Oldenburgische Landesbank AG

Oldenburgische Landesbank AG
Financial Report 2017

Oldenburgische Landesbank AG at a Glance

EUR m	12 / 31 / 2017	12 / 31 / 2016	Change	Change (%)
Total assets	**14,367.2**	**14,108.0**	**259.2**	**1.8**
Receivables from banks	142.1	201.9	– 59.8	– 29.6
Total customer lendings	10,848.1	10,533.4	314.7	3.0
Securities	2,326.7	2,577.9	– 251.2	– 9.7
Liabilities to banks	4,292.9	4,174.8	118.1	2.8
Liabilities to customers	8,424.9	8,210.2	214.7	2.6
Securitized liabilities	501.4	550.0	– 48.6	– 8.8
Subordinated debt	175.2	257.7	– 82.5	– 32.0
Fund for general bank risks	24.8	12.8	12.0	93.8
Equity	**669.5**	**649.3**	**20.2**	**3.1**
Subscribed capital	60.5	60.5	—	—
Capital reserves	208.3	208.3	—	—
Revenue reserves	372.4	345.4	27.0	7.8
Net retained profits	28.3	35.1	– 6.8	– 19.4

EUR m	1 / 1/2017 – 12 / 31 / 2017	1 / 1/2016 – 12 / 31 / 2016	Change	Change (%)
Net interest income	228.1	229.9	– 1.8	– 0.8
Net commission income	68.1	67.9	0.2	0.3
Net operating trading income / expense	—	0.1	– 0.1	– 100.0
Operating income	**296.2**	**297.9**	**– 1.7**	**– 0.6**
Personnel expenses	140.3	135.7	4.6	3.4
Other administrative expenses	74.2	75.6	– 1.4	– 1.9
Write-downs of tangible fixed assets	15.1	14.9	0.2	1.3
General administrative expenses	**229.6**	**226.2**	**3.4**	**1.5**
Net other operating income (+) and expenses (–)	5.1	3.1	2.0	64.5
Operating result before risk provisions	**71.7**	**74.8**	**– 3.1**	**– 4.1**
Risk provisions for credit business	31.3	37.1	– 5.8	– 15.6
Gain (+) / loss (–) on securities in the liquidity reserve	7.9	– 2.3	10.2	n / a
Expenses for the credit business and liquidity reserve	**23.4**	**39.4**	**– 16.0**	**– 40.6**
Net operating result	**48.3**	**35.4**	**12.9**	**36.4**
Other result	9.7	21.6	– 11.9	– 55.1
Extraordinary result	– 7.6	– 2.7	– 4.9	n / a
Profit before taxes	**50.4**	**54.3**	**– 3.9**	**– 7.2**
Taxes	22.1	19.1	3.0	15.7
Net income for the fiscal year	**28.3**	**35.2**	**– 6.9**	**– 19.6**
Cost-income ratio (in %)	**77.5**	**75.9**	**n / a**	**n / a**

	12 / 31 / 2017	12 / 31 / 2016		
Core capital ratio per Sec. 10 of the German Banking Act (%)	12.4	11.2		
Aggregate capital ratio per Sec. 10 of the German Banking Act (%)	15.5	14.3		
Number of employees	2,071	2,153		
Full-time equivalents	1,661	1,717		
Branches of Oldenburgische Landesbank AG	199	201		

FINANCIAL REPORT 2017

Contents

Explanation of Symbols

References to the Glossary Page References Further Information and Explanations

TO OUR SHAREHOLDERS

Letter to Our Shareholders

Dear shareholders, dear friends of OLB,

February 7, 2018, represents a landmark date in what will soon be the 150-year history of OLB. When our former majority shareholder, Allianz Deutschland AG, closed the sale of its ownership interest in OLB to Bremer Kreditbank AG as our new majority shareholder, it marked the start of a new era.

Under a purchase agreement dated June 23, 2017, Bremer Kreditbank AG bought Allianz's holding of 90.2 percent of our Bank's share capital. At the date of this report, Bremer Kreditbank AG held approximately 95.3 percent of OLB in all. On February 7, 2018, Bremer Kreditbank AG notified all of us on the OLB Board of Managing Directors that it intended to squeeze out the remaining shareholders in return for a fair and reasonable cash settlement, in a move intended to simplify ownership ratios.

All together, we – Bremer Kreditbank AG, Bankhaus Neelmeyer AG and OLB – will thus form a new banking group in Northwest Germany. Our business model will concentrate on four core areas: Corporate Customers, Special Financing, Private Banking / Wealth Management, and Retail and Business Customers. From its regional base in the Northwest, the group will serve companies throughout Germany with customized products delivered via short decision-making channels. Our core competencies will still lie in key regional sectors like renewable energy, agriculture and the food industry, as well as nationwide financing for real estate and corporate acquisitions, and wealth management. Up-to-date services for retail customers, which are steadily increasing in demand, will also be expanded further. That should enable us to grow sustainably together. The market environment also makes it necessary to enhance efficiency by cutting costs in order to ensure our viability for the future. But customers will remain the clear focus of everything we do. So our first efforts will be turned to sustainably increasing earnings – and the new banking group will enhance our potential for doing that.

Back in 2015, we already began refocusing the Bank with our strategic "OLB 2019" program for the future. As a management team, we know we are backed by a motivated, dedicated staff that will help ensure that this is the right path for OLB. Over the past few years, with the support of our workforce, we have already done and achieved a great deal. The fact that their identification with OLB has remained very strong and resilient throughout the course of those developments once again highlights our team's special loyalty to the Bank.

"OLB 2019" was also a success in our business with customers. Customers especially prize our expertise in all-around support for companies. So we have expanded our partnership with corporate customers and high net worth private-banking clients by focusing even more sharply on our consulting capabilities. The resulting momentum for growth has been reflected most of all in our expanded credit business and rising commission business. We've also made ourselves more accessible to our clients on all channels. We've continued digitalizing our business processes across the board so we can be more efficient, and also faster and simpler in ways that clients can experience for themselves. Each individual measure is a building block for sustainable, profitable growth. So "OLB 2019" has been making us fit for the future.

In business terms, we've profited from the fact that the German economy is on a stable growth track. In 2017 it grew + 2.3 percent, considerably more vigorously than in 2016. Momentum for growth came especially from exports. But consumer spending and capital investments also remained a driving force for expansion. Construction activity was once again encouraged by low interest rates and an increased demand for residential space. Heavier investments in machinery and equipment benefited from both the good domestic economy and rising foreign business. The economy in the Northwest was also in good condition, based on strong domestic demand and rising demand from abroad. The upswing benefited all sectors, and consumer spending was supported by the ongoing good situation in the job market.

The outlook for both the regional economy and the German economy at large is still positive, especially because growth is now significantly broader-based than in the consumption-driven upswing of previous years. Accordingly, our plans assume that the environment for our business will remain friendly, although we are also well aware of the existing risks of changes in relevant individual markets, which will be influenced not only by general political or economic factors, but by specific structural or segment issues.

All in all, we can look back on a solid business record as of December 31, 2017. We are therefore entering the new era from a position of strength. Our operating profit rose 36 percent, from the prior year's EUR 35.4 million to EUR 48.3 million. Despite the loss of several helpful non-recurring factors that had favored profits in 2016, our profit before taxes for fiscal 2017, at EUR 50.4 million, met our projections and was only moderately below the prior year (EUR 54.3 million).

At the Annual Shareholders' Meeting in Oldenburg on May 11, 2018, we will propose paying a dividend of EUR 0.25 per share to you, our esteemed shareholders. In parallel, it remains absolutely essential for us to continue reinforcing the Bank's capitalization. A robust base is a prerequisite for further growth – all the more so in light of the increasingly rigorous regulatory requirements. For that reason, we suggest that the net retained profits of EUR 22.5 million that remain after the dividend should be appropriated to our revenue reserves.

Our capital base was strengthened by the reinvestment of EUR 27.1 million from the net retained profits for fiscal 2016 that you approved last year. Taking account of the net retained profits for 2017, the on-balance-sheet equity at the end of the reporting period had increased to EUR 669.5 million compared to the end of 2016. Our core capital was EUR 622.8 million, compared to EUR 602.3 million for the prior year. All in all, the core capital ratio improved by 1.2 percentage points, to 12.4 percent. Thus the Bank has exceeded the minimum core capital ratio of 8.5 percent prescribed for 2019 under Basel III.

We remain a strong financing partner for regional small and medium-sized businesses and for retail clients. As of December 31, 2017, we had expanded our total lendings by about 3 percent, to EUR 10.8 billion (prior year: EUR 10.5 billion). New business in the credit segment alone came to EUR 1.7 billion. Important growth drivers were private construction financing and capital investment loans, especially to finance onshore wind farms. The installment loan business also increased substantially. All in all, our gains in the lending business thus exceeded the average for the country as a whole.

Total client deposits likewise rose by about 3 percent, from EUR 8.2 billion to EUR 8.4 billion. They once again represented our Bank's most important and soundest source of refinancing.

Despite the environment of persistent low interest rates, net interest income, at EUR 228.1 million, almost attained the prior year's level of EUR 229.9 million. After adjustment for the non-recurring effect from 2016 (a non-recurring distribution of EUR 4.8 million by credit card service provider EKS), our operating net interest income increased by EUR 3.0 million.

The commission business enjoyed rewards from structured securities advising and the growth rates in the OLB Wealth Management business, newly established in 2017. Net commission income, at EUR 68.1 million, was above the prior year's EUR 67.9 million. This increase is all the more evident when the item is adjusted for a non-recurring effect that applied for the last time in 2016 (commission income of EUR 2.0 million from functioning as a liability umbrella for Allianz Global Investors). Net income from the securities business and asset management grew more than 5 percent, contributing over one-third of the total net commission income.

Personnel expenses came to EUR 140.3 million, compared to EUR 135.7 million for the prior year. The main causes were greater provisions for phased retirement, increased Bank contributions to employee retirement plans, and as previously reported, the transaction bonus booked in connection with the sale of the ownership interest in OLB. Allianz reimbursed OLB for this bonus in full on the income side of the income statement.

Our staff size at December 31, 2017, came to 2,071 employees, 82 fewer than for the prior year. At the beginning of 2018, for the ninth time in a row, the independent Top Employers Institute named us one of Germany's best employers. The Institute found that we have established an outstanding environment for our employees, with ideal working conditions and options for further training. We also remain very much in demand, and very involved, as a trainer in our region. Some 150 young persons are currently undergoing vocational training with us.

Even as we continued to invest in the Bank's future viability, thanks to persistent and systematic cost management we reduced other administrative expenses to EUR 74.2 million, compared to EUR 75.6 million for the prior year.

Active management of credit risks, in combination with a prospering economy, eased the need for risk provisions in the credit business. At EUR 19.3 million, our need for risk provisioning was less. In the special segment for shipping, we continued our positive track record from the past few years; risk provisioning needs for this portfolio decreased by EUR 6.6 million from the prior year, to EUR 10.4 million. Thus, in combination with our strong business performance, we cleared some leeway that we then utilized for a voluntary provision, appropriating EUR 12.0 million to the fund for general bank risks under Sec. 340 g of the Commercial Code. In total, this yielded combined risk provisions of EUR 31.3 million, compared to the prior year's EUR 37.1 million.

At the operations level, we plan in fiscal 2018 to continue expanding income from the interest and commissions business, and to keep administrative expenses largely stable. Despite the auspicious developments in 2017, we approach our planning for risk provisioning conservatively. Favorable non-recurring effects associated with Allianz's sale of its investment in OLB will no longer apply in 2018. All in all, therefore, we expect the profit before taxes for fiscal 2018 to decrease substantially from 2017.

Ladies and gentlemen, we said it last year, and it's no less urgent for us now: it is important to us to keep OLB moving ahead. We know that it's also important to you. We want to thank you very warmly for your support and commitment. OLB is on a good track. We look forward to our future in the new banking group – and we're certain that that future will be successful.

Yours truly,

Patrick Tessmann
Chairman of the Board of Managing Directors

The Share

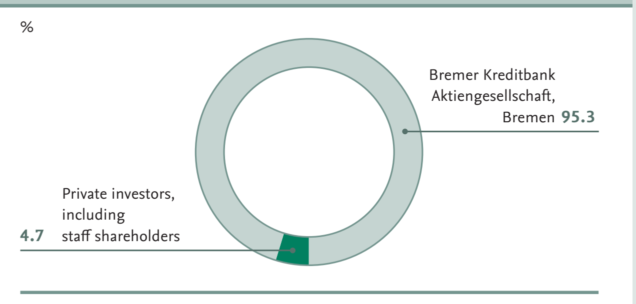
Performance of OLB stock

The German Stock Index (DAX) performed very well in 2017. Starting at 11,420, this leading index made largely steady gains over the course of the year, peaking at an interim all-time high of nearly 13,480 in November. The index especially benefited from the European Central Bank's expansive monetary policy, the accelerating global economy, and good corporate figures. International tensions with North Korea and political uncertainties about the progress of "Brexit" negotiations led to temporary declines only in the summer months. The DAX closed out the year up 13.1 percent, at nearly 12,920. The new 2018 year began with further gains, and in mid-January the DAX set a new record high of 13,560. But in February, rising expectations of inflation in the USA and many investors' associated concerns about a stricter monetary policy and higher interest rates caused sharper declines in the American stock market, which were subsequently also reflected in the DAX.

See Glossary, p. 144

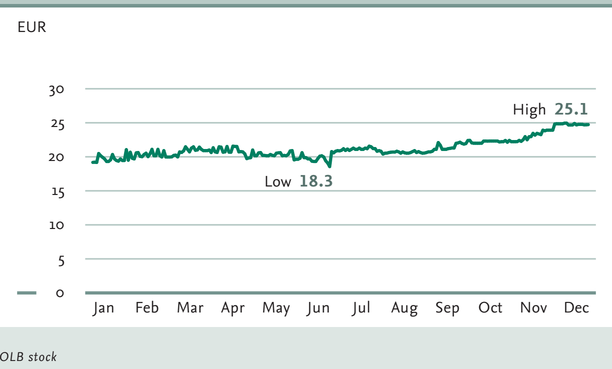
The Composite DAX (CDAX) Banken industry index also performed very well in 2017, ending the year about 12.9 percent above where the year began. OLB stock performance was accompanied by the sale of Allianz Deutschland AG's ownership interest in OLB to Bremer Kreditbank AG (BKB), which was agreed upon in a purchase agreement on June 23, 2017, and closed on February 7, 2018. At the end of 2017, the stock closed in Frankfurt at EUR 24.86, 31.1 percent above where it began the year.

Oldenburgische Landesbank AG – Ownership ratios



As of February 7, 2018

Performance of OLB stock in 2017



Ownership structure

On June 23, 2017, Allianz Deutschland AG informed the Board of Managing Directors of OLB that the entire ownership interest held by Allianz, representing about 90.2 percent of the Bank's share capital, had been sold to BKB Beteiligungsholding AG, subject to approval by the regulatory authorities.

Out of the remaining 9.8 percent of minority shareholders, holders of about 3.2 percent of the share capital subsequently accepted BKB's tender offer. BKB then acquired a further 1.9 percent of the share capital after the offer procedure expired. Together with the shares acquired under the purchase agreement, at the date of preparation of this report this represented an ownership interest of approximately 95.3 percent of OLB. The remainder is held by private investors, including staff shareholders. The consent of the relevant regulatory authorities had been obtained at the closing date of the transaction, February 7, 2018. BKB Beteiligungsholding AG had already been merged into BKB as of December 8, 2017.

OLB stock is traded on the regulated market of the Berlin, Hamburg and Hanover exchanges, and over the counter in Düsseldorf and Frankfurt, under German securities identification number (WKN) 808 600. OLB is the only bank stock included in the Lower Saxony Stock Index, the NISAX20, under WKN 600 788. At 533.9 thousand shares, trading volume in OLB stock for 2017 was above the prior-year figure of 184.6 thousand shares. The principal trading floor, with the comparatively highest trading volumes, was the Frankfurt exchange, followed by the exchange in Hamburg. The number of shares outstanding is just under 23.3 million. Multiplied by the trading price per share, this yields a market capitalization of approximately EUR 576.8 million (as of March 12, 2018).

Financial calendar

2018	
Special Shareholders' Meeting (Oldenburg)	**March 16, 2018**
Financial press conference	**March 19, 2018**
Release of 2017 financial report on the Internet	**March 29, 2018**
Annual Shareholders' Meeting in Oldenburg	**May 11, 2018**
Semiannual Financial Report as of June 30, 2018	**August 14, 2018**

Key information

2018	
German securities ID No. (WKN)	**808 600**
International Securities ID No. (ISIN)	**DE0008086000**
Type of stock	**Bearer shares**
Denomination	**No-par common stock**
Markets where quoted	**Berlin, Hamburg and Hanover (regulated market), Düsseldorf and Frankfurt (over the counter)**
Number of shares	**23,257,143**
Market capitalization as of March 12, 2018	**EUR 576.8 million**

Corporate Governance Report

Good corporate governance is an indispensable requirement for sustainable corporate success. Significant aspects of good corporate governance include trusting, efficient cooperation between the Supervisory Board and the Board of Managing Directors, as integral parts of a dual management system; attention to the best interests of shareholders, lenders, clients, employees, and the general public; and openness and transparency in corporate communications.

The German Corporate Governance Code currently applies in its amended version dated February 7, 2017. It lays down the principal requirements of law for the management and supervision of German companies traded on stock exchanges, and incorporates internationally and nationally recognized standards for proper, responsible corporate management and supervision, in the form of recommendations and suggestions. It clarifies the obligation of the Board of Managing Directors and Supervisory Board to work toward the Company's survival and its sustainable added value, consistently with the principles of a social market economy.

There is no statutory obligation to comply with the Code's recommendations and suggestions. However, under Sec. 161 of the German Stock Corporation Act (AktG), each year listed companies must issue a declaration of compliance with the Code's recommendations, under the principle of "comply or explain." Any deviations from the Code's recommendations must be explained. In certain cases, a well-justified deviation from a Code recommendation may very well be in the interest of good corporate management. The Declaration of Compliance issued by the Board of Managing Directors and Supervisory Board in December 2017 can be found in the Management Declaration in this Financial Report.

Description of operating procedures of the Board of Managing Directors and the Supervisory Board

In keeping with German corporate law, Oldenburgische Landesbank AG has a dual management and oversight structure, with a Board of Managing Directors and a Supervisory Board. The two boards cooperate closely, in a relationship of confidence and trust, for the Company's benefit.

In addition to the requirements of law for the management and oversight of a stock corporation, the Articles of Incorporation of Oldenburgische Landesbank AG adopted by the Shareholders' Meeting, as well as the rules of procedure for the Board of Managing Directors and the Supervisory Board, also include provisions governing corporate management and oversight.

Board of Managing Directors

The Board of Managing Directors of Oldenburgische Landesbank AG manages the Company with a focus on sustainable added value, on its own responsibility. It decides the Company's corporate goals, strategic orientation, and business policies. It must furthermore attend to compliance with the requirements of law and the Company's own guidelines ("Compliance"), and sets up a compliance management system in line with the Company's risk situation. It must furthermore establish an appropriate risk management system and risk controlling system within the Company.

See Glossary, p. 147

The Board of Managing Directors is appointed by the Supervisory Board. It must have at least two members. The actual number of members of the Board of Managing Directors is decided by the Supervisory Board, as is a target for the percentage of women among the managing directors. Until December 31, 2017, the Board of Managing Directors had four members; since January 1, 2018, and until further notice, it has comprised three members. One member of the Board of Managing Directors is a woman. They are jointly responsible for managing Oldenburgische Landesbank AG. The members of the Board of Managing Directors inform and consult one another on all of the Company's concerns.

The structure, size, composition and performance of the Board of Managing Directors are assessed at least once a year by the Supervisory Board. The Supervisory Board also assesses the knowledge, skills and experience of the individual managing directors and of the Board of Managing Directors as a whole, and reviews those board members' specialized expertise and reliability.

The Supervisory Board has appointed one member of the Board of Managing Directors as its Chairman. He represents the Board of Managing Directors to the Supervisory Board and the public at large. He is also responsible for coordinating his board's work.

The Board of Managing Directors meets regularly, in meetings that are convened by its Chairman. The full board decides by a simple majority of the board members participating in the vote. In the event of a tie, the Chairman's vote decides.

The work of the Board of Managing Directors is further structured by the rules of procedure for the Board of Managing Directors, which are issued by the Supervisory Board. These rules of procedure particularly include limits and reporting obligations on how credit risks, market risks and liquidity risks, as well as operational risk, have been mitigated. The rules of procedure also include a system of authorities for the lending business and for treasury and proprietary portfolio lines.

A business allocation plan, prepared by the board itself, governs the areas of responsibility of the members of the Board of Managing Directors, but does not affect all the members' joint responsibility for managing the Company. The business allocation plan, as well as any amendments, must be promptly brought to the attention of the Supervisory Board. The Board of Managing Directors has decided not to establish committees.

The Board of Managing Directors reports regularly, promptly and fully to the Supervisory Board about all matters of business performance, planning, risk position, risk management, internal auditing and compliance that are of consequence for the Company. In its reports, the board discusses deviations of business performance from its planned course and goals, explaining reasons.

Transactions of particular importance are subject to the consent of the Supervisory Board or its committees. The consent requirements are laid down by law, the Articles of Incorporation, and the rules of procedure for the Board of Managing Directors and the Supervisory Board. Matters subject to consent include issuing new stock out of authorized capital, entering into intercompany agreements under Secs. 291 et seq. of the German Stock Corporation Act, granting loans to members of governing bodies or employees under Sec. 15 of the Banking Act (KWG), acquiring and selling equity interests and real estate for values above certain limits, and establishing or closing branch offices within the meaning of Sec. 13 of the German Commercial Code.

Each member of the Board of Managing Directors must disclose conflicts of interest immediately to the other members of the Board of Managing Directors and to the Supervisory Board. All transactions between Allianz Group companies and members of the Board of Managing Directors or their related parties, whether individuals or enterprises, must be on customary arm's length terms. In transactions between Oldenburgische Landesbank AG and members of the Board of Managing Directors, the Company is represented by the Executive and Compensation Committee of the Supervisory Board. Material transactions between Oldenburgische Landesbank AG and related parties, whether individuals or enterprises, of a member of the Board of Managing Directors are subject to the consent of the Executive and Compensation Committee of the Supervisory Board.

The members of the Board of Managing Directors are listed in the Compensation Report.

See pp. 025 ff.

Supervisory Board

The Supervisory Board of Oldenburgische Landesbank AG has twelve members. As required by the gender quota under Sec. 96(2) Sentence 1 of the German Stock Corporation Act, the Supervisory Board must include at least 30 percent women and at least 30 percent men. These minimum quotas must be complied with for any elections that become necessary to fill one or more seats on the Supervisory Board. At least one member of the Supervisory Board must have an expert knowledge of accounting or auditing of financial statements. The members of the Supervisory Board as a whole must be familiar with the banking sector. Under the German Co-Determination Act (MitbestG), the Supervisory Board must consist of equal numbers of representatives of the shareholders and of the employees. The shareholder representatives are elected by the Shareholders' Meeting; the other members are elected by the employees. The Supervisory Board elects a Chair and Vice-Chair from among its ranks for the board's entire term of office.

The members of the Supervisory Board are obligated to pursue the Company's best interests; they cannot pursue their personal interests in making their decisions. No former members of the Board of Managing Directors of Oldenburgische Landesbank AG sit on the Supervisory Board.

The Supervisory Board, through its Chairman, maintains regular contact with the Board of Managing Directors, and advises and supervises the Board of Managing Directors in managing the Bank and in complying with the pertinent requirements of regulatory law. It is also responsible for appointing and dismissing members of the Board of Managing Directors, for reviewing the compensation system for that board, and for determining the total compensation paid to those individual members. The Supervisory Board audits the annual financial statements of Oldenburgische Landesbank AG, the management report, the report on relations with affiliated companies, and the proposed allocation of profits. It adopts the rules of procedure for the Board of Managing Directors, and is responsible for approving certain transactions of particular importance, unless that responsibility has been assigned to a committee of the Supervisory Board.

The Supervisory Board holds four regularly scheduled meetings per fiscal year, as required by law. These meetings are convoked by the Chairman of the Supervisory Board. Special meetings are held additionally as needed. The resolutions of the Supervisory Board are adopted by a simple majority vote, except where provided otherwise by law. In the event of a tie, the matter must be brought up for a vote again, and if a tie again results, the Chairman of the Supervisory Board has two votes.

The Chairman of the Supervisory Board coordinates the board's work and chairs its meetings.

The Supervisory Board reviews its own structure, size, composition and performance at least once a year. It also assesses the knowledge, abilities and experience of its individual members and of the board as a whole, and reviews its members' specialized expertise and reliability. The Supervisory Board also regularly reviews the efficiency of its activities. Steps for potential improvements are discussed, and if applicable adopted, by the full board.

Any member of the Supervisory Board who has conflicts of interest, especially those that might arise by way of an advisory or governing-body position with a client, supplier, lender or other third parties, must disclose those conflicts to the Supervisory Board.

Goals for composition of the Supervisory Board (including professional skills and diversity strategy) and status of implementation

In accordance with Item 5.4.1 of the German Corporate Governance Code (GCGC) and in fulfillment of Sec. 25d(11) Sentence 2 No. 2 of the German Banking Act (KWG), the Supervisory Board has adopted the following goals for its own composition; these goals also incorporate the assortment of professional skills for the Supervisory Board as defined in Item 5.4.1 of the GCGC, and the diversity concept for the Supervisory Board pursuant to Sec. 289 f (2) No. 6 of the German Commercial Code (HGB):

The Supervisory Board of Oldenburgische Landesbank AG ("OLB") seeks a membership that will ensure qualified supervision and advice for the management of OLB. Candidates are to be proposed whose professional qualifications and experience, integrity, motivation and personality indicate that they will be able to perform the duties of a member of the Supervisory Board of OLB.

Where the requirements listed below relate to employee representatives on the Supervisory Board, it should be borne in mind that the Supervisory Board has no influence over the nominations for employee representatives. The shareholder representatives on the Supervisory Board are also not decided by the Supervisory Board itself, but elected by the Shareholders' Meeting; however, the Supervisory Board does propose nominees to the Shareholders' Meeting.

