	5,251	5,380	5,295
Adjustment item for financial instruments hedged in the fair value hedge portfolio	Fair value	–	240	–	212
Financial liabilities at fair value through profit or loss					
Trading liabilities	Fair value	724	724	870	870
Negative fair values from hedge accounting derivatives	Fair value	266	266	201	201
Subordinated capital	Amortised cost	550	602	574	602
Other liabilities included in the category "Other liabilities"	Amortised cost	2	2	28	28
Total liabilities		**28,512**	**27,907**	**28,252**	**27,703**
Additional classes					
Irrevocable loan commitments		97	1,855	96	1,830
Financial guarantees		–	427	–	501

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

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

The table below shows the allocation of the financial assets and liabilities recognised at fair value in accordance with the fair value hierarchy:

€ million	Level 1	Level 2	Level 3	Total
31.12.2016				
Assets				
Trading assets	**–**	**502**	**–**	**502**
Debt securities and other fixed-interest securities	–	–	–	**–**
Positive fair values from derivatives	–	502	–	**502**
Interest-rate risks	–	488	–	**488**
Currency risks	–	14	–	**14**
Credit risks	–	0	–	**0**
Positive fair values from hedge accounting derivatives	**–**	**580**	**–**	**580**
Positive fair values from micro fair value hedge derivatives	–	99	–	**99**
Positive fair values from micro fair value hedge derivatives	–	481	–	**481**
Financial assets at fair value	**1,823**	**925**	**27**	**2,775**
Debt securities and other fixed-interest securities	1,803	918	–	**2,721**
Shares and other variable-yield securities	17	–	–	**17**
Shares in non-consolidated entities	–	–	13	**13**
Other financial assets in the AfS category	–	–	14	**14**
Other assets reported at fair value	**13**	–	**–**	**13**
Total assets	**1,836**	**2,007**	**27**	**3,870**
Liabilities				
Trading liabilities	**–**	**724**	**–**	**724**
Interest-rate risks	–	495	–	**495**
Currency risks	–	228	–	**228**
Credit risks	–	1	–	**1**
Negative fair values from hedge accounting derivatives	**–**	**266**	**–**	**266**
Negative fair values from micro fair value hedge derivatives	–	16	–	**16**
Negative fair values from micro portfolio fair value hedge derivatives	–	250	–	**250**
Other liabilities reported at fair value	1	–	–	**1**
Total liabilities	**1**	**990**	**0**	**991**

€ million	Level 1	Level 2	Level 3	Total
31.12.2015				
Assets				
Trading assets	**52**	**614**	**–**	**666**
Debt securities and other fixed–interest securities	52	–	–	**52**
Positive fair values from derivatives	–	614	–	**614**
Interest–rate risks	–	593	–	**593**
Currency risks	–	20	–	**20**
Credit risks	–	1	–	**1**
Positive fair values from hedge accounting derivatives	**–**	**541**	**–**	**541**
Positive fair values from micro fair value hedge derivatives	–	131	–	**131**
Positive fair values from micro portfolio fair value hedge derivatives	–	410	–	**410**
Financial assets at fair value	**2,153**	**726**	**31**	**2,910**
Debt securities and other fixed–interest securities	2,150	726	–	**2,876**
Shares and other variable–yield securities	3	–	–	**3**
Shares in non–consolidated entities	–	–	15	**15**
Other financial assets in the AfS category	–	–	16	**16**
Other assets reported at fair value	**16**	**0**	**–**	**16**
Total assets	**2,221**	**1,881**	**31**	**4,133**
Liabilities				
Trading liabilities	**–**	**870**	–	**870**
Interest–rate risks	–	584	–	**584**
Currency risks	–	284	–	**284**
Credit risks	–	2	–	**2**
Negative fair values from hedge accounting derivatives	**–**	**201**	**–**	**201**
Negative fair values from micro fair value hedge derivatives	–	22	–	**22**
Negative fair values from micro portfolio fair value hedge derivatives	–	179	–	**179**
Other liabilities reported at fair value	1	–	–	**1**
Total liabilities	**1**	**1,071**	**0**	**1,072**

The fair values from the synthetic credit portfolio of in CDS (Level 2) amount to 0.5 per cent (previous year: 0 per cent) of the nominal amounts totalling €0.2 billion (previous year: €0.4 billion) as at 31 December 2016. The Bank intends to hold the existing synthetic credit portfolio to maturity.

Designated assets held for sale reported at fair value consist of non-recurring fair value measurements (see Note (42)).

Transfers within the fair value hierarchy break down as follows:

€ million	from Level 1 in Level 2	from Level 1 in Level 3	from Level 2 in Level 1	from Level 2 in Level 3	from Level 3 in Level 1	from Level 3 in Level 2
31.12.2016						
Trading assets	–	–	–	–	–	–
Financial assets designated at fair value	–	–	–	–	–	–
Positive fair values from hedge accounting derivatives	–	–	–	–	–	–
Financial assets at fair value						
Debt securities and other fixed-interest securities	–	–	89	–	–	–
Other assets reported at fair value	–	–	–	–	–	–
Assets	**–**	**–**	**89**	**–**	**–**	**–**
Trading liabilities	–	–	–	–	–	–
Financial liabilities designated at fair value	–	–	–	–	–	–
Negative fair values from hedge accounting derivatives	–	–	–	–	–	–
Liabilities	**–**	**–**	**–**	**–**	**–**	**–**
31.12.2015						
Trading assets	–	–	–	–	–	–
Financial assets designated at fair value	–	–	–	–	–	–
Positive fair values from hedge accounting derivatives	–	–	–	–	–	–
Financial assets at fair value						
Debt securities and other fixed-interest securities	3	–	330	–	–	–
Other assets reported at fair value	–	–	–	–	–	–
Assets	**3**	**–**	**330**	**–**	**–**	**–**
Trading liabilities	–	–	–	–	–	–
Financial liabilities designated at fair value	–	–	–	–	–	–
Negative fair values from hedge accounting derivatives	–	–	–	–	–	–
Liabilities	**–**	**–**	**–**	**–**	**–**	**–**

IFRS 13 and IDW RS HFA 47, passed in December 2013, consolidate and standardise the principles of establishing the fair value for IFRS purposes, including the criteria for allocation to the individual levels of the fair value hierarchy. For the measurement of annuity bonds on the OTC market, average prices from price-service agencies such as Bloomberg and Reuters are used. These are Level 2 input factors as defined in IFRS 13 and IDW RS HFA 47, insofar as the base data underlying these average prices reflect binding offers or observable transaction-based prices.

At the individual transaction level for financial instruments, a check of the activity status of the parameters used for the valuation is performed, as described in Note (7). The check on the balance sheet date showed that no financial assets were transferred from Level 1 to Level 2 but that financial assets in the amount of €89 million were transferred from Level 2 to Level 1.

The 2016 reporting year contained only transfers from Level 1 to Level 2 and from Level 2 to Level 1.

The time of the transfer between levels is the end of the reporting period.

Financial assets and liabilities in Level 3 of the fair value hierarchy relate to debt securities, other fixed-interest securities and credit derivatives. They changed as follows:

€ million	**Debt securities and other fixed- interest securities**	**Negative fair values from derivatives (credit derivatives)**
Opening balance 1.1.2015	**53**	**–**
P&L effect 1)	0	–
Effect of revaluation reserve	6	–
Purchases	2	–
Sales	–30	–
Redemptions	–	–
Shift up from Levels 1 and 2	–	–
Shift down to Levels 1 and 2	–	–
Shift up from at cost	–	–
Closing balance 31.12.2015	**31**	**–**
Opening balance 1.1.2016	**31**	**–**
P&L effect 1)	0	–
Effect of revaluation reserve	1	–
Purchases	–	–
Sales	–3	–
Redemptions	–2	–
Shift up from Levels 1 and 2	–	–
Shift down to Levels 1 and 2	–	–
Shift up from at cost	–	–
Closing balance 31.12.2016	**27**	**–**

1) The effects include valuation and realisation effects as well as accrued interest and are presented in the income statement in the items net interest income and financial instruments at fair value through profit or loss.

As in the previous year, the P&L effects are due in full to assets and liabilities held at the end of the reporting period. The P&L effects do not include any current profits and losses.

There were no day-one effects in the year under review.

If fair values for assets and liabilities that are not measured at fair value in the balance sheet are stated in the notes, these should be allocated to the fair value hierarchy.

€ million	**Level 1**	**Level 2**	**Level 3**	**Total**
31.12.2016				
Assets				
Cash reserve	438	–	–	**438**
Loans and advances to banks	–	–	3,864	**3,864**
Mortgage loans	–	–	–	–
Municipal loans	–	–	–	–
Loans secured by real estate	–	–	–	–
Other loans	–	–	3,301	**3,301**
Current account and forward contracts	–	–	563	**563**
Other loans and advances to banks	–	–	–	**–**
Loans and advances to customers	–	–	20,038	**20,038**
Mortgage loans	–	–	1,073	**1,073**
Municipal loans	–	–	4,799	**4,799**
Loans secured by real estate	–	–	1,767	**1,767**
Other loans	–	–	10,602	**10,602**
Current account and forward contracts	–	–	1,797	**1,797**
Other loans and advances to customers	–	–	–	**0**
Financial assets not measured at fair value	–	–	–	–
Debt securities and other fixed-interest securities	–	–	–	–
Shares in companies (not consolidated)	–	–	–	**–**
Other financial assets	–	–	–	**–**
Investment property	–	68	6	**74**
Other assets not measured at fair value	–	–	–	–
Total assets	**438**	**68**	**23,902**	**24,408**
Equity and liabilities				
Liabilities to banks	–	–	11,266	**11,266**
Liabilities to customers	–	–	10,393	**10,393**
Securitised liabilities	–	5,311	–	**5,311**
Issued debt securities	–	5,261	–	**5,261**
Commercial papers	–	–	–	–
Other securitised liabilities	–	–	–	–
Other liabilities not measured at fair value	–	–	2	**2**
Subordinated capital	–	300	250	**550**
Participation rights capital	–	–	–	–
Contributions by silent partners	–	–	–	–
Other subordinated capital	–	300	250	**550**
Total liabilities	**–**	**11,172**	**22,161**	**33,383**

Sensitivity calculation for non-observable parameters

The following material non-observable input parameters were used for the fair value measurement of financial instruments classified as Level 3.

Product (€ million)	**Fair value**	**Material non-observable input parameters used in fair value measurement**	**Range of non-observable input parameters used**	**Weighted average**
31.12.2016				
Investments	13	Discount interest rate	0-700 basis points	397 basis points
Silent participations	14	Discount interest rate	392 basis points	392 basis points

A significant input parameter for the fair value measurement of silent participations which is not observable in the market is the discount interest rate. Significant changes in the input parameter result in a significantly higher or lower fair value. In the sensitivity analysis, the credit spread was stressed in the valuation by raising and lowering it by 50 basis points in each case. Accordingly, an assumed change in the underlying parameters resulted in a change in the fair values of all silent participations in Level 3 by €0.04 million (previous year: (€1.0 million) with corresponding effects in other comprehensive income (OCI).

A significant input parameter for the fair value measurement of silent participations which is not observable in the market is the discount interest rate. Significant changes in the input parameter result in a significantly higher or lower fair value. In the sensitivity analysis, the credit spread was stressed in the valuation by raising and lowering it by 100 basis points in each case. Accordingly, an assumed change in the underlying parameters resulted in a change in the fair values of all silent participations in Level 3 by €0.16 million (previous year: (€0.2 million) with corresponding effects in other comprehensive income (OCI).

For the fair value measurement of Level 3 financial instruments, there are no relevant correlations between significant Level 3 input parameters. Consequently, there was no impact on the fair value.

If fair values for assets and liabilities that are not measured at fair value in the balance sheet are stated in the notes, these should be allocated to the fair value hierarchy. Classification is presented in the table below.

(59) Carrying Amounts by Measurement Category

	31.12.2016 € million	31.12.2015 € million	Change %
Assets			
Loans and receivables (LaR)	23,973	25,198	–5
Loans and advances to banks	3,701	3,480	6
Loans and advances to customers	22,346	22,781	–2
Risk provisioning	–2,074	–1,063	95
Other assets (only financial instruments)	0	0	–
Financial assets	0	0	–
Balancing item for financial instruments secured with portfolio fair value hedge	0	0	–
Available-for-sale assets (AfS)	2,775	2.919	–5
Financial assets	0	0	–
Financial assets held for trading (FAHfT)	502	666	–25
Financial assets designated as at fair value through profit or loss	0	0	–
Positive fair values from hedges	580	541	7
Total assets	**27,830**	**29,324**	**–5**
Liabilities			
Other liabilities (OL)	26.915	27.474	–2
Liabilities to banks	11.084	10.603	5
Liabilities to customers	9.738	9.892	–2
Securitised liabilities	5.251	5.295	–1
Balancing item for for financial instruments secured with portfolio fair value hedge	240	212	13
Subordinated capital	602	602	0
Financial assets held for trading (FAHfT)	724	870	–17
Financial Liabilities Designated at Fair Value through Profit or Loss	0	0	–
Negative fair values from hedges	266	201	32
Total liabilities and equity	**27.905**	**28.545**	**–2**

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

(60) Net income by valuation category

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

	31.12.2016 € million	31.12.2015 € million	Change %
Loans and receivables (LaR)	–1.546	–341	>100
	–1.546	–341	>100
	0	–	–
	0	0	0
Other liabilities	–17	–5	>100
	0	0	0
	–17	–5	>100
	0	0	–100
Available-for-sale assets (AfS)	3	10	–70
	2	4	–50
	1	6	–83
Financial Instruments held for trading	–1	30	>–100
Financial instruments designated as at fair value through profit or loss	0	0	–100

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

The category of financial instruments held for trading relates solely to the trading result, while the category financial instruments designated at fair value through profit or loss contains the result of the fair value option. The AfS category contains the result from financial assets of the category AfS and the result of shares in non-consolidated entities. The LaR category consists of loan loss provisions, the profit/loss from LaR financial assets and income from the disposal of loans and advances. The category other liabilities includes only earnings and expenditure from the repurchase of the bank's own liabilities.