The following requirements and goals are to apply to the composition of the Supervisory Board of OLB:

I. Requirements for individual members of the Supervisory Board

The individual members of the Supervisory Board should meet the following requirements:

- Knowledge of the field, particularly
  - business experience
  - general understanding of the banking business
  - ability to understand and evaluate preparatory documents for annual financial statements and reports to the Supervisory Board
  - ability to assess business risks
  - where possible, specialized knowledge of importance to the Bank's business operations
- Reliability
- Allowance for the regular age limit of 70 and the regular limit of 15 years of membership on the board, as established in the Supervisory Board's rules of procedure
- Compliance with the limitations on numbers of board positions held, as prescribed by law or recommended by the German Corporate Governance Code
- Ability and willingness to invest the time necessary to act as a member of the Supervisory Board
- No positions on governing bodies or consulting duties for significant OLB competitors

II. Requirements for the composition of the entire board

1. *Professional qualifications of the Supervisory Board*

In addition to the professional requirements for the individual members, the composition of the Supervisory Board as a whole should meet the following criteria with regard to knowledge and experience:

- Familiarity with the banking sector on the part of the members of the Supervisory Board as a whole
- Appropriate knowledge of accounting and risk management in the Supervisory Board as a whole
- At least one member with a knowledge of accounting or auditing of financial statements within the meaning of Sec. 100 (5) of the German Stock Corporation Act
- At least one member with a well-developed specialized understanding of risk management
- No more than two former members of the Board of Managing Directors of OLB
- Professional knowledge or experience in other sectors of the economy
- Business or operations experience

2. Independence

At least six members of the Supervisory Board, including at least one shareholder representative, should be independent within the meaning of Item 5.4.2 of the German Corporate Governance Code. Under that recommendation of the Code, a member of the Supervisory Board is not to be considered independent, in particular, if he or she has a personal or business relationship with OLB, its governing bodies, a controlling shareholder, or an entity associated with the controlling shareholder, such as might result in a material, not merely transient conflict of interests. With regard to employee representatives, it is assumed that their independence is not affected by the simple fact that they represent employees, or by an employment relationship.

It should be taken into account that conflicts of interests cannot generally be ruled out for particular cases. Potential conflicts of interest must be disclosed to the Chairman of the Supervisory Board, and will be resolved by appropriate measures.

3. Diversity concept

The Supervisory Board strives to achieve adequate diversity within its membership with regard to gender and to diverse professional backgrounds, professional knowledge and experience, in accordance with the following principles:

- The Supervisory Board must include at least 30 percent women and at least 30 percent men (the gender ratio required by law under Sec. 96(2) Sentence 1 of the Stock Corporation Act). The Supervisory Board also adopts the statutory gender quota as a goal for encouraging representation by the underrepresented gender under Sec. 25d(11) Sentence 2 No. 2 of the Banking Act.
- With regard to their personality, professional experience and professional knowledge, the members of the Supervisory Board should complement one another so that the board can draw upon the broadest possible fund of experience and diverse specialized knowledge.

The composition of the Supervisory Board is shown in the table below. The board's present composition complies with the requirements and qualifications outlined above. In this regard, the reader is also referred to the detailed information on each individual member of the Supervisory Board at OLB's Web site (www.olb.de/olb/unternehmen/die-olb/aufsichtsrat). The gender quota required by law has been met because the Supervisory Board currently comprises four women and eight men. The Supervisory Board has resolved that at least one shareholder representative should be independent within the meaning of Item 5.4.2 of the GCGC. In actual fact, in the opinion of the Supervisory Board, the board's current composition (as of December 31, 2017) includes five shareholder representatives who are to be considered independent (Rainer Schwarz, Prof. Dr. Werner Brinker, Prof. Dr. Andreas Georgi, Prof. Dr. Petra Pohlmann, Carl-Ulfert Stegmann).

Future nominations by the Supervisory Board for the election of its members will take the above goals and legal requirements into account, and also seek to fulfill the professional qualifications required for the board as a whole. The Supervisory Board recommends that its members elected by the employees should endeavor, so far as possible, to take the requirements and goals into account for the nominations to be made by the responsible employee committees.

Members of the Supervisory Board (at December 31, 2016), including year of birth and year when the member took office:

Name	Born	Took office
Rainer Schwarz (Chairman)	1952	5/27/2010
Uwe Schröder (Vice-Chairman)	1955	5/30/2000
Prof. Dr. Werner Brinker	1952	5/25/2004

Name	Born	Took office
Prof. Dr. Andreas Georgi	1957	9 / 26 / 2000 – 5 / 25 / 2004 5 / 23 / 2006
Svenja-Marie Gnida	1983	6 / 5/2013
Dr. Peter Hemeling	1955	10 / 1/2015
Stefan Lübbe	1963	3 / 11 / 2004
Prof. Dr. Petra Pohlmann	1961	6 / 5/2013
Horst Reglin	1956	5 / 27 / 2008
Carl-Ulfert Stegmann	1969	6 / 5/2013
Gabriele Timpe	1967	6 / 5/2013
Christine de Vries	1973	6 / 5/2013

Description of the composition and working procedures of the committees of the Supervisory Board

To enhance its efficiency, the Supervisory Board has formed the following committees:

- Executive and Compensation Committee
- Risk Committee
- Audit Committee
- Nominating Committee
- Mediation Committee per Sec. 31(3) of the Co-Determination Act

The committees prepare for the decisions of the Supervisory Board and the proceedings of the full board. In some cases they also have been delegated decision-making authority. The composition, responsibilities and duties of the committees are governed by the rules of procedure of the Supervisory Board and of the Board of Managing Directors.

The committees meet as needed, and adopt their decisions by a simple majority vote. In the event of a tie, the committee chair has the right to cast the deciding vote, except in the case of the Mediation Committee.

The chairs of the various committees report regularly to the Supervisory Board on the committees' work and decisions.

The *Executive and Compensation Committee* has six members. It includes the Chairman and Vice-Chairman of the Supervisory Board, together with four other members elected by the Supervisory Board, two of them elected by nomination of the employee representatives and two by nomination of the shareholder representatives. At least one member of the Executive and Compensation Committee must have sufficient expertise and professional experience in risk management and risk controlling, particularly with regard to mechanisms for ensuring that compensation systems are in line with the Bank's overall risk propensity and risk strategy and with the equity capitalization of Oldenburgische Landesbank AG.

The Executive and Compensation Committee works with the Risk Committee and is expected, for example, to seek advice from the Risk Controlling department in-house and from outside parties who are independent from the Board of Managing Directors. Members of the Board of Managing Directors are not permitted to attend meetings of the Executive and Compensation Committee at which those members' own compensation is discussed. In performing its duties, the Executive and Compensation Committee may make use of any resources it deems appropriate, and may also involve outside consultants and advisors. It is to receive sufficient funding for this purpose from Oldenburgische Landesbank AG. The committee chair may obtain information directly from the head of Internal Auditing and from the heads of the organizational units responsible for structuring the Bank's compensation systems. The Board of Managing Directors must be notified of such consultations.

The Executive and Compensation Committee is responsible for personnel matters concerning the members of the Board of Managing Directors and for other personnel matters falling under the authority of the Supervisory Board, other than those referred by law to the full membership of the board. It prepares for the appointment of members of the Board of Managing Directors, and for the full Supervisory Board's decisions on the compensation system and the total compensation to be paid to the individual managing directors, and submits motions for resolutions to the full Supervisory Board. In addition, it assists the Supervisory Board in evaluating the structure, size, composition and performance of the Board of Managing Directors, and makes recommendations to the Supervisory Board in this regard. Similar considerations apply in assessing the knowledge, abilities and experience both of the individual members of the Board of Managing Directors, and of that board as a whole, as well as reviewing the individual members' specialized expertise and reliability. The committee furthermore reviews the principles applied by the Board of Managing Directors in selecting and appointing members of upper management, and makes recommendations to the Board of Managing Directors in this regard. Its duties furthermore include monitoring the appropriate structuring of the compensation systems for the Board of Managing Directors and the Bank's employees, and especially the appropriateness of the compensation for the heads of the Risk Controlling and Compliance functions, as well as of those employees who have a material influence on the overall risk profile of Oldenburgische Landesbank AG. It monitors whether the internal controlling organization and all other relevant units have been duly consulted in organizing the compensation systems, and evaluates the effects of the compensation systems on risk management, capital management and liquidity management. The duties of the Executive and Compensation Committee also include consenting to the appointment of the Bank's representatives with full signing authority, consenting to anticipatory resolutions on the approval of loans made to natural persons who are related parties of the Company, and consenting for members of the Board of Managing Directors to hold certain additional offices and engage in certain incidental activities.

The *Risk Committee* comprises the Chairman of the Supervisory Board and up to six additional members of the Supervisory Board, up to three each elected by nomination of the shareholder and employee representatives. The Risk Committee currently has six members. The chair of the Risk Committee may obtain information directly from the head of Internal Auditing, the head of the Compliance unit, and the head of the Risk Controlling department. The Board of Managing Directors must be informed of these consultations. The Risk Committee may obtain the advice of outside experts where necessary. It also defines the nature, scope, format and frequency of the information on the basis of which the Board of Managing Directors must report on the topics of strategy and risk.

The Risk Committee advises the Supervisory Board on the Bank's current and future overall risk propensity and risk strategy, and supports the Supervisory Board in monitoring how this strategy is implemented by upper management at OLB. The committee also concerns itself with the Bank's risk situation and monitors the efficacy of the risk management system, along with special risk developments. The Risk Committee also monitors whether terms and conditions in business with customers are consistent with OLB's business model and risk structure and, if applicable, will make suggestions to the Board of Managing Directors on how terms and conditions in the customer business can be structured in accordance with the business model and risk structure. It reviews whether the incentives established by the compensation system take due account of the Bank's risk structure, capital structure, and liquidity structure, as well as the probability and maturities of revenues. It also approves loans that the Board of Managing Directors cannot approve on its own authority, including loans to related-party entities as defined under Sec. 15 of the Banking Act. Finally, the Bank's acquisition and disposal of equity investments and real estate for amounts above certain limits, as well as the founding of subsidiaries other than pure asset management companies, are also subject to the Risk Committee's consent.

The *Audit Committee* comprises the Chairman of the Supervisory Board and up to four additional members to be elected by the Supervisory Board, up to two each by nomination of the shareholder and employee representatives. It currently has five members. The members of the Audit Committee as a whole must be familiar with the banking sector. The Chairman of the Supervisory Board cannot chair the Audit Committee as well. The chairman of the committee must have expertise in financial reporting or auditing of financial statements; he or she must furthermore be independent, and not a member of the Board of Managing Directors whose term of office ended less than two years previously. The Supervisory Board has found that Prof. Dr. Andreas Georgi, as chairman of the Audit Committee, meets the above requirements; in particular, he is independent and has the required expertise. The chair of the Audit Committee may obtain information directly from the head of Internal Auditing, the head of Compliance, and the head of the Risk Controlling department. The Board of Managing Directors must be informed of these consultations.

The Audit Committee has the responsibility of auditing the annual financial statements, the management report, the proposal for the allocation of profits, the report on relations with affiliated entities, and the audit reports. It prepares for the decisions of the full Supervisory Board on adopting the annual financial statements and approving the report on relations with affiliated entities. It monitors the accounts, the accounting process and the efficacy of the internal controlling, internal auditing and compliance systems, and is also concerned with the activities that are the particular focus of the latter two systems. The Supervisory Board's decision on nominating independent auditors for appointment by the Shareholders' Meeting must be based on a recommendation from the Audit Committee. If the Audit Committee recommends changing the independent auditor, it must submit at least two nominations to the Supervisory Board, and indicate its preference for one of the two nominees, stating reasons. The committee monitors the process of auditing the financial statements, and especially the independence of the independent auditors, as well as the additional services to be provided by the independent auditors. The independent auditor's provision of tax advisory services under Art. 5(1) subsection 2(a)(i) and (iv)–(vii) of Regulation (EU) 537/2014, and of non-audit services under Art. 5(4) Sentence 1 of that Regulation, is subject to the prior consent of the Audit Committee. The committee furthermore monitors the prompt correction by the Board of Managing Directors of any deficiencies found by the auditors. It engages the auditors, and in this connection concerns itself with the main focuses of the audit and the auditors' fee. It also discusses the Semiannual Financial Report with the Board of Managing Directors before the report is released. Finally, the Audit Committee is also responsible for preparing the Supervisory Board's annual Declaration of Compliance under Sec. 161 of the Stock Corporation Act, for auditing the efficiency of the Supervisory Board's activities, and for approving the investment plan.

The *Nominating Committee* comprises the Chairman of the Supervisory Board and two additional shareholder representatives. In performing its duties, the Nominating Committee may make use of any resources it deems appropriate, and may also involve outside consultants and advisors. It is to receive sufficient funding for this purpose. This committee's task is to seek suitable candidates for election to the Supervisory Board as shareholder representatives, giving due attention to balance and diversity in the knowledge, skills and experience of the Supervisory Board members, as well as other factors. The Nominating Committee develops a set of objectives for the promotion of representation of the underrepresented gender on the Supervisory Board, together with a strategy for achieving the associated balance. It prepares for assessments of the structure, size, composition and performance of the Supervisory Board, and makes recommendations to the Supervisory Board in this regard. Similar considerations apply in assessing the knowledge, abilities and experience both of the individual members of the Supervisory Board, and of that board as a whole, as well as reviewing the individual members' specialized expertise and reliability.

The Mediation Committee, to be formed under Sec. 27(3) of the Co-Determination Act, has four members, as provided by law. These are the Chairman and Vice-Chairman of the Supervisory Board, together with one Supervisory Board member each elected by the shareholders and the employees. The Mediation Committee submits suggestions to the full Supervisory Board for the appointment of members of the Board of Managing Directors if the two-thirds majority vote of the Supervisory Board, as required for the appointment of managing directors, is not achieved in the first round of voting.

The members of the committees of the Supervisory Board are as follows:

Executive and Compensation Committee
- Rainer Schwarz, Chairman
- Prof. Dr. Andreas Georgi
- Dr. Peter Hemeling
- Stefan Lübbe
- Uwe Schröder
- Christine de Vries

Risk Committee
- Prof. Dr. Andreas Georgi, Chairman
- Svenja-Marie Gnida
- Stefan Lübbe
- Uwe Schröder
- Rainer Schwarz
- Carl-Ulfert Stegmann

Audit Committee
- Prof. Dr. Andreas Georgi, Chairman
- Stefan Lübbe
- Prof. Dr. Petra Pohlmann
- Rainer Schwarz
- Christine de Vries

Nominating Committee
- Rainer Schwarz, Chairman
- Prof. Dr. Werner Brinker
- Dr. Peter Hemeling

Mediation Committee (Sec. 27 (3) Co-Determination Act)
- Rainer Schwarz, Chairman
- Prof. Dr. Andreas Georgi
- Uwe Schröder
- Gabriele Timpe

See pp. 036 ff.

The Report of the Supervisory Board includes details of the meetings held by the Supervisory Board and its committees in fiscal 2017, together with the topics addressed at those meetings.

Shareholders' Meeting

The shareholders exercise their rights at the Shareholders' Meeting, where they have the right to vote. Each share confers one vote. To facilitate voting, Oldenburgische Landesbank AG offers its shareholders the option of being represented at the Shareholders' Meeting by proxies appointed by the Company, who must vote solely as instructed by the shareholders. Participation and voting at the Shareholders' Meeting are contingent on the shareholder's timely registration for the meeting, and on documentation of the shareholder's rights.

At the regular Annual Shareholders' Meeting, the Board of Managing Directors and Supervisory Board provide an accounting of the past fiscal year. The Shareholders' Meeting has the rights accorded to it by law. These include deciding on whether to ratify the actions of the Board of Managing Directors and Supervisory Board, on the allocation of profits, on amendments to the Articles of Incorporation, and on measures to change the Bank's capital. The Shareholders' Meeting also elects the shareholders' representatives on the Supervisory Board. Details on the agenda and on voting procedure are sent to the shareholders together with the notice of the meeting. The reports and documentation needed for the Shareholders' Meeting, together with the agenda, are published on OLB's Web site (www.olb.de).

Transparency and information

Shareholders and third parties are informed about the Bank's business performance through the publication of the annual financial statements, the management report, and the semiannual financial report. In addition, during the course of the year shareholders are informed by suitable means about business performance, especially about material changes in the business outlook and the risk situation. The accounting principles prescribed by national law and regulations are followed in preparing the financial statements. In addition, ad-hoc disclosures publish facts that can materially affect stock price, and any other relevant information is also reported. All information is released through suitable communications media, and is kept available at the Company's Web site (www.olb.de).

Oldenburgische Landesbank AG provides information about the dates of release of the Annual and Semiannual Financial Reports, as well as the dates of the Shareholders' Meeting and the financial press conference, in a financial calendar, that is published in the "Investor Relations" section of the Oldenburgische Landesbank AG Web site, as well as in the Annual Financial Report.

See p. 009

Directors' dealings

Under Art. 19 of the Market Abuse Regulation concerning disclosure and notification of dealings, persons holding management positions in an issuer of stock must report their own dealings in stock and debt instruments of the issuer, or in financial instruments relating thereto, particularly derivatives, to the issuer and to the Federal Financial Supervisory Authority (BaFin), if the total value of the purchase or sales transactions over the course of a calendar year is equal to or greater than EUR 5,000. This obligation applies to members of the Board of Managing Directors and of the Supervisory Board, as well as to other persons who regularly have access to insider information and who are authorized to make significant business decisions. The obligation furthermore applies for persons related to persons in management positions.

During fiscal 2017, no reportable securities transactions under Art. 19 of the Market Abuse Regulation were reported to Oldenburgische Landesbank AG.

Basic outlines of the Compliance Management System

The Board of Managing Directors of Oldenburgische Landesbank AG has implemented the following measures to establish an appropriate Compliance Management System in line with the Company's risk situation and size:

Oldenburgische Landesbank AG has established a compliance office that reports directly to the Board of Managing Directors, with the task of assisting the Board of Managing Directors, employees, and any applicable third parties to conduct themselves in compliance with regulations. This is intended to ensure compliance with certain rules and avoid material violations.

The following basic features of the Compliance Management System (CMS) are incorporated into the Bank's business procedures:
A *culture of compliance* establishes the basis for the appropriateness and efficacy of the CMS. It is most of all shaped by the basic attitudes and conduct of management, and by the role of the supervisory body (the "tone at the top"). The culture of compliance influences the significance that Company employees attach to compliance with rules, and thus their willingness to act in compliance with those rules. The culture of compliance at OLB is governed by such instruments as the Code of Conduct, the policy for establishing and maintaining the risk culture, and the employee guidelines.

On the basis of the general corporate objectives and an analysis and weighting of the rules that are significant for the Company, the Board of Managing Directors defines the goals that the CMS is to achieve. These *compliance objectives* represent the basis for assessing *compliance risks.* The compliance objectives are defined in the Code of Conduct, the employee guidelines, and the guidelines prepared by the various specialized units. The Code of Conduct defines that all employees must comply with the laws and regulations applicable within their job environment, as well as the internal instructions and guidelines they receive. Within their job environment, employees must conduct themselves honestly and fairly, with proper decorum and integrity, and must avoid all conflict between private and professional interests.

The management has established clear areas of authority and responsibility for the CMS, together with the organization of its structures and procedures, and has provided the resources needed for an effective CMS.

In light of the compliance objectives, compliance risks are identified that may result in violations of required rules and thus a failure to achieve the compliance objectives. Within the OLB Group, risks are systematically detected and reported by the specialized units in charge. The results of monitoring for the principal legal rules and requirements, as well as the remedying of deficits, including a timetable, are regularly reported to Compliance. The Compliance office reports on its activities to the Board of Managing Directors and Supervisory Board each quarter, as well as whenever circumstances require. The Chairman of the Supervisory Board and the Chairman of the Audit Committee may obtain information directly from the Compliance officer.

On the basis of the assessment of compliance risks, the specialized units in charge introduce principles and procedures based on limiting compliance risks, and thus avoiding compliance violations. The *compliance program* also includes the measures to be taken when compliance violations are discovered. To ensure that the CMS functions irrespective of individual personalities, the compliance program is documented.

As part of *compliance communications,* the employees concerned and any relevant third parties are informed about the compliance program and the defined roles and responsibilities, so that they adequately understand their tasks under the CMS and carry them out properly.

The Company has established a variety of guidelines about how compliance risks, along with any indications of potential or determined violations of the rules, are to be reported to the responsible offices within the Company.

The suitability and efficacy of the CMS are monitored in an appropriate manner. A prerequisite for monitoring is adequate documentation of the CMS. If shortcomings in the CMS or violations are discovered in the course of monitoring, these are reported to management or to the responsible specialized unit within the Company. The Board of Managing Directors ensures that the CMS is enforced, deficiencies are remedied, and the system is improved.

Within the OLB Group, suitability and efficacy are monitored by first-level controls (by the specialized units in charge) and second-level controls (by Compliance and Risk Controlling). As a “third line of defense,” the Auditing department performs regular independent audits.

Management Declaration (Disclosures per Sec. 289 f of the German Commercial Code)

Declaration of Compliance with the German Corporate Governance Code

Under Sec. 161 of the German Stock Corporation Act, each year the managing board and supervisory board of listed companies must issue a declaration of compliance with the recommendations of the German Corporate Governance Code. Deviations from the recommendations must be disclosed, and their reasons must be given, under the principle of "comply or explain."

In December 2017, the Board of Managing Directors and the Supervisory Board of Oldenburgische Landesbank AG issued the periodic Declaration of Compliance with the German Corporate Governance Code, declaring that the Company has complied with all recommendations of the German Corporate Governance Code since the last Declaration of Compliance was issued, and that it will continue to comply with those recommendations in the future. The Declaration of Compliance of December 2017 reads as follows:

"Declaration of the Board of Managing Directors and the Supervisory Board of Oldenburgische Landesbank AG on the recommendations of the Government Commission on the German Corporate Governance Code in accordance with Sec. 161 of the Stock Corporation Act

1. Oldenburgische Landesbank AG complies, and will continue to comply, with all recommendations of the Government Commission on the German Corporate Governance Code in the version of February 7, 2017, as promulgated by the Federal Ministry of Justice in the Official Part of the Federal Gazette, the Bundesanzeiger.

2. Since the last Declaration of Compliance, from December 2016, Oldenburgische Landesbank AG has complied with all recommendations of the Government Commission on the German Corporate Governance Code in the version of May 5, 2015.

Oldenburg, December 2017
Oldenburgische Landesbank AG

For the Board of Managing Directors:
(signed) Patrick Tessmann
(signed) Karin Katerbau

For the Supervisory Board:
(signed) Rainer Schwarz"

This Declaration of Compliance, together with the Declarations of Compliance from past years, is kept permanently available to the public in the "Investor Relations" section of the Web site of Oldenburgische Landesbank AG (www.olb.de), under the "Corporate Governance" heading.

Oldenburgische Landesbank AG furthermore complied extensively with the nonbinding suggestions of the German Corporate Governance Code in fiscal 2017.

Disclosures regarding management practices

OLB depends for its survival on the trust of its clients, shareholders, employees and the public in the Company's performance and integrity. This trust depends significantly on the conduct of employees, executives, and corporate management, and on the way in which they apply their abilities for the benefit of clients, shareholders and the Company itself.

OLB has established a Code of Conduct for all employees, managers and members of the Board of Managing Directors, oriented to the principles and minimum standards of the Global Compact program of the United Nations. The Global Compact is an initiative of former UN Secretary-General Kofi Annan to promote the recognition of human rights and the integration of sustainability and social responsibility into companies' business activities.

The principles of conduct described in the OLB Code of Conduct implement these principles and provide guidelines for employees' daily thinking and action. In addition to matters of corruption, money laundering and discrimination, the principles also especially emphasize potential conflicts of interest and how to avoid them.

The Bank's Code of Conduct is published in the "Investor Relations" section of its Web site, under the "Corporate Governance" heading.

Description of the working procedures of the Board of Managing Directors and Supervisory Board and the composition and working procedures of their committees

The working procedures of the Board of Managing Directors and Supervisory Board are described in the Corporate Governance Report.

See pp. 010 ff.

The members of the Board of Managing Directors are listed in the Compensation Report. The members of the Supervisory Board are listed in the Corporate Governance Report.

See pp. 025 ff.

The composition and working procedures of the committees of the Supervisory Board are described in the Corporate Governance Report. The Board of Managing Directors has decided not to form committees of its own.

See pp. 015 ff.

Targets for women's participation on the Board of Managing Directors and the two levels of management below the Board of Managing Directors

Targets for the implementation period to June 30, 2017, and disclosures on the achievement of these targets

In implementation of the German Act on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors, in September 2015 OLB set targets for the first time for the membership of women on the Board of Managing Directors and in the two levels of management below that board. All agreed on June 30, 2017, as an initial date for all targets to be achieved. No target for women's membership in the Supervisory Board was set under Sec. 111(5) Sentence 5 of the German Stock Corporation Act, because the statutory gender quota under Sec. 96(2) Sentence 1 of that Act applies to the Supervisory Board. The following table shows the targets set in September 2015 and the level of achievement as of June 30, 2017:

	Target set for June 30, 2017	Actual figure at June 30, 2017	Explanation
Board of Managing Directors	25 %	25 %	This target was achieved.
First level of management below the Board of Managing Directors	20 %	19 %	This target has almost been achieved through a variety of measures. Staffing decisions were affected by structural changes in connection with the "OLB 2019" program for the future, in combination with very low staff turnover at this level.
Second level of management below the Board of Managing Directors	20 %	21 %	This target was achieved.

Targets for the implementation period up to December 31, 2019:

Once the period for implementing the first targets expired as of June 30, 2017, OLB set new targets, effective starting July 1, 2017, for women's participation on the Board of Managing Directors and the two management levels below that board (see table below). All agreed on December 31, 2019, as the date for these targets to be achieved. Once again, no target for women's membership in the Supervisory Board had to be set under Sec. 111 (5) Sentence 5 of the German Stock Corporation Act, because the statutory gender quota under Sec. 96 (2) Sentence 1 of that Act continues to apply to the Supervisory Board.

	Target set for December 31, 2019
Board of Managing Directors	25 %
First level of management below the Board of Managing Directors	25 %
Second level of management below the Board of Managing Directors	25 %

In setting targets for women's participation, the Bank is not merely concerned with simply meeting the requirements of law; after all, the Bank can be successful in business for the long term only if women are advanced with equal rights and are assigned to management positions on the basis of merit. OLB committed early to encouraging diversity within the Company. It has already established the appropriate conditions for this purpose; it has focused HR processes on this goal and taken a number of steps. In addition to providing better alternatives for compatibility between work and family, the range of these measures includes personnel development programs, targeted preparation for future duties, and mentoring for upcoming managers, in which participants can benefit from the experience of long-standing executives, including women executives.

Statutory gender quota for the Supervisory Board

In compliance with Sec. 96 (2) Sentence 1 of the German Stock Corporation Act, the Supervisory Board of Oldenburgische Landesbank AG must include at least 30 percent women and at least 30 percent men. The Company was in compliance with this statutory quota in fiscal 2017, as since its last constituting meeting in May 2013, the Supervisory Board has included four women and eight men.

Diversity concept for the Board of Managing Directors

In appointing the Board of Managing Directors, the Supervisory Board seeks broad diversity in terms of both gender and background of training and experience. The Supervisory Board assesses achievement of this goal in part on the basis of the following specific indicators:

- A membership of at least 25 percent of women on the Board of Managing Directors.
- Appropriate diversity in terms of training and professional background, with the understanding that the Supervisory Board's latitude for action is limited by regulatory requirements (professional qualifications).

The aim of this concept is that the Board of Managing Directors as a whole should have the qualifications and experience needed for prudent, proper management of the Company. To achieve this goal, in reviewing candidates for a position on the Board of Managing Directors, the Supervisory Board takes account of the balance and diversity of knowledge, skills and experience of all members of the Board of Managing Directors.

Until December 31, 2017, the Board of Managing Directors had three men and one woman as members. Since January 1, 2018, this board has had two men and one woman as members. The present Board of Managing Directors is very broad-based in terms of the professional knowledge, training and experience represented there, and in all has many years of banking expertise in managing various fields. To that extent, the criteria of the diversity concept for the Board of Managing Directors have all been fulfilled at present.

Diversity concept for the Supervisory Board

The Supervisory Board strives to achieve adequate diversity within its membership with regard to gender and to diverse professional backgrounds, professional knowledge and experience, in accordance with the following principles:

- The Supervisory Board must include at least 30 percent women and at least 30 percent men (statutory gender quota under Sec. 96 (2) Sentence 1 of the Stock Corporation Act). The Supervisory Board also adopts the statutory gender quota as a goal for encouraging representation by the underrepresented gender under Sec. 25 d(11) Sentence 2 No. 2 of the Banking Act.
- With regard to their personality, professional experience and professional knowledge, the members of the Supervisory Board should complement one another so that the board can draw upon the broadest possible fund of experience and diverse specialized knowledge.

With this concept, the Supervisory Board of Oldenburgische Landesbank AG seeks a membership that will ensure qualified supervision and advice for the Bank's management. To achieve that goal, the board will take the above criteria into account in nominating new shareholder representatives for election by the Shareholders' Meeting to the Supervisory Board. The special terms of the Co-Determination Act must be observed in regard to the employee representatives on the Supervisory Board.

The current composition of the Bank's Supervisory Board meets all criteria of the diversity concept. The Supervisory Board currently comprises four women and eight men, so that the gender ratio required by law has been met. The current members of the Supervisory Board work in the management of small or medium-sized businesses, served for many years as members or chairpersons of the managing boards of large stock corporations, held appointments for many years as the managers of other banking institutions, hold a university chair in civil law, business law, and civil procedure, were the chief counsel for an international insurance group, were or are members of supervisory boards of other banking institutions or companies, or have been employees of a company or union for many years. This composition ensures the balance and diversity of the knowledge, skills and experience within the Supervisory Board.

Compensation Report

The Compensation Report summarizes the structure, principles and amounts of the compensation of the Board of Managing Directors of OLB. It also presents the composition and amount of the compensation of the Supervisory Board. It furthermore describes the structure of the compensation systems for OLB employees, and the total amounts of all employee compensation.

The information required under Sec. 285(9) Letter a Sentences 5–8 of the Commercial Code is an integral part of the management report, and is therefore not repeated in the Notes to the Financial Statements.

Compensation of the Board of Managing Directors

Compensation system

The concept for the compensation of the Board of Managing Directors aims for fairness, sustainability and competitiveness. Its structure is deliberated and regularly reviewed by the Supervisory Board. This procedure was most recently carried out in September 2017. Given the closing of the sale of Allianz Deutschland AG's ownership interest in OLB, the Supervisory Board of OLB has revised the compensation system, to take effect as of fiscal 2018.

The following compensation principles govern the compensation of the Board of Managing Directors:

- Total compensation must be sufficient to attract highly qualified executives and keep them with the Company for the long term.
- The compensation structure must ensure a balance between short-term and long-term components of compensation.
- The incentive system must be designed in such a way as to be effective even if the business environment changes.
- The variable results-based and performance-based components of compensation must be consistent with OLB's strategic and financial interests. They are designed so as to offer no incentives to incur unreasonable risk.
- Total compensation must be consistent with the individual board members' duties and responsibilities, as well as their achievements.
- The compensation system supports the objectives of risk management, capital management and liquidity management, and aims to encourage a structurally conservative risk policy within the Company.

The compensation system that was in effect for the Board of Managing Directors in the year under report consisted of the following components:

Non-performance-based compensation

The non-performance-based component of compensation comprises a fixed component and other elements:

a) *Fixed component:* The base compensation is a fixed amount disbursed in twelve monthly payments. The amount of this component depends in part on the board member's position and responsibilities, and in part on external market conditions.

b) *Other components of compensation:* Noncash benefits provided as compensation in kind and perquisites are accorded in variable amounts depending on the individual's duties and position, and must be taxed individually. These are primarily insurance benefits commonly provided in the market, and the use of company cars.

Performance-based compensation

The performance-based component of compensation conferred by OLB has two elements and ensures an appropriate balance between short-term financial targets, longer-term results, and a sustainable increase in corporate value. All elements of performance-based compensation are described in a model that applies for the Allianz Group, the Allianz Sustained Performance Plan (ASPP). To determine the performance-based component, each year the Supervisory Board makes a goal agreement with the individual members of the Board of Managing Directors that sets forth both corporate and personal targets. In assessing the achievement of targets, the Supervisory Board may set the performance-based component within a range of 0 percent to 150 percent of the variable target compensation. However, the variable component may normally not exceed 100 percent of the fixed component. In 2017, the Shareholders' Meeting approved an exception to this principle, according to which the variable component of compensation may not exceed 200 percent of the fixed component for fiscal 2017 and 2018, for those members of the Board of Managing Directors who were in office on May 24, 2017.

See Glossary, p. 144

The performance-based compensation for all members of the Board of Managing Directors for the year under report comprised the following components:

a) *Annual bonus:* The members of the Board of Managing Directors receive an annual bonus depending on the degree to which the targets under a personal goal agreement are achieved. The targets are defined before the beginning of the performance period. At the end of that annual period, the degree to which these goals have been achieved is assessed, and that assessment serves as a basis for the amount of the annual bonus to be paid.

b) *Share-based payments:* Furthermore, until the closing of the sale of Allianz Deutschland AG's ownership interest in OLB, the members of the Board of Managing Directors participated in Allianz's Group-wide program for share-based compensation (the Allianz Equity Initiative, AEI). Under this program, share-based compensation is awarded in the form of virtual stock, known as Restricted Stock Units (RSU), after the end of the fiscal year, at the time when the annual bonus is determined. The number of RSUs is calculated from the amount of the annual bonus for the past fiscal year, divided by the calculated market value of one RSU as of the date of the award. The RSUs are subject to a holding term of four years after they are awarded. After that period expires, the RSUs are automatically exercised by the Company in accordance with the terms of the plan. For each RSU, the member of the Board of Managing Directors receives the equivalent of one share of Allianz SE at the exercise price defined in the terms of the plan. This amount is paid out in cash or in Allianz SE stock. Moreover, the potential appreciation of RSUs is limited to 200 percent of the stock price as of their grant date. Fifty percent of the RSUs are subject to additional sustainability criteria. If certain events of an especially serious nature occur, the Supervisory Board may cancel up to 50 percent of awarded RSUs before they are exercised.

See Glossary, pp. 144 and 146

The Supervisory Board has defined maximum limits for the compensation of the Board of Managing Directors, both as a whole and in terms of the variable components. It has also defined the target benefits level for the individual members of that board.

In connection with the sale of Allianz Deutschland AG's ownership interest in OLB, the members of the Board of Managing Directors will receive a transaction bonus as part of their variable cash compensation. This bonus will be provided not by OLB, but by Allianz Deutschland AG, with the consent of OLB's Supervisory Board. OLB will incur no financial charges from the grant of the transaction bonus.

The transaction bonus will be granted in three tranches for the 2016, 2017 and 2018 fiscal years.

1. Tranche for fiscal 2016
   The tranche for fiscal 2016 is EUR 150 thousand for Mr. Tessmann, and EUR 125 thousand each for the other members of the board; it was granted as a bonus in light of the sale process. It was disbursed in April 2017.

2. Tranche for fiscal 2017
   The tranche for fiscal 2017 is EUR 312.5 thousand for Mr. Tessmann, and EUR 236.5 thousand each for the other members of the board; it was granted as a bonus in light of the signing of a contract for the sale of Allianz Deutschland AG's ownership interest in OLB.

   Disbursement of the tranche for fiscal 2017 was subject to the reservation of the cumulative meeting of the following conditions:
   - An unchallengeable resolution of the Shareholders' Meeting under Sec. 25 a (5) Sentence 5 of the Banking Act, raising the upper limit for variable compensation of members of the Board of Managing Directors.
   - Signing of an agreement for the sale of Allianz Deutschland AG's ownership interest in OLB by no later than the end of fiscal 2017.

   These conditions were met in May and June 2017, respectively. The tranche for fiscal 2017 was paid out in July 2017.

3. Tranche for fiscal 2018
   The amount of the tranche for fiscal 2018 is the same as the tranche for fiscal 2017 (EUR 312.5 thousand for Mr. Tessmann and EUR 236.5 thousand for each of the other members of the Board of Managing Directors), and is granted as a bonus in light of the closing of the sale of the ownership interest.

   Disbursement of this tranche is subject to the cumulative fulfillment of the following conditions:
   - The resolution of the Shareholders' Meeting raising the upper limit for the variable component of compensation of members of the Board of Managing Directors is found to be unchallengeable.
   - The closing of the sale of the ownership interest takes place no later than the end of fiscal 2018.
   - The particular member of the Board of Managing Directors is still a member of that board of OLB at the closing date.

   Additionally, the entitlement to this tranche of the transaction bonus and its disbursement are limited by the upper limit for the variable component of compensation under Sec. 25 a (5) of the Banking Act if the contract of a member of the Board of Managing Directors ends before December 31, 2018.

Company retirement plan

Under their employment agreements, the members of the Board of Managing Directors receive a company retirement plan in the form of a defined-contribution arrangement.

Individualized compensation of the Board of Managing Directors

Individualized details of the compensation paid to the Board of Managing Directors in fiscal 2017 can be found in the tables below.

This table presents and expands upon the compensation of the Board of Managing Directors in the reporting form required by the German Commercial Code (HGB):

EUR k		Non-performance-based components		Performance-based components		Total
		Fixed component	Other components of compensation	Annual bonus and transaction bonus (short term)[1]	Share-based compensation (long term)	
Patrick Tessmann	**2017**	**465.0**	**24.3**	**684.2**	**—**	**1,173.5**
	2016	465.0	50.6	305.0	155.0	975.6
Dr. Thomas Bretzger (until December 31, 2017)	**2017**	**360.0**	**4.7**	**355.5**	**—**	**720.2**
	2016	360.0	6.7	236.6	111.6	714.9
Karin Katerbau	**2017**	**390.0**	**12.9**	**532.9**	**—**	**935.8**
	2016	360.0	15.3	237.5	112.5	725.3
Hilger Koenig	**2017**	**360.0**	**13.1**	**504.0**	**—**	**877.1**
	2016	360.0	15.5	239.5	114.5	729.5
Total compensation	**2017**	**1,575.0**	**55.0**	**2,076.6**	**—**	**3,706.6**
	2016	1,545.0	88.1	1,018.6	493.6	3,145.3

1 Includes transaction bonuses of EUR 150 thousand (fiscal 2016) and EUR 312.5 thousand (fiscal 2017) for Mr. Patrick Tessmann, and EUR 125 thousand (fiscal 2016) and EUR 236.5 thousand (fiscal 2017) each for Dr. Thomas Bretzger, Ms. Karin Katerbau and Mr. Hilger Koenig, which were paid by Allianz Deutschland AG and therefore were not incurred as a charge by OLB. In connection with OLB's departure from the Allianz Group, and after determining that targets had been achieved, the Supervisory Board granted and paid in cash the variable component of compensation for members of the Board of Managing Directors Patrick Tessmann, Karin Katerbau and Hilger Koenig for fiscal 2017, which would normally be granted in RSUs.

The total compensation paid to the Board of Managing Directors under Sec. 285 No. 9 of the Commercial Code (HGB) for fiscal 2017 came to EUR 3.7 million (prior year: EUR 3.1 million). As of December 31, 2017, the number of share-based rights held by the active members of the Board of Managing Directors totaled 14,628 RSUs.

Additionally, the compensation tables are also presented below in the form recommended under the German Corporate Governance Code (GCGC).

Compensation table as recommended under the German Corporate Governance Code – presentation of benefits granted:

Benefits granted EUR k	Patrick Tessmann Chairman of the Board of Managing Directors				Dr. Thomas Bretzger Member of the Board of Managing Directors (until December 31, 2017)			
	2016	**2017**	**2017** (min)	**2017** (max)	**2016**	**2017**	**2017** (min)	**2017** (max)
Fixed component	465.0	465.0	465.0	465.0	360.0	360.0	360.0	360.0
Fringe benefits	50.6	24.3	24.3	24.3	6.7	4.7	4.7	4.7
Total	**515.6**	**489.3**	**489.3**	**489.3**	**366.7**	**364.7**	**364.7**	**364.7**
One-year variable compensation [1]	305.0	622.5	—	777.5	244.0	355.5	—	415.0
Multi-year variable compensation	155.0	—	—	—	111.6	—	—	—
RSU 2017 (period 4 years)	155.0	—	—	—	111.6	—	—	—
Total	**460.0**	**622.5**	—	**777.5**	**355.6**	**355.5**	—	**415.0**
Pension-related expense	139.0	144.9	144.9	144.9	107.6	111.9	111.9	111.9
Total compensation	**1,114.6**	**1,256.7**	**634.2**	**1,411.7**	**829.9**	**832.1**	**476.6**	**891.6**

Benefits granted EUR k	Karin Katerbau Member of the Board of Managing Directors				Hilger Koenig Member of the Board of Managing Directors			
	2016	**2017**	**2017** (min)	**2017** (max)	**2016**	**2017**	**2017** (min)	**2017** (max)
Fixed component	360.0	390.0	390.0	390.0	360.0	360.0	360.0	360.0
Fringe benefits	15.3	12.9	12.9	12.9	15.5	13.1	13.1	13.1
Total	**375.3**	**402.9**	**402.9**	**402.9**	**375.5**	**373.1**	**373.1**	**373.1**
One-year variable compensation [1]	244.0	494.5	—	623.5	244.0	474.5	—	593.5
Multi-year variable compensation	112.5	—	—	—	114.5	—	—	—
RSU 2017 (period 4 years)	112.5	—	—	—	114.5	—	—	—
Total	**356.5**	**494.5**	—	**623.5**	**358.5**	**474.5**	—	**593.5**
Pension-related expense	108.6	116.3	116.3	116.3	137.6	145.6	145.6	145.6
Total compensation	**840.4**	**1,013.7**	**519.2**	**1,142.7**	**871.6**	**993.2**	**518.7**	**1,112.2**

1 Includes transaction bonuses of EUR 150 thousand (fiscal 2016) and EUR 312.5 thousand (fiscal 2017) for Mr. Patrick Tessmann, and EUR 125 thousand (fiscal 2016) and EUR 236.5 thousand (fiscal 2017) each for Dr. Thomas Bretzger, Ms. Karin Katerbau and Mr. Hilger Koenig, which were paid by Allianz Deutschland AG and therefore were not incurred as a charge by OLB. In connection with OLB's departure from the Allianz Group, and after determining that targets had been achieved, the Supervisory Board granted and paid in cash the variable component of compensation for members of the Board of Managing Directors Patrick Tessmann, Karin Katerbau and Hilger Koenig for fiscal 2017, which would normally be granted in RSUs.

Compensation table as recommended under the German Corporate Governance Code – presentation according to allocation:

Allocation	Patrick Tessmann Chairman of the Board of Managing Directors		Dr. Thomas Bretzger Member of the Board of Managing Directors (until December 31, 2017)	
EUR k	2017	2016	2017	2016
Fixed component	465.0	465.0	360.0	360.0
Fringe benefits	24.3	50.6	4.7	6.7
Total	**489.3**	**515.6**	**364.7**	**366.7**
One-year variable compensation [1]	684.2	305.0	355.5	236.6
Multi-year variable compensation	—	—	756.1	—
RSU 2013 (period 4 years)	—	—	756.1	—
Other	—	—	—	—
Total	**684.2**	**305.0**	**1,111.6**	**236.6**
Pension-related expense	144.9	139.0	111.9	107.6
Total compensation	**1,318.4**	**959.6**	**1,588.2**	**710.9**

Allocation	Karin Katerbau Member of the Board of Managing Directors		Hilger Koenig Member of the Board of Managing Directors	
EUR k	2017	2016	2017	2016
Fixed component	390.0	360.0	360.0	360.0
Fringe benefits	12.9	15.3	13.1	15.5
Total	**402.9**	**375.3**	**373.1**	**375.5**
One-year variable compensation [1]	532.9	237.5	504.0	239.5
Multi-year variable compensation	1,226.6	—	188.4	—
RSU 2013 (period 4 years)	1,226.6	—	188.4	—
Other	—	—	—	—
Total	**1,759.5**	**237.5**	**692.4**	**239.5**
Pension-related expense	116.3	108.6	145.6	137.6
Total compensation	**2,278.7**	**721.4**	**1,211.1**	**752.6**

1 Includes transaction bonuses of EUR 150 thousand (fiscal 2016) and EUR 312.5 thousand (fiscal 2017) for Mr. Patrick Tessmann, and EUR 125 thousand (fiscal 2016) and EUR 236.5 thousand (fiscal 2017) each for Dr. Thomas Bretzger, Ms. Karin Katerbau and Mr. Hilger Koenig, which were paid by Allianz Deutschland AG and therefore were not incurred as a charge by OLB. In connection with OLB's departure from the Allianz Group, and after determining that targets had been achieved, the Supervisory Board granted and paid in cash the variable component of compensation for members of the Board of Managing Directors Patrick Tessmann, Karin Katerbau and Hilger Koenig for fiscal 2017, which would normally be granted in RSUs.

Credit granted to members of the Board of Managing Directors was as follows as of December 31, 2017: Approved credit lines totaled EUR 90.4 thousand (prior year: EUR 90.4 thousand), EUR 0.0 thousand of which (prior year: EUR 6.8 thousand) had been used as of December 31, 2016. The interest rate charged for each line was 4.42 percent p.a. The interest rates and credit terms are on an arm's length basis.

At the reporting date, EUR 13.2 thousand (prior year: EUR 4.6 thousand) in credit card lines had been utilized, out of total limits of EUR 60.2 thousand (prior year: EUR 60.2 thousand).

There were no loan commitments as of December 31, 2017 (prior year: EUR 341.6 thousand).

At December 31, 2017, the discounted fulfillment amount of pension obligations, as determined on the basis of the Commercial Code, for the members of the Board of Managing Directors who were active during fiscal 2017 was EUR 2,548.1 thousand (prior year: EUR 2,022.4 thousand). Of this amount, EUR 447.6 thousand was for Mr. Tessmann, EUR 594.7 thousand was for Dr. Bretzger, EUR 622.0 thousand was for Ms. Katerbau, and EUR 883.8 thousand was for Mr. Koenig.

A total of EUR 1.6 million was paid to former members of the Board of Managing Directors or their survivors. The discounted fulfillment amount of pension obligations on the basis of the Commercial Code for former members of the Board of Managing Directors and their survivors was EUR 15.6 million (prior year: EUR 15.5 million).

The table below shows expenses for pension benefits and the pension provisions as defined under the Commercial Code (HGB) and the German Corporate Governance Code (GCGC) for the members of the Board of Managing Directors active in fiscal 2016 and 2017. Differences in the amounts shown derive primarily from the use of different discount rates under the Commercial Code and the GCGC.

		HGB		GCGC [1]	
EUR k		Pension-related expense	Pension provisions	Current service cost	Pension obligations
Patrick Tessmann	**2017**	**135.1**	**447.6**	**144.9**	**454.7**
	2016	134.9	305.1	139.0	312.1
Dr. Thomas Bretzger (until December 31, 2017)	**2017**	**99.5**	**594.7**	**111.9**	**648.9**
	2016	105.5	490.7	107.6	546.9
Karin Katerbau	**2017**	**111.1**	**622.0**	**116.3**	**687.1**
	2016	105.3	505.6	108.6	571.5
Hilger Koenig	**2017**	**150.3**	**883.8**	**145.6**	**1,185.7**
	2016	109.3	721.0	137.6	1,035.9
Total	**2017**	**496.0**	**2,548.1**	**518.7**	**2,976.4**
	2016	455.0	2,022.4	492.8	2,466.4

1 Determined on the basis of International Accounting Standard IAS 19 pursuant to the German Corporate Governance Code (GCGC)

Outlook

Given the likely closing of the sale of Allianz Deutschland AG's ownership interest in OLB, at its meeting in December 2017 the Supervisory Board adjusted the performance-based compensation of the members of the Board of Managing Directors, effective as of fiscal 2018. The core of the adjustment is the replacement of the share-based component of compensation, which was oriented to stock of Allianz SE, with a multi-year bonus; the annual bonus, however, will remain unchanged.

The performance-based multi-year bonus is intended to reward the Company's long-term success by way of the compensation of the members of the Board of Managing Directors. This new component will be granted on the basis of personal goal agreements for a period of three years at a time. Within that three-year period, the multi-year bonus will be endowed with the half of the variable component of compensation that is calculated on the basis of the annual goal assessment and that has not already been paid out as an annual bonus. The total of these amounts will constitute a preliminary basis for calculating the multi-year bonus. After the three-year period expires, the Supervisory Board will decide on goal achievement with reference to the multi-year goals, and will set the amount of the multi-year bonus on that basis, allowing for the upper limit on variable compensation under Sec. 25a(5) of the Banking Act.

Compensation system for employees of Oldenburgische Landesbank AG

Compensation system

Fixed component

The compensation system at OLB provides in principle for a payment of twelve monthly gross salary installments, each of which is paid in the middle of the month.

If an employee's contract is governed by the collective bargaining agreement for the private banking industry, the gross monthly salary is based on the pay groups under the current agreement. Employees under that collective bargaining agreement are also generally entitled to a contractually guaranteed extra payment in the amount of one month's gross salary (known as the "thirteenth month's gross salary"), which as a rule is paid in November of each year.

Employees not covered by collectively bargained agreements receive a monthly base salary that is agreed upon consistently with their duties and responsibilities.

Variable component

To enable employees to share appropriately in the Company's success, to acknowledge individual and collective accomplishments appropriately, and to support achievement of the corporate goals laid down in OLB's Business and Risk Strategy, employees are also granted variable components of compensation.

To make sure compensation does not depend significantly on the variable component, and thus to avoid incentivizing any conduct that would be inappropriate from the viewpoint of business and risk strategy, the compensation system is structured so that the variable component is well below the statutory limit of 100 percent of the fixed component.

Allowing for the Bank's business situation, the Board of Managing Directors decides each year about whether to pay a voluntary bonus (special allowance) for employees covered by the collective bargaining agreement, in addition to the thirteen month's salaries guaranteed by that agreement. The board also decides the amount of that bonus.

In addition, during the year under report, employees under the collective bargaining agreement – other than apprentices and trainees – were able to earn commissions by successfully brokering insurance policies, real estate, and home loan and savings agreements. No variable components of compensation under goal agreements are provided for this group of employees.

For employees not covered by collective bargaining agreements, the Bank makes an individual goal agreement, on the basis of which the employee can earn a results-dependent voluntary profit-sharing bonus. Except for second-level management employees, employees not covered by collective bargaining agreements could also earn commissions during the year by successfully brokering insurance policies, real estate and home loan and savings contracts.

The former commission plan for insurance and home loan and savings agreements will be replaced as of fiscal 2018 with a new performance-based bonus plan for eligible positions in sales.

Total compensation

Total compensation paid within OLB is shown in the following table:

	2017 total compensation			
EUR	Fixed	Variable [1]	Recipients [2]	Recipients
Oldenburgische Landesbank AG	96,342,222	9,205,515	2,379	105,547,737

1 Including commissions

2 Recipients in 2017 including trainees, temporary workers and interns

Compensation of the Supervisory Board

Compensation system

The compensation of the Supervisory Board was decided by the Shareholders' Meeting. It is governed by Art. 13 of the Articles of Incorporation. Members of the Supervisory Board receive only a fixed compensation. The amount of the compensation of the Supervisory Board is based on the board members' responsibilities and scope of activities.

Compensation for work on the Supervisory Board

Members of the Supervisory Board receive annual fixed compensation of EUR 50,000. The Chairman of the Supervisory Board receives EUR 100,000 and the Vice-Chairman receives EUR 75,000.

Compensation for committee work

Each member of the Executive and Compensation Committee, the Risk Committee, and the Audit Committee receives an additional annual compensation of EUR 15,000; each member of the Nominating Committee receives compensation of EUR 7,500. The committee chairs each receive twice the compensation of regular members. No additional compensation is provided for members of the Mediation Committee.

Meeting honorarium

The members of the Supervisory Board receive an honorarium of EUR 500 for each meeting of the Supervisory Board or its committees that they attend in person. No additional honorarium is paid if multiple meetings are held on the same day or on successive days.

Compensation for those who join or leave the board during the year
Members of the Supervisory Board who serve for only part of a fiscal year receive one-twelfth of the full compensation for each full or partial month in which they serve. The equivalent applies to memberships in board committees.

Individualized compensation of members of the Supervisory Board

EUR		Fixed compensation	Committee work	Meeting honorarium	Total compensation
	2017	**100,000**	**75,000**	**3,000**	**178,000**
Rainer Schwarz, Chairman	2016	100,000	75,000	3,500	178,500
	2017	**75,000**	**30,000**	**3,000**	**108,000**
Uwe Schröder, Vice-Chairman	2016	75,000	30,000	2,500	107,500
	2017	**50,000**	**7,500**	**2,000**	**59,500**
Prof. Dr. Werner Brinker	2016	50,000	7,500	2,000	59,500
	2017	**50,000**	**75,000**	**3,000**	**128,000**
Prof. Dr. Andreas Georgi	2016	50,000	75,000	3,000	128,000
	2017	**50,000**	**15,000**	**3,000**	**68,000**
Svenja-Marie Gnida	2016	50,000	15,000	3,500	68,500
	2017	**50,000**	**45,000**	**3,000**	**98,000**
Stefan Lübbe	2016	50,000	45,000	3,500	98,500
	2017	**50,000**	**15,000**	**3,000**	**68,000**
Prof. Dr. Petra Pohlmann	2016	50,000	15,000	3,500	68,500
	2017	**50,000**	**—**	**2,000**	**52,000**
Horst Reglin	2016	50,000	—	2,000	52,000
	2017	**—**	**—**	**—**	**—**
Dr. Peter Hemeling[1]	2016	—	—	—	—
	2017	**50,000**	**15,000**	**3,000**	**68,000**
Carl-Ulfert Stegmann	2016	50,000	15,000	3,500	68,500
	2017	**50,000**	**—**	**2,000**	**52,000**
Gabriele Timpe	2016	50,000	—	2,000	52,000
	2017	**50,000**	**30,000**	**3,000**	**83,000**
Christine de Vries	2016	50,000	30,000	3,500	83,500
	2017	**625,000**	**307,500**	**30,000**	**962,500**
Total	2016	625,000	307,500	32,500	965,000

1 Waiver per Art. 13(7) of the Articles of Incorporation.

Total compensation paid to the Supervisory Board for fiscal 2017, including meeting honoraria, came to EUR 962.5 thousand (prior year: EUR 965.0 thousand).