The net/gains losses of the measurement categories financial instruments held for trading and financial instruments designated at fair value through profit or loss include the commission income of the respective transactions. They do not contain the profit/loss from hedge accounting as this is not assigned to any category.

(61) Impairments/Reversals of Impairments by Measurement Category

	31.12.2016 € million	31.12.2015 € million	Change %
Loan loss provisions			
Allocations to/reversals of provisions from financial guarantees	–	–1	–100
Allocations to/reversals of other provisions in lending business	–	1	–100
Total loan loss provisions	**–**	**–**	**–**
Available-for-sale assets (AfS)			
Profit/loss from impairment of financial assets	0	–	>100
Write-downs of shares in non-consolidated entities	1	–	>100
Write-downs/write-ups of other assets	–	–	–
Total available-for-sale assets	**1**	**–**	**>100**
Loans and receivables (LaR)			
Impairment profit/loss from			
specific allowances in lending business	–	–	–
Loans and advances to banks	–	–	–
Loans and advances to customers	1,404	362	>100
Profit/loss from general valuation allowances in in lending business	–50	–55	–9
Adjustment	0	0	0
	–50	–55	–9
	0	0	–100
Profit/loss from direct write-offs of loans and advances/additions to receivables written off	192	34	>100
Total loans and receivables[1)]	**1,546**	**341**	**>100**
Total	**1,547**	**341**	**>100**

1) Not including unwinding effects.

The result from the valuation of LaRs is stated under loan loss provisions. Changes in value for available-for-sale assets are reported in the profit/loss from financial assets and the measurement gains on other assets are recognised in other operating income.

(62) Offsetting of Financial Assets and Liabilities

The effects or potential effects of claims of offsetting in the context of financial assets and liabilities can be found in the table below.

€ million	Gross amount before netting	Amount of reported netting	Amount after netting	Master netting arrangements and the like, not including reported netting: Financial instruments	Collateral: Cash securities	Net amount
31.12.2016						
Assets						
Netting of current accounts	4,222	–4,142	80	-	-	**80**
Derivatives	913	–4	909	–710	–190	**9**
Equity and liabilities						
Netting of current accounts	4,275	–4,142	133	–	–	**133**
Derivatives	985	-4	981	–710	–261	**10**
31.12.2015						
Assets						
Netting of current accounts	2,830	–2,718	112	-	-	**112**
Derivatives	963	–	963	–764	–183	**16**
Equity and liabilities						
Netting of current accounts	2,906	–2,718	188	-	–	**188**
Derivatives	1,052	–	1,052	–764	–266	**22**

In the netting of current accounts at the Bremer Landesbank Group, untied liabilities to account holders that are payable on demand are offset against any existing receivables from the same account holder that are payable on demand in accordance with Section 10 of the German Accounting Regulation for Credit and Financial Services Institutions (RechKredV). This applies if there is an agreement with the account holder regarding interest and commission calculation that the account holder will be placed in the same position as if everything was posted via an individual account. The netting takes place in accordance with IAS 32.42. Receivables and liabilities in different currencies are not offset.

The derivative financial instrument business is usually performed on the basis of bilateral master agreements entered into with the counterparty. These merely provide limited rights for offsetting receivables, liabilities and collateral granted and received e.g. in the event of a breach of contract or in the case of insolvency. There is consequently no current right of offset in accordance with IAS 32.42.

(63) Maximum Default Risk and Available Collateral

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

€ million	Carrying amount before risk provisioning	Risk provisioning	Maximum default risk	Fair value of available collateral
31.12.2016				
Loans and advances to banks	3,701	–	3,701	–
Loans and advances to customers	22,346	2,074	20,272	3,425
Irrevocable loan commitments	1,855	0	0	81
Financial guarantees	427	8	419	57
Total	**28,329**	**2,082**	**24,392**	**3,563**
31.12.2015				
Loans and advances to banks	3,480	-	3,480	-
Loans and advances to customers	22,781	1,063	21,718	5,512
Irrevocable loan commitments	1,830	0	1,830	52
Financial guarantees	501	8	493	82
Total	**28,592**	**1,071**	**27,521**	**5,646**

The available collateral breaks down as follows:

€ million	Commercial property	Guarantees	Other physical collateral	Other collateral	Total
31.12.2016					
Loans and advances to customers	763	1,149	569	944	**3,425**
Irrevocable loan commitments	35	4	3	39	**81**
Financial guarantees	31	5	10	11	**57**
Total	**829**	**1,158**	**582**	**994**	**3,563**
31.12.2015					
Loans and advances to customers	1,052	1,428	2,060	972	**5,512**
Irrevocable loan commitments	23	2	18	9	**52**
Financial guarantees	16	44	9	13	**82**
Total	**1,091**	**1,474**	**2,087**	**994**	**5,646**

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

(64) Derivative financial instruments

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

Derivative financial instruments in foreign currencies are concluded primarily as forward exchange contracts, currency swaps, cross-currency interest-rate swaps and currency options. Interest-rate derivatives are mainly interest-rate swaps, forward rate agreements and interest-rate futures and options; in a few cases, forward contracts for fixed-interest securities are also entered into. Share derivative agreements are mainly concluded as share options and share index futures. There are also credit derivatives (CDS).

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

Derivative financial instruments break down as follows:

€ million	Nominal values 31.12.2016	Nominal values 31.12.2015	Positive fair values 31.12.2016	Positive fair values 31.12.2015	Negative fair values 31.12.2016	Negative fair values 31.12.2015
Interest-rate risks	**26,864**	**32,452**	**1,073**	**1,135**	**767**	**784**
Interest-rate swap	24,301	28,839	1,062	1,119	723	751
FRAs	1,250	1,800	0	0	–	0
Swaption	512	565	0	3	33	20
Purchases	0	149	0	3	–	–
Sales	512	416	–	–	33	20
Caps, floors	711	1,188	11	13	11	13
Stock exchange contracts	0	–	–	–	0	–
Other forward interest rate transactions	90	60	–	0	–	–
Foreign exchange risks	**3,668**	**4,437**	**14**	**20**	**228**	**285**
Currency futures	1,464	223	9	12	12	17
Currency swaps/cross-currency interest-rate swaps	2,188	4,206	5	7	216	268
Currency options	16	8	0	1	0	0
Purchases	11	5	0	1	–	–
Sales	5	3	–	–	0	0
Other exchange contracts	–	–	–	–	–	–
Credit derivatives	**185**	**405**	**0**	**1**	**1**	**2**
Protection buyer	70	150	0	1	0	0
Protection seller	115	255	0	0	1	2
Total	**30,717**	**37,294**	**1,087**	**1,156**	**996**	**1,071**

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

	Interest rate risks		Foreign exchange risks		Credit derivatives	
€ million	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Remaining terms						
Up to 3 months	4,270	4,501	1,426	1,559	20	20
3 months to 1 year	3,025	6,534	403	736	105	200
1 year to 5 years	11,332	12,741	1,317	1,512	60	185
More than 5 years	8,237	8,676	522	630	–	–
Total	**26,864**	**32,452**	**3,668**	**4,437**	**185**	**405**

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

€ million	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
31.12.2016						
Negative fair values from trading derivatives	11	32	59	293	334	**729**
negative fair values from hedge accounting derivatives	0	0	9	62	196	**267**
Total	**11**	**32**	**68**	**355**	**530**	**996**
31.12.2015						
Negative fair values from trading derivatives	22	8	126	410	304	**870**
Negative fair values from hedge accounting derivatives	0	0	3	51	147	**201**
Total	**22**	**8**	**129**	**461**	**451**	**1,071**

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

	Nominal values		Positive fair values		Negative fair values	
€ million	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Banks in the OECD (incl. stock exchange contracts)	28,107	34,002	948	1,002	983	1,063
Public institutions in the OECD	85	14	7	1	1	0
Other counterparties	2,525	3,278	132	153	12	8
Total	**30,717**	**37,294**	**1,087**	**1,156**	**996**	**1,071**

(65) Concessions due to Financial Difficulties

Financial assets can be restructured or the contractual terms modified for various reasons, including a change in the market conditions, customer loyalty and other factors that are not connected with the current or expected financial difficulties of customers.

The Group restructures or modifies the contractual conditions of financial assets in order to facilitate the ongoing servicing of the debt in full or in part by the debtor despite the current or expected financial difficulties. These concessions are made when it can be assumed that the debtor can meet the modified contractual conditions.

In the case of concessions, the Group agrees to contractual conditions which are more advantageous for the debtor than before and which it would not have granted to comparable customers.

The adjustment in the contractual conditions includes the extensions of maturities, changes in payment deadlines for interest and principal payments as well as adjustments of the covenants.

The financial assets with concessions are broken down as follows:

€ million	Gross carrying amounts of financial assets with concessions		Cumulative valuation allowances	
	Performing Exposure	Non-performing exposure	for non-performing exposure	for non-performing exposure
31.12.2016				
Financial assets measured at amortised cost				
Securities	**–**	**–**	**–**	**–**
Receivables				
Central banks	–	–	–	–
Public sector	–	–	–	–
Banks	–	–	–	–
Other financial companies	0	0	–	–
Non-financial companies	1.240	3.038	–	1.205
Households	37	4	–	1
Total receivables	**1.277**	**3.042**	**–**	**1.206**
Total financial assets measured at amortised cost	**1.277**	**3.042**	**–**	**1.206**
Assets not including trading assets				
Securities	**–**	**–**	**–**	**–**
Receivables	**–**	**–**	**–**	**–**
Total financial assets at fair value through profit or loss not including trading assets	**–**	**–**	**–**	**–**
Loan commitments granted	**18**	**17**	**–**	**–**
31.12.2015				
Financial assets measured at amortised cost				
Securities	**–**	**–**	**–**	**–**
Receivables				
Central banks	–	–	–	–
Public sector	–	–	–	–
Banks	–	–	–	–
Other financial companies	0	2	–	0
Non-financial companies	1.712	2.809	3	703
Households	28	5	–	1
Total receivables	**1.740**	**2.816**	**3**	**704**
Total financial assets measured at amortised cost	**1.740**	**2.816**	**3**	**704**
Financial assets at fair value through profit or loss, not including trading assets				
Securities	**–**	**–**	**–**	**–**
Receivables	**–**	**–**	**–**	**–**
Total financial assets at fair value through profit or loss, not including trading assets	**–**	**–**	**–**	**–**
Loan commitments granted	**15**	**7**	**–**	**–**

(66) Disclosures Concerning Selected Countries

The table below shows the reported values of financial assets with counterparties in selected countries. The sovereign exposure figures refer to transactions with the state in question, regional governments, local authorities and companies close to the state.

€ million	Financial instruments held for trading (FAHfT)		Available for Sale Assets		Loans and receivables (LaR)	
	2015	2016	2015	2015	2016	2015
Portugal						
Sovereign exposure	–	–	–	–	–	–
Financial institutions/Insurance companies	–1	–	–	–	–	–
Corporates/Other	–	–	–	–	–	–
Total Portugal	**–1**	**–**	**–**	**–**	**–**	**–**
Italy						
Sovereign exposure	–	–	–	–	–	–
Financial institutions/Insurance companies	–	–	–	–	–	0
Corporates/Other	–	–	–	–	0	0
Total Italy	**–**	**–**	**–**	**–**	**0**	**0**
Ireland						
Sovereign exposure	–	–	–	–	–	–
Financial institutions/Insurance companies	0	–	–	–	0	0
Corporates/Other	0	0	–	–	17	19
Total Ireland	**0**	**0**	**–**	**–**	**17**	**19**
Greece						
Sovereign exposure	–	–	–	–	–	–
Financial institutions/Insurance companies	–	–	–	–	–	–
Corporates/Other	–	–	–	–	0	0
Total Greece	**–**	**–**	**–**	**–**	**0**	**0**
Spain						
Sovereign exposure	–	–	–	–	–	–
Financial institutions/Insurance companies	–2	3	–	15	2	4
Corporates/Other	–	–	–	–	–	–
Total Spain	**–2**	**3**	**–**	**15**	**2**	**4**
Cyprus						
Sovereign exposure	–	–	–	–	–	–
Financial institutions/Insurance companies	–	–	–	–	–	–
Corporates/Other	–	–	–	–	352	392
Total Cyprus	**–**	**–**	**–**	**–**	**352**	**392**
Hungary						
Sovereign exposure	–	–	–	–	–	–
Financial institutions/Insurance companies	–	–	–	–	1	1
Corporates/Other	–	–	–	–	10	15
Total Hungary	**–**	**–**	**–**	**–**	**11**	**16**
Total	**–3**	**3**	**–**	**15**	**382**	**431**

For financial instruments in the available-for-sale category with acquisition costs totalling €0 million (previous year: €15 million), the cumulative valuation result in other comprehensive income with regard to the above-mentioned selected countries comes to €0 million (previous year: €0 million). As in the previous year, no impairment losses were charged to the consolidated income statement.