The statutory value added tax (VAT) applicable to total compensation and meeting honoraria came to EUR 183 thousand and was reimbursed.

In addition, in 2017 Carl-Ulfert Stegmann received EUR 2 thousand (prior year: EUR 2 thousand) plus VAT as compensation for his membership on the Advisory Board of Oldenburgische Landesbank AG.

Dr. Petra Pohlmann received compensation in the amount of EUR 40 thousand (prior year: EUR 40 thousand) and meeting honoraria of EUR 0.6 thousand (prior year: EUR 0.9 thousand), each plus VAT, from Allianz Versicherungs-AG for her activity on the present Company's Supervisory Board.

Credit granted to members of the Supervisory Board

Credit granted to members of the Supervisory Board was as follows as of December 31, 2017: Approved credit lines totaled EUR 262.3 thousand (prior year: EUR 290.3 thousand), EUR 11.7 thousand of which (prior year: EUR 21.9 thousand) had been used as of December 31, 2017. The interest rates charged for each line were between 3.22 percent and 7.92 percent p.a. The interest rates and credit terms are on an arm's length basis.

At the reporting date, EUR 4.4 thousand (prior year: EUR 4.1 thousand) in credit card lines had been utilized, out of total limits of EUR 107.3 thousand (prior year: EUR 109.3 thousand).

There were furthermore loan commitments of EUR 4,771.3 thousand (prior year: EUR 3,781.4 thousand), of which EUR 4,171.3 thousand (prior year: EUR 3,781.4 thousand) had been drawn as of December 31, 2017. The interest rates are between 0.81 percent and 4.98 percent p.a. The interest rates and loan terms are on an arm's length basis.

Report of the Supervisory Board

The Supervisory Board continuously monitored the management of the Bank during the year, advised the Board of Managing Directors on running the institution, and participated directly in decisions of fundamental importance. The organization of activities and the areas of responsibility of the Supervisory Board are set forth in the rules of procedure of the Supervisory Board and those of the Board of Managing Directors.

Overview

The Supervisory Board was regularly informed by the Board of Managing Directors about the course of business and the condition and performance of Oldenburgische Landesbank AG (below, also OLB). We also obtained information about the Bank's strategic focus, major business events, and the risk situation. We furthermore participated in the planning by the Board of Managing Directors for fiscal 2018. We additionally obtained reports on deviations of actual business developments from the originally defined goals, together with an explanation of the reasons. The Supervisory Board monitored and advised management on the basis of the written reports and oral information provided by the Board of Managing Directors. Matters of particular significance were thoroughly examined and discussed with the Board of Managing Directors. In addition to the reports from the Board of Managing Directors, we also obtained reports from the independent auditors.

In fiscal 2017 the Supervisory Board held four meetings in person, and four additional meetings via teleconferencing. The meetings were held in March, twice in May, in June, twice in July, in September, and in December. The Chairman of the Supervisory Board also maintained contact with the Board of Managing Directors between meetings, and with them regularly discussed the Bank's strategy, business performance, risk management and other matters of importance.

The reports by the Board of Managing Directors on business performance and other reports on special issues were accompanied by written documentation that was made available as preparation to every member of the Supervisory Board in good time before each meeting. The same applied for all documentation for the financial statements, and the audit reports of the independent auditors. Where acts of management were subject to the consent of the Supervisory Board or one of its committees, the matters were duly resolved upon.

Matters addressed by the full board

The Supervisory Board's regular deliberations concerned the economic condition of Oldenburgische Landesbank AG. The Supervisory Board obtained information about business performance and the current risk situation at every regular meeting, and discussed full details of the course of business development with the Board of Managing Directors. We also obtained a separate report from the Board of Managing Directors on the Company's Business and Risk Strategy, which we discussed with the Board of Managing Directors.

After the Board of Managing Directors was informed in September 2016 that Allianz Deutschland AG was in negotiations with interested parties for the possible sale of Allianz's shareholdings in OLB, we subsequently regularly obtained information about the status of that process. In connection with the sale process, Allianz Deutschland AG had promised the members of the Board of Managing Directors of OLB that it would grant them a "transaction bonus" that would be paid in three tranches, depending on the progress of the sale process. After detailed prior consultation in the Executive and Compensation Committee, and after detailed review by the full Supervisory Board, we consented for this bonus to be granted. Upon the signing of the formal agreement for the sale of the shares held by Allianz Deutschland AG in OLB, we were informed by the buyer that it would present a voluntary tender offer to the independent shareholders of OLB. We prepared the statement of opinion of the OLB Supervisory Board on this tender offer, as required by law, in two special meetings.

At the subsequent meetings, we and the Board of Managing Directors discussed various aspects and issues for the transitional phase, i. e., the period after the signing of the purchase agreement until the final closing of the change of ownership.

We addressed matters concerning the Board of Managing Directors and compensation on several occasions. For example, we decided the level of goal achievement for each member of the Board of Managing Directors for fiscal 2016, and set both the annual goals and the total amount for the variable component of compensation, as well as the pension plan contributions for 2018. We also satisfied ourselves that the system of compensation for the Board of Managing Directors complies with the relevant terms of law and the recommendations of the German Corporate Governance Code. We once again made certain that the compensation system is in line with OLB's business targets and risk-strategy objectives, and that there is no incentive to incur unreasonably high risk. We found that the amount of the compensation of the Board of Managing Directors is fair and reasonable. Given the likely closing of the sale of Allianz Deutschland AG's ownership interest in OLB, at its meeting in December 2017 the Supervisory Board revised the criteria and payment procedures for the performance-based compensation of the members of the Board of Managing Directors, effective as of fiscal 2018. The amount of the variable component of compensation remained unchanged. The core of the revision is the replacement of the share-based component of compensation, which was oriented to stock of Allianz SE, with a multi-year bonus. The Supervisory Board set suitable multi-year goals for the first period of this multi-year bonus (2018–2020). Finally, the Supervisory Board assessed the Board of Managing Directors, both as a whole and its individual members, on the basis of criteria prescribed by the German Banking Act (KWG), and furthermore reviewed the expertise and reliability of the individual members of that board. At the end of May 2017, we acquiesced in the request of Dr. Thomas Bretzger to resign early from his seat on the Board of Managing Directors as of December 31, 2017.

Further information about the compensation of the Board of Managing Directors is provided in the Compensation Report.

See pp. 025 ff.

At all four regular meetings, the Board of Managing Directors informed us in detail of the status of the implementation of the strategic "OLB 2019" program for the future. The program comprises a multiplicity of individual modules that, in the opinion of the Supervisory Board, constitute a viable concept as a whole for how to address the challenges ahead – particularly changes in client preferences, increasing digitalization and regulation, and the persistent environment of low interest rates. We obtained regular progress reports from the Board of Managing Directors, on the basis of which we were able to satisfy ourselves that implementation is already far advanced, and is very largely proceeding on schedule. In a separate report, we obtained a presentation from the Board of Managing Directors concerning the Bank's advisory approach and product portfolio in the Private Banking and Wealth Management segment.

The Supervisory Board also renewed its setting of a target for women's participation on the Board of Managing Directors, and discussed with that board the new targets it would set for women's participation in the two levels of management below the managing directors. This was necessary because the implementation deadline for the first targets set in September 2015 expired on June 30, 2017. In response to a new legislative requirement, we also adopted a diversity concept for the Board of Managing Directors and the Supervisory Board. Finally, we revised the rules of procedure for the Board of Managing Directors and the Supervisory Board to reflect current developments.

Work in the committees of the Supervisory Board

The Supervisory Board has established five committees to assist it in performing its duties efficiently: the Executive and Compensation Committee, the Audit Committee, the Risk Committee, the Nominating Committee, and the Mediation Committee.

The committees prepare the decisions of the Supervisory Board and the work of the full meetings of the board. Where permitted by law, the Supervisory Board has also transferred its decision-making authority on numerous topics to committees. The committee chairs regularly informed the Supervisory Board of the committees' work. The membership and scope of duties of the individual committees are described in the Corporate Governance Report.

See pp. 010 ff.

The *Executive and Compensation Committee* met a total of four times in fiscal 2017. It dealt primarily with matters concerning the Board of Managing Directors. The committee furthermore discussed the degree of achievement of the goals set for the members of the Board of Managing Directors for fiscal 2016, and presented a corresponding recommendation to the full Supervisory Board. It furthermore prepared for the review of the compensation system for the Board of Managing Directors, and in view of the likely change of majority shareholder, developed a proposal for replacing the share-based component of compensation – which was based on stock of Allianz SE – with a multi-year bonus. It proposed suitable multi-year goals for the first period of this multi-year bonus (2018 – 2020). It additionally prepared a proposal for the full Supervisory Board for setting annual goals, pension plan contributions, and the total amount of the variable component of compensation for fiscal 2018. It also devoted detailed discussion to the "transaction bonus" that Allianz Deutschland AG had promised the members of the OLB Board of Managing Directors in connection with the sale of Allianz's shareholdings in OLB. The committee recommended to the full Supervisory Board to consent for this bonus to be granted. The Executive and Compensation Committee also prepared the assessment of the structure, size, composition and performance of the Board of Managing Directors, and supported the Supervisory Board in assessing the knowledge, abilities and experience of the individual managing directors, as well as the Board of Managing Directors as a whole. It furthermore submitted a diversity concept for the Board of Managing Directors to the full Supervisory Board and dealt in detail with the redrafting of the German Bank Compensation Regulation (InstitutsVergV) and its new regulatory requirements for the compensation systems at banking institutions. Finally, the committee also reviewed the principles of the Board of Managing Directors for selecting and appointing members of upper management, and monitored the appropriate organization of the compensation system for OLB employees. The committee furthermore approved anticipatory resolutions on granting loans to individuals who are related parties of the Company, and discussed certain offices that members of the Board of Managing Directors hold at other companies and institutions.

The *Audit Committee* met five times in fiscal 2017, including once by way of teleconferencing. Between meetings, the committee chairman also maintained contact with the Board of Managing Directors, the independent auditors, and the heads of the Internal Auditing and Compliance units. The committee reviewed the annual financial statements of Oldenburgische Landesbank AG, the management report and the audit report, and discussed these documents for the financial statements with the auditors, who were in attendance and had first presented the principal results of their audit. The committee additionally addressed the report on relations with affiliated companies and the associated audit report. The Audit Committee found no cause for objection in either the documents for the financial statements or the report on relations with affiliated companies. It also satisfied itself of the independence of the independent auditors, discussed setting main emphases for the audit, and engaged the auditors. It made decisions as well on the nature and scope of what are known as "non-audit services" that the independent auditors are permitted to provide. At each of the subsequent meetings held in person, the committee obtained reports on the evolution of the size of fees for such non-audit services provided by the independent auditors. The committee furthermore submitted a recommendation to the full Supervisory Board for the Supervisory Board's recommendation to the Shareholders' Meeting regarding the appropriation of the net retained profits. It additionally addressed the main points of the regulatory requirements for the coming fiscal year, and obtained further details of the status of implementation for the report on material nonfinancial concerns (CSR Report), which was required for the first time for fiscal 2017. It also again addressed the internal controlling system for financial reporting.

The Audit Committee reviewed the systems in place at Internal Auditing and Compliance for their efficacy, and obtained reports at all meetings held in person concerning these two units' activities. It also addressed audit reports that KPMG had prepared on various topics (requirements under the laws on depository institutions and the capital markets; precautions to prevent money laundering, financing of terrorism and other criminal acts; legal, economic and organizational bases; and risk management). It additionally discussed the semiannual financial report with the Board of Managing Directors before publication. Finally, the committee submitted a suggestion to the full Supervisory Board for the Declaration of Compliance with the German Corporate Governance Code, and approved the Company's investment plan for 2018. After the plans of Allianz Deutschland AG to potentially dispose of its shareholdings in OLB had become known, the committee regularly obtained information about the current status of the sale process.

The *Risk Committee* held a total of four meetings last year in person. It also met nine times by way of teleconferencing, to deliberate and decide primarily on individual credit exposures. Between meetings, the chairman of the Risk Committee maintained regular contact with the Board of Managing Directors. The Risk Committee obtained an explanation of the Business and Risk Strategy from the Board of Managing Directors and concerned itself in depth with the Bank's current risk position at all its meetings held in person. These quarterly risk reports addressed such matters as risk-carrying capacity, credit risks, market price risks, liquidity risks and operational risks. As in the previous reporting periods, the committee obtained regular reports on the evolution of the loans extended by OLB for ship financing, and attentively tracked the steps taken by the Board of Managing Directors to reduce risk in this segment. The committee also gave special attention to the Bank's future strategy for financing wind farms in view of the latest amendment of the German Renewable Energy Act (EEG 2017). The Risk Committee also evaluated the incentives established under the compensation structure, and found that the provided incentives take due account of OLB's risk, capital and liquidity structure and of the probability and maturities of revenues. It also examined whether terms in the customer business are consistent with OLB's business model and risk structure, and satisfied itself that this was the case. Further topics were the review of the risk management system, the approval of the sale of real estate holdings, consent to loans extended to related entities of the Company, and addressing individual loan applications.

The *Nominating Committee* met three times during the year, including one meeting via teleconferencing. It developed a profile of qualifications for the Supervisory Board as a whole, and also developed a proposal for a diversity concept for this board. It furthermore prepared the Supervisory Board's self-evaluation in compliance with the criteria of the Banking Act, and reviewed the independence of the members of the Supervisory Board.

There was no occasion to convene the *Mediation Committee* formed under Sec. 31(3) of the German Co-Determination Act.

Self-evaluation of the Supervisory Board

The Supervisory Board reviewed the efficiency of its activities again in the past year, with special attention to various aspects of the board's work. Additionally, with the support of the Nominating Committee, the Supervisory Board performed a self-assessment of its structure, size, composition and performance. Likewise based on preparations by the Nominating Committee, it also assessed the knowledge, abilities and experience of the Supervisory Board as a whole and its members as individuals, and in that connection also reviewed the expertise and reliability of its members.

Furthermore, in December 2017 we analyzed the independence of the members of the Supervisory Board, and found that by its own assessment, the Supervisory Board had ten independent members at that time. Thus the minimum set in the goals of the Supervisory Board has been exceeded.

Corporate Governance and Declaration of Compliance

The Supervisory Board and the Board of Managing Directors thoroughly discussed the implementation of the provisions of the German Corporate Governance Code, with particular attention to the new recommendations added to the Code in February 2017. In implementation of one of these new recommendations, the Supervisory Board adopted a qualifications profile that describes the knowledge and experience that are to be represented on the Supervisory Board as a whole. In December 2017, the Board of Managing Directors and the Supervisory Board issued the annual Declaration of Compliance with the German Corporate Governance Code in accordance with Sec. 161 of the German Stock Corporation Act, declaring that the Company has complied with all recommendations of the German Corporate Governance Code since the last Declaration of Compliance was issued, and that it will continue to comply with those recommendations in the future. The Declaration of Compliance of December 2017 was published on OLB’s Web site, and is also reproduced in the Management Declaration (Disclosures per Sec. 289 a (1) and (2) of the German Commercial Code). Both the Management Declaration and the Corporate Governance Report provide further information about corporate governance at Oldenburgische Landesbank AG.

See p. 021

Audit of annual financial statements

KPMG AG Wirtschaftsprüfungsgesellschaft, of Hamburg, has audited the annual financial statements of Oldenburgische Landesbank AG as of December 31, 2017, together with the management report, and has granted them an unqualified audit opinion. The annual financial statements were prepared in accordance with the German Commercial Code (HGB).

The documents for the financial statements and KPMG’s associated audit reports for fiscal 2017 were forwarded to all members of the Supervisory Board in a timely manner. These documents were discussed in detail by the Audit Committee at its meetings of September 7, 2017, December 12, 2017, and March 8, 2018, and by the full Supervisory Board at its meeting of March 15, 2018. The auditors participated in all of these meetings. They reported to us on the material results of their audits and were available to answer questions and provide additional information. The independent auditors furthermore confirmed that the Board of Managing Directors has duly taken the measures required under Sec. 91 (2) of the Stock Corporation Act, particularly for establishing a monitoring system, and that the monitoring system is suitable for the early detection of developments that might pose a threat to the Company’s continuing existence.

On the basis of its own audit and review of the annual financial statements and the management report, as well as the proposed allocation of profits, the Supervisory Board found no objections, and concurred in the results of KPMG’s audit of the financial statements. The Supervisory Board approved the annual financial statements prepared by the Board of Managing Directors; the annual financial statements are thereby adopted. We concur in the allocation of profits proposed by the Board of Managing Directors.

Audit of the nonfinancial report

For the first time, as of December 31, 2017, Oldenburgische Landesbank AG has prepared a separate nonfinancial report pursuant to Sec. 289 b of the German Commercial Code. The Supervisory Board audited this report; its audit revealed no cause for objection.

Report on relations with affiliated companies

The Board of Managing Directors furthermore submitted to the Supervisory Board the report on relations with affiliated companies, together with the associated audit report prepared by KPMG. On the basis of their audit, completed without finding objections, the independent auditors provided the following audit opinion:

“Following our conscientious audit and assessment, we confirm that

1. the factual details of the report are correct,
2. in the transactions detailed in the report, the consideration furnished by the company was not excessive, or any detriment was compensated,
3. there are no circumstances that argue for an assessment materially different from that of the Board of Managing Directors in regard to the measures detailed in the report.”

The report on relations with affiliated companies, together with the associated audit report, was forwarded to all members of the Supervisory Board. These documents were discussed by the Audit Committee and by the full board, with the independent auditors attending. The independent auditors reported on the material findings of their audit. On the basis of its own review, the Supervisory Board approved the report on relations with affiliated companies. We have noted with approval the associated report by the independent auditors.

In accordance with the final results of its own audit, the Supervisory Board has no objections to the declaration by the Board of Managing Directors at the end of the Report on Relations with Affiliated Companies.

Members of the Supervisory Board and Board of Managing Directors

The Supervisory Board acceded to Dr. Bretzger’s request to resign from his seat on the Board of Managing Directors as of December 31, 2017, in order to take up a new challenge outside Oldenburgische Landesbank AG.

There were no changes in the membership of the Supervisory Board during the year. As part of the change in the majority shareholder, all six shareholder representatives on the Supervisory Board have resigned from their offices, effective as of the end of the special Shareholders’ Meeting called for March 16, 2018; a new election of the six shareholder representatives will take place at that meeting.

The Supervisory Board wishes to thank every employee of Oldenburgische Landesbank AG for their dedication and for their successful hard work.

Oldenburg, March 15, 2018
For the Supervisory Board

Rainer Schwarz
Chairman

MANAGEMENT REPORT

About the Company

Oldenburgische Landesbank AG (OLB) is an exchange-listed regional bank that has conducted commercial banking business for corporate and retail customers since 1869. Its core business territory covers the region between the Weser and Ems Rivers and the North Sea. With experienced staff for corporate customers, retail customers and independent professionals, specialized advisors particularly for the region's strong agricultural and renewable energy sectors and in private banking / wealth management, along with an ingrained sense of social responsibility, OLB has made itself a partner for the region and its people.

The Company's banking business operations are conducted by OLB AG. OLB additionally maintains two special funds, AGI-Fonds Ammerland and AGI-Fonds Weser-Ems, as long-term financial assets. The Bank is furthermore the sole shareholder of two companies which, however, are not of material significance for OLB's net assets, financial position and results of operations, and therefore are not required to be consolidated.

OLB's intent to provide comprehensive, individualized advice for its customers requires a systematic orientation to target groups in its front-office units. For that reason, the Bank's monitoring and reporting are based on three strategic lines of business: Retail and Business Customers, Private Banking & Independent Professionals, and Corporate Customers.

The Retail and Business Customers segment comprises the classic banking business with individuals and businesses. Above and beyond private construction financing and the deposits business, its principal product groups are account management, payment traffic, consumer loans, smaller business loans, risk cushioning and retirement planning, and structured asset investment. This segment is a very important source for OLB's stable deposit base, and thus for the Bank's liquidity and refinancing base as well.

The Private Banking & Independent Professionals segment offers all-around customized support for its clients, from investment counseling to the lending business. This line of business places a particular emphasis on asset investment, with a strong focus on managed forms of investment and asset management, securities advisory services to assist orders, and real estate brokering and financing. It also offers classic banking products in payment traffic, deposits and lending, as well as customized solutions for private risk cushioning and retirement planning.

In the Corporate Customers segment, OLB concentrates on its traditional broad-based credit business with small and medium-sized corporate customers, especially in the key regional industries of renewable energy, agriculture and food. In addition to the lending business, here OLB primarily offers payment traffic, foreign business, interest rate hedges and insurance.

OLB aligns its profitability goals with the risk structure of its business activities, the returns that the capital market expects from companies with a comparable risk structure, and the structural need for profits to safeguard adequate capitalization by way of retained earnings. The bounds within which the requisite profitability potential will be achieved are set by ensuring that incurred risks remain manageable at all times. OLB's management system is derived from these principles of business and risk policy.

The Bank is managed on the basis of the business policy goals established in its Business and Risk Strategy, and of the resources and measures planned for achieving those goals, including the allocation of capital to cover risk. Both strategic documents are reviewed by OLB's Board of Managing Directors and discussed with the Supervisory Board at least once a year, to take timely account of changing conditions.

As part of the annual planning process, profit targets are set for the Bank's business units on the basis of these strategic expectations. The targets take due account of the resources allocated to the units, such as capital and risk limits, together with the associated profit expectations.

Success in implementing strategic objectives is assessed using key performance indicators (KPIs) on the basis of a comparison between planned and actual figures. The principal control parameters are reported monthly, and the reports include detailed comments to point up important current developments and areas of action for the Board of Managing Directors. Early identification of deviations from projected figures for the Bank as a whole and within the strategic lines of business ensures that when such discrepancies from the targets are discovered, management can directly decide on measures for a correction. The Bank manages its financial figures internally on the basis of International Financial Reporting Standards (IFRSs). The choice of KPIs for the Whole Bank is based on the overriding financial objective of achieving a fair return while controlling incurred risks at all times. For that reason, the principal financial performance indicators applied are return on equity,[1] the core capital ratio,[2] the risk coverage ratio,[3] and the liquidity coverage ratio[4] as a key figure for the Bank's ability to meet payments. The cost-income ratio[5] is used to assess cost efficiency at the Whole Bank level.

The above key figures are embedded in a system of additional financial and nonfinancial key performance indicators that are used to manage specific aspects, but that are of secondary importance for managing the Company as a whole.

The separate nonfinancial report will be published by April 30, 2018, at www.olb.de/nachhaltigkeitsberichte.

The table below shows changes in the principal key performance indicators:

	2016	Prior-year projection for 2017	2017	Current projection for 2018
Return on equity (IFRS)	8.3 %	↘ Slight decrease	10.3 %	↘ Slight decrease
Core capital ratio	11.2 %	↗ Slight increase	12.4 %	→ Stable
Risk coverage ratio	159.0 %	→ Stable	215.0 %	→ Stable
Liquidity coverage ratio	117.5 %	→ Well above 80 %	124.6 %	→ Consistently above 100 %
Cost-income ratio (IFRS)	77.3 %	↘ Slight improvement	73.9 %	↘ Slight improvement

1 Ratio of profit before taxes to average equity per IFRSs

2 Ratio of core capital to risk-weighted assets

3 Ratio of available risk coverage to risk capital needed

4 Ratio of holdings of highly liquid assets to expected cash outflows in the next 30 days

5 Ratio of administrative expenses to total of net interest income, net commission income and net operating trading income

Additional Disclosures Concerning Takeovers under Sec. 289 a (1) HGB and Explanatory Report

Composition of subscribed capital

See Glossary, p. 147

The issued capital of OLB, in the amount of EUR 60,468,571.80, is divided into 23,257,143 no-par shares. The shares are bearer shares and are fully paid in. All shares carry the same rights and obligations. Each share confers one vote. The shareholders' participation in the Company's profits are proportionate to their holdings of the share capital (Sec. 60 of the German Stock Corporation Act – AktG). Treasury stock held by the Company itself is not eligible to vote or to participate in profits (Sec. 71 b AktG). Under Art. 5 (2) Sentence 2 of the Articles of Incorporation, shareholders are not entitled to have their shares certificated. Details of the shareholders' rights and duties are specified by the Stock Corporation Act, particularly Secs. 12, 53a et seq., 118 et seq., and 186.

Restrictions on voting rights or on the transfer of shares

So far as the Board of Managing Directors is aware, there are no restrictions on voting rights or on the transfer of shares.

Capital holdings in excess of 10 percent of voting rights

At the reporting date, December 31, 2017, Allianz Deutschland AG, of Munich, held approximately 90.2 percent of the shares of Oldenburgische Landesbank AG. The sole shareholder of Allianz Deutschland AG is Allianz SE, of Munich. On June 23, 2017, Allianz Deutschland AG and Allianz SE informed the Board of Managing Directors of OLB that the entire ownership interest held by Allianz Deutschland AG, corresponding to approximately 90.2 percent of the Bank's share capital, had been sold to BKB Beteiligungsholding AG. Closing of the sale was subject to certain conditions precedent. These included obtaining the necessary approvals from the antitrust and other regulatory authorities, including from the bank regulators. On February 7, 2018, information was received from Allianz Deutschland AG and Allianz SE that all conditions for closing the sale had been met.

Under a tender offer published on July 19, 2017, for all no-par bearer shares of OLB, under Secs. 29 et seq. of the German Securities Acquisition and Takeover Act (WpÜG), and according to a notice of September 8, 2017, BKB Beteiligungsholding AG was offered 3.236 percent of OLB stock. Additionally, on September 7, 2017, BKB Beteiligungsholding AG gave notice that apart from the tender offer, a purchase agreement for 1.92 percent of OLB stock had been entered into.