As in the previous year, no notable specific or general valuation allowances were made for loans and receivables in relation to the above countries. The fair value of the exposure in the loans and receivables category amounts to €196 million (previous year: €231 million).

In 2016, Bremer Landesbank did not have any exposures of noteworthy magnitude in Portugal, Slovenia, Egypt or Russia.

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

€ million	Nominal values protection buyer 2016	2015	Fair values protection buyer 2016	2015	Nominal values protection seller 2016	2015	Fair values protection seller 2016	2015
Portugal								
Sovereign exposure	–	–	–	–	–	–	–	–
Financial institutions/Insurance companies	–	–	–	–	15	15	–1	–1
Corporates/Other	–	–	–	–	–	–	–	–
Total Portugal	**–**	**–**	**–**	**–**	**15**	**15**	**–1**	**–1**
Italy								
Sovereign exposure	–	–	–	–	–	–	–	–
Financial institutions/Insurance companies	–	60	–	1	–	80	–	–1
Corporates/Other	–	–	–	–	–	–	–	–
Total Italy	**–**	**60**	**–**	**1**	**–**	**80**	**–**	**–1**
Ireland								
Sovereign exposure	–	–	–	–	–	–	–	–
Financial institutions/Insurance companies	–	–	–	–	10	10	0	0
Corporates/Other	–	–	–	–	–	–	–	–
Total Ireland	**–**	**–**	**–**	**–**	**10**	**10**	**0**	**0**
Greece								
Sovereign exposure	–	–	–	–	–	–	–	–
Financial institutions/Insurance companies	–	–	–	–	–	–	–	–
Corporates/Other	–	–	–	–	–	–	–	–
Total Greece	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Spain								
Sovereign exposure	–	–	–	–	–	–	–	–
Financial institutions/Insurance companies	–	–	–	–	20	20	0	0
Corporates/Other	–	–	–	–	–	–	–	–
Total Spain	**–**	**–**	**–**	**–**	**20**	**20**	**0**	**0**
Cyprus								
Sovereign exposure	–	–	–	–	–	–	–	–
Financial institutions/Insurance companies	–	–	–	–	–	–	–	–
Corporates/Other	–	–	–	–	–	–	–	–
Total Cyprus	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**60**	**–**	**1**	**45**	**125**	**–1**	**–2**

The table below shows the application of the fair value hierarchy for the financial assets and credit derivatives recognised at fair value for selected countries

	Level 1		Level 2		Level 3		Total	
€ million	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Portugal								
Sovereign exposure	–	–	–	–	–	–	**–**	**–**
Financial institutions/Insurance companies	–	–	–1	–1	–	–	**–1**	**–1**
Corporates/Other	–	–	–	–	–	–	**–**	**–**
Total Portugal	**–**	**–**	**–1**	**–1**	**–**	**–**	**–1**	**–1**
Italy								
Sovereign exposure	–	–	–	–	–	–	**–**	**–**
Financial institutions/Insurance companies	–	–	**–**	0	–	–	**–**	**–**
Corporates/Other	–	–	–	–	–	–	**–**	**–**
Total Italy	**–**	**–**	**–**	**0**	**–**	**–**	**–**	**–**
Ireland								
Sovereign exposure	–	–	–	–	–	–	**–**	**–**
Financial institutions/Insurance companies	–	–	0	–	–	–	**–**	**–**
Corporates/Other	–	–	–	–	–	–	**–**	**–**
Total Ireland	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Greece								
Sovereign exposure	–	–	–	–	–	–	**–**	**–**
Financial institutions/Insurance companies	–	–	–	–	–	–	**–**	**–**
Corporates/Other	–	–	–	–	–	–	**–**	**–**
Total Greece	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Spain								
Sovereign exposure	–	–	–	–	–	–	**–**	**–**
Financial institutions/Insurance companies	–	–	–2	12	–	–	**–2**	**12**
Corporates/Other	–	–	–	–	–	–	**–**	**–**
Total Spain	**–**	**–**	**–2**	**12**	**–**	**–**	**–2**	**12**
Cyprus								
Sovereign exposure	–	–	–	–	–	–	**–**	**–**
Financial institutions/Insurance companies	–	–	–	–	–	–	**–**	**–**
Corporates/Other	–	–	–	–	–	–	**–**	**–**
Total Cyprus	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**–3**	**11**	**–**	**–**	**–3**	**11**

(67) Underlying Contracts in Effective Hedges

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

Financial assets and liabilities used as underlying transactions in micro fair value hedges are still reported together with unhedged transactions in the respective balance sheet items since the hedging transaction has no effect on the nature and function of the underlying transaction. However, the carrying amount of financial instruments (OL category) which would otherwise be recognised at amortised cost is adjusted by the change in fair value attributable to the hedged risk.

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

	31.12.2016 € million	31.12.2015 € million	Change %
Assets			
Financial assets	193	213	–9
Total	**193**	**213**	**–9**
Liabilities			
Liabilities to banks	31	33	–6
Liabilities to customers	442	519	–15
Securitised liabilities	615	831	–26
Subordinated capital	0	0	–
Total	**1,088**	**1.383**	**–21**

Apart from the underlying transactions included in micro fair value hedges, fixed-income underlying transactions were also designated as portfolio fair value hedges. As at the balance sheet date, cash flows from financial assets available for sale totalling €1,605 million (previous year: €1,299 million) were designated as a fair value hedge portfolio. As at the balance sheet date, cash flows from liabilities in the other liabilities category (liabilities to banks and customers, securitised liabilities and subordinated capital) were designated in an amount of €5,029 million (previous year: €4,099 million).

(68) Residual Maturities of Financial Liabilities

€ million	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
31.12.2016						
Liabilities to banks	–1,161	–317	–1,564	–3,798	–5,161	**–12,001**
Liabilities to customers	–3,723	–343	–1,473	–1,814	–3,659	**–11,012**
Securitised liabilities	–75	–196	–912	–3,352	–888	**-5,423**
Financial liabilities at fair value through profit or loss (not including derivatives)	0	0	0	0	0	**0**
Subordinated capital	0	–1	–8	–40	–722	**–771**
Other liabilities (only financial instruments)	–2	–1	0	0	0	**–3**
Irrevocable loan commitments	–14	–7	–43	–248	–1,550	**–1,862**
Financial guarantees	–1,181	0	–4	–25	0	**–1,210**
Total	**–6,156**	**–865**	**–4,004**	**–9,277**	**–11,980**	**–32,282**
31.12.2015						
Liabilities to banks	–1,303	–630	–1,578	–3,912	–3,879	**–11,302**
Liabilities to customers	–3,805	–438	–1,673	–1,688	–3,308	**–10,912**
Securitised liabilities	–247	–117	–463	–3,570	–1,120	**–5,517**
Financial liabilities at fair value through profit or loss (not including derivatives)	0	0	0	0	0	**0**
Subordinated capital	0	0	–1	–11	–697	**–709**
Other liabilities (only financial instruments)	0	–1	0	0	0	**–1**
Irrevocable loan commitments	–9	–13	–18	–1,632	–161	**–1,833**
Financial guarantees	–1,106	0	–4	–26	–116	**–1,252**
Total	**–6,470**	**–1,199**	**–3,737**	**–10,839**	**–9,281**	**–31,526**

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

(69) Disclosures Concerning the Fair Value Option

The Bremer Landesbank Group applies the fair value option in order to avoid accounting mismatches. The fair value option was not used in the reporting year.

(70) The Bremer Landesbank Group as a Protection Seller and Protection Buyer

The following assets were transferred as collateral for obligations (carrying amounts):

€ million	31.12.2016	31.12.2015
Assets		
Loans and advances to banks	201	190
Loans and advances to customers	7,322	6,617
Financial assets	282	1,734
Other assets	–	–
Total	**7,805**	**8,541**
Liabilities		
Liabilities to banks	297	264
Total	**297**	**264**

Transactions were conducted in accordance with standard terms for loan transactions.

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

(71) Genuine Securities Sale and Repurchase Agreements

Material risks and rewards incidental to the financial assets sold under sale and repurchase agreements are borne by the pledgor. The securities are therefore not derecognised and continue to be accounted for by the Bremer Landesbank Group. The rules for the securities subject to repo agreements are documented in contracts with Eurex Repo GmbH and Eurex Clearing AG as a central counterparty within the framework of the GC pooling.

As at the balance-sheet dates 31 December 2016 and 31 December 2015, there was no portfolio of genuine securities sale and repurchase agreements.

Other Notes

(72) Equity Management

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

- the "long-term equity under commercial law", taken from the equity reported on the balance sheet, as a metric for the measurement of the return on equity,
- the regulatory Common Equity Tier 1 in accordance with the EU Capital Requirements Regulation for banks and securities firms (Regulation No. 575/2013, in effect since the beginning of 2014), including consideration of the transition rules planned in this through the end of 2017,
- the calculated Common Equity Tier 1 in accordance with the CRR without consideration of the transition rules,
- the regulatory Tier 1 capital in accordance with the CRR, and
- the eligible regulatory capital in accordance with the CRR.

The regulatory capital metrics are subject to statutory minimum capital ratios where the numerator is the respective amount of capital and the denominator in each case is the total claim amount in accordance with article 92 para. 3 of the CRR. The minimum capital ratios in 2016 in accordance with the CRR were 4.5 per cent for the regulatory Common Equity Tier 1, 6.0 per cent for the regulatory Tier 1 capital and 8.0 per cent for the regulatory equity.

The key tasks of equity management in the reporting year 2016 lay in the further optimisation of the equity structure and in the ongoing control of capital with the aim of maintaining at all times the regulatory minimum capital ratios expected by the EBA.

The requirements of equity management will continue to increase in the future, driven by both the rules of the CRR and the regulatory special requirements (e.g. stress tests). The main ratio for regulatory and internal Group control will be Common Equity Tier 1 in accordance with the CRR. To strengthen this, the Group's equity structure will also continue to be optimised in the future.

In addition to this, within the scope of capital management, targets and forecasts are prepared for the relevant capital figures and the related capital ratios as required. Their actual and planned development is reported to management, the supervisory bodies, the owners of the bank and/or the EBA.

If these calculations indicate any risk for the defined target capital ratios, either alternative or cumulative adjustment steps will be taken for the RWA or - in agreement with the Bank's guarantors - procurement or optimisation measures will be taken for individual capital figures.

In 2015 and 2016, the Bank maintained the regulatory minimum capital ratios at all times. The Common Equity Tier 1 capital ratio (taking into account the transition rules), the regulatory Tier 1 capital ratio and the regulatory total capital ratio at the end of the year are reported under Note (73) Regulatory Data. The Common Equity Tier 1 capital ratio in accordance with the CRR, not taking into account the transition rules, was above the minimum ratio expected by the EBA during the year under review.

(73) Regulatory Data

The following regulatory Group data for the reporting date was determined in accordance with the rules of the EU Capital Requirements Regulation (CRR) that has been in force since 1 January 2015.

€ million	31.12.2016	31.12.2015
Risk-weighted assets for		
counterparty default risks	10,280	12,714
operational risks	848	881
market risks	140	148
clearing risks	-	-
credit rating adjustments	93	72
Total risk-weighted assets	**11,361**	**13,815**

Only in connection with the ad hoc announcement on 9.3.2017 was there a shortfall in the core capital ratio. A capital increase was carried out by NORD/LB. Further stabilisation measures are currently at the preparation stage.