Since that time, BKB Beteiligungsholding AG has been merged into Bremer Kreditbank AG (BKB), and therefore the aforementioned shareholding was transferred to Bremer Kreditbank AG as of December 8, 2017. Taking account of the portion of stock acquired from Allianz, this yields a shareholding of 95.35 percent of OLB stock for Bremen Kreditbank AG. As the new majority shareholder, BKB will seek to quickly refill the positions of shareholder representatives on the Supervisory Board. OLB has therefore invited its shareholders to a special Shareholders' Meeting on Friday, March 16, 2018. The only agenda item is the election of new shareholder representatives for the Supervisory Board. To simplify its group structure, BKB has announced a squeeze-out of other shareholders (minority shareholders) in accordance with Secs. 327a et seq. of the Stock Corporation Act, in return for a fair and reasonable cash settlement. Accordingly, the Board of Managing Directors of Oldenburgische Landesbank AG was served on February 7, 2018, with a written request from the majority shareholder, Bremer Kreditbank AG, under Sec. 327 a (1) Sentence 1 of the Stock Corporation Act, to take all necessary measures in order that the next Shareholders' Meeting of Oldenburgische Landesbank AG to take place after the special Shareholders' Meeting on March 16, 2018, can adopt a transfer resolution under Sec. 327 a (1) Sentence 1 of the Stock Corporation Act.

Shares with special rights conferring control

There are no shares with special rights conferring control.

Nature of control of voting rights for shares held by employees

Those employees who hold interests in the capital of Oldenburgische Landesbank AG exercise their rights of control directly.

Provisions of law and of the Articles of Incorporation for the appointment and dismissal of members of the Board of Managing Directors, and for amending the Articles of Incorporation

The members of the Board of Managing Directors are appointed and dismissed by the Supervisory Board, in accordance with Sec. 84 of the German Stock Corporation Act (AktG). Members of the Board of Managing Directors are appointed for terms of no more than five years. Their terms may be extended, and reappointments are permitted. In appointing members of the Board of Managing Directors, particular care must be taken that they are reliable and professionally qualified to manage a banking institution (cf. Sec. 25 c of the German Banking Act – KWG). The Federal Financial Supervisory Authority (BaFin) must be notified of the intent to appoint a new member to the Board of Managing Directors, and of the appointment proper, in accordance with Sec. 24(1) No. 1 of the German Banking Act. Under Art. 7 of the Articles of Incorporation, the Board of Managing Directors must have at least two members. If the Board of Managing Directors lacks a necessary member, in emergencies an interested party may petition the court to appoint that member, in accordance with Sec. 85 of the Stock Corporation Act.

Otherwise, the Supervisory Board may decide the number of members.

The Supervisory Board of Oldenburgische Landesbank AG is covered by the requirements of the German Co-Determination Act (MitbestG). Under Sec. 31 (2) of that Act, a member of the Board of Managing Directors must be appointed by a majority of at least two-thirds of the vote by the members of the Supervisory Board. If no such majority is obtained, the further procedure is governed by Sec. 31 (3) and (4) of the Co-Determination Act.

Members of the Board of Managing Directors may be dismissed by the Supervisory Board for cause (Sec. 84 (3) Stock Corporation Act). The resolution is to be adopted by the same rules as for an appointment. BaFin must be informed of the departure of a member of the Board of Managing Directors in accordance with Sec. 24 (1) No. 2 of the Banking Act. Under certain circumstances, Sec. 36 of the Banking Act authorizes BaFin to demand the dismissal of members of the Board of Managing Directors. Dismissal may be demanded particularly in cases of unreliability or if a board member lacks the necessary professional qualifications.

Amendments of the Articles of Incorporation must be adopted by the Shareholders' Meeting. The amending resolution must be adopted by a simple majority of votes cast and by a majority of at least three-quarters of the share capital represented at the vote (Secs. 133 (1) and 179 (2) Sentence 1 of the Stock Corporation Act, respectively). Under Art. 16 (5) Sentence 2 of the Articles of Incorporation, a simple capital majority is sufficient in place of the capital majority required under Sec. 179 (2) Sentence 1 of the Stock Corporation Act (at least three-quarters of the share capital represented at the vote), if permitted by law. Under Art. 12 of the Articles of Incorporation, the Supervisory Board is authorized to make purely editorial amendments to the Articles.

Authorization of the Board of Managing Directors to issue or buy back stock

Under Art. 6 of the Articles of Incorporation, the Board of Managing Directors is authorized to increase the Company's share capital on one or more occasions on or before May 23, 2022, subject to the consent of the Supervisory Board, by issuing new no-par shares in return for cash contributions, for a total of not more than EUR 15 million. The shareholders are to be given preemptive rights; however, the Board of Managing Directors is authorized to exclude fractional amounts from the shareholders' preemptive rights, subject to the consent of the Supervisory Board. This authorization enables the Board of Managing Directors to cover any capital needs quickly and flexibly.

Otherwise, the authority of the Board of Managing Directors to issue or repurchase stock is governed by the terms of law.

Material agreements of the Company subject to a change of control due to a takeover bid

Oldenburgische Landesbank AG is no longer a party to any agreements that provide special conditions in the event of a change of control due to a takeover bid. Because of the signing and closing of a sale agreement for Allianz's ownership interest in OLB, the agreements listed in the prior year concerning issued Restricted Stock Units (RSUs) and Stock Appreciation Rights (SARs), as well as the loss transfer obligation for all potential losses associated with the "Direct Banking Services" (DBS) unit, are no longer valid.

Indemnification agreements in the event of a change of control following a takeover bid

There are no indemnification agreements with members of the Board of Managing Directors or employees for the event of a change of control following a takeover bid.

Report on Economic Conditions

Report on Economic Conditions

The global economy is in an upswing phase. According to estimates by the International Monetary Fund (IMF), it expanded 3.7 percent in 2017 (prior year: 3.2 percent). Production in the major economies rose faster than the average and thus also had a positive influence on economic development in emerging economies. For Europe, preliminary estimates by the statistical office of the European Union (EU) indicate an increase of 2.2 percent in real gross domestic product in 2017 within the Eurozone (prior year: 1.6 percent), and 2.3 percent (prior year: 1.7 percent) for the EU as a whole.

See Glossary, p. 144

The German economy as well is on a stable growth track. According to estimates by the leading German economic research institutes, in spite of the higher number of official holidays in 2017, and after adjustment for inflation, the economy grew by 2.3 percent, faster than in the prior year (1.9 percent). Utilization of capacity continued to grow, and aggregate economic production exceeded production potential. Impetus for growth in 2017 came particularly from exports, which increased 3.7 percent (prior year: 2.6 percent), but domestic use, as the sum of consumer spending and investment in noncurrent assets, also remained a driving force for expansion, gaining 2.1 percent (prior year: 2.3 percent). Both private and state consumer spending grew, at 1.8 and 1.6 percent, respectively (prior year: 2.0 and 4.0 percent). Construction activity was once again encouraged by low interest rates and an increased demand for residential space; it increased 4.1 percent (prior year: 3.0 percent). Capital expenditures grew quite vigorously, at 1.8 percent (prior year: 1.1 percent) for machinery, apparatus and other equipment and 3.9 percent (prior year: 2.6 percent) for other installations; most recently, they were presumably stimulated not merely primarily by the good domestic economic conditions, but also by increasing foreign business.

The pace of expansion of the global economy will likely increase slightly yet again in 2018. The IMF currently assumes growth of 3.9 percent for the year. In the Eurozone, the recovery should consolidate in 2018, with growth of 2.0 percent, and thus approximate the growth rate for the EU as a whole for the year. It seems particularly desirable for the EU and the United Kingdom to reach agreement on basic components of the treaty for the UK's exit, thus likely avoiding a disorderly Brexit.

According to the autumn 2017 opinion of the leading German economic research institutes, the outlook for the German economy remains positive. Moreover, growth is now substantially broader-based than for the consumption-driven upswing of past years. Capital spending is gaining significant momentum, based on increasing investments in expansion. This development is supported by still-favorable financing terms, which also continue to benefit investment in residential construction. Exports will be stimulated by the robust global economy and the ongoing uptrend in the Eurozone, although the rise in the value of the euro combined with vigorous domestic absorption will entail a substantial increase in imports. The situation in the job market is expected to improve once again, and employment figures will increase further. However, the increasing tax burden will continue to slow down private consumer demand. All in all, the leading German economic institutes expect gross domestic product, adjusted for inflation, to increase by 2.3 percent in 2018.

Evolution of interest rates

Interest rates in Germany remained extremely low in 2017. The key lending rates of the European Central Bank (ECB) for the year were 0 percent (main refinancing rate), –0.40 percent (deposit rate) and +0.25 percent (marginal lending rate) – and thus remained unchanged at their historic lows. The interest rate for unsecured overnight borrowing (EONIA) lay in a narrow range between –0.35 and –0.37 percent, and thus only slightly above the deposit rate. Returns for ten-year German government bonds in the capital market were between +0.18 and +0.58 percent, a slight recovery from the lows of 2016 (sometimes with negative returns). Any projection about interest rates depends primarily on the future interest rate policy of the European Central Bank. In October 2017, the ECB announced that starting in January 2018, it would be cutting the volume of its bond buy-backs in half, from the former EUR 60 billion to EUR 30 billion per month. The buy-back program is to continue at this level until September 2018, and subject to further economic developments, should basically continue until the end of 2018. In view of a reviving economy and the impending gradual elimination of bond buy-backs, long-term interest rates might pick up slightly in the medium term. However, according to the leading German economic research institutes, no increase in key lending rates can be expected until 2019 at the earliest.

The economy in Northwest Germany

The economic situation in Northwest Germany was in good condition in 2017, based on strong domestic demand and increasing demand from abroad. The economic climate index of the regional Chambers of Industry and Commerce was in some cases well above the multi-year average. The upswing embraced all sectors; industrial revenues in particular were well above the prior year's figures. This in turn benefited the wholesale sector. In addition to private demand for housing construction, investment in commercial construction also picked up in the construction industry. The regional Chambers of Industry and Commerce viewed the strong willingness to invest in industry, the construction sector and retail that appeared in economic surveys as an indicator of economic confidence in the region.

At the same time, private consumer spending was supported by the ongoing good situation in the job market. In light of the stable economic picture, companies' willingness to hold on to employees and hire new skilled workers was high, according to both the regional Chambers of Industry and Commerce and the Lower Saxony-Bremen Regional Directorate of the Federal Employment Agency. Accordingly, at the end of 2017, unemployment in Lower Saxony and Bremen was 5.8 percent, down another 0.4 percentage points from the prior year's level, which was already low.

In the coming years, the Bank expects regional and national business conditions to remain essentially the same, a development that has also been observed in past years. Because of the region's structurally broad-based mix of industries, with many small and medium-sized businesses, sector-specific differences in business conditions tend to even themselves out here. At the same time, extra-economic factors, both positive and negative, are unlikely to exert as much of an effect as in the national economy, since the Weser-Ems region's export ratio is substantially lower than the nationwide average of nearly 46 percent.

The banking environment

In OLB's business territory, numerous banking institutions have an area-wide network that is extrapolated to number more than 1,000 sales offices. According to an analysis performed at the start of our "OLB 2019" program for the future, here OLB holds one of the top three positions in market share in all three of its strategic business areas: Retail and Business Customers, Private Banking & Independent Professionals, and Corporate Customers.

The financial industry has been in a phase of radical change and renewal for years now. Existing banks are under heavy pressure to adjust to the aftereffects of the financial crisis, the low-interest environment, continuing changes in client expectations, the digitalization of business models and processes, and intense competition, including new entrants into the market from the financial technology sector. Legislators and the supervisory authorities have initiated and in many cases already implemented numerous measures to strengthen banks' equity capitalization and liquidity, and to protect consumers. Particularly noteworthy are the rules that have been implemented in the European Union's Capital Requirements Directive (CRD IV) and Capital Requirements Regulation (CRR). Most notably, these rules increase both the quantitative and qualitative requirements for liable equity capital and for banks' liquidity position, and must be phased in by 2019. Furthermore, the revised MiFID II Markets in Financial Instruments Directive and the supplementary MiFIR Markets in Financial Instruments Regulation, which have been in effect since January 2018, will have an impact on the entire value chain in the securities business.

In an analysis of the earnings position of German banks, the Deutsche Bundesbank listed the following principal findings in its monthly report for 9/2017:

- The low-interest-rate environment continues to pull profits down. German banks' earnings situation declined in their core lines of business; net interest and commission income decreased substantially.
- A stabilizing factor was the "Other operating profit," which improved for all bank groups because of a change in measurement rules for pension provisions under the Commercial Code. As administrative expenses also decreased somewhat, the cost-income ratio, as a measure of cost efficiency, averaged a slight improvement across all German banking institutions.

The Bundesbank study furthermore found that the consolidation process is accelerating further in the German banking sector. It also showed that in addition to the persistent low-interest environment, banks are being challenged by further developments in the digitalization of financial services. However, the study found that there is substantial potential for future efficiency gains by expanding digital sales platforms, with new branch concepts attuned to those platforms, as well as combining digital solutions with established brands and client bases.

Business Performance

Results of operations

EUR m	2017	2016	Change	Change (%)
Net interest income	228.1	229.9	– 1.8	– 0.8
Net commission income	68.1	67.9	0.2	0.3
Net operating trading income / expense	—	0.1	– 0.1	– 100.0
Operating income	**296.2**	**297.9**	**– 1.7**	**– 0.6**
Personnel expenses	140.3	135.7	4.6	3.4
Other administrative expenses	74.2	75.6	– 1.4	– 1.9
Write-downs of tangible fixed assets	15.1	14.9	0.2	1.3
General administrative expenses	**229.6**	**226.2**	**3.4**	**1.5**
Net other operating income (+) and expenses (–)	5.1	3.1	2.0	64.5
Operating result before risk provisions	**71.7**	**74.8**	**– 3.1**	**– 4.1**
Risk provisions for credit business	31.3	37.1	– 5.8	– 15.6
of which: appropriated to fund for general bank risks per Sec. 340 g HGB	12.0	0.0	12.0	n / a
Gain (+) / loss (–) on securities in the liquidity reserve	7.9	– 2.3	10.2	n / a
Expenses for the credit business and liquidity reserve	**23.4**	**39.4**	**– 16.0**	**– 40.6**
Net operating result	**48.3**	**35.4**	**12.9**	**36.4**
Other result	9.7	21.6	– 11.9	– 55.1
Extraordinary result	– 7.6	– 2.7	– 4.9	n / a
Profit before taxes	**50.4**	**54.3**	**– 3.9**	**– 7.2**
Taxes	22.1	19.1	3.0	15.7
Net income for the fiscal year	**28.3**	**35.2**	**– 6.9**	**– 19.6**
Earnings per share (EUR)	**1.21**	**1.51**	**– 0.30**	**– 19.9**

The main features of fiscal 2017 for the banking business were, on the one hand, pressure on operating earnings from the persistent low-interest phase, but on the other, a very positive effect from improving business conditions with regard to the economic environment and rising stock markets. The specific development of OLB's results of operations was furthermore affected by a number of effects on profits associated with the sale of Allianz's ownership interest in OLB. Amid this challenging environment, the Bank held its own well by making further progress in its systematic implementation of the strategic "OLB 2019" program for the future; it continued on track for growth and generated good earnings. On the basis of a generally positive business performance, the profit before taxes for fiscal 2017 came to EUR 50.4 million, moderately below the prior year's EUR 54.3 million.

The net operating result as of December 31, 2017, was up by 36 percent, to EUR 48.3 million (prior year: EUR 35.4 million). Success with implementing the "OLB 2019" program was evident in the performance of operating income. Here growth in operations was maintained at roughly the same level as the prior year – even though in 2016 the Bank enjoyed positive non-recurring effects of EUR 4.8 million from a distribution from an investment, and EUR 2.0 million from a termination of the regulatory liability ceiling. Costs were down, in spite of future investments in the further digitalization of customer and business processes, thanks to a decrease in expenses for business operations. All in all, administrative expenses were up EUR 3.4 million from the prior year, largely as a result of expenses in the process of selling Allianz's ownership interest in OLB.[6]

Risk provisions as a whole were down EUR 5.8 million from the prior year. This item includes an appropriation of EUR 12.0 million to the fund for general bank risks under Sec. 340 g of the Commercial Code. The improvement of EUR 10.2 million in the measurement result from securities in the liquidity reserve also had a positive effect.

The Bank's "Other result" of EUR 9.7 million (prior year: EUR 21.6 million) derived from the sale of OLB's ownership interest in Concardis GmbH, of Frankfurt. In the prior year – in addition to proceeds from the sale of its shares in VISA Europe Limited – the Bank sold strategic positions in long-term securities, replacing them with customer loans at higher interest rates.

The "Extraordinary result" for fiscal 2017 was EUR –7.6 million (prior year: EUR –2.7 million). This change was caused by an adjustment of the restructuring provision as part of the strategic "OLB 2019" program for the future.

Allowing for the EUR 12.0 million reinforcement of the fund for general bank risks under Sec. 340 g of the Commercial Code, in fiscal 2017 OLB generated a good profit before taxes of EUR 50.4 million (prior year: EUR 54.3 million). The net income for the fiscal year was EUR 28.3 million (prior year: EUR 35.2 million).

Details of the individual components of profits::

Net interest income

EUR m	2017	2016	Change	Change (%)
Interest (and similar income)	356.0	394.5	– 38.5	– 9.8
Interest expense (and similar charges)	127.9	164.6	– 36.7	– 22.3
Net interest income	**228.1**	**229.9**	**– 1.8**	**– 0.8**
Customer lending volume at end of period (after risk provisions)	10,848.1	10,533.4	314.7	3.0

6 Allianz Deutschland AG reimbursed the Bank in full for the administrative expense incurred for the sale process (for the resulting income see the section on "Net other operating income and expenses").

Net interest income for fiscal 2017, at EUR 228.1 million, almost reached the same level as the prior year's EUR 229.9 million, despite the persistent low-interest environment. Excluding the non-recurring distribution of EUR 4.8 million from credit card service provider EUR Kartensysteme GmbH, which was included in the prior year's figure, OLB increased its net interest income by EUR 3.0 million. Thus this item's performance was within projections from the prior year.

This positive performance resulted in part from the growth in total lendings achieved in the past two years in both commercial investment loans and construction financing – the product of consistent customer demand. In project financing for onshore wind power especially, where OLB has been successfully involved for a considerable time now, 2017 saw a sharp rise in new business.

The good performance of the economy resulted not only in a consistent demand for credit, but also in a growing economic recovery of credit exposures that had been written down in previous years. The Bank was consequently able to collect formerly written-down interest, which increased the net interest income by EUR 1.2 million.

Total deposits increased 2.6 percent from the prior year, to EUR 8.4 billion (prior year: EUR 8.2 billion), particularly as a result of the growth in non-interest-bearing demand deposits. In the deposit business, margins continued to decline as expected in light of the historic lows in interest rates. Customer deposits still maintained their major role as a stable source of refinancing for the Bank, making it possible to reduce institutional refinancing proportionately. Thus, maturities of high-interest-rate institutional refinancing and interest rate hedges yielded a substantial decrease in interest expenses.

These developments – growing lending volume, recovery of previously written-down credit exposures, and the reduction of high-interest-rate institutional refinancing – enabled the Bank to counter the pressure on net interest income from the ongoing low interest rates, just as had been declared as a goal for the strategic "OLB 2019" program for the future.

Net commission income

EUR m	2017	2016	Change	Change (%)
Securities business and asset management	23.5	22.3	1.2	5.4
Payment traffic	21.9	22.2	– 0.3	– 1.4
Foreign business	4.0	4.1	– 0.1	– 2.4
Insurance, home loan and savings, real estate business	13.6	13.9	– 0.3	– 2.2
Credit card business	2.5	1.7	0.8	47.1
Other	2.6	3.7	– 1.1	– 29.7
Net commission income	**68.1**	**67.9**	**0.2**	**0.3**

Net commission income, at EUR 68.1 million, was at roughly the same level as the prior year (EUR 67.9 million). Setting aside the prior year's non-recurring income of EUR 2.0 million that came in for guaranteeing the regulatory liability umbrella until June 2016 for independent Allianz agents' sales of Allianz Global Investors products, OLB increased net commission income from EUR 66.2 million to EUR 68.1 million. This slight increase is consistent with the prior year's projection.

A principal driver for the Bank was a total 5.4 percent increase in income from the securities business and asset management, from EUR 22.3 million to EUR 23.5 million. This particularly showed the positive effects of the system support for the securities advising process and appropriately targeted support for clients in Private Banking and Wealth Management, introduced during the year under report as part of the strategic “OLB 2019” program for the future.

Contributions to earnings from payment traffic and the credit card business increased to EUR 24.4 million for the period under report (prior year: EUR 23.9 million). Lower income because of the trend to use less expensive account models were successfully countered with various fee adjustments.

In spite of a decrease in the home loan and savings business because of an increased number of loans with long-term fixed interest periods, contributions to earnings from the insurance, home loan and savings, and real estate business, at a total of EUR 13.6 million, remained at approximately the same level as the prior year (EUR 13.9 million). This was largely thanks to an increase in earnings from the insurance business. Commissions contributed by this product area increased 8.3 percent, to EUR 9.1 million (prior year: EUR 8.4 million).

The decrease in the contribution to earnings from the “Other” item was largely the result of the positive non-recurring effect from 2016 that was addressed at the beginning of this section.

General administrative expenses

EUR m	2017	2016	Change	Change (%)
Personnel expenses	140.3	135.7	4.6	3.4
Other administrative expenses	74.2	75.6	– 1.4	– 1.9
Write-downs of tangible fixed assets	15.1	14.9	0.2	1.3
General administrative expenses	**229.6**	**226.2**	**3.4**	**1.5**
Employees at 12/31	2,071	2,153	– 82	– 3.8
Full-time equivalents at 12/31	1,661	1,717	– 56	– 3.3
Cost-income ratio (in %)	77.5 %	75.9 %	n / a	n / a

OLB consistently maintained its active approach of renovation and adjustment to changing conditions again in 2017. As part of the “OLB 2019” program, the Bank made further progress in digitalizing processing and internal business procedures, and in reducing complexity in general. In connection with the resulting lower staffing needs, the Bank also made further progress in implementing its announced staff cuts, which it continues to pursue on a basis responsive to employee needs. Full-time equivalents (FTEs) decreased by 56.0 year-on-year, to 1,661 FTEs. Thus as of December 31, 2017, OLB had 2,071 employees, 82 fewer than a year earlier. Current expenses for salaries and social security contributions decreased by EUR 2.7 million from the prior year, to EUR 108.8 million. Nevertheless, personnel expenses increased as a whole, from EUR 135.7 million to EUR 140.3 million. This was the result of a variety of factors. The Bank increased its provisions for phased retirement and variable components of compensation, and also paid larger contributions for employee retirement plans by way of the BVV, a provident fund for the banking and financial services industry. Additionally, with the consent of the Supervisory Board, Allianz Deutschland AG granted the Bank's Board of Managing Directors a transaction bonus for its support in connection with the sale of Allianz's ownership interest in OLB.

Hence the personnel expenses include an item of EUR 1.5 million for this payment. Allianz Deutschland AG reimbursed the amount in full as other operating income, so that OLB did not incur a financial charge as a result. Also in connection with the sale, the holding term for the share-based compensation was shortened, and was exercised on closing of the sale in 2018 – in other words, before the normal plan period had expired. This resulted in a non-recurring write-down of EUR 0.7 million on the option premiums capitalized for this purpose, as a personnel expense for 2017.

While investment in strengthening OLB's viability for the future continued, other administrative expenses decreased slightly as a whole from the prior year, thanks to ongoing systematic cost management. This was especially supported by savings from packages of measures implemented as part of "OLB 2019," such as cost reductions in building management, reductions in postal and IT costs, and savings on costs of workplaces, training and travel as a result of the smaller workforce. Costs for external support also decreased as the program advanced.

Contrary to the prior year's projection, the cost-income ratio on a Commercial Code basis rose from 75.9 percent in 2016 to 77.5 percent in 2017. This change was largely the result of non-recurring effects in income and costs for both years.

Net other operating income and expenses

While the net other operating income and expenses for the prior year were significantly affected by a positive non-recurring effect from the legal change in the measurement parameters[7] for pension obligations (EUR +21.0 million), the expense for the lower statutory measurement interest rate for pensions, which is shown in this item, returned to normal in fiscal 2017, at EUR –7.8 million. In spite of this effect, which resulted in a charge, the positive figure for net other operating income and expenses came to EUR 5.1 million for the year under report (prior year: EUR 3.1 million) – well above the prior year's projection. This was largely the result of payments made by Allianz Deutschland AG in the course of the sale of its ownership interest in OLB. Allianz reimbursed OLB EUR 3.8 million for the expenses (including the compensation payment for the transaction bonus promised by Allianz Deutschland AG to the Board of Managing Directors) that the Bank incurred in connection with the sale of Allianz's ownership interest in the Bank. Additionally, since September 30, 2016, there has been a contract to discontinue the loss assumption agreement for business operations continued from the former Allianz Bank. That contract was subject to the condition precedent of an agreement on the sale of Allianz Deutschland AG's shares of OLB stock. Once a contract for the sale of Allianz Deutschland AG's shareholdings in OLB was signed on June 23, 2017, the Bank received a payment of EUR 9.2 million for the full integration of the former Allianz Bank's business into the regional banking business. The charges expected in this connection were incorporated into the extraordinary result, as an appropriation for a restructuring provision.

7 In 2016, the "Act Implementing the Mortgage Credit Directive and Amending Provisions of the Commercial Code" went into effect. Among other provisions, it included an amendment of Sec. 253 of the Commercial Code concerning the measurement of pension obligations. Since that time, the interest rate for calculating pension obligations is to be calculated as a 10-year average instead of a 7-year average as before.

Risk provisions for credit business

Thanks to a strong economy in 2017, conditions for OLB clients' economic performance remained favorable. All in all, the need for risk provisions came to EUR 19.3 million, well below both the prior year's figure (2016: EUR 37.1 million) and the projections for the 2017 year. Defaults within the broad client credit portfolio came to EUR 8.9 million (prior year: EUR 20.1 million), and were thus well below statistical expectations for a full economic cycle. Needs for risk provisions in the shipping portfolio, which is being phased out, also decreased further to EUR 10.4 million (prior year: EUR 17.0 million). Positive effects here resulted from the high level of provisions already achieved, together with ongoing active management of credit risks in collaboration with the Bank's clients. To provide for future charges resulting from fluctuations in the economy and particular developments in individual markets, the Bank took advantage of the resulting leeway to appropriate an amount of EUR 12.0 million to the fund for general bank risks under Sec. 340 g of the Commercial Code.

Gain / loss on securities in the liquidity reserve

Because of the benign performance of the stock markets in fiscal 2017, the Bank benefited from a substantial increase in the carrying amounts of its special funds, thanks to recoveries of value, and recognized a gain of EUR 7.9 million in this item (prior year: EUR –2.3 million).

Other result

On January 13, 2017, OLB sold its ownership interest in Concardis GmbH, of Frankfurt. The contract was signed as part of a joint transaction of the shareholders with Eagle Eschborn GmbH. Following approval from the appropriate authorities in July 2017, the transaction closed and the Bank reaped proceeds totaling EUR 9.7 million. OLB decided not to take further profits by disposing of securities during the period. This resulted in a decrease of EUR 11.9 million in the "Other result" compared to the prior year, to EUR 9.7 million (prior year: EUR 21.6 million).

Extraordinary result

The "Extraordinary result" includes expenses of EUR 2.5 million (prior year: EUR 2.5 million) for the year's proportionate amortization of the conversion effect from changes in the measurement of pension provisions under the 2010 Accounting Law Modernization Act (the "BilMoG Effect," after the German acronym for the new Act). The Bank also appropriated EUR 4.6 million to restructuring provisions for the expected costs of integrating the former Allianz Bank's business into the regional banking business, and also as a result of a review of the financial expenses still needed for the strategic "OLB 2019" program for the future. Additionally, EUR 0.7 million in current restructuring expenses not eligible for provisioning were incurred during the period under report, for example for mobility grants to employees (prior year: EUR 0.2 million). This caused the negative "Extraordinary result" to grow from the 2016 figure of EUR –4.9 million to EUR –7.6 million.

Profit / taxes

All in all, OLB earned a profit before taxes of EUR 50.4 million in fiscal 2017. This was consistent with the prior year's projection, which foresaw a moderate decrease from the 2016 profit of EUR 54.3 million. The tax expense for the year under report was EUR 22.1 million, equivalent to a tax rate of 40.7 percent (prior year: 35.2 percent). The increase in the tax rate is largely the result of the appropriation to the fund for general bank risks under Sec. 340 g of the Commercial Code, as explained above; this amount must be paid out of after-tax income.

In total, the Bank earned a net income of EUR 28.3 million for fiscal 2017 (prior year: EUR 35.2 million).

Net assets and financial position

Total lendings

Carefully focused risk- and return-oriented growth initiatives in the credit business are one of the cornerstones of the strategic "OLB 2019" program for the future. OLB continued on a growth track in 2017, and again expanded its total lendings, net of risk provisions, by 3.0 percent, to EUR 10.8 billion (prior year: EUR 10.5 billion). In this regard, the Bank continued to manage its business with a strong focus on meeting its margin requirements, and on improving the risk structure of its portfolio. Important driving factors in this development were private construction financing and commercial capital investment loans, particularly to finance onshore wind farms.

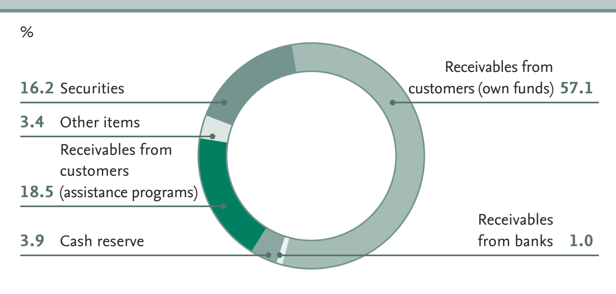
The proportion of non-performing receivables from customers (the "NPL ratio")[8] decreased in 2017 for both the total portfolio (down 1.1 percentage points) and the freight rate-dependent shipping portfolio (down 14.9 percentage points). This change was also reflected in the slight increase in risk coverage ("Coverage ratio")[9] resulting from specific loan loss provisions for non-performing receivables from customers.

Total portfolio EUR m	**12/31/2017**	**12/31/2016**	Change EUR m / % points	Change (%)
Receivables from customers	11,034.8	10,759.0	275.8	2.6
Receivables from customers (non-troubled)	10,649.2	10,263.1	386.1	3.8
Receivables from customers (non-performing)	385.6	495.9	–110.3	–22.2
Interest provisions (for non-performing receivables)	–23.7	–29.2	5.5	–18.8
Gross receivables from customers (before risk provisions)	**11,011.1**	**10,729.8**	**281.3**	**2.6**
General loan loss provisions (PLLP/GLLP)	–15.0	–17.5	2.5	–14.3
Specific loan loss provisions (SLLP)	–148.0	–178.9	30.9	–17.3
Loans and advances to customers (net after risk provisions)	**10,848.1**	**10,533.4**	**314.7**	**3.0**
for information:				
Proportion of non-performing customer receivables ("NPL ratio")	3.5 %	4.6 %	–1.1 %	n/a
Coverage ratio	38.4 %	36.1 %	2.3 %	n/a

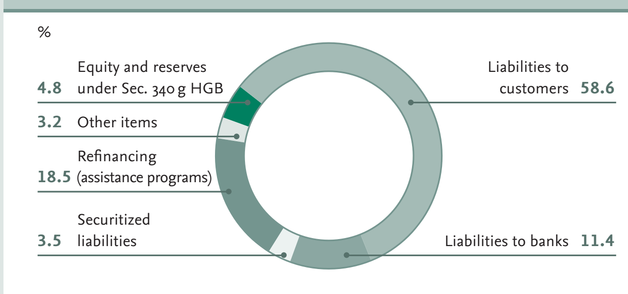
8 NPL ratio = Receivables from customers (non-performing) / Gross receivables from customers before loan loss provisions

9 Coverage ratio = Specific loan loss provisions (SLLP) / Receivables from customers (non-performing)

Balance sheet ratios for assets



Balance sheet ratios for equity and liabilities

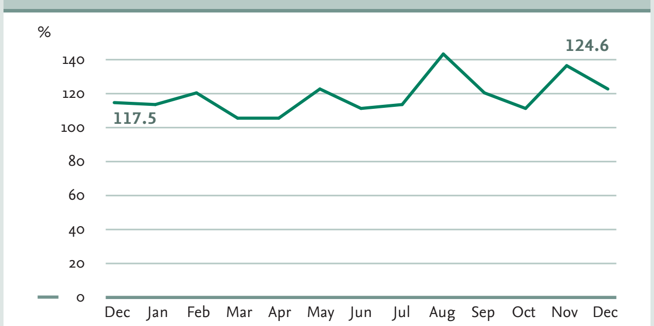


In addition to the risk coverage from specific and general loan loss provisions, further risk coverage of EUR 12.0 million was provided in 2017 from the appropriation to the fund for general bank risks, as already discussed above.

The freight rate-dependent shipping portfolio accounted for EUR 30.0 million in specific loan loss provisions (prior year: EUR 65.3 million). This substantial decrease from December 31, 2016, results primarily from write-downs on the portfolio as part of restructuring, which likewise resulted in a decrease in non-performing customer receivables. Proceeds from the sale of ships, and the associated settlement of receivables, furthermore led to another substantial reduction in non-performing customer receivables in 2017. Additionally, a significant portion of the portfolio that had been categorized as non-performing is recovering, so that receivables that were still in default and had been written down or off were reduced by repayments from the current business operations of the freight rate-dependent ships. All in all, these effects in the freight rate-dependent shipping portfolio yielded a reduction of EUR 14.9 percentage points from the prior year in the percentage of non-performing customer receivables, to 47.6 percent, and to a coverage ratio of 23.5 percent, reduced by 6.5 percentage points. It should furthermore be borne in mind that the Bank holds collateral of EUR 216 million (prior year: EUR 224 million) applicable to the entire freight rate-dependent shipping portfolio.

Of which: Freight rate-dependent shipping portfolio EUR m	**12/31/2017**	**12/31/2016**	Change EUR m / % points	Change (%)
Receivables from customers	274.4	361.6	– 87.2	– 24.1
Receivables from customers (non-troubled)	146.9	143.7	3.2	2.2
Receivables from customers (non-performing)	127.5	217.9	– 90.4	– 41.5
Interest provisions (for non-performing receivables)	– 6.5	– 13.2	6.7	– 50.8
Gross receivables from customers (before risk provisions)	**267.9**	**348.4**	**– 80.5**	**– 23.1**
General loan loss provisions (PLLP/GLLP)	– 3.0	– 2.2	– 0.8	36.4
Specific loan loss provisions (SLLP)	– 30.0	– 65.3	35.3	– 54.1
Loans and advances to customers (net after risk provisions)	**234.9**	**280.9**	**– 46.0**	**– 16.4**
for information:				
Proportion of non-performing customer receivables (“NPL ratio”)	47.6 %	62.5 %	– 14.9 %	n/a
Coverage ratio	23.5 %	30.0 %	– 6.5 %	n/a

Liquidity Coverage Ratio (LCR) reported per Delegated Regulation



Management Report

The portfolio of freight rate-dependent ships is defined strategically as a portfolio to be phased out. Furthermore, financing is limited to ships for interior waterways, and in the marine shipping sector, only to smaller to medium-sized multi-purpose freighters.

Liquidity

See chart, p. 059

The Bank had an appropriate level of liquidity at all times. OLB controls its liquidity with the objective of ensuring the Bank's solvency even in the event of a suddenly exacerbated crisis in the financial markets. For this purpose, the Bank maintained conservative safety buffers and refinanced its lending business primarily through its deposits business. In regulatory terms, the liquidity situation is monitored on the basis of the liquidity coverage ratio (LCR). At the end of 2017, the LCR was 124.7 percent (prior year: 117.5 percent), and was thus, as it had been throughout the year, well above the regulatory threshold of 80 percent. The minimum LCR requirement rose to 100 percent as of January 1, 2018.

The relevant liquidity ratio under the Liquidity Regulation at year's end was 1.34 (prior year: 1.24), and was thus once again well above the regulatory minimum of 1.0.

Long-term financial assets

At the reporting date, OLB maintained a portfolio of long-term financial assets of approximately EUR 2.3 billion, which serves primarily as a liquidity reserve and consists largely of Pfandbrief bonds and government bonds with very good ratings, as well as two special funds (prior year: EUR 2.6 billion).

All bonds and other fixed-income securities held in the Bank's own portfolio have an investment grade rating, as do 47.7 percent of the receivables from customers and 100.0 percent of the receivables from banks; 90.8 percent of these securities are in the high quality liquid assets category (HQLA), meaning marketable income-bearing securities with a risk weight of 0 percent under the credit risk standard approach.

Deposits and borrowed funds

EUR m	12/31/2017	12/31/2016	Change	Change (%)
Customer deposits	**8,424.9**	**8,210.1**	**214.8**	**2.6**
Demand deposits	5,730.7	5,435.6	295.1	5.4
Term deposits	1,125.1	1,222.0	–96.9	–7.9
Savings deposits	1,569.1	1,552.5	16.6	1.1
Interbank money	**4,292.8**	**4,174.8**	**118.0**	**2.8**
Demand deposits	56.4	14.8	41.6	n/a
Term deposits	4,236.4	4,160.0	76.4	1.8
Securitized liabilities	**501.4**	**550.0**	**–48.6**	**–8.8**
Subordinated debt	**175.2**	**257.7**	**–82.5**	**–32.0**
Total deposits and borrowed funds	**13,394.3**	**13,192.6**	**201.7**	**1.5**

In the deposit business, which is of great importance in refinancing credit, OLB increased its customer deposit volume at December 31, 2017, by 2.6 percent compared to the prior year's level, to EUR 8.4 billion. As a consequence of the low-interest phase, the trend toward short-term or demand deposits continued. The Bank was able to improve the structure of its deposit business by replacing selected reductions of volatile large deposits from corporate customers with granular deposits. All in all, OLB therefore remained able to refinance a large proportion of its lending business from customer deposits, without having to replace maturing, high-interest securitized liabilities (OLB bonds).

On-balance-sheet equity

The Bank further strengthened its capital base by reinvesting EUR 27.1 million from the 2016 net retained profits, as resolved at the Annual Shareholders' Meeting on May 24, 2017. Including the net retained profits for 2017, the on-balance-sheet equity at the end of the fiscal year had increased to EUR 669.5 million, compared to EUR 649.3 million at the end of 2016.

Regulatory capital (Sec. 10 of the German Banking Act – KWG – in conjunction with Arts. 25 through 88 of the CRR)

The Bank's regulatory core capital essentially comprises its on-balance-sheet equity (excluding the net retained profits of EUR 28.3 million), the fund for general bank risks, at EUR 12.8 million, and the required regulatory deductions totaling EUR 31.2 million. The appropriation of EUR 12.0 million to the fund for general bank risks during the reporting period will not take effect for regulatory purposes until the annual financial statements have been approved and adopted, and is not yet included in the figures as of December 31, 2017. The capital ratios under Section 10 of the German Banking Act were calculated for regulatory purposes at the individual bank level of OLB AG in the statements under the German Commercial Code.

EUR m	12/31/2017	12/31/2016	Change	Change (%)
Tier 1 capital	**622.8**	**602.3**	**20.5**	**3.4**
Tier 2 capital	157.1	164.0	–6.9	–4.2
Share capital and reserves	**779.9**	**766.3**	**13.6**	**1.8**
Risk assets for counterparty risks	4,506.8	4,823.7	–316.9	–6.6
Risk assets for market risks	16.8	23.8	–7.0	–29.4
Risk assets for operational risks	505.4	515.5	–10.1	–2.0
Risk assets	**5,029.0**	**5,363.0**	**–334.0**	**–6.2**

%	12/31/2017	12/31/2016
Core capital ratio	12.4	11.2
Aggregate capital ratio	15.5	14.3

On the basis of the adopted annual financial statements, OLB's Tier 1 capital at December 31, 2017, came to EUR 622.8 million (prior year: EUR 602.3 million). This increase resulted from the reinvestment of EUR 27.1 million from the prior year's net retained profits. A countering effect was an increase in the deduction item of EUR 6.6 million, EUR 6.4 of which was due to the change in the impairment loss. The recognizable Tier 2 capital, composed mainly of subordinated debt, was down slightly year-on-year, and at the end of 2017 came to EUR 157.1 million (prior year: EUR 164.0 million). This change was primarily the result of the gradually larger reduction over time in the eligibility of subordinated funds for recognition. Risk assets decreased during the reporting period, in spite of an expansion in the Bank's volume of lendings. This was primarily the result of the conversion of four other rating systems from the credit risk standard approach to an internal ratings-based approach (IRB approach). All in all, the core capital ratio improved substantially to 12.4 percent (prior year: 11.2 percent). Thus OLB has already exceeded the minimum core capital ratio of 8.5 percent prescribed for 2019 under Basel III. The aggregate capital ratio was 15.5 percent, likewise up from the prior year's figure of 14.3 percent.

See Glossary, p. 144

As of December 31, 2017, OLB was one of the few banks in Germany that had no requirement to recognize a markup on the minimum capitalization in connection with the Supervisory Review and Evaluation Process (SREP). An appropriate equity capitalization is the foundation for being able to keep closely assisting investment by retail and corporate customers in the region. Given this situation, EUR 12.0 million was appropriated to the fund for general bank risks. OLB will furthermore propose to its shareholders to strengthen the Bank's capital base further by allocating EUR 22.5 million to revenue reserves. On that basis, the Bank expects the core capital ratio to remain stable, in spite of its projected further growth in total lendings.

Executive summary

Based on sustainable business with clients, and thanks to a systematic implementation of the strategic "OLB 2019" program for the future, the Bank was able to inject new growth momentum into the lending and commissions businesses; selectively reduce risk, especially in the credit business; improve its capitalization further; and significantly advance the digitalization of its client and business processes.

In spite of pressure on operating earnings from the persistent low-interest phase, during fiscal 2017 OLB achieved good profit performance, with the support of a positive climate in terms of the economic environment, rising stock markets and a number of positive contributions to earnings in connection with the sale of Allianz's ownership interest in the Bank. Leeway generated by the uptrend in profits was utilized to form an additional risk buffer in the fund for general bank risks.

In an overall view, the earnings performance in the 2017 reporting year was good. Despite the absence of various positive non-recurring effects from 2016, profit before taxes, at EUR 50.4 million, was only moderately below the prior year's figure of EUR 54.3 million. The net income for the fiscal year was EUR 28.3 million, after the prior year's EUR 35.2 million. This yields a return on equity after tax of 4.3 percent on a Commercial Code basis (prior year: 5.5 percent). Thus the Bank's overall profit performance in 2017 was within the prior year's projections.

Report on Anticipated Developments, Opportunities and Risk

The report on the principal opportunities and risks for OLB's expected development has been incorporated into the following report of anticipated developments in business and in the Company's situation. Additional information about the risk management system, individual risks, the risk culture and the risk situation can be found in the Risk Report section of the management report.

On February 7, 2018, Allianz Deutschland AG's shareholdings in OLB were transferred to Bremer Kreditbank AG (BKB), as agreed in June 2017. In combination with additional shares purchased by BKB, including under a tender offer, BKB now holds approximately 95.3 percent of the shares of OLB. BKB, as the new majority shareholder, is seeking a swift replacement of the shareholder representatives on the Supervisory Board, and to simplify its group structure, has announced a squeeze-out of other shareholders (minority shareholders) in accordance with Secs. 327a et seq. of the Stock Corporation Act, in return for a fair and reasonable cash settlement. Within the medium term, the new, regionally rooted banking group comprising BKB, OLB, and Bankhaus Neelmeyer, will have opportunities to grow sustainably throughout Germany in its business with corporate customers and special financing, and in overall assistance and up-to-date services for high net worth clients and retail clients. From its regional base in the Northwest, the group will serve companies throughout Germany with customized products and short decision-making channels. Its core competencies will still be in key regional sectors like renewable energy, agriculture and the food industry, as well as in nationwide financing for real estate and corporate acquisitions, and in wealth management. Beyond that point, specific effects for fiscal 2018 cannot be fully assessed by OLB at the date of preparation of this report, and are therefore not considered below.

Projected business performance for fiscal 2018 will be affected primarily by the following factors and the resulting opportunities and risks:

According to the leading German economic research institutes, the outlook for the German economy remains positive for 2018. Moreover, growth will be substantially broader-based than for the consumption-driven upswing of past years. Capital spending is gaining significant momentum, based on increasing investments in expansion. This development is supported by still-favorable financing terms, which also continue to benefit investment in residential construction. Exports will be stimulated by the vigorous global economy and the ongoing uptrend in the Eurozone, although the rise in the value of the euro combined with vigorous domestic absorption will entail a substantial increase in imports. The situation in the job market will presumably improve still further, and employment figures will likewise increase further. However, the increasing tax burden will continue to slow down private consumer demand. All in all, the leading German economic institutes expect gross domestic product, adjusted for inflation, to increase by 2.3 percent in 2018.

Based on the economic projections for fiscal 2018, the Bank expects continuing demand in the lending business among both retail and commercial customers. Risks from economic developments exist with regard to changes in relevant individual markets, which are affected not only by general economic factors but also by specific structural or sectorial issues. In renewable energy, because of the special geographical advantages in the Northwest, the Bank generally continues to foresee potential for the development and financing of onshore wind power projects. However, it is already becoming evident that the changing terms of government support that took effect in 2017 under the amendment to the Renewable Energy Act will have a depressive effect on new business. Further risks also exist in specific areas of agriculture, where such problems as the spread of epizootics may pose challenges for businesses.

Interest rates still remain at very low levels in historical terms, and have been persistently negative in the money market business particularly. OLB's planning assumes that interest levels will remain constant. Consequently, net interest income will remain under pressure from the expiration of higher-interest preexisting loans. A compensation by replacing maturing refinancing on the liabilities side is possible only to a very limited degree among institutional investors. Given the Bank's current balance sheet structure, a significant decrease in interest rates would intensify the pressure on profits. Conversely, the Bank's net interest income would profit from a rise in the yield curve.

OLB refinances its own lending business largely out of customer deposits, and has a liquidity reserve that includes adequate safety buffers. These will enable it to bridge over potential market bottlenecks. Accordingly, the Bank has only minimal vulnerability to disturbances in the money and capital markets that would make raising liquidity difficult or leave the Bank vulnerable to high interest markups, and it views these as posing no material risk to performance in 2018. OLB expects once again to remain above the required legal minimum for the liquidity coverage ratio in 2018. The Bank is far advanced in its preparations to issue its first Pfandbrief bonds. The first issue is planned for 2018. If this proves to be a lasting success, it offers the Bank a chance to prospectively reduce the cost of refinancing.

In December 2017, the Basel Committee on Banking Supervision reached agreement concerning the planned further requirements for backing credit risks with regulatory capital (known as "Basel IV"). Under the status quo, OLB profits significantly from applying its own internal models to measure credit risks. The planned restriction on the application of or advantages from the use of internal models will result in increased capital needs for OLB in the long term. However, the planned regulations must still be implemented in European law. Furthermore, only a graduated application is planned until the requirements would take full effect on January 1, 2027. To that extent, these changes in bank regulations will not yet have any effects for the coming fiscal year. In light of its current capitalization and the planned continuation of its strategy of steadily reinforcing its capital base by reinvesting profits, the Bank believes it is well positioned to cope with possible more rigorous capital requirements.

In the course of normal business operations, and in its capacity as an employer, investor and taxpayer, the Bank is exposed to the risk of proceedings in the courts and before regulatory bodies. OLB has taken due account of specific risks presented by such proceedings by forming adequate provisions. In other cases, where the Bank is accused of breaching advisory duties and duties of due care in securities and lending transactions, the Bank's own legal review indicates that there is little risk of defeat in a litigated dispute. The same applies to an action brought in December 2016 by the Reconstruction Loan Corporation (KfW) for about EUR 14.6 million, relating to a breach of duties of due care by a broker engaged by OLB in specialized areas of the lending business. On the basis of an opinion from an outside law firm, the Bank believes the asserted claims are ill-founded, and furthermore are either time-barred or forfeited. This assessment has become further reinforced and has now also been incorporated into the answer that the Bank's attorneys have prepared to the plaintiff's complaint. Similar considerations apply for a dispute with another development bank within the same context, concerning the validity of default guarantees undertaken for customer credit commitments. Several judgments that have now been pronounced at the first instance, and in one case at the second instance, have quite predominantly leaned in OLB's favor. There is no final and absolute decision as yet. The development bank has in part relented and made payments; furthermore, repayments of capital have been made toward the guaranteed credit claims, so that the financial magnitude has decreased substantially since the last report, and is currently approximately EUR 10.0 million. However, it is still the case that the outcome of pending or threatened proceedings cannot be determined or predicted with absolute certainty. OLB believes that even in the event of an unexpected outcome, such proceedings would have no serious consequences for the Bank's net assets and financial position, including its capitalization and liquidity.

OLB's main competitors in the Weser-Ems region, as the Bank's core operating territory, are the savings banks, the credit unions, and also in the business with corporate customers, private large banks and regional banks. Within its business territory, the Bank holds one of the top three positions in market share in all three of its strategic business areas: Retail and Business Customers, Private Banking & Independent Professionals, and Corporate Customers. All in all, competition is characterized by high intensity, an incipient streamlining of branch networks, and persistent pressure on margins. This competitive situation yields risks, particularly with regard to the success of achieving planned growth targets and margin ambitions.

With its strategic "OLB 2019" program focused on the future, which OLB launched in 2015, the Bank got an early start equipping itself for the very challenging environment that the entire banking industry faces. The strategic changes under the program have already helped counteract the pressure on operating earnings from the ongoing phase of low interest rates. At the same time, they have enabled the Bank to make the necessary forward-looking investments in further digitalizing business processes and customer services. OLB will take further measures and make the associated investments again in 2018. The Bank foresees further growth opportunities in the coming years, especially in business with corporate customers and with customers in Private Banking and Wealth Management, through a selective mining of potential by way of a systematic assignment of specialists, personal advice on complex products, and a multi-layered range of advisory services, independently from office locations and business hours. Given this background, in 2018 the Bank again expects a substantial increase in total lendings, combined with refinancing that is sill largely achieved through customer deposits. In the commission business, the expansion of asset management is still expected to drive a revival in the securities business. All in all, the Bank expects a moderate increase in net interest income and net commission income.

In administrative expenses, the Bank expects that further progress in the increasing digitalization of business processes and in streamlining complexity will again reduce staffing needs. In response to requirements of law, employee commissions hitherto recognized as a commission expense in the salary structure will be paid out in the future as a component of the annual profit-sharing bonus. This increase in personnel expenses will be countered by an improvement in net commission income. Taking this effect into account, OLB expects personnel expenses for 2018 to be on the same level as for fiscal 2017. In office costs, the Bank will continually pursue its methodical cost management. However, leaving the Allianz Group will result in higher costs for OLB for such matters as insurance benefits and other administrative services. In the Bank's planning, these have resulted in a slight increase in other administrative expenses compared to 2017. All in all, because of the increased earnings expectations, plans call for a slight improvement in the cost-income ratio for 2018.

Planning for risk provisions is based on the assumption that defaults in the credit portfolio will remain at statistically expected levels. A buffer for charges will be established for exceptional developments in individual markets, so that for 2018 as a whole, a substantial increase in risk provisions has been planned in, compared to the favorable needs for risk provisions in 2017.

OLB will propose to its shareholders to strengthen the Bank's capital base further by allocating EUR 22.5 million to revenue reserves. On that basis, in spite of the planned growth in lendings, the Bank expects its capital ratio to remain at the same level as at the end of 2017.

In terms of operations, OLB expects that increased income from the interest and commissions business and largely stable administrative expenses will yield further progress in implementing the strategic "OLB 2019" program for the future. The conservative planning approach to risk provisions and the elimination of favorable non-recurring effects will lower results significantly compared to fiscal 2017. All in all, therefore, the Bank expects the profit before taxes and the return on capital for fiscal 2018 to decrease substantially from 2017.

Other Mandatory Disclosures

Branch offices
(At December 31, 2017)

OLB offers its clients capable advice and area-wide service at 144 branch offices (prior year: 155) and 55 self-service offices (prior year: 46) throughout Northwest Germany.

Relations with affiliated companies
(At December 31, 2017)

In accordance with Sec. 271 (2) of the Commercial Code, until February 7, 2018, the Bank was an affiliate of Allianz SE, and was included in Allianz SE's consolidated financial statements.

Until February 7, 2018, Allianz Deutschland AG (AZ D) held the majority of the capital of Oldenburgische Landesbank AG. In the report on the Bank's relationship with Allianz Deutschland AG and the affiliated entities of Allianz Deutschland AG, and with Allianz SE and the affiliated entities of Allianz SE, the Board of Managing Directors has declared, in accordance with Sec. 312 of the German Stock Corporation Act:

"Under the circumstances known to it at the time when legal transactions were carried out or measures were taken or not taken, Oldenburgische Landesbank AG received fair and reasonable consideration in each individual transaction. The Bank did not suffer any disadvantage as a result of measures taken or not taken."