The table below shows the composition of regulatory capital for the Bank in accordance with Art. 25 ff of the CRR:

€ million	31.12.2016	31.12.2015
Subscribed capital	265	265
Retained profits/earnings	–826	600
Premium	478	478
Components of Common Equity Tier 1 on account of grandfathering rights + Section 340g of the German Commercial Code fund for general banking risks	596	589
- Deductions	–75	–845
Adjustments on account of the transition rules	600	505
Adjustment item to prevent negative additional Tier 1 capital	–437	–105
Common Equity Tier 1 capital	**601**	**1,487**
Paid-in instruments of additional Tier 1 capital	150	150
- Deductions	–	–
Adjustments on account of the transition rules	–587	–255
Adjustment item to prevent negative additional Tier 1 capital	437	105
Additional Tier 1 capital	**–**	**–**
Total Tier 1	**601**	**1,487**
Paid-in instruments of Tier 2 capital	600	600
Components of Tier 2 capital due to grandfathering rights	–	–
General credit-risk adjustments as per standard approach	57	–
General credit-risk adjustments per standard approach	–	1
- Deductions	–	–
Adjustments on account of the transition rules	–12	–249
Supplementary capital	**645**	**352**
Equity	**1,246**	**1,839**

in %	31.12.2016	31.12.2015
Common Equity Tier 1 capital ratio	5.29%	10.76%
Core capital ratio	5.29%	10.76%
Total capital ratio	10.97%	13.31%

(74) Foreign Currency Volumes

As at December 31 2016, the Bremer Landesbank Group reports the following assets and liabilities in foreign currencies:

€ million	USD	GBP	JPY	Other	Total
31.12.2016					
Cash reserve	–	–	–	–	**–**
Loans and advances to banks	11	10	1	17	**39**
Loans and advances to customers	4,716	33	1	101	**4,851**
Financial assets at fair value through profit or loss	405	10	2	49	**466**
Financial assets	0	–	–	0	**0**
Total assets	**5,132**	**53**	**4**	**167**	**5,356**
Liabilities to banks	500	2	0	12	**514**
Liabilities to customers	365	6	0	15	**386**
Securitised liabilities	–	–	–	–	**–**
Financial liabilities at fair value through profit or loss	3,232	45	3	143	**3,423**
Total liabilities	**4,097**	**53**	**3**	**170**	**4,323**
31.12.2015					
Cash reserve	–	–	–	–	**–**
Loans and advances to banks	31	11	1	23	**66**
Loans and advances to customers	5,051	64	6	117	**5,238**
Financial assets at fair value	263	5	4	51	**323**
Financial assets	–	–	–	7	**7**
Total assets	**5,345**	**80**	**11**	**198**	**5,634**
Liabilities to banks	193	45	0	11	**249**
Liabilities to customers	588	2	0	14	**604**
Securitised liabilities	–	–	8	–	**8**
Financial liabilities at fair value	4,109	42	3	163	**4,317**
Total liabilities	**4,890**	**89**	**11**	**188**	**5,178**

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

(75) Long-term Assets and Liabilities

For balance sheet times that contain both short-term and long-term assets or liabilities, the assets and liabilities that will be realised or settled after more than twelve months are shown below.

	31.12.2016 € million	31.12.2015 € million	Change %
Assets			
Loans and advances to banks	2,882	2,816	2
Loans and advances to customers	16,726	17,316	–3
Adjustment item for financial instruments included in the portfolio fair value hedge	0	0	–
Financial assets at fair value through profit or loss			
Trading assets	428	52	100
Financial assets designated at fair value	0	0	–
Positive fair values from hedge accounting derivatives	503	480	5
Available-for-sale (AfS) financial assets	2,380	2,164	10
Investments accounted for using the equity method	0	0	–
Total	**22,919**	**22,828**	**0**
Liabilities			
Liabilities to banks	8,151	7,347	11
Liabilities to customers	4,268	3,974	7
Securitised liabilities	4,096	4,434	–8
Adjustment item for financial instruments included in the portfolio fair value hedge	0	0	–
Financial liabilities at fair value through profit or loss			
Trading liabilities	573	525	9
Negative fair values from hedge accounting derivatives	234	181	29
Subordinated capital	600	599	0
Total	**17,922**	**17,060**	**5**

(76) Leasing

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

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

	31.12.2016 € million	31.12.2015 € million	Change %
Outstanding lease payments	**18**	**19**	**–5**
+ Guaranteed residual values	5	7	–29
= Minimum lease payments	**23**	**26**	**–12**
+ Unguaranteed residual values	–	–	–
= Gross investment	**23**	**26**	**–12**
- Unearned finance income	1	2	–50
= Net investment	**22**	**24**	**–8**
- Present value of unguaranteed residual values	–	–	–
= Present value of minimum lease payments	**22**	**24**	**–8**

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

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

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

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

	31.12.2016 € million	31.12.2015 € million	Change %
Gross investments			
up to 1 year	7	6	17
1 to 5 years	15	19	–21
more than 5 years	1	1	0
Total	**23**	**26**	**–12**
Present value of minimum lease payments			
up to 1 year	6	5	20
1 to 5 years	15	18	–17
more than 5 years	1	1	0
Total	**22**	**24**	**–8**

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

Since October 2011 there has been a lease pertaining to a warehouse that is extended annually following a basic rental period of 4 years. Each contracting party is entitled to terminate the contractual relationship in written form in accordance with a defined notice period. Furthermore, a large photocopier has been leased for a five-year contractual period as from August 2016. The contract does not include extension and purchase options or restrictions as defined by IAS 17.35d(iii). There have also been two lease contracts for floor space in connection with computing centre services since October 2010. A lease contract has a fixed term of 10 years. The contract in question is extended annually, with both sides being entitled to terminate the contractual relationship in written form within the scope of a contractually defined notice period. The other lease had a fixed term of around 8.5 years. The lease can be extended for two or five further years on up to two occasions

Future minimum lease payments from operating lease agreements entered into by the Bremer Landesbank Group break down as follows

	31.12.2016 € million	31.12.2015 € million	Change %
future minimum lease payments			
up to 1 year	0	0	0
longer than 1 year and up to 5 years	2	2	0
longer than 5 years	3	3	0
Total	**5**	**5**	**0**

Within the scope of operating leases, minimum lease payments amounting to €0.5 million (previous year: €0.4 million) were posted to expenses in 2016.

(77) Contingent Liabilities and Other Obligations

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

	31.12.2016 € million	31.12.2015 € million	Change %
Contingent liabilities			
Contingent liabilities on bills rediscounted and settled	–	–	–
Guarantees	783	751	4
Liability from the provision of collateral for third-party liabilities	–	–	–
Other contingent liabilities	–	–	–
Other obligations			
Placement and underwriting commitments	–	–	–
Irrevocable loan commitments	1,855	1,830	1
Financial guarantees	427	501	–15
Total	**3,065**	**3,082**	**–1**

Of the total amount, no contingent liabilities (previous year: €0 million) relate to associates.

(78) Other financial obligations

The following significant other financial obligations exist:

- The assessment of the contribution for the security reserve for landesbanks and girobanks was changed in the context of the recognition of the security reserve as a bank-related security system under CRR and the assumption of the deposit guarantee role under EinSiG. In addition to contributions already made, there are obligations to make additional contributions in the amount of €55 million (previous year-end: €70 million). These additional contributions can be called in when support is required.
- In connection with the redemption of shares in FinanzIT GmbH, Hanover, the withdrawing shareholders NORD/LB, Bremer Landesbank and Landesbank Saar have undertaken to cover the company’s risks from the period up to their withdrawal jointly with the remaining FinanzIT shareholders, provided that these risks actually apply and are not covered by provisions already established.
- Notwithstanding the disposal of the investment in DekaBank Deutsche Girozentrale, Frankfurt am Main, held indirectly through GLB GmbH & Co. OHG, Frankfurt am Main, and the related reduction in the capital of GLB GmbH & Co. OHG, Bremer Landesbank, as a guarantor, is still jointly liable with the other owners for certain liabilities of DekaBank Deutsche Girozentrale.
- As had been the case in the previous year, there were no securities deposited as collateral for transactions on forward markets. Instead, cash security totalling €8 million was deposited at Eurex Deutschland, Frankfurt am Main (previous year: €15 million).
- In accordance with Section 12 para. 5 of the German Restructuring Fund Act (Restrukturierungs-fondsgesetz, RStruktFG), 30 per cent of the annual contribution for the EU bank levy set in accordance with Section 12 para. 2, Section 12b and Section 12g of the RStruktFG was made from an irrevocable payment obligation of €3 million. Bremer Landesbank covered this payment obligation in full by providing cash security. For the contribution year 2016, no use was made of this option and the annual contribution was made in full.
- In 2015, to relieve the pressure on equity, Bremer Landesbank had securitised credit claims from a portfolio consisting of the asset classes Renewable Energies, Corporate Customers, Social Welfare Facilities, commercial real estate and ships in the aggregate amount of €2,060 million. By way of a guarantee agreement, the mezzanine tranche’s default risk was transferred (initially in the amount of €106 million) to an external party. Losses incurred by a first-loss tranche are borne by Bremer Landesbank itself. As at the reporting date 31.12.2016, the specific and portfolio allowances that were formed did not exceed the first-loss tranche’s deductible. Bremer Landesbank is setting up an annual premium for the outstanding mezzanine tranche that will be shown as commission expenses. In the year under review, a premium totalling €11 million was reported. The guarantee’s remaining contractual period is 11 years. Fee payments in the amount of €11 million are expected for the following year.
- In the year under review, to relieve the pressure on regulatory capital, Bremer Landesbank carried out a further synthetic securitisation transaction. The current transaction is based on a

credit portfolio consisting of the asset classes Renewable Energies, Corporate Customers, Social Welfare Facilities, commercial real estate and Leasing in the aggregate amount of €3,420 million. In order to transfer the default risk from the first-loss a guarantee agreement was concluded effective as from 30 June 2016 with a private institutional guarantor. the mezzanine tranche's default risk was transferred (initially in the amount of €94 million) to an external party. Bremer Landesbank is setting up an annual premium for the first-loss tranche, which will be shown as commission expenses. In the year under review, a premium totalling €6 million was reported. The guarantee's remaining contractual period is 11 years. Fee payments in the amount of €12 million are expected for the following year.

- As long as the respective guarantee cannot yet be utilised by way of calculated losses that exceed the deductible to be borne by Bremer Landesbank in each case, there is no activatable claim for compensation vis-à-vis the respective guarantor. Against this backdrop, the Group reduces the guarantees' securing effect in a net balancing calculation. This means that the Group ascertains valuation allowances on the credit claims, initially without taking account of the respective guarantees' security effects. If the valuation allowances exceed the Group's respective deductible, the security effect is taken into account in the valuation of the credit claims. Portfolio valuation allowances were formed to an insignificant extent for the credit portfolio that was securitised in the year under review.

(79) Subordinated Assets

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

	31.12.2016 € million	31.12.2015 € million	Change %
Financial assets	10	10	0
Total	**10**	**10**	**0**

(80) Trust Activities

Trust activities are, in accordance with the rules of IFRS, not reported in the consolidated balance sheet but are present in the Group. Trust activities break down as follows:

	31.12.2016 € million	31.12.2015 € million	Change %
Loans and advances to customers	1	2	–50
Trust assets	**1**	**2**	**–50**
Liabilities to banks	1	2	–50
Liabilities to customers	0	0	0
Trust liabilities	**1**	**2**	**–50**

Companies and Individuals Linked to the Group

(81) Number of Employees

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

	2016			2015		
	Male	Female	Total	Male	Female	Total
Bremer Landesbank Anstalt des öffentlichen Rechts[1)]	522	492	**1,014**	529	514	**1,043**
Other	34	21	**55**	34	21	**55**
Group[2)]	**556**	**513**	**1,069**	**563**	**535**	**1,098**

1) The male headcount includes the members of the Management Board
2) In the financial year 2015, investments accounted for using the equity method had a headcount of 178 (financial year 2014: 175). No figures are currently available for 2016.

Breakdown of headcount by levels of authority:

	2016	2015
Management Board	4	4
Executives	108	110
Other	957	984
Total	**1,069**	**1,098**

(82) Disclosures Concerning Shares in Companies

Bremer Landesbank's evaluation as to whether it controls loan-financed project companies that are having financial difficulties due to the ongoing difficult situation on the shipping markets, and therefore must be included in the consolidated financial statements as subsidiaries, constitutes a significant discretionary decision. Bremer Landesbank controls another company when it is exposed to variable returns from its connection to this company and has the ability to influence these returns by means of decision-making power over the company in question. Since Bremer Landesbank is exposed to variable returns at all times due to its lending relationships with companies, the question of whether it controls another company is determined by whether it has the power of determination over that company on the basis of its rights in the loan agreement and whether the shareholders assume the position of principal or merely of agents of Bremer Landesbank. Bremer Landesbank assesses the latter on the basis of the following three factors: (1) Type and scope of the shareholders' participation in the opportunities and risks of the company, (2) scope of the decision-making power and (3) the Bank's termination rights.

Consolidated subsidiaries

Statutory, contractual or regulatory limitations can restrict the ability of the Bremer Landesbank Group to gain access to the assets of the Group or to prevent them from being transferred between the Group companies unimpeded and from settling the Group's liabilities.

As at the reporting date, the Group provided assets as security for liabilities from over the-counter derivative transactions. The resulting limitation on disposal concerns the following items in the consolidated financial statements of Bremer Landesbank:

€ million	31.12.2016	31.12.2015
Assets		
Liabilities to banks	297	264
Total	**297**	**264**

The above table does not include the regulatory minimum liquidity reserves, the total amount of which the Bremer Landesbank Group determined under stress conditions.

Affiliated companies and joint ventures

Of the five (5) affiliated companies included in the consolidated financial statements, no affiliated company is of material importance to the Group based on the proportionate income and the proportionate comprehensive income of the respective affiliated company.

The summarised financial information on the (individually considered) immaterial affiliated companies are included in the table below:

€ million	31.12.2016	31.12.2015
Carrying amounts of the shares in immaterial affiliated companies	125	118
Share of the BLB Group in		
Profit/loss from continuing operations	5	8
Profit/loss from discontinued operations (after taxes)	–	–
Other operating profit/loss	0	0
Total comprehensive income	**5**	**8**

Non-consolidated structured entities

The Group is involved in structured entities that are not included in the consolidated financial statements as subsidiaries.

Structured entities are companies that are conceived in such a way that the voting and comparable rights are not the dominating factor in the evaluation of who controls these entities. This is the case, for example, if voting rights refer only to administrative tasks and the relevant activities are governed by contractual agreements.

The subject of this disclosure is structured entities that the Group does not consolidate because it does not control the voting rights, contractual rights, financing agreements or other means.