Compensation Report and Management Declaration per Sec. 289 f of the German Commercial Code

The Compensation Report and the Management Declaration per Sec. 289 f of the German Commercial Code are part of the management report, and can be found in the Corporate Governance Report. For simplicity's sake, they are not reproduced here.

Risk Report

Principles of Whole Bank risk management

Basic principles of risk control

Oldenburgische Landesbank AG (OLB) strictly observes the principle that front-office and back-office operations must be kept entirely independent from risk monitoring. It therefore maintains a strict separation between the market units' active assumption of risk, together with their risk management, on the one side, and risk monitoring, on the other. In the lending business and treasury operations, additionally, a separation between the front and back office is maintained at all levels below the Board of Managing Directors.

When new products are introduced, a predefined process (the procedure for introducing new products or for entering new markets – new products, new markets, or NPNM) ensures that all concerned functions of OLB are able to participate in the risk and earnings analysis before planned new business activities begin.

Before changes are made in the Bank's structure and procedures, or in its IT and rating systems (per CRR), the impact on the internal control system and on the risk management and controlling system is assessed and classified in a defined procedure by a group from internal controlling and risk assessment. This ensures that before any planned measure is introduced, it has been reviewed by the organizational units affected and any necessary adjustments to the risk management and controlling system have been prepared.

A number of panels support the Board of Managing Directors in preparing for decisions on risk management. The most important entity here is the Risk Committee.

The risk reporting system established within the Company ensures that the Board of Managing Directors is kept involved and informed about the risk management process.

Suitable employee qualification measures in the risk management process ensure that the employees have the necessary and appropriate knowledge and experience.

Risk culture

Knowingly assuming risk and credit risks is inherent in OLB's business and risk strategy.

Shared ethical values and a Company-wide risk culture consistent with the risk strategy are important factors for the success of the Bank's sustainable business performance. A well-defined corporate and risk culture can lastingly reduce misconduct by employees, while at the same time exerting a positive influence on the public's perception of the Bank and its reputation.

For OLB, this means continuously encouraging a risk culture within the Bank, and deliberately reinforcing a value system that firmly anchors risk management and risk awareness in its corporate culture. In this connection, the principles of conduct established and communicated within the Bank are of particular importance.

The OLB Code of Conduct is a significant basic component of the Bank's practiced system of values, and must be considered a minimum standard for all employees' conduct. Not only the Board of Managing Directors, but all executives play a significant role in shaping OLB's guiding principles by setting an example through their own conduct. An appropriate risk culture, such as the Bank has defined for itself, presupposes a management concept of open communication and cooperation, in which recognized risks are frankly communicated and crisis situations are approached with a focus on finding a solution. Employees are motivated to align their conduct with the Bank's defined system of values and Code of Conduct, and to act within the bounds of risk tolerance as defined in further detail in the risk strategy. The practiced risk management and the transparency and communication needed for that purpose offer employees a chance to make the most of opportunities within the prescribed general conditions for risk management. At the same time, however, employees also have the responsibility for assessing risk comprehensively and managing it proactively. One significant component of risk culture is the conscious care and discipline with which participants approach their tasks in the customer and risk management process.

A risk culture implies a constructive, open dialog within the Bank that is encouraged and supported at all levels of management. In past years, the Bank has already taken many steps that have further refined and lastingly reinforced a risk culture as part of its corporate culture.

Risk strategy

The Bank's Managing Board adopts the risk strategy, reviews it at least once a year, and discusses it with the Supervisory Board. The risk management system at Allianz SE (the parent of the financial group) establishes Group-wide standards. Allianz SE has set particular requirements especially for banks, which it provides to its banking subsidiaries as recommendations.

The risk strategy is based on the Bank's business strategy, and takes account of the results of the Bank's risk assessment, risk-bearing capacity, and organizational environment. The risk strategy is developed in a structured strategy process that ensures:

- that OLB's Business and Risk Strategy is consistent with its business plans,
- that OLB undertakes only risks that are subject to a control process, and in amounts that pose no threat to the Company's continuing existence,
- that claims by the Bank's customers and other creditors are secured,
- that OLB's risk-carrying capacity is assured at all times through a risk-sensitive limitation of the principal types of risk and of the risks at the level of the Bank's lines of business,
- that the Bank's ability to meet payments is assured at all times and monitored by way of limits, and
- that the Bank has appropriate risk reporting and monitoring capabilities in place.

OLB views itself as a customer-oriented bank, doing business on a sustainable basis with a long-term perspective, applying a business model oriented to soundness and consistency. The Bank's risk management process supports the implementation of this strategy by managing risk exposure so as to ensure that the Company's net assets, financial position and results of operations remain sustainable.

From the viewpoint of business and risk strategy, an appropriate employee compensation system plays an especially important role, because in addition to other goals of human resource policy, it also ensures that employees counteract risk adequately. For that reason, the structure of that system is regularly reviewed by the Board of Managing Directors, revised if necessary, and formally noted by the Supervisory Board.

The decision about a strategic approach is made while taking due account of the opportunities associated with the risks, or in the case of operational risks, considering the costs associated with reducing or avoiding the risks.

Definition of types of risk

As part of the annual risk assessment process, OLB examines what risks are relevant to it, and whether all significant types of risk are subjected to an appropriate risk management process. Credit risk, market risk, liquidity risk and operational risk are defined as significant risks that, because of their amount and nature, are material to the Company's continuing existence. The results of the risk assessment are incorporated into the risk-carrying capacity process by way of the risk strategy.

Credit risk

Definition of credit risk:

Credit risk is subdivided into default risk, migration risk, spread risk and country risk:

- *Default risk*
  Default risk is defined as the potential loss inherent in the default of a business partner – whether a counterparty or other partner to a contract, or an issuer of a security – in other words, the party's potential inability or unwillingness to meet contractual obligations.
- *Migration risk*
  Migration risk is defined as the potential change in the present value of a claim as a result of a deterioration in the creditworthiness of the counterparty or debtor.
- *Spread risk*
  Spread risk is defined as the potential change in present value as a consequence of changes in liquidity spreads and / or credit spreads in the market.
- *Country risk*
  Country risk, as a subcategory of credit risk, is defined as the incurrence of a cross-border risk, particularly a transfer and conversion risk – i. e., the risk that moratoriums and / or restrictions on payment traffic may make it impossible to repatriate payments of interest and / or principal in the local and / or foreign currency.

See Glossary, p. 144

Market risk

Definition of market risk:

Market risk refers to the risk that the Bank may suffer losses because of unexpected changes in market prices, or in parameters that affect market prices. It also includes the risk of changes in value that may occur if large positions can be bought or sold within a given time frame only at prices that are not consistent with the market.

Liquidity risk

Definition of liquidity risk:

By liquidity risk, OLB first of all means the risk that it might be unable to meet its payment obligations at all times (risk of inability to meet payments).

The Bank also includes under liquidity risk the risk of increases in the price of raising funds to cover refinancing gaps as a result of market conditions that increase liquidity and loan markups on interest rates (liquidity cost risk).

Operational risk

Definition of operational risk:

For OLB, operational risk means the risk of a direct or indirect loss as a result of shortcomings or failures of employees, systems or internal procedures, or because of external events. It also includes legal risk and the risk of changes in the law, the risk of miscellaneous criminal acts, model risk, reputation risk, and project risk.

- *Legal risk and risk of changes in the law*
  Legal risk refers to the risk that damage might be incurred because of a complete or partial non-compliance with the legal framework prescribed by statute, regulations and case law. The risk of changes in the law means the risk of a loss because of new laws or regulations, or adverse interpretations or applications of laws or regulations by the courts. Conduct risk, as a subcategory of legal risk, refers to violations of obligations of good conduct, especially towards customers (e. g., product sales practices, conflicts of interest, and incentive processes in sales channels, as well as market manipulation).

- *Risk of miscellaneous criminal acts*
  By risk of miscellaneous criminal acts, OLB understands the risks of criminal conduct and of corruption:
  - *Risk of criminal conduct*
    The Bank defines risk of criminal conduct as the risk of losses due to criminal activity by employees and/or external third parties.
  - *Corruption risk*
    In terms of law, corruption means the abuse of a position of trust in order to obtain a tangible or intangible advantage to which one is not legally entitled. Consequently, OLB defines corruption risk as the economic loss that the Bank may incur as a consequence of corruption.
- *Model risk*
  Model risk describes the potential for loss resulting from the incorrect prompting of management acts because of an improper application of a model, its unsuitability for the application, unsuitable or incorrect input parameters, or internal inconsistences in the model (the model is outdated or improperly formed). A (possible) model risk in the sense of an operational risk is inherent in all models that are used for decision-making in evaluating a product or financial figure (e.g., product costing, evaluation of financial instruments, monitoring of risk limits, etc.), and that do not directly affect equity requirements or are used to review those requirements (Pillars I and II – quantification models).
- *Reputation risk*
  OLB defines reputation risk as the risk of a loss of the Bank's reputation among the general public, shareholders, (potential) clients, employees, business partners, and the supervisory authorities with regard to its capability, integrity and trustworthiness, because of adverse events that occur in the course of its business activities.
- *Project risk*
  The Bank understands project risk as the harm that may potentially be caused by delays, cost increases, or losses of quality, or the failure of a project.

Risk-carrying capacity

The Bank applies two approaches in determining its risk-carrying capacity: a liquidation approach, and strictly as a secondary condition, a going-concern approach.

Liquidation approach

In its business strategy, OLB defines the liquidation approach as the leading approach for managing risk-carrying capacity. Here the key figure for assessing risk-carrying capacity is the surplus coverage ratio for risk capital needs. The Bank calculates this as the quotient between the existing risk coverage potential and risk capital needs for the risks incurred. Risk-carrying capacity is ensured as long as the coverage ratio is greater than 100 percent. To safeguard the Company's continuing existence and its leeway for action in business policy in the event of potential adverse changes in the economic environment, OLB's risk strategy additionally defines a capital buffer that is above this minimum requirement. Risk capital needs are calculated using value-at-risk models, with a confidence level of 99.93 percent and a holding period of one year.

See Glossary, pp. 147, 146

In the liquidation approach, risk coverage potential is derived from balance sheet figures from the financial statements under IFRSs prepared for internal management. Risk coverage potential makes no allowance for future profits.

Going-concern approach

In addition to the liquidation approach, strictly as a secondary condition, through the going-concern approach OLB also monitors risk-carrying capacity in order to ensure that it can always meet regulatory requirements for capitalization. In the Bank's going-concern approach, risk-carrying capacity exists as long as appropriately defined risk scenarios do not cause the Bank to fall short within the next year from the core capital ratio and aggregate capital ratio (each including the SREP markup) required under the Capital Requirements Regulation (CRR).

To examine risk-carrying capacity under the going-concern approach, OLB uses a loss scenario in which the maximum period contribution to losses from an expected shortfall is calculated using a 95 percent confidence level (conditional value-at-risk model) and the stressed risk-weighted assets in a "Severe Economic Downturn" scenario. For a final assessment of risk-carrying capacity, the stressed, risk-weighted assets are set in relation to the stressed core capital or to stressed liable equity, as the case may be, and the Bank examines whether the core capital ratio and aggregate capital ratio still comply with the regulatory minimums for the risk horizon under that risk scenario. Here the minimum capital ratio is defined as the capital ratios including the SREP markup and excluding the capital conservation buffer (CCB) and stress buffer.

Organization of risk management and controlling

As part of its overall responsibility, and under the terms of Sec. 25 c of the German Banking Act (KWG), OLB's Board of Managing Directors is responsible for defining the Bank's strategies and for establishing and maintaining an appropriate, consistent, up-to-date risk management system. It defines the principles for risk management and controlling, together with the organizational structure, and monitors their implementation.

The risk policy – as an embodiment of the requirements under the risk strategy – describes the principal aspects for organizing risk management. As part of that policy, below the Board of Managing Directors, the Risk Committee is established as the central body that monitors and manages the Bank's risk-carrying capacity. The Risk Committee includes the Chief Risk Officer, the Chief Financial and Operations Officer, the head of Credit Management, and the managers of the Risk Controlling, Large and Specialized Loans, Finance / Controlling, and Treasury departments. Subcommittees of the Risk Committee are the Risk Methods and Process Committee, the Operational Risk Committee, and the Credit Portfolio Committee, each of which is headed by the Chief Risk Officer. Changes in methods and risk parameters are assessed with expert knowledge by the Risk Methods and Process Committee. The Credit Portfolio Committee assesses proposed changes in the portfolio and their impact on the business model. The Operational Risk Committee is the corporate committee for managing operational risks within OLB. The full Board of Managing Directors makes the final decision on aspects strategically relevant to risk. Its decisions are bound by the rules of procedure issued by the Supervisory Board, which define the required conditions. Any decisions outside the authority of the full Board of Managing Directors are coordinated with the Risk Committee and decided upon by the Supervisory Board.

Risk management

The following bodies and organizational units are responsible for managing the principal types of risk:

Type of risk	Body / Organizational unit
Credit risk	Risk Committee (Credit Portfolio Committee)
Market and liquidity risk	Risk Committee, Bank Management Committee
Operational risk	Risk Committee (Operational Risk Committee)

In keeping with the strategic focus and goals defined by the Board of Managing Directors in the Business and Risk Strategy, and within the bounds of their assigned areas of authority and limits, these units have the task of duly controlling risk on the basis of their analyses and assessments. This task also includes adequately designing organizational structures, processes and goal agreements. However, decisions on individual credit risks are the responsibility of various levels of the organization as defined in the current allocation of authority.

Risk monitoring

Risk monitoring is performed by the Risk Controlling department, and in the case of operational risks, additionally by the Compliance and Organization departments. These departments are organizationally independent components of OLB's risk management system. They are kept strictly separate both from each other and from the units in charge of initiating, entering into, assessing and approving transactions. The task of Risk Controlling is to fully and consistently analyze, measure and monitor risks. It provides the risk analyses and risk information that risk management needs for active management adequate to the risk at hand. The Compliance department is responsible for countering the risks that may result from noncompliance with legal rules and requirements. Here, it must work to implement effective methods to ensure compliance with the relevant requirements of law, and to provide the associated monitoring. In terms of risk management, the Organization department is responsible for identifying operational risks throughout the Bank (with the exception of operational risks relating to the systems environment and reputation risks, which are respectively the responsibilities of IT and of Personnel and Communications). This department is also involved in controlling operational risks by participating in the Operational Risk Committee, and supports risk controlling in assessing and reporting on operational risks, in part by gathering and forwarding regular operational risk reports.

In addition, Internal Auditing performs an assessment of the adequacy of the risk management and controlling system from outside the process, by auditing the structure, functionality and efficacy of the entire risk process and the other processes associated with it.

Risk reporting

In risk reporting, the risk controlling system reports regularly to decision makers (the full Board of Managing Directors, Risk Committee, pertinent department managers) and the Supervisory Board, as well as the Risk Committee appointed by the Supervisory Board. The frequency of reporting depends on the significance of the risk and on regulatory requirements. Information that is significant for risk is immediately conveyed to management, the officers in charge, and to the Internal Auditing and Compliance departments if applicable.

Filing external risk reports with Deutsche Bundesbank regarding the lending business is the task of the Finance / Controlling department.

Management and controlling of specific risks

Credit risk

Risk measurement

OLB uses a recognized credit risk model, the Credit Metrics™ simulation model, to measure economic credit risk. This model reflects default risk, migration risk and spread risk.

Based on the loss risks for each individual item, the model calculates a collective loss allocation for all items and thus assigns a value to the portfolio. The changes in value in the entire portfolio are then used to derive the key figures and limit values needed for risk management. A credit value at risk (99.93 percent / 1 year) is used to measure and control risk. This describes the difference between the value at risk (99.93 percent / 1 year) and the expected loss.

Credit risks are limited at both the whole-portfolio and partial-portfolio levels. Stress tests are additionally performed at regular intervals. The scenarios considered there are regularly reviewed for currency and relevance.

Risk management in the customer lending business

Management of all credit risks in the customer lending business is based on an integrated concept of guidelines, structures of authority, and requirement systems consistent with the Bank's strategic focus and objectives.

The loan decision process is structured consistently with this concept. An organizational and disciplinary separation between front office and back office is ensured at all levels.

Various organizational rules have been adopted depending on the credit risk to be decided. The aim is for the structure and the distribution of duties to ensure that decision-making and processing for credit exposures are both adequate to risk and efficient, as a function of lot sizes, risk content, and complexity. Exposures that are integral parts of business that OLB defines as not relevant to risk (equivalent to the homogeneous portfolio) are subject to simplified approval, decision-making and monitoring processes. Exposures that are part of business that the Bank categorizes as risk-relevant (equivalent to the nonhomogeneous portfolio) are approved and decided in shared authority between front and back office, on the basis of their specific risk content and in compliance with firmly defined rules.

Risk assessment and credit approval in non-risk-relevant business depend on the type of transaction and on who is in charge of providing customer support. Provided the credit ratings are adequate, loans for up to EUR 50 thousand to retail and business customers in the branch business, and for up to EUR 250 thousand in private construction financing, are decided by the front office; for new business in construction financing, the construction financing expert decides. Loan extensions to clients in the Private Banking & Independent Professionals and Corporate Customers areas, for amounts up to EUR 250 thousand, are decided by the front-office customer support officer in charge, provided that the credit ratings are adequate. Within the bounds of the front office's own authority (except where transactions in construction financing or consumer lending are concerned), the back office supports the front office in conducting credit checks and preparing a rating. For all other exposures, risk assessment and the credit decision are carried out in cooperation between the front and back office.

See Glossary, p. 146

In new business, the risk of insolvency is determined for each borrower, in the form of a credit rating category, on the basis of statistical creditworthiness procedures. The collateral furnished by the customer is appraised in parallel, either with the participation of the back office or by external appraisers, depending on the scope and complexity of the transaction. The loan volume, credit rating and collateral together provide an absolute measurement of the customer's credit risk.

During the life of the credit, all exposures are monitored at all times. For total exposures of more than EUR 250 thousand (not including private construction financing), and for exposures of more than EUR 50 thousand to single customers, credit ratings are updated individually every year. Exposures with corporate customers and independent professionals up to a total volume of EUR 250 thousand, or above EUR 50 thousand for individual customers, are subject to an individual rating process triggered by early detection factors for risk. Special rating rules apply to special financing and banks. All other exposures are subjected to an automated monthly portfolio rating.

In addition, all exposures are monitored by various automated and manual early detection procedures for risk; when needed, these procedures trigger a mandatory rating review together with predefined analytical and reporting processes.

The timing and scope of recurring appraisals of collateral depend on the nature of the collateral and the value attributed to it. Since real property plays such an important role as collateral for the Bank, a central real estate monitoring unit has been set up that tracks regional changes in prices in the real estate market, and triggers an individual review of the affected regional real estate figures when material changes occur.

The qualitative and quantitative requirements for approving and monitoring exposures are coupled to the risk involved in each case. Depending on volume and credit rating, spheres of authority are defined so that credit decisions are always made at a level adequate to the risk involved.

Appropriate systems of requirements have been established to keep the risk of the credit portfolio as a whole within reasonable bounds. For example, there are guidelines for the acceptance and appraisal of collateral. Limits at the level of the individual borrower or for particular types of financing mean that when needed, for example, appropriate consortium partners may be included. Risk-dependent prices, in conjunction with risk-adjusted measurement of sales units' earnings, create incentives to engage in new business only where there is adequate creditworthiness and appropriate collateral.

To ensure an adequate assessment of risk over the long term, an emphasis is placed on high-quality processes. Here extensive initial and continuing training for employees plays a crucial role, as does a regular review of processes. Moreover, follow-up analyses and validations make it possible to judge how meaningful the results of a credit assessment and collateral appraisal actually are, and permit projections about the future risk picture.

In addition, Risk Controlling reviews the evolution of credit risks as a whole each quarter. It performs structural analyses of the portfolio (rating, collateral, size classes, economic sectors, new business, etc.), and investigates the impact on expected loss and on both economic and regulatory equity requirements. The results are incorporated into the quarterly risk report to the Risk Committee, the full Board of Managing Directors, and the Supervisory Board.

See Glossary, pp. 146, 145

The quarterly risk reporting also includes an examination of potential risk concentrations in credit risk. This includes analyses on the basis of individual exposures, sectors, or other defined partial portfolios. In addition, at least once a year, risk concentration is extensively reviewed as part of the risk assessment, so as to detect any additional needs in connection with updating the risk strategy.

To avert risk concentrations, single-exposure and partial-portfolio limits are also defined above and beyond areas of authority. Monitoring these limits is the task of the Risk Controlling department.

Trading business

OLB has access to all major capital markets. Although the Bank does no trading on its own account, it does conduct transactions – especially in its business with customers – that are classified for regulatory purposes as "small trading book business." Small trading book business (according to Art. 94 of the CRR) is trading portfolio business that is always less than 5 percent of total assets and EUR 15 million.

See Glossary, p. 145

Risk measurement

To limit credit risk from trading transactions, for derivatives the Bank applies the market valuation method supplemented with regulatory add-ons. Regulatory risk weighting uses the advanced IRB approach under the CRR.

Additionally, the Bank has integrated credit risks from trading transactions into its internal credit portfolio model, making it possible to model all credit risks in the form of a value-at-risk approach. Here value-at-risk is defined as the potential loss that will not be exceeded with a defined probability (confidence level) over a given period. The result for value at risk with a 99.93 percent confidence level and a one-year holding period represents the risk position for credit risks in the analysis of risk-carrying capacity.

See Glossary, p. 147

Risk management

The Bank conducts trading transactions in the non-trading portfolio when they are intended to safeguard the Bank's long-term liquidity and to control the risk of changes in interest rates within the defined limits. In this way, they serve to safeguard the Bank's long-term survival and earnings stability. The principal lines of business included in the non-trading portfolio are money trading and trading in or issuing bonds. They are complemented by derivative transactions to mitigate risk. The portfolio is completed by investments in two special funds that invest primarily in bonds and stocks, which diversify risk.

See Glossary, p. 144

Interest-rate risks in the value at risk non-trading portfolio are managed at OLB by the "passive" method, in which the aim is essentially to fully immunize the portfolio against interest rate changes rather than managing it "actively" as a function of projected changes. The risk position essentially derives from developments in new lending business, the holdings of highly liquid bond securities in necessary liquidity reserves, and the refinancing structure. Investments for the Bank's liquidity reserve may be made only within a specifically defined range of product types.

OLB counters issuer and counterparty default risks in the trading business with banks, and in securities investments, by limiting its dealings fundamentally to trading partners who have first-class credit ratings and to central-bank counterparties, as well as by maintaining a firmly established system of limits and pursuing a broadly diversified portfolio. The strategic orientation is defined in the Bank's risk strategy.

In terms of the approval process, credit risks from the trading business are treated analogously to the commercial lending business.

Market risk

Risk measurement

OLB is exposed to market risks in its customer business and in trading. Significant factors here include:

- changes in interest rates and yield curves,
- the price of stocks,
- changes in currency exchange rates, and
- fluctuations (volatility) in these parameters.

See Glossary, p. 147

The risk from the non-trading portfolio derives primarily from changes in interest rates. It also includes, to a limited degree, stock risks and foreign currency risks from the special funds. An open foreign-currency position is possible only for very minor technical amounts. The limit for open foreign-currency positions is set at EUR 500 thousand.

Risk positions are monitored by Risk Controlling, which reports the evolution of risks and results for the liquidity reserve daily, and for the value at risk of the non-trading portfolio monthly.

All risk positions are measured as the sum of all relevant individual transactions, including applicable measures to limit risk (net presentation).

Market risks are quantified and limited at the Whole Bank level, primarily using value-at-risk models.

The value-at-risk model for the non-trading portfolio is based on a historical simulation that incorporates changes in interest rates and stocks, equally weighted over time since 1988. To quantify the interest rate risk, the method calculates how the present value of the interest rate book would change if the historically observed changes in interest rates were to occur.

Under EBA Guideline 2015/08, changes in net present value are additionally calculated using ad-hoc shifts of the yield curve in different directions and to different extents as stress scenarios.

For variable-rate products, a fictive maturity scenario is estimated in the interest rate book cash flow, on the basis of the products' historical interest-rate adjustment behavior. Special repayment rights in the lending business are also incorporated into the risk measurement as a model cash flow.

Foreign exchange risk is calculated on the basis of the standard method for market price risks under the CRR.

For risks from holdings in foreign cash and precious metals, the limit is EUR 2 million.

Risk management

The Bank Management Committee and the Risk Committee are responsible for managing market risk. Positioning in the non-trading portfolio is deliberated and decided by the Bank Management Committee. Market risks are monitored by the Risk Controlling department, and limits are adopted by the full Board of Managing Directors, taking due account of recommendations from the Risk Committee.

Value at risk for market risks (99.93 percent/1 year) serves to limit risk, and is further allocated between stocks and the interest rate book, taking diversification into account.

To assess market risk, in addition to statistical risk assessment using value-at-risk models, the Bank applies both regulatory and economic stress tests.

Liquidity risk

Risk measurement

Short-term liquidity risks are measured and controlled on the basis of liquidity development summaries, made available daily, with a forward horizon of the next 30 days (with an eye to the risk of inability to meet payments). In addition to deterministic cash inflows and outflows, the method also applies assumptions on the further development of variable business. Assessments of future liquidity cash flow are performed using both normal market conditions and stress scenarios. The content of the scenarios is essentially the same as that for the medium and long-term views.

Medium and long-term liquidity risks are measured and controlled on the basis of monthly assessments that analyze future liquidity cash flow with a forward horizon of the next ten years. The liquidity cash flow here is the net figure for all future incoming and outgoing payments up to the given date. The analysis takes account of business performance both under normal market conditions and under stress scenarios.

The "Normal Case" generally presumes a constant volume of business. This scenario represents the liquidity situation under normal business conditions.

The "Plan LAB" scenario additionally takes account of the branch bank planning of the Bank's controlling unit. It adopts the assumptions about growth of both the customer lending business and customer deposits over a three-year period.

The "Recession" scenario describes the consequences of an economic recession. On the assumption of increasing loan defaults, larger drawdowns on credit lines, and declining savings ratios, cash outflows would take place over the medium term. The assumption of additional higher measurement discounts on securities in the liquidity reserve furthermore incorporates components of a market crisis into the scenario.

The "Downgrade" scenario assumes a deterioration in the Bank's credit rating. It posits a short-term cash outflow for time deposits, demand deposits and savings deposits, as well as OLB bonds. This scenario thus incorporates elements of a bank run.

The "Combined" scenario combines the assumptions of the "Recession" and "Downgrade" scenarios.

Additionally, the examination of liquidity risk also includes risk concentration analyses. These furthermore incorporate imponderable factors from the cash outflows for the top 10 deposit customers.