The Bremer Landesbank Group is involved in structured entities in the form of fund companies.

Interests in structured entities

The Group's interests in non-consolidated structured entities consists of contractual or non-contractual involvement in these companies through which the Group is exposed to the variable returns from the performance of the structured entities. Examples of interests in non-consolidated structured entities include equity instruments through which the Group absorbs risks from the structured entities.

The Bremer Landesbank Group is deemed to be the sponsor of a structured entity if market participants may legitimately associate it with the structured entity. The Bremer Landesbank Group is a sponsor if

- the Bremer Landesbank Group participated in the formation of the structured entity and collaborated in the setting of objectives and design;
- the name of the structured entity includes components that establish a connection with the Bremer Landesbank Group;
- the management of the structured entity's assets and liabilities is based on a strategy developed by the Group; or
- the Bremer Landesbank Group issued or purchased the assets before they were contributed to the structured entity (i.e. Bremer Landesbank is the originator of the structured entity).

During the reporting period, there was no income from sponsored non-consolidated structured entities in which the Bremer Landesbank Group did not hold a share as at the reporting date. These relate to securitisation companies in the formation of which the Bremer Landesbank Group participated and/or is the originator. The income does not include any income from asset transfers; as at the date of transfer, the carrying amount for these assets was €0 million. No specific valuation allowances related to companies in liquidation were written-off.

Income from interests in structured entities

The Group generates income from the change in value of the fund asset as well as the profit-related income.

Since 2016, moreover, Bremer Landesbank has been sponsoring a further securitisation vehicle in whose foundation it was involved. Default risks amounting to €94 million were transferred to the structured entity by way of a financial guarantee (in connection with this, see Note (78) Other Financial Obligations).

Size of structured entities

The size of a structured entity is determined by the structured entity's type of business activity. For this reason, the size may differ from company to company. In the case of funds, Bremer Landesbank views the fund asset as a reasonable indicator for the size of the structured entity.

The maximum possible risk of loss is the maximum loss that the Group would have to recognise in the income statement and in the statement of comprehensive income from its exposure to non-consolidated structured entities. Collateral or hedges are not considered in the calculation and neither is the probability of a loss. The maximum possible risk of loss does not have to coincide with the economic risk.

The maximum possible risk of loss is determined by the type of exposure to the structured entity. The maximum possible risk of loss in the case of investments is the carrying amount that is reported in the balance sheet. The table below shows a breakdown of the non-consolidated structured entity types at the carrying amounts of the Group's investments that are recognised in the Group's balance sheet and the maximum possible loss that could result from these investments. It also provides an indication of the size of the non-consolidated structured entities. The amounts do not represent the Group's economic risk from these investments since they do not take any collateral or hedges into account.

	Fund companies	
€ million	**31.12.2016**	**31.12.2015**
Fund companies	**33**	**33**
Other assets	33	33
Assets that are reported in the BLB Group's balance sheet	**17**	**17**
Maximum risk of loss	**17**	**17**

(83) Related Parties

All non-consolidated subsidiaries and affiliated companies qualified as related parties. Associates also include subsidiaries of associates and joint venture subsidiaries of joint ventures. Furthermore, NORD/LB and the subsidiaries of Bremer Landesbank, the pension fund and companies controlled by members of the following listed bodies are also related parties of the Bremer Landesbank Group.

Natural persons who are viewed as related parties in terms of IAS 24 are the members of the Management Board, the Supervisory Board, the Owners' Meeting and the committees of Bremer Landesbank and their close family members.

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

Related party transactions

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

€ million	Parent company	Subsidiary	Affiliated companies	Management in key positions	Other related parties
31.12.2016					
Loans and advances to banks	47	–	–	–	–
of which money market transactions	–	–	–	–	–
of which loans	47	–	–	–	–
of which loans collateralised with mortgages	–	–	–	–	–
of which other loans	47	–	–	–	–
Loans and advances to customers	–	–	104	13	87
of which money market transactions	–	–	12	–	–
of which loans	–	–	92	13	87
of which municipal loans	–	–	5	–	76
of which loans collateralised with mortgages	–	–	86	3	4
of which other loans	–	–	1	10	7
Financial assets at fair value through profit or loss	–	–	2	0	2
of which positive fair values from derivatives	0	–	2	0	2
Financial assets	–	–	17	–	–
of which debt securities and other fixed-interest securities	–	–	–	–	–
of which shares and other non-fixed-interest securities	–	–	17	–	–
Other assets	0	–	–	–	–
Total assets	**47**	**–**	**123**	**13**	**89**
Liabilities to banks	1,231	–	82	–	10
of which money market transactions	–	–	–	–	–
of which deposits from other banks	–	–	–	–	–
Liabilities to customers	–	1	23	1	93
of which money market transactions	–	0	11	–	–
Securitised liabilities	–	–	–	–	1
Financial liabilities at fair value through profit or loss	45	–	–	–	–
of which negative fair values from derivatives	0	–	–	–	–
Subordinated capital	–	–	–	–	–
Other liabilities	–	–	–	–	–
Total liabilities	**1,276**	**1**	**105**	**1**	**104**
Guarantees received	–	–	–	–	–
Guarantees granted	0	–	2	–	1

€ million	Parent company	Subsidiary	Affiliated companies	Management in key positions	Other related parties
31.12.2015					
Loans and advances to banks	53	–	15	–	–
of which money market transactions	–	–	10	–	–
of which loans	53	–	5	–	–
of which loans collateralised with mortgages	–	–	–	–	–
of which other loans	53	–	5	–	–
Loans and advances to customers	–	–	104	3	139
of which money market transactions	–	–	13	–	–
of which loans	–	–	91	3	139
of which municipal loans	–	–	6	–	132
of which loans collateralised with mortgages	–	–	84	3	4
of which other loans	–	–	1	0	3
Financial assets at fair value through profit or loss	0	–	2	0	4
of which positive fair values from derivatives	0	–	2	0	4
Financial assets	–	–	16	–	–
of which debt securities and other fixed-interest securities	–	–	–	–	–
of which shares and other non-fixed-interest securities	–	–	16	–	–
Other assets	0	–	–	–	–
Total assets	**53**	**–**	**137**	**3**	**143**
Liabilities to banks	225	–	83	–	11
of which money market transactions	–	–	–	–	–
of which deposits from other banks	–	–	–	–	–
Liabilities to customers	–	2	23	1	145
of which money market transactions	–	0	8	–	–
Securitised liabilities	–	–	–	–	1
Financial liabilities at fair value through profit or loss	57	–	0	0	–
of which negative fair values from derivatives	57	–	0	0	–
Subordinated capital	–	–	–	–	–
Other liabilities	–	–	–	–	–
Total liabilities	**282**	**2**	**106**	**1**	**157**
Guarantees received	–	–	–	–	–
Guarantees granted	0	–	9	–	0

€ million	Parent company	Subsidiary	Affiliated companies	Management in key positions	Other related parties
1.1.–31.12.2016					
Interest expenses	11	–	3	0	1
Interest income	0	–	4	0	5
Commission expenses	–	–	–	–	–
Commission income	0	–	0	0	0
Other expenses	25	–	–	0	0
Other income	13	–	0	–	–
Total contributions to profit and loss	**–23**	**–**	**1**	**0**	**4**
1.1.–31.12.2015					
Interest expenses	12	0	3	0	1
Interest income	1	–	4	0	6
Commission expenses	–	–	0	0	–
Commission income	0	0	0	0	0
Other expenses	31	–	–	0	1
Other income	2	0	0	–	0
Total contributions to profit and loss	**–40**	**0**	**1**	**0**	**4**

Use is made of the rules in IAS 24.25 for transactions with the state of Bremen, which holds 41.2000 per cent (previous year: 41.2000 per cent) of Bremer Landesbank, and with the Savings Banks Association of Lower Saxony, which continues to hold 3.9657 per cent of Bremer Landesbank. Accordingly, the Bank is not subject to the disclosure obligation with regard to public authorities unless the circumstances involve business transactions that have a significant impact on the consolidated financial statements.

As at the balance sheet date and in the previous year, there were no impairment losses on loans and advances to related parties.

Transactions with affiliates

Call money and time deposits receivable

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

	Number of transactions	Currency	Volume (€ million .)
Call money			
Norddeutsche Landesbank, Hanover	11	EUR	1,155
Nord/LB Luxembourg S.A.	15	EUR	2,300
Time deposits			
BLB Leasing GmbH	11	EUR	24

Syndicated loans

Norddeutsche Landesbank

NORD/LB participated with other syndicate partners in 35 (previous year: 39) long-term loans and ship loans granted by us, contributing a total volume of €240 million (previous year: €230 million).

As at 31 December 2016, the Bank – as in the previous year – did not participate in any syndicated loans led by NORD/LB.

Securities transactions

Norddeutsche Landesbank

NORD/LB purchased securities totalling €52 million (previous year: €164 million) from Bremer Landesbank and sold securities totalling €325 million (previous year: (previous year: €336 million).

Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH

The Bremer Landesbank pension fund acquired securities issued by third parties for a nominal value of €15 million (previous year: €8 million). It redeemed securities issued by third parties with of a nominal value of €5 million (previous year: €10 million).

Liabilities relating to borrowed funds, credits and loans

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

Current account liabilities

T€	2016	2015
Unterstützungskasse der BLB	102,897	34,494
Norddeutsche Landesbank	32,174	41,154
Bremische Grundstücks-GmbH	29,065	10,170
BLB Immobilien GmbH (see 1) and 2))	7,335	873
BLB Immobilien Treuhandkonten für Mietobjekte	1,044	974
BGG Oldenburg GmbH & Co. KG	307	137
NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen	162	81
Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz	144	34
NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen	133	92
Bremische Grundstücks-GmbH & Co. Wohnanlagen Groß-Bonn	119	192
BLBI Beteiligungs-GmbH	90	83
BGG Bremen GmbH & Co. KG	27	15
BLB Grundbesitz KG	0[1)]	3,552[1)]
BLBI Investment GmbH & Co. KG	0[2)]	32[2)]

1) Only the average for the first half-year 2015 is stated; the second half-year was accounted for with BLB Immobilien GmbH.
2) Only the average for three quarters is stated; the balance as at 31 December 2015 is accounted for with BLB Immobilien GmbH.

Norddeutsche Landesbank

In the financial year under review, 14 new loans of more than €164 million were taken up.

The following other legal transactions were settled by the BLB in 2016:

Call money and time deposit liabilities

	Number of transactions	Currency	Volume (€ million)
Call money			
Norddeutsche Landesbank, Hanover	30	EUR	1,144
	1	CHF	1
Norddeutsche Landesbank, Hanover	1	EUR	200
	47	USD	662
	1	GBP	37
Time deposits			
Norddeutsche Landesbank, Hanover	6	EUR	900

Currency transactions

	Number of transactions	Currency	Volume (€ million)
Norddeutsche Landesbank			
Spot purchase	595	EUR	120,765
Spot sale	551	EUR	114,823
Forward purchase	11	EUR	384
Forward sale	37	EUR	6,308

Derivative transactions

	Number of transactions	Currency	Volume (€ million)
Norddeutsche Landesbank			
Asset swap	1	JPY	2
	3	diverse [1)]	2
Liability swap	5	USD	149
	1	PLN	33
	1	SEK	11
	2	EUR	7
	1	CAD	5
	1	AUD	4
	2	diverse [1)]	1
BLB Immobilien GmbH			
Asset swap	9	EUR	89
Norddeutsche Landesbank Luxembourg S.A.			
Asset swap	3	EUR	30

[1)] diverse currencies; derivative transactions each below €1 million.

The figures in this table are as at 31 December 2016.

Other transactions

Norddeutsche Landesbank

In the financial years 2013 to 2016, Bremer Landesbank had business transactions with NORD/LB for IT services and business transactions with NORD/FM for project service costs in the following amounts:

T€	2016	2015	2014	2013
IT services	24,062	20,526	20,815	25,165
Project management costs NORD/FM	156	77	90	262

BLB Immobilien GmbH

Due to the existing profit-and-loss transfer agreement, the Bank capitalised a receivable in the amount of the net profit for the year of €1,060 thousand (previous year: €26,072 thousand).

Bremer Landesbank was charged €841 thousand for services rendered by BLB Immobilien's facility management division (previous year: €831 thousand). Furthermore, the Bank incurred lease expenses for the Landhaus am Rüten property amounting to €366 thousand (previous year: €365 thousand) and for other space in the amount of €116 thousand (previous year: €117 thousand).

BLB Leasing GmbH

Bremer Landesbank has made no leasing instalment payments to BLB Leasing GmbH (previous year: €46 thousand) and received payments for rent in the amount of €16 thousand (previous year: €17 thousand).

Furthermore, Bremer Landesbank received a reimbursement of costs for the transfer of personnel in the amount of €125 thousand (previous year: €125 thousand).

Due to the existing profit-and-loss transfer agreement, the Bank capitalised a receivable in the amount of the net profit for the year totalling €1,886 thousand (previous year: liability of €784 thousand).

Bremische Grundstücks-GmbH

Bremer Landesbank received a dividend of €4,771 million for the financial year 2015 (previous year: €1,800 million for the financial year 2014).

Due to the existing profit-and-loss transfer agreement concluded in 2015, the Bank capitalised a receivable in the amount of the net profit for the year totalling €1,262 million (previous year: €33,671 million).

NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen

Bremer Landesbank capitalised a dividend of €47 thousand for the financial year 2016 (previous year: €131 thousand).

Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH

In 2015 the change in responsibility for meeting Bremer Landesbank's company pension obligations was effected with the involvement of Unterstützungseinrichtung in the financing of benefit entitlements. No funds were allocated to the covering funds of Unterstützungseinrichtung (previous year: €147,561 million).

Other related parties

Aggregate remuneration of €75 thousand was paid to key management personnel (for the Management Board and Supervisory Board of NORD/LB) (previous year: €74 thousand).

Please see the section "Remuneration of and loans to governing bodies" for overall remuneration and loans to the Management Board and Supervisory Board. Current remuneration for employee representatives on the Supervisory Board totalled €351 thousand (previous year: €356 thousand).

All transactions were concluded on arm's length terms.

(84) Directory of Mandates

As at 31 December 2016, members of the Bremer Landesbank Group exercised the following mandates in accordance with Section 340a para. 4 no. 1 of the German Commercial Code (HGB). Banks are considered to be large corporations for the purposes of this disclosure.

Members of the Management Board of Bremer Landesbank	Company
Dr. Stephan-Andreas Kaulvers until 2.11.2016)	EUROGATE Geschäftsführungs-GmbH & Co. KGaA, Bremen
	BREMER LAGERHAUS-GESELLSCHAFT – Aktiengesellschaft von 1877, Bremen
	EWE Aktiengesellschaft, Oldenburg
Heinrich Engelken (until 2.11.2016)	BREBAU GmbH, Bremen
	GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen
	GSG OLDENBURG Bau- und Wohngesellschaft mbH, Oldenburg
Dr. Guido Brune	BREBAU GmbH, Bremen
	DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen (until 18.08.2016)
	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover

Employees of Bremer Landesbank	Company
Mathias Barghoorn (until 31.12.2016)	GSG OLDENBURG Bau- und Wohngesellschaft mbH, Oldenburg
Harald Groppel (until 30.09.2016)	GSG OLDENBURG Bau- und Wohngesellschaft mbH, Oldenburg

(85) Remuneration of and Loans to Governing Bodies

The management's remuneration is based on the rules in IAS 24.17 and can be categorised as follows:

T€	2016	2015
Remuneration of active members of governing bodies		
Payments due in the short term	2,545	2,423
Other payments due in the long term	–193	20
Post-employment benefits	1,428	1,742
Remuneration arising from the termination of an employment relationship	1,297	0
Salaries of key management personnel	5,077	4,185

Other payments due in the long term are in some cases subject to a sustainability component and the retention system required in accordance with the Institute Remuneration Act (Institutsvergütungsverordnung) is still to be approved by the Supervisory Board.

The negative figure in the position "Other payments due in the long term" results largely from the reversal of provisions for deferrals from the years 2014 and 2015 and the fact that, due to the operating result, no provision was formed for Management Board bonuses for 2016.

The position "Remuneration arising from the termination of an employment relationship" results from a commitment made for paying remuneration due to former Management Board members until expiration of the respective contracts.

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

T€	Advances and loans granted	Liabilities
31.12.2016		
Management Board	524	135
Supervisory Board	739	246
Owners' Meeting	–	–
31.12.2015		
Management Board	639	994
Supervisory Board	780	201
Owners' Meeting	–	–

Loans to members of the Management Board were granted at effective interest rates between 0.00 and 3.55 per cent. Loans to members of the Supervisory Board were granted at effective interest rates between 1.11 and 4.86 per cent.

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

T€	2016	2015
Total remuneration of active members of governing bodies		
Management Board	2,330	2,205
Supervisory Board	211	198
Advisory Board	64	66
Total remuneration of former members of governing bodies and their dependents		
Management Board	3,217	1,657
Supervisory Board	–	–
Advisory Board	–	–

The sum of 43,777 T€ (previous year: 29,637 T€) was set aside for pension obligations to former members of management bodies and their surviving dependents.

(86) List of Shareholdings in Accordance With Section 313 Para. 2 and Section 340a Para. 4 No. 2 of the German Commercial Code (HGB)

Companies included in the consolidated financial statements

Company name and registered office	Shares in % indirect	Shares in % direct	Equity m €[1]	Profit/loss € million
Companies included in the consolidated financial statements				
Subsidiaries				
BGG Bremen GmbH & Co. KG, Bremen	100,00	–	–	–
BGG Marktcarré GmbH & Co. KG, Bremen	100,00	–	–	–
BLB Immobilien GmbH, Bremen	–	100,00	–	–[2]
BLB Leasing GmbH, Oldenburg	–	100,00	–	–[2]
Bremische Grundstücks-GmbH, Bremen	–	100,00	–	–[2]
NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen	100,00	–	–	–
NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen	90,00	10,00	–	–
Investment funds				
Nord/LB AM ARB Europe (special fund)	–	100,00	–	–
Companies included in the consolidated financial statements				
Associates				
Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede	32,26	–	–	–
BREBAU GmbH, Bremen	–	48,84	–	–
Bremische Wohnungsbaubeteiligungsgesellschaft mbH, Bremen	50,00	–	–	–
GSG OLDENBURG Bau- und Wohngesellschaft mbH, Oldenburg	–	22,22	–	–
Investment funds				
Lazard-Sparkassen Rendite-Plus-Fonds, Frankfurt am Main	–	49,18	–	–
Companies not included in the consolidated financial statements				
BGG Oldenburg GmbH & Co. KG, Bremen	100,00	–	10[3]	1[3]
BLB I Beteiligungs-GmbH, Bremen	100,00	–	0[3]	0[3]
Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen	–	49,00	1	1
Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen	100,00	–	2[3]	1[3]
Bremische Grundstücks-GmbH & Co. Wohnanlagen Groß-Bonn	100,00	–	1[3]	0[3]
BREMER LAGERHAUS-GESELLSCHAFT – Aktiengesellschaft von 1877, Bremen	–	12,61	19	2
GBH Beteiligungs-GmbH, Bremen	–	100,00	0[3]	0[3]
Gewobau Gesellschaft für Wohnungsbau Vechta mbH, Vechta	–	20,46	12	1
Interessengemeinschaft KATHARINENKLOSTERHOF GbR, Bremen	30,70	–	0	0
NBV Beteiligungs-GmbH, Hanover	–	21,33	15	2
Öffentliche Versicherung Bremen, Bremen	–	20,00	6	1
Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen	–	100,00	171	148
WLO Wirtschaftsförderungsgesellschaft für den Landkreis Oldenburg mbH, Wildeshausen	–	23,84	0	0
Wohnungsbaugesellschaft Wesermarsch mbH, Brake	–	21,71	19	0

[1] Equity as defined in Sections 266 and 272 of the German Commercial Code HGB). There are no unpaid contributions.
[2] Control and profit-and-loss transfer agreement concluded with the company.
[3] Figures are from the most recent, but as yet unapproved, financial statements for 2016.

(87) Group Auditor's Fees

On 30 March 2016, the Supervisory Board of Bremer Landesbank passed a resolution to engage KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG) as the auditor for the financial statements and the consolidated financial statements of Bremer Landesbank for the financial year 2016.

The table below shows, on an aggregate basis, the fees for the services rendered by the auditor KPMG in financial year 2015 and financial year 2016:

T€	2016	2015
a) Services for the audit of the financial statements	1,973	1,397
b) Other confirmation services	285	534
c) Tax services	1	0
d) Other services	0	41
Total	**2,259**	**1,972**

(88) Events After the Balance Sheet Date

With the exception of those described below, there were no events of special significance for the economic situation of the Bank between the end of the financial year 2016 and the preparation of the financial statements.

In a letter dated 19 January 2017, the German Financial Reporting Enforcement Panel (DPR) announced its intention to conduct an audit of the Consolidated Financial Statements as at 31 December 2015 and the associated Group Management Report for the financial year 2015 with regard to the “Risk provisioning” item in accordance with Section 342b para. 2 sentence 3 (2), German Commercial Code (HGB). (Audit at the request of the German Federal Financial Supervisory Authority.) With regard to the effects on the administrative expenses in the financial year 2017 that may result from the initiation of the aforementioned audit, no reasonable estimate can be made because the type and scope of the tying-up of what were essentially internal resources cannot yet be estimated reliably.

In a further ad-hoc announcement in accordance with Article 17 MAR from 9 March 2017, the Bank referred to another unexpected increase in the valuation allowances on the ship portfolio and consequently also to even higher losses for the year 2016.

As a consequence of the significantly increased risk provisioning, the minimum requirements of the core capital ratio as per the ad hoc announcement made on 9 March 2017 were ultimately no longer fulfilled retroactively as at the end of the year. Likewise, in accordance with Section 25a, German Banking Act (KWG), in conjunction with MaRisk (minimum requirements for risk management), the risk-bearing capacity required for an economic going concern (pillar II) no longer applied at the end of 2016. In addition, there were large-volume exposures as per CRR. The substantial loss in the financial year 2016, the failure to achieve the statutory minimum core capital ratio and the lack of risk-bearing capacity constitute circumstances that could jeopardise the continued existence of the Bank. These were reported to the supervisory authority by the auditor in accordance with Section 29 para. 3, sentence 1, KWG.

In connection with the acquisition of all shares in BLB by NORD/LB, the two companies have concluded a controlling agreement approved by their respective owners that allows for loss compensation claims. In addition, there is a hard letter of comfort from NORD/LB for BLB.

On 19 January 2017, an application to use a waiver in accordance with Sections 2a (1) and (2) of the German Banking Act (KWG), in conjunction with article 7 (1) CRR, was submitted to the competent supervisory authority. If approval is granted, particular supervisory requirements regarding BLB’s capital base will cease to apply at individual bank level.

BLB’s sizeable loss for the year necessitated a cash capital increase amounting to €400 million, which was carried out effective from 21 March 2017. This strengthened the bank’s capital reserve and the regulatory capital ratios while again easing the burden on the large loan exposure limits.

Sustainable compliance with the capital ratios and risk-bearing capacity depends in particular on the approval of a waiver between NORD/LB and Bremer Landesbank. If the application is delayed or refused by the supervisory authority, the resolution providing authorised capital in the amount of €200 million could be used to strengthen the Bank's capital base.

The Bank's continued existence depends on how its plans involving the measures for easing the commercial conditions at the level of Bremer Landesbank as described above are implemented.

Bremen, 22 March 2017

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –

Management Board

Christian Veit

Andreas Hähndel

Dr. Guido Brune

Björn Nullmeyer

Affirmation by the legal representatives

“We affirm to the best of our knowledge that, in accordance with the applicable accounting principles, the consolidated financial statements convey a true and fair picture of the assets, financial and earnings position of the Group, and that the course of business, including the business results, and the position of the Group are presented in such a way in the condensed management report and the Group management report that a true and accurate picture is communicated and the opportunities and risks of the Group’s likely future development are described.”

Bremen, 22 March 2017

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –

Management Board

Christian Veit	Andreas Hähndel
Dr. Guido Brune	Björn Nullmeyer

Audit Opinion

“We have audited the consolidated financial statements prepared by – Girozentrale –, Bremen, (Bremer Landesbank) – comprising the consolidated balance sheet, consolidated income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the financial year from 1 January 2016 to 31 December 2016. The preparation of the consolidated financial statements and the Group Management Report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law in accordance with § 315a para. 1 of the German Commercial Code is the responsibility of the Management Board of Bremer Landesbank. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit in such a way that misstatements materially affecting the presentation of the assets, financial and earnings position in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with a reasonable degree of assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit includes an assessment of the annual financial statements of entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Management Board, as well as an evaluation of the overall presentation of the consolidated financial statements and the Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any objections.

In our estimation, based on the information gathered during the course of the audit, the consolidated financial statements comply with the IFRS, as applicable in the EU, and the regulations under German commercial law as per Section 315a, Para. 1 of the HGB that apply supplementary to these, and, in compliance with these regulations, communicate a true and accurate picture of the assets, financial and earnings position of the Group. The condensed management report and Group management report are consistent with the consolidated financial statements, comply with the statutory provisions, communicate an accurate overall picture of the Group's situation and accurately describe the opportunities and risks of future development.

Without restricting this assessment, we refer to the explanations in the Group management report. In its section 2.2 "Course of business", it is stated that the continued existence of Bremer Landesbank is at risk because of the considerable loss incurred in the financial year 2016, the failure to uphold the statutory minimum core capital ratio and the lack of sufficient risk-bearing capacity. The Group management report also contains descriptions of risk-mitigating measures. In this respect, the institution's continued existence depends on the plan-driven implementation of the measures presented there for relieving the commercial circumstances at the level of Bremer Landesbank."

Hanover, 24 March 2017

KPMG AG

Wirtschaftsprüfungsgesellschaft

Bormann	Schmidt
(German Public Auditor)	(German Public Auditor)

Report by the Supervisory Board

The Bank's Management Board regularly informed the Supervisory Board and the Committees it convened about the develop of business and the situation of the Bank. In six Supervisory Board meetings, five Risk Committee meetings, three Audit Committee meetings, two meetings of the Nomination Committee, four meetings of the Remuneration Committee and two meetings of the Sponsorship Committee, fundamental issues relating to business policy and operations were discussed in depth. The bodies adopted resolutions on the transactions and other matters presented to them which, according to the statutes and the rules issued under these statutes, require a decision by these bodies. At its meetings, the Audit Committee also heard reports from Internal Audit and Compliance about their findings. Effective as from 1 January 2017, the shares in Bremer Landesbank held by the Free Hanseatic City of Bremen and the Savings Banks Association of Lower Saxony were transferred to NORD/LB. This means that Bremer Landesbank is a wholly-owned subsidiary of NORD/LB.

In 2016 the Supervisory Board, with the support of the Nomination Committee, again addressed the structure, size, composition and performance of the Management Board and the Supervisory Board itself as part of an efficiency audit.

KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, audited the financial statements of Bremer Landesbank AöR and the consolidated financial statements for financial year 2016. These financial statements comply with the legal requirements. The auditors issued an unqualified audit opinion on the financial statements and the consolidated financial statements, plus an additional reference. The auditor also attended the Supervisory Board's financial statements meeting on 31 March 2017 and reported on the results of the audit.

The Supervisory Board approved the results of the audit conducted by the auditors and did not raise any objections on the basis of its own review. At its meeting on 31 March 2016, the Supervisory Board approved the consolidated financial statements as at 31 December 2016 and the annual financial statements of Bremer Landesbank AöR as at 31 December 2016.

The Supervisory Board proposes to the Owners’ Meeting that the acts of the Management Board be ratified.

The following persons left the Supervisory Board:

on 1 January 2017	Herr Dr. Gunter Dunkel
	Frau Bürgermeisterin Karoline Linnert (Mayoress)
	Frau Ursula Carl
	Herr Dr. Olaf Joachim
	Herr Prof. Dr. Matthias Stauch

The following persons were appointed to the Supervisory Board:

on 1 January 2017	Herr Dr. Hinrich Holm
	Herr Christoph Dieng
	Herr Günter Tallner
	Herr Bernd Sablowsky
	Herr Dietmar Strehl

The Supervisory Board would like to thank the Bank’s Management Board for the constructive working relationship based on mutual trust and expresses its thanks for the work performed in 2016 by the Management Board and by all of the Bank’s employees.

Bremen, 31 March 2017

The Chair of the Supervisory Board

Mayoress Karoline Linnert

Report of the Owners' Meeting

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

On 31 March 2017, the Owners' Meeting ratified the acts of the Management Board of the Bank and the Supervisory Board for financial year 2016. Effective as from 1 January 2017, the shares in Bremer Landesbank held by the Free Hanseatic City of Bremen and by the Savings Banks Association of Lower Saxony were transferred to NORD/LB. This means that Bremer Landesbank is now a wholly-owned subsidiary of NORD/LB.

The following persons left the Supervisory Board:

on 1 January 2017	Herr Dr. Gunter Dunkel
	Frau Bürgermeisterin Karoline Linnert (Mayoress)
	Herr Minister Peter-Jürgen Schneider
	Herr Thomas Mang
	Herr Arne Schneider
	Frau Dr. Anke Saebetzki
	Herr Harm-Uwe Weber
	Herr Gerhard Fiand

The following persons were appointed to the Owners' Meeting:

on 1 January 2017	Herr Christoph Dieng
	Herr Günter Tallner

Effective as from 1 January 2017, the Owners' meeting therefore consists of the following members:

Herr Thomas Bürkle

Herr Christoph Dieng

Herr Günter Tallner

The Owners’ Meeting wishes to thank the Supervisory Board, the Management Board and employees of the Bank for their work in 2016.

Bremen, 31 March 2017

The Chairman of the Owners’ Meeting

Thomas Bürkle

Bremer Landesbank Declaration of Compliance with the Corporate Governance Code

Declaration of Compliance with the German Corporate Governance Code by Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –

The German Corporate Governance Code was adopted in 2002 by a government commission appointed by the German Federal Ministry of Justice. The current version was last amended on 5 May 2015. The Code aims to make the rules for corporate governance and control in Germany more transparent. It includes nationally and internationally recognised standards of good corporate governance, especially in relation to the management and organisation of a company, control mechanisms and the cooperation between the Management Board and Supervisory Board.

The Corporate Governance Code is designed for listed companies with a capital market orientation and is not therefore legally binding for banks with the legal form of a registered public institute (Anstalt öffentlichen Rechts). However, together with its Management Board, Bremer Landesbank is particularly concerned with positioning itself as a reliable partner and fostering the confidence of investors, customers, employees and the general public through transparency. For this reason, the Bank has decided to voluntarily commit itself to observing the principles of the Code and to disclose its corporate governance system.

General

Bremer Landesbank is a public institute registered by the Free Hanseatic City of Bremen and the State of Lower Saxony. It is a public lending and Pfandbrief institute. Bremer Landesbank's registered office is in Bremen. It has branch offices in Bremen and Oldenburg.

Effective as from 1 January 2017, NORD/LB has acquired all of the shares in Bremer Landesbank.

The Bank's governing bodies are the Management Board, the Supervisory Board and the Owners' Meeting. While the Management Board manages the Bank's business, the Supervisory Board and its committees (Risk Committee, Audit Committee, Nomination Committee, Remuneration Committee and Sponsorship Committee) appoint, advise and monitor the Management Board. The Owners' Meeting is responsible for making decisions on fundamental issues. In 2016 the Supervisory Board, with the support of the Nomination Committee, addressed the structure, size, composition and performance of the Management Board and the Supervisory Board itself as part of an efficiency audit.

Management Board

The Management Board manages the Bank's business in accordance with the legal requirements, the Bank's statutes and the policies and principles adopted by the Supervisory Board and Owners' Meeting for the Bank's business and its own rules of procedure. It is bound by the Bank's interests and committed to increasing the Bank's sustainable value.

In particular, the Management Board ensures that effective risk management systems are established to identify any risks to the Bank's ability to continue as a going concern at an early stage. The risk management system must conform to the respective regulatory requirements, for example those of the German Banking Act (KWG) and the German Federal Financial Supervisory Authority (BaFin). Moreover, the Bank's risk management system must be compatible with the Group-wide risk management and credit-risk monitoring systems established by its parent and owner Norddeutsche Landesbank – Girozentrale –.

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

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

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

The remuneration and other employment conditions of the members of the Management Board are set by the Supervisory Board on the basis of the recommendations of the Remuneration Committee. The remuneration comprises fixed and variable components and is reviewed on a regular basis.

Supervisory Board

The Supervisory Board advises the Management Board and monitors its management activities. It decides on the appointment and removal of members of the Management Board, the general policies for the Bank’s operations, the corporate planning proposal made to the Owners’ Meeting, the rules of procedure for the Management Board, policies governing the employment of staff, the election and engagement of the auditor, the approval of the financial statements, the acquisition and sale of investments within the meaning of Section 271 of the German Commercial Code, as well as the establishment and closure of branches. The Supervisory Board may determine that further transactions and measures which are of particular significance for the Bank require its approval.

Due to the statutes that prevailed until 31.12.2016, plus a temporary arrangement in section 24 of the new statutes, the Supervisory Board had 18 members, comprising twelve owner representatives and six employee representatives, until 31.03.2017; these were directly elected by the Bank’s employees in accordance with the provisions of the Bremen Staff Representation Act (Personalvertretungsgesetz). Until 31.12.2016, the Finance Senator of the Free Hanseatic City of Bremen chaired the Supervisory Board. Every two years, the deputy chair alternated between the Lower Saxony Finance Minister and the chairman of the Savings Banks Association of Lower Saxony. As from 1.1.2017, the chairman of NORD/LB chairs the Supervisory Board at Bremer Landesbank, with the association chairman at Savings Banks Association of Lower Saxony as his deputy. At a meeting on 31.03.2017 the Supervisory Board was reformed. Since the new statutes it now consists of eight members, who are appointed by NORD/LB, and four employee representatives who are sent to the Supervisory Board in accordance with the regulations of the Niedersächsisches Personalvertretungsgesetz. Even after the new statutes, the term of office is still four years.

The Risk Committee, Audit Committee, Nomination Committee, Remuneration Committee and Sponsorship Committee were created to support the Supervisory Board.

The Risk Committee still consisted of ten members until 31.3.2017 due to a temporary arrangement. It was chaired by the chairman of NORD/LB's Management Board until 31.12.2016. The Committee contained another two members for NORD/LB, the Finance Senator of the Free Hanseatic City of Bremen, two other members for the Free Hanseatic City of Bremen, the chairman of the Savings Banks Association of Lower Saxony and three employee representatives. The deputy chairman was a member specified by the Free Hanseatic City of Bremen and elected by the Committee. From 1.1.2017 to 31.3.2017 a NORD/LB board member chaired the Risk Committee, with the chairman of the Savings Banks Association of Lower Saxony as deputy chair. Other members of the Risk Committee during this period were four more representatives of NORD/LB, the Finance Minister of Lower Saxony and three employees' representatives. As from 31.3.2017 the Risk Committee consisted of only six members, two of whom are employees of Bremer Landesbank, an employee of the Bank who sits on the Supervisory Board and who is proposed by the employee representatives on the Supervisory Board and elected by the Supervisory Board. The Risk Committee advises the Supervisory Board on the Bank's current and future overall readiness for risk and its risk strategy, and supports it in the monitoring of the implementation of this strategy by senior management. The Risk Committee has the task, in regular meetings, of discharging the rights and duties of the Supervisory Board in advising and monitoring the management of the Bank.

Until 31.12.2016 the Audit Committee consisted of six members, namely two representatives of Norddeutsche Landesbank – Girozentrale – and the Free Hanseatic City of Bremen, the president of the Savings Banks Association of Lower Saxony and an employee of the Bank who sits on the Supervisory Board and who is proposed by the employee representatives on the Supervisory Board and elected by the Supervisory Board. In the period from 1.1.2017 to 31.3.2017, the six members of the Audit Committee included four representatives of NORD/LB, the chairman of the Savings Banks Association of Lower Saxony and an employees' representative on the Supervisory Board. As from 31.1.2017 the committee still consists of six members, two of whom are now employees of the Bank who sit on the Supervisory Board and who are proposed by the employee representatives on the Supervisory Board and elected by the Supervisory Board. At least one member of the Audit Committee must have specialist knowledge of accounting or auditing. The Chairman of the Audit Committee must have specialist knowledge of accounting and auditing. The Chairman of the Audit Committee may not be the Chairman of the Supervisory Board at the same time.

The Audit Committee reports to the Supervisory Board on the basis of the auditors' reports on the outcome of the audit of the annual financial statements. The Audit Committee is also responsible for monitoring the financial reporting process and the effectiveness of the internal control system, the internal audit system and the risk management system, monitoring the audit of the annual and the consolidated financial statements, and reviewing and monitoring auditor independence and the additional services provided to the Bank by the auditors.

As at 31 December 2016, the Nomination Committee consisted of seven members, namely the chairman of the NORD/LB Management Board, the Finance Senator of the Free Hanseatic City of Bremen, the chairman of the Savings Banks Association of Lower Saxony, a member of the Supervisory Board appointed by NORD/LB, another member of the Supervisory Board, named by the Free Hanseatic City of Bremen, and two employee representatives from the group of employee representatives on the Supervisory Board. The chairman and deputy chairman are the same as the chairman and deputy chairman of the Risk Committee. In the period from 1.1.2017 to 31.3.2017 the Nomination Committee comprised four members of the NORD/LB Management Board, the chairman of the Savings Banks Association of Lower Saxony and two employee representatives. Since 31.3.2017 the committee has only six members, including two Bank employees who sit on the Supervisory Board and who are proposed by the employee representatives on the Supervisory Board and elected by the Supervisory Board. The Nomination Committee supports the Supervisory Board, particularly in identifying applicants for appointment as member of the Management Board and in the preparation of the election proposals for the selection of members of the Supervisory Board and in the regularly, at least annually performed evaluation of the structure, size, composition and performance of the Management Board and the Supervisory Board, and makes recommendations in this regard.

Until 31.12.2016, the Remuneration Committee consisted of seven members, including the chairman of the NORD/LB Management Board, the Finance Senator of the Free Hanseatic City of Bremen, the chairman of the Savings Banks Association of Lower Saxony, a member of the Supervisory Board appointed by NORD/LB with sufficient expertise and professional experience in the area of risk management and risk controlling, another member of the Supervisory Board, named by the Free Hanseatic City of Bremen, and two employee representatives from the group of employee representatives on the Supervisory Board. The chairman and deputy chairman are the same as the chairman and deputy chairman of the Risk Committee. In the period from 1.1.2017 to 31.3.2017 the Remuneration Committee comprised four members of the NORD/LB Management Board, the chairman of the Savings Banks Association of Lower Saxony and two employee representatives. Since 31.3.2017 the committee has had only six members, two of whom are Bank employees who sit on the Supervisory Board and who are proposed by the employee representatives on the Supervisory Board and elected by the Supervisory Board. The Remuneration Committee monitors in particular the appropriate design of the remuneration systems and prepares the resolutions of the Supervisory Board on the remuneration and other employment conditions of members of the Management Board and devotes particular emphasis to the impact on the Bank’s risk management.

Until 31.12.2016, the Sponsorship Committee included the chairman of the Supervisory Board, a member elected from within the Supervisory Board from the business area of the Bank, and a member nominated by the chairman of the Risk Committee. In the period from 1.1.2017 to 31.3.2017, the committee consisted of three Supervisory Board members. Since 31.3.2017 the committee has had four members. It advises the Management Board on the Bank’s sponsorship through donations and sponsoring within the scope assigned to it by the Owners’ Meeting.

Owners’ Meeting

The owners of Bremer Landesbank are NORD/LB Norddeutsche Landesbank – Girozentrale (54.8343 per cent), the Federal State of Bremen (41.2 per cent) and the Savings Bank Association of Lower Saxony (3.9657 per cent). Each owner may appoint up to three representatives to the Owners’ Meeting. Voting rights are in proportion to the owners’ shares in capital. The representatives of each owner may only cast block votes.

The Owners’ Meeting decides on the general principles of business policy, changes to the statutes, the amount and changes to share capital, changes in ownership, the raising and setting of the amount and conditions of other liable equity, the conclusion, amendment and termination of profit-and-loss transfer and control agreements, the ratification of the actions of the Management Board and the Supervisory Board, approval for opening of branches, the corporate planning for the following financial year and the multiple-year forecast, the determination of remuneration for members of the Supervisory Board, committees and advisory boards as well as all other matters which are assigned to the Owners’ Meeting by the statutes.

Conflicts of interest

The members of the Management Board are bound by a comprehensive non-competition agreement while they work for the Bank.

The members of the Supervisory Board have the function of advising and monitoring the Management Board. Members of the Supervisory Board are not bound by orders or instructions.

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

All transactions between the Company on the one hand, and the Management Board, the Supervisory Board and its committees, related parties or enterprises in which the member has personal interests on the other, must be conducted in accordance with the standards that generally apply in this sector.

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

Consultancy agreements and other service and work agreements entered into by members of the Bank's Supervisory Board require the Supervisory Board's approval.

The members of the Management Board must apply the diligence of a prudent and conscientious business manager in their management activities. If members of the Management Board are in breach of their duties, they must compensate the Bank for the resulting loss. This applies accordingly to the due diligence and responsibility of members of the Supervisory Board.

Facts and Figures

Established

26 April 1983

Predecessor institutions:

- Staatliche Kreditanstalt Oldenburg-Bremen (established 1883)
- Bremer Landesbank (established 1933)

Management bodies

- Management Board
- Supervisory Board
- Owners' Meeting

Legal basis

Legal basis until 31.12.2016:

- Interstate treaty between the Free Hanseatic City of Bremen and Lower Saxony in the version of 18 June 2012
- Statutes dated 28 August 2012 in the amended version as of 1 January 2014

Legal basis as of 1.1.2017:

- Interstate treaty between the Free Hanseatic City of Bremen and Lower Saxony in the version of 14.11.2016
- Statutes dated 1.1.2017

Legal seat

Bremen

Functions

Commercial bank
Landesbank
Central savings bank

Branches

- Bremen
- Oldenburg

Legal form

Registered public institute (AöR)

Memberships

- Deutscher Sparkassen- und Giroverband e. V.
- Bundesverband öffentlicher Banken e. V.
- Hanseatischer Sparkassen- und Giroverband

Owners

Until 31.12.2016:

- NORD/LB Norddeutsche Landesbank Girozentrale (NORD/LB): 54.8343%
- Free Hanseatic City of Bremen: 41,2000%
- Savings Banks Association of Lower Saxony – 3.9657%

Legal basis as from 1.1.2017:

- NORD/LB Norddeutsche Landesbank Girozentrale (NORD/LB): 100.00%

Also available for customers of Bremer Landesbank and its associated savings banks:

NORD/LB, subsidiaries, investments, branches, real estate agencies and representative offices

Governing Bodies of Bremer Landesbank

Members of the Management Board

Management Board	Allocation of functions within the Management Board	
from 14.11.2016: Christian Veit (Chairman) until 2.11.2016 Dr. Stephan-Andreas Kaulvers (Chairman)	Bank Management	Management Board staff department Finance Communication and Marketing Internal Audit
	Risk control	Risk control (until 2.11.2016) Operations from 3.11.2016)
from 3.11.2016: Andreas Hähndel (Deputy Chairman) until 2.11.2016 Heinrich Engelken (Deputy Chairman)	Risk control	Compliance/money laundering/fraud Back Office Financing Operations Operations (until 2.11.2016) Risk control (from 3.11.2016)
Dr. Guido Brune	Sales	Financial Markets Private Customers BLB Immobilien GmbH
Björn Nullmeyer	Sales	Special Finance Ship Finance Corporate Customers BLB Leasing GmbH
	Bank Management	Human Resources Management
General Representative		
Mathias Barghoorn (until 31.12.2016)		
Matthias Hellmann		

Members of the Supervisory Board

Composition of the Board on 31.12.2016:

Mayoress
Karoline Linnert
(Chairwoman)
Finance Senator,
Bremen

Minister
Peter-Jürgen Schneider
(Deputy Chairman)
Lower Saxony Minister of Finance,
Hanover

Thomas S. Bürkle
Member of the Management Board of NORD/LB
Norddeutsche Landesbank Girozentrale,
Hanover

Ursula Carl
Managing Director,
ATLANTIC Grand Hotel, Bremen

Prof. Dr. Wolfgang Däubler, professor retired
German and European labour law, civil law and commercial law Bremen University, Bremen

Frank Doods
State Secretary
Hanover
Lower Saxony Ministry of Finance, Hanover

Thomas S. Bürkle
Member of the Management Board of NORD/LB
Norddeutsche Landesbank Girozentrale,
Hanover

Heinz Feldmann
Chairman of the Management Board
of Sparkasse LeerWittmund,
Wittmund

Dr. Olaf Joachim
State Councillor of Senate Chancellery Senate Chancellery,
Bremen

Andreas Klarmann
Banker
Bremer Landesbank,
Oldenburg

Thomas Mang
President of the Savings Banks Association
Lower Saxony,
Hanover

Bernhard Reuter
District Administrator of Göttingen District,
Göttingen

Michael Schlüter
Banker
Bremer Landesbank,
Oldenburg

Prof. Matthias Stauch (from 6 October 2015)
State Councillor of Senate Chancellery
Senator for Justice and Constitutional Matters,
Bremen

Jörg Walde
Banker
Bremer Landesbank,
Bremen

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

Eike Westermann
Fully qualified lawyer
Bremer Landesbank,
Bremen

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

Composition of the Board on from 1.1. to 30.3.2017:

Thomas S. Bürkle
Member of the Management Board of
NORD/LB Norddeutsche Landesbank
Girozentrale, Hanover

Thomas Mang
President of the Savings Banks Association
Lower Saxony, Hanover

Prof. Dr. Wolfgang Däubler, professor retired
German and European labour law, civil law and commercial law Bremen University,
Bremen

Christoph Dieng
Member of the Management Board of
NORD/LB Norddeutsche Landesbank
Girozentrale, Hanover

Frank Doods
State Secretary
Lower Saxony Ministry of Finance,
Hanover

Heinz Feldmann
Chairman of the Management Board of
Sparkasse LeerWittmund,
Wittmund

Dr. Hinrich Holm
Member of the Management Board of
NORD/LB
Norddeutsche Landesbank Girozentrale,
Hanover

Andreas Klarmann
Banker
Bremer Landesbank,
Oldenburg

Bernhard Reuter
District Administrator of Göttingen District,
Göttingen

Bernd Sablowsky
Head of Strategy Development at
NORD/LB Norddeutsche Landesbank
Girozentrale, Hanover

Michael Schlüter
Banker
Bremer Landesbank,
Oldenburg

Minister
Peter-Jürgen Schneider
(Deputy Chairman) Lower Saxony Minister of
Finance,
Hanover

Dietmar Strehl
Councillor
Finance Senator,
Bremen

Günter Tallner
Member of the Management Board at NORD/LB
Norddeutsche Landesbank
Girozentrale, Hanover

Jörg Walde
Banker
Bremer Landesbank,
Bremen

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

Eike Westermann
Fully qualified lawyer
Bremer Landesbank,
Bremen

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

Composition of the body on 31.3.2017:

Thomas S. Bürkle
(Chairman) Member of the Management
Board of NORD/LB Norddeutsche
Landesbank Girozentrale, Hanover

Günter Tallner
Member of the Management Board
at NORD/LB
Norddeutsche Landesbank
Girozentrale, Hanover

Christoph Dieng
Member of the Management Board of
NORD/LB Norddeutsche Landesbank
Girozentrale, Hanover

Frank Doods
State Secretary
Lower Saxony Ministry of Finance,
Hanover

Dr. Hinrich Holm
Member of the Management Board of
NORD/LB Norddeutsche Landesbank
Girozentrale, Hanover

Thomas Mang
President of the Savings Banks Association
Lower Saxony, Hanover

Bernd Sablowsky
Head of Strategy Development at
NORD/LB Norddeutsche Landesbank
Girozentrale, Hanover

Michael Schlüter
Banker
Bremer Landesbank,
Oldenburg

Dietmar Strehl
Councillor
Finance Senator,
Bremen

Jörg Walde
Banker
Bremer Landesbank,
Bremen

Eike Westermann
Fully qualified lawyer
Bremer Landesbank,
Bremen

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

Report of the Owners' Meeting

Composition of the body on 31.12.2016:

For Norddeutsche Landesbank – Girozentrale –

Chairman
Dr. Gunter Dunkel
Deputy Chairman of the Management Board of NORD/LB Norddeutsche Landesbank – Girozentrale –, Hanover

Thomas S. Bürkle
Member of the Management Board of NORD/LB Norddeutsche Landesbank – Girozentrale –, Hanover

Minister
Peter-Jürgen Schneider
Lower Saxony Minister of Finance

For the Free Hanseatic City of Bremen

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

Dr. Anke Saebetzki
Senate Director for the Finance Senator of the Free Hanseatic City of Bremen, Bremen

Arne Schneider
Finance Senator, Bremen

For the Savings Banks Association of Lower Saxony

Thomas Mang
President of the Lower Saxony Association of Savings Banks, Hanover

Harm-Uwe Weber
District Administrator of Aurich District

Gerhard Fiand
Chairman of the Management Board of Landessparkasse zu Oldenburg, Oldenburg

Composition of the body from 1.1.2017:

For Norddeutsche Landesbank – Girozentrale –
(as sole owner since 1.1.2017)

Chairman
Thomas S. Bürkle
Deputy Chairman of the Management Board of NORD/LB Norddeutsche Landesbank – Girozentrale –, Hanover

Deputy Chairman
Christoph Dieng
Member of the Management Board of NORD/LB Norddeutsche Landesbank – Girozentrale –, Hanover

Günter Tallner
Member of the Management Board of NORD/LB Norddeutsche Landesbank – Girozentrale –, Hanover

Members of the Advisory Board (until 30.3.2017)

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

Thomas Mang
President of the Savings Banks Association
Lower Saxony, Hanover

Heiko Albers
President of Wasserverbandstag e. V.
Hanover

Jörg Bensberg
District Administrator of the Ammerland
District

Kai-Uwe Bielefeld
District Administrator of the Cuxhaven
District Cuxhaven

Paul Bödeker (from 1 April 2016)
Mayor of the city of Bremerhaven

Bernhard Bramlage
District Administrator of Leer District, Leer

Rolf Brandstrup
Chairman of the Management Board at
Sparkasse Wilhelmshaven, Wilhelmshaven

Dr. Claas Brons
Managing Director of Y. & B. Brons, Emden

Elke Brüning
Managing Director of Klaas Siemens
GmbH, Emden

Günter Distelrath
Savings Banks Association of Lower
Saxony, Hanover

Frank Dreeke
Chairman of the Management Board of
BLG Logistics Group AG & Co. KG

Gerhard Fiand
Chairman of the Management Board of the
Landessparkasse zu Oldenburg

Ralf Finke
Chairman of the Management Board at
Kreissparkasse Grafschaft Diepholz, Diepholz

Dr. Matthias Fonger
Chief Executive Officer and First Legal Counsel
of the Bremen Chamber of Commerce, Bremen

Günter Günnemann
Chairman of the Management Board of
Kreissparkasse Syke, Syke

Martin Hockemeyer
Managing Partner of the Thiele Group,
Ritterhude

Hans-Dieter Kettwig
Managing Director of ENERCON GmbH, Aurich

Peter Klett
Chairman of the Management Board at the
Weser-Elbe Sparkasse

Jürgen Krogmann
Mayor of the City of Oldenburg

Reinhard Krüger
Chairman of the Management Board of the
Sparkasse Rotenburg-Bremervörde

Bernd Meerpohl
Management Board of Big Dutchman
Aktiengesellschaft, Vechta

Doris Nordmann
Undersecretary of the Lower Saxony Ministry of
Finance, Hanover

Angelika Saacke-Lumper
Shareholder
Saacke GmbH, Bremen

Martin Steinbrecher
Managing Director of Martin Steinbrecher GmbH, Wittmund

Dietmar Strehl
Senate Councillor for the Finance Senator of the Free Hanseatic City of Bremen, Bremen

Gert Stuke
President of the Oldenburg Chamber of Industry and Commerce, Oldenburg

Michael Teiser (until 31 March 2016)
Mayor and Treasurer of the City of Bremerhaven, Bremerhaven

Manfred Wendt
Managing Director of Johann Bunte Bauunternehmung GMBH & Co. KG, Papenburg

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