Compliance with the regulatory liquidity figure is an integral part of risk measurement. In addition to monitoring the current liquidity coefficient under the Liquidity Regulation, OLB also reviews the liquidity coverage ratio (LCR) under the Delegated Regulation. The LCR calls for maintaining a liquidity buffer that will at least cover net outpayments for 30 days under market-wide and idiosyncratic stress conditions. The items constituting the LCR under the CRR have had to be reported monthly as of March 31, 2014, and have been supplemented by the ratio under the Delegated Regulation as of October 1, 2015. The first reporting under the Delegated Regulation was issued as of September 30, 2016; there has been no further reporting under the CRR since then. This approach is supplemented with a liquidity buffer for a one-week and a one-month period. All of these steps are intended to safeguard short-term ability to meet payments, especially by maintaining an adequate liquidity reserve.

In assessing liquidity cost risk, funding matrices over the next ten years from the liquidity-risk stress scenarios are analyzed. If liquidity falls short of liquidity risk limits during this period under one scenario, the shortfall between the actual liquidity and the needed liquidity is remedied by a simulation of liquid refinancing transactions at current interest rates with possible liquidity spreads and maintaining a uniform credit rating. The liquidity cost risk is calculated with a value orientation as a liquidity value at risk with a 99.93 percent confidence level.

There is no separate quantification of market liquidity risk. In combination with the evolution of individual credit spread risks, this risk class for the securities segment is reflected in counterparty risk. For OLB's refinancing, this risk is reflected together with liquidity cost risk. In addition to quantification, the Bank's ability to refinance is also monitored qualitatively. OLB has access to all capital market segments in Germany. In 2016, it applied to the Federal Financial Supervisory Authority (BaFin) for a license to issue Pfandbrief bonds. Most of the Bank's refinancing is provided out of its own customer deposits. There are no concentrations, and no dependencies on specific markets or counterparties. Market liquidity risk has been significantly reduced by the Bank's admission to the Bundesbank's loan tender procedure in 2015, and to the anonymous, secured Eurex Repo GC Pooling Market.

Risk management

Short-term liquidity risks are limited on the basis of the regulatory ratios under the Liquidity Regulation and of the liquidity coverage ratio. For the regulatory ratio under the Liquidity Regulation, receivables and liabilities are assigned to maturity ranges. According to regulatory requirements, the ratio of cash funds to liabilities in the first maturity range (daily or up to one month) cannot be less than 1. To ensure that this requirement is met at all times, an internal limit is defined, and appropriate risk-mitigating measures are taken when it is reached. The Bank's Risk Committee is regularly informed of the evolution of this key ratio. These considerations are supplemented with a liquidity buffer that must be maintained, derived from weekly and monthly liquidity outflows from customer transactions. The limits for liquidity risk are based on "cumulative relative liquidity surpluses" as the key indicator. This represents the liquidity cash flow relative to total liabilities for defined maturity ranges. Limits have been defined for the "Recession," "Market Crisis," "Downgrade," "Top 10 Depositors," and "Combined" stress scenarios. If liquidity falls below the limits, risk-mitigating measures are initiated.

The liquidity coverage ratio is a liquidity risk coefficient for a specified stress scenario in 30 days. The liquidity coverage ratio has been calculated under the Delegated Regulation since October 2015. It is subject to regulatory limits that are supplemented with internal early warning thresholds.

Liquidity risk is controlled by the Bank Management Committee and the Risk Committee. If needed, Treasury can draw at any time on the securities held in the liquidity reserve, or cover additional liquidity needs through sales, pledges for Bundesbank refinancing facilities, or forward sales under repo agreements. Long-term liquidity needs are covered through customer business, by taking out refinancing loans or by placing borrower's note loans. Additionally, plans call for issuing Pfandbrief bonds.

See Glossary, p. 146

Operational risk

Risk measurement

OLB uses uniform, coordinated instruments to identify, measure and monitor operational risks.

Since 2003, relevant losses attributable to operational risks have been collected in a structured, systematic way in an internal database. The history from those losses serves as a foundation for a focused, detailed analysis and remediation of causes.

Scenario analyses, in the form of a risk assessment, are performed at the Bank to calculate the risk potential from operational risks. Here experts, product officers and process officers evaluate critical scenarios for their potential loss level and frequency. Based on the results of the scenario analyses, the economic need for capital is determined for the calculation of risk-carrying capacity.

The operational risk stress test includes an assessment of the impact of a hypothetical failure of key controlling measures in the Bank's payment traffic process, based on expert estimates.

Risk indicators are recorded to continuously monitor for negative changes in the operational risk profile.

The regulatory capital requirements for operational risk are determined using the standard approach.

Risk management

Management of operational risks is essentially based on the scenario analyses, on analyses of losses actually incurred, and on the risk indicators for operational risks. Depending on the importance of the recognized risk fields, it may be necessary to take steps to limit risks, taking cost-benefit considerations into account. Such steps include optimizing processes and keeping employees adequately informed (including through continuing training and by using up-to-date communication methods), as well as taking out insurance against major losses (for example, a fire at headquarters) and establishing an appropriate backup system for computer data.

Risk situation

Risk-carrying capacity under the liquidation approach

The following risk positions are used in determining OLB's risk-carrying capacity:

EUR m	12/31/2017
Credit risk	246
Market risk	101
Liquidity cost risk	0
Operational risk	17
Whole Bank risk	**364**

The available risk coverage potential was able to cover 215 percent of Whole Bank risk as of December 2017 (prior year: 159 percent). As of the same date, allocated limits were covered 135 percent (prior year: 133 percent) by risk coverage potential. The coverage ratio is expected to remain stable in fiscal 2018.

The periodic comparison of Whole Bank risk with risk coverage potential showed that OLB had risk-carrying capacity throughout the year with a confidence level of 99.93 percent.

The Bank controls and monitors liquidity risk using a proprietary risk management process. This ensures that even in adverse market situations that are nevertheless conceivable, the Bank has enough liquid assets to guarantee that it can meet payments at all times. It must be noted that the risk coverage potential under risk-carrying capacity is not suitable to ensure the Bank's ability to meet payments. This means that in the liquidation approach, the liquidity risk in the sense of an inability to meet payments, as used for risk-carrying capacity, is not taken into account.

Credit risk
The decrease in credit risk from EUR 341.3 million at the end of 2016 to EUR 246.3 million at December 31, 2017, is a consequence of the point-in-time parameterization of the credit risk model, which reflects the current very good economic situation.

Market risk in the non-trading portfolio
As part of the allocation of the available Whole Bank risk capital, and in keeping with the Bank's business policy focus, the limit for market risks in the non-trading portfolio and the utilization of that limit were continuously planned over the course of the year.

Operational risk
Operational risk is determined on a value-at-risk basis from a scenario analysis. The scenario analysis is updated annually, or as circumstances require. During the course of 2017, circumstances required a remeasurement of risk. At the end of December 2017, there was a moderately lower risk amount in comparison to 2016.

Liquidity cost risk
Liquidity cost risk for the entire year of 2017 was EUR 0.0 million. At no time did the Bank fall below the liquidity risk limit.

Whole Bank risk
The Whole Bank risk results from adding together the risk positions for credit risk, market risk, liquidity cost risk and operational risk. This approach to calculating risk makes no allowance for risk-mitigating effects of diversification between risk types. Under this assumption, the Whole Bank risk as of December 31, 2017, came to EUR 364.1 million (prior year: EUR 472.3 million).

Risk-carrying capacity under the going-concern approach
The Bank maintained the regulatory minimum capitalization at all times in 2017 in the "Severe Economic Downturn" scenario.

Credit risk

Customer credit is extended predominantly to retail customers and medium-sized corporate customers. The business with retail customers concentrates on construction financing and consumer credit. Business with corporate customers is mainly in financing for operating equipment, other capital investments and real estate.

Credit ratings

Credit rating	Explanation
I – II	Undoubted ability to meet payment obligation
III – IV	Extensive ability to meet payment obligation
V – VI	Ability to meet payment obligation even in difficult economic phases
VII – VIII	Ability to meet payment obligation with minor limitations
IX – X	Ability to meet payment obligation with limitations
XI – XII	Impaired ability to meet payment obligation
XIII – XIV	Increased or severe vulnerability to delinquency
XV – XVI	Borrower is delinquent under the CRR or is considered to have defaulted

See chart, below left

The chart below shows the distribution of credit ratings for the gross credit risk in the customer lending business as of December 31, 2017. Gross credit risk includes not only on-balance-sheet claims that might be asserted, but also revocable and irrevocable credit commitments, obligations under suretyships and guarantees, documentary credit obligations, and credit equivalent amounts for derivatives.

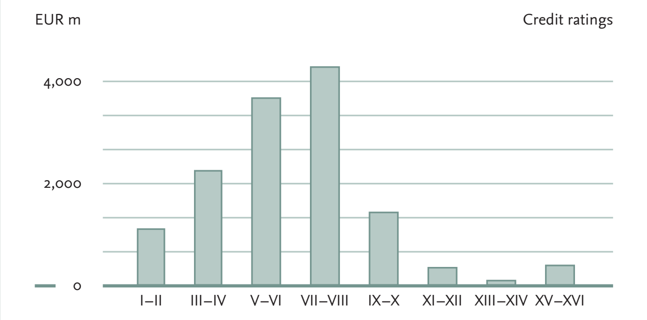
The credit rating structure of the gross credit risk indicates that the major part of the portfolio, at 83 percent, is in average to very good categories (I – VIII). Only 4 percent are in critical credit ratings (XIII – XVI).

All in all, about 49 percent of the gross credit risk is secured with collateral. Most of this collateral, at 75 percent, is liens on residential and commercial property. Cash collateral such as deposit accounts, home loan and savings agreements, life insurance policies, etc., represents 10 percent. About 15 percent is other collateral, primarily assignments as security.

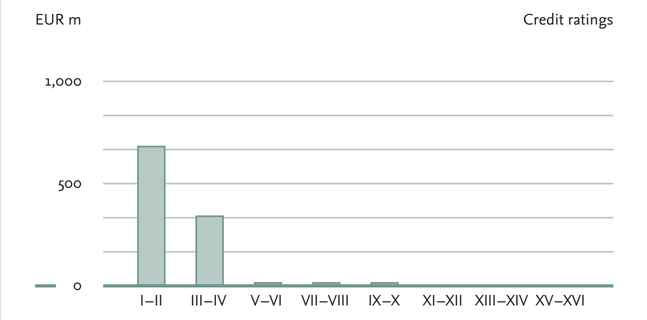
Risk concentrations
The distribution of the credit portfolio by sector is characterized by the clientele resident in the Bank's business region. An additional focal point is the lending business in financing for projects in the renewable energy sector, particularly financing for onshore wind power installations.

Financing for oceangoing vessels
Financing for oceangoing vessels again represented a relatively large share of risk provisions. This is still the consequence of the surplus of ship tonnage and the associated stagnation of charter rates.

Credit rating categories of the gross credit risk in the customer lending business at December 31, 2017



Credit rating categories of receivables from banks and bank bonds as of December 31, 2017



However, the charge for the shipping portfolio continues to decrease sharply, because the ship exposures entailing risk have largely been restructured or sold at market prices.

Collateral

Apart from concentration on individual borrowers, risk concentration may also arise from a focus on individual providers of security. However, since collateral and security derives from the broadly diversified customer lending portfolio, at present the Bank does not foresee any relevant risk concentrations there.

For areas where concentration arises because of the nature or item of collateral, suitable measures were taken to monitor value:

Collateral	Monitoring
Real estate	Monitoring of real estate market for regional fluctuations in market price
Inland-waterway and oceangoing ships	Semiannual list appraisal

Quotas of proceeds from collateral are monitored continuously. Any changes observed are taken into account in calculating credit risk.

Banks

On the whole, the credit risk on receivables from banks and bonds issued by banks is low. Almost all receivables are within the good to very good credit ratings, I – IV. Barely 0.1 percent of total receivables fall within the credit ratings from V to X.

The chart below shows the distribution of credit ratings for receivables from banks and bank bonds at December 31, 2017.

See chart, p. 082 right

Country risk

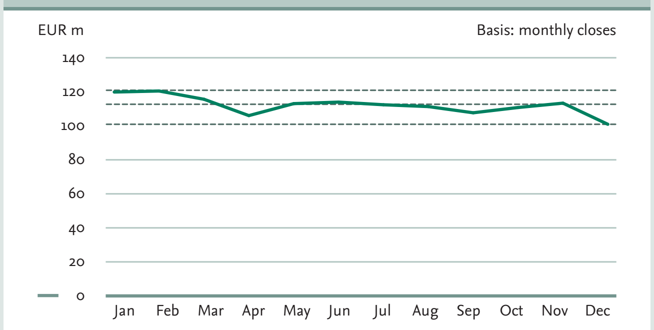
Country risks, as a specific type of credit risk, do not play a material role for the Bank.

Market risk

Trading business

Trading to generate short-term gains was discontinued as of the end of 2012; any new positions were allocated to the non-trading portfolio.

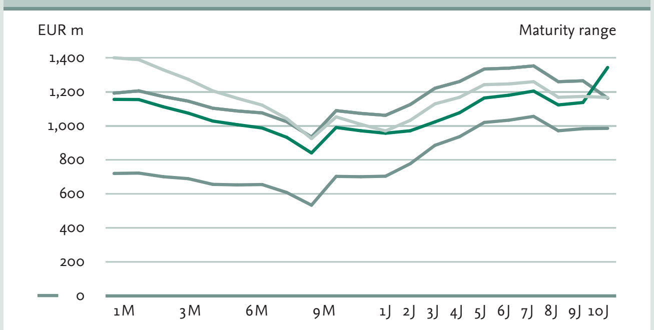
VaR for non-trading portfolio, 2017 (99.3 percent / 1 year)



Minimum, maximum, mean *VaR 2017*

The Basel II coefficient in 2017 never exceeded 18.43 percent.

10-year liquidity cash flows



Normal Case *Recession* *Downgrade* *Combined*

The liquidity cash flows signal a substantial liquidity surplus for the next ten years under all scenarios.

Non-trading portfolio

Value at risk for the non-trading portfolio (99.93 percent / 1 year) in 2017:

EUR m	VaR
Minimum	101.0
Mean	112.4
Maximum	120.9

The market price risks for the non-trading portfolio (VaR model 99.93 percent / 1 year) for 2017 stayed mostly below the prior-year level. The average value at risk, at EUR 112.4 million, was less than the 2016 figure of EUR 113.9 million. The limit of EUR 125 million was not exceeded during the year. The utilization of limits in market price risks is intentional in passive interest rate book management.

See chart, p. 083 left

Market risk in the non-trading portfolio is assessed and limited on a value basis through historical changes in interest rates and stock prices. The growing lending business was the driver behind risk.

The Bank examined whether outstanding interest claims and interest obligations in the non-trading portfolio as a whole yield a surplus of liabilities that would have to be taken into account by forming a provision under Sec. 340 a in conjunction with Sec. 249 (1) Sentence 1 of the Commercial Code, in compliance with opinion IDW RS BFA 3 of August 30, 2012, from the Institute of Public Auditors in Germany, and applying the net present value approach. Here the net present value of the non-trading portfolio was compared with the carrying amounts, after deducting proportionate costs for risk and administration. On the basis of this calculation, there was no need at the reporting date to form a provision for a surplus of liabilities from the business in interest-rate-based financial instruments in the non-trading portfolio.

Foreign currency is converted in accordance with Sec. 340 h of the Commercial Code in conjunction with Sec. 256 a of the Code, also taking into account opinion IDW RS BFA 4 from the Institute of Public Auditors in Germany. Assets and liabilities denominated in foreign currency, as well as cash transactions not yet settled at the reporting date, are converted at the ECB's reference exchange rate for the reporting date. Assets, liabilities and pending transactions are subject to particular coverage depending on the currency involved. Procedural precautions ensure that open currency positions never exceed the equivalent of EUR 500 thousand on any day. Income and expenses resulting from the conversion of specially covered transactions are recognized in profit or loss in accordance with Sec. 340 h of the HGB. Peak amounts from open foreign currency positions that do not net one another out are recognized in accordance with the general accounting policies.

Operational risk

As part of the annual risk assessment, risk scenarios specific to the Bank are developed by the Risk Controlling department. After consultation, the relevant scenarios are discussed at workshops with experts from the specialized departments, who assess them for the potential level and frequency of losses.

The value at risk was found to be in the 99.93 percent quantile in a Monte Carlo simulation. If changes occur under scenarios during the year, the corresponding scenarios are reassessed. The risk amount from January to May 2017 was EUR 18.4 million. In June 2017, a remeasurement occasioned by circumstances yielded a slightly higher risk amount of EUR 18.7 million. The risk amount since October has been EUR 16.8 million. This change results from the lower valuation of certain relevant scenarios in the risk assessment.

Examples of relevant specific risk scenarios:

Scenario	Specialized department in charge
Failure of business-critical IT	Information Technology
Advisor liability	Product Management
Change in legislation or case law	Legal
Loss of building due to fire	Organization
Payment traffic fraud by outsiders	Compliance

Liquidity risk
Changes in key regulatory ratios

	2017	2016
Minimum	1.21	1.16
Mean	1.31	1.31
Maximum	1.40	1.46

The key liquidity ratio during the year was slightly above the prior year's level. This key ratio under the Liquidity Regulation remained well above the required minimum of 1 for the entire reporting period. On average, the key ratio was 31 percent above the required minimum. At December 31, 2017, the key ratio was 1.34. The key liquidity ratio was calculated for the last time as of December 31, 2017.

In addition to monitoring the current liquidity coefficient under the Liquidity Regulation, the Bank also reviews the liquidity coverage ratio (LCR) under the CRR. The items constituting the LCR under the CRR have had to be reported monthly as of March 31, 2014, and have been supplemented by reporting the ratio under the Delegated Regulation since September 1, 2016.

LCR	2017	2016
Minimum	110 %	101 %
Mean	122 %	121 %
Maximum	143 %	153 %

The minimum value of 80 percent for the LCR was maintained throughout the year. On average, the figure was 52 percentage points above the required minimum of 80 percent. At December 31, 2017, the figure was 125 percent. The minimum requirement for the LCR increased to 100 percent as of January 1, 2018.

Liquidity cash flows at December 31, 2017

The chart below shows the liquidity cash flows for a ten-year period. Here it is assumed that the liquidity reserve, as soon as it is available, will be used to generate liquidity.

See chart, p. 083 right

Internal controlling of financial reporting (Disclosures under Sec. 289(4) of the Commercial Code (HGB) and explanations)

Governing principles

The Bank's financial reporting is subject to the requirements of the standardized "Internal Controls over Financial Reporting" (ICOFR) principles.

In those principles, approaches were developed to identify and mitigate the risk of material errors in the annual financial statements. The ICOFR internal controlling system is founded on the rules of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and is regularly reviewed and updated by the Bank.

Additionally, this approach includes the following five interrelated components:
The controlling environment, risk assessment, controlling measures, information and communication, and monitoring. These five components are covered by an "Entity Level Control Assessment Process" (ELCA), the "IT General Controls" (ITGC), and controls at the process level. The ELCA rules prescribe controls such as a compliance program and a committee governance structure, while the ITGC rules define controls for such aspects as access authorizations management and project and change management.

Reporting processes

The accounting process essentially includes the corporate Finance / Controlling department (with its Financial Reporting, Controlling / Treasury and Reporting / Regulatory Affairs groups) and the corporate Risk Controlling and Information Technology departments. The Financial Reporting group is in charge of organizing and overseeing accounting. This group is also in charge of organizing and overseeing the preparation of financial statements. The Controlling and Reporting / Regulatory Affairs groups support the reporting process with quality assurance work, especially at the interfaces between internal and external reporting. The Risk Controlling department particularly provides data for the measurement of transactions that are recognized at present value in the accounting process. The Information Technology department provides the infrastructure for the systems participating in the accounting process. The systems employed are protected by appropriate IT safeguards against unauthorized access. Standard software is used for these systems wherever possible.

Approach by the internal controlling system

Determine scope	Determining material processes to be covered by the internal controlling system
Identify risks	Identifying risk scenarios that can result in a material misstatement
Implement controls	Implementing suitable key controls to detect or prevent errors or fraud that may result from the risk scenarios
Check efficacy	Reviewing design and operative efficacy of key controls

The approach can be summarized as follows:
The Bank adopts a risk-based approach. At the beginning of each ICOFR year, it reviews the ICOFR-relevant processes for completeness. For this purpose, the procedures in the specialized departments are analyzed with an eye to potential ICOFR-relevant risks. In addition to this annual process, during the year the ICOFR coordination organization reviews the results of audits by Internal Auditing and other outside auditors for ICOFR-relevant topics and findings.

The risks that can lead to material financial misstatements are then identified. All possible relevant causes are taken into account, especially human processing errors, fraud, system weaknesses, external factors, etc. After the risks have been identified and analyzed, their potential effects and probabilities are assessed.

In the financial reporting process, preventive and detective key controls are performed to reduce the probability and effects of financial misstatements. If a potential risk does indeed materialize, steps are taken to reduce the impact of the misstatements. Because financial reporting depends heavily on information technology systems, IT controls are also performed.

Controls must be both designed appropriately and implemented effectively. For that reason, components of the internal controlling system – such as processes, associated key controls and their execution – are required to be thoroughly documented. Additionally, the controlling system undergoes an annual assessment to ensure that it remains effective and to continuously improve its efficacy. Internal Auditing makes sure that the quality of the Bank's internal controlling system (ICS) is regularly reviewed, thus ensuring that the ICS remains appropriate and effective.

It should be pointed out, however, that even appropriate, properly functioning systems cannot offer an absolute assurance that risks will be identified and managed.

Oldenburg, February 20, 2018
Oldenburgische Landesbank AG

The Board of Managing Directors

Patrick Tessmann
Chairman

Karin Katerbau

Hilger Koenig

Report on Equal Status and Pay under Sec. 21 of the German Compensation Transparency Act (EntgTranspG)

The following disclosure under the Compensation Transparency Act, as an appendix to the management report, is not an integral part of the annual financial statements and management report, and is therefore not audited by the independent auditor.

Report on equal status

In the OLB Code of Conduct that applies to all employees, as well as in regular training sessions on the General Equal Treatment Act, OLB makes it clear that discrimination in the work environment – whether on the basis of age, physical impediment, ethnicity, gender, political convictions or union activity, race, religion or sexual orientation – will not be tolerated.

As a signatory to the German "Diversity Charter," OLB has also made a public declaration of its determination to ensure diversity.

Internal communications and the ability for employees to participate in various dimensions of diversity help make aspects of equal status and diversity more visible, and contribute actively toward implementing them. For example, in 2017 a variety of topical workshops on diversity were held for employees, with discussions of such matters as the status quo and possible additional steps to promote gender equality.

To encourage work-life balance, the Bank has signed labor agreements with the employee representatives concerning the honor system for working hours and possibilities for working from home (home office). The flexibility of work hours and workplace under these arrangements benefits all employees, especially parents who are trying to organize childcare. Additionally, OLB itself offers a variety of options for childcare that employees regularly utilize.

Since an enriching diversity is important at OLB, the Bank sets a high priority on including a suitable number of women in management positions. For that reason, goals for the Board of Managing Directors and both levels of management below that board were set as long ago as 2015, and had been almost entirely achieved by 2017. In 2017, the Board of Managing Directors decided to increase the target figures originally set in 2015, highlighting the priority that this aspiration enjoys at OLB. To achieve the indicated targets, in addition to the options for a better work-life balance mentioned above, the Bank has also initiated a wide range of additional measures, including staff promotion programs, focused preparation for future jobs, and mentoring for budding managers, in which participants can benefit from the fund of experience held by long-standing executives. Further information about women in management positions (including compliance with the statutory gender quota for the Supervisory Board) can be found in the annual Management Declaration.

Report on equal pay

The compensation systems at OLB are structured in such a way as to ensure fair payment for all employees, consistent with market levels and taking due account of all regulatory requirements.

By far the majority of the employees (approximately 85 percent) are paid under the terms of the national collective bargaining agreement for the private banking industry.

Compensation for employees working under individually negotiated contracts is determined on the basis of a variety of criteria that take account of the nature of their work, the associated responsibility, the employee's personal and professional skills, and the working conditions for the relevant position.

Since an employee's gender has no relevance for their categorization under the collective bargaining agreements, or for the assessment of individually negotiated contract positions under the criteria indicated above, at present there is no need to implement separate measures to ensure equal pay.

Quantitative disclosures:

On average for the year, the Bank had 2,106 employees. On average for 2016 (the annual value referred to in the Act for the Promotion of Transparency in Compensation Structures), the Bank had 2,197 employees. The staff breakdown was as follows:

Average for year	2017			2016 [1]		
	Men	Women	Total	Men	Women	Total
Full-time employees	883	545	1,428	919	579	1,498
Part-time employees	54	624	678	54	645	699
Total	**937**	**1,169**	**2,106**	**973**	**1,224**	**2,197**

1 Reference to fiscal 2016 complies with Sec. 25(3) of the Act for the Promotion of Transparency in Compensation Structures.

ANNUAL
FINANCIAL STATEMENTS

Balance Sheet of Oldenburgische Landesbank AG at December 31, 2017

Assets EUR	**31.12.2017**	**31.12.2016**
1. Cash reserve	**562,759,888.24**	**333,020,759.67**
a) Cash on hand	307,873,662.01	99,896,801.38
b) Balances with central banks	254,886,226.23	233,123,958.29
of which: with Deutsche Bundesbank	254,886,226.23	233,123,958.29
c) Credits with postal checking offices	—	—
2. Debt instruments from public entities and notes approved for refinancing with central banks	—	—
a) Treasury notes, non-interest-bearing treasury warrants and similar debt instruments from public entities	—	—
b) Bills	—	—
3. Receivables from banks	**142,140,294.95**	**201,917,274.42**
a) Demand deposits	112,718,565.84	142,505,748.71
b) Other receivables	29,421,729.11	59,411,525.71
4. Receivables from customers	**10,848,059,229.89**	**10,533,352,591.54**
a) of which: secured with land liens	5,644,644,243.74	5,491,623,951.76
of which: public-sector loans	72,870,343..91	77,804,656.83
5. Bonds and other fixed-income securities	**2,129,248,972.25**	**2,380,921,565.65**
a) Money market paper	—	—
aa) From public issuers	—	—
of which: acceptable as collateral by Deutsche Bundesbank	—	—
ab) From other issuers	—	—
of which: acceptable as collateral by Deutsche Bundesbank	—	—
b) Other bonds	2,129,248,972.25	2,380,921,565.65
ba) From public issuers	1,253,500,249.73	1,339,763,996.29
of which: acceptable as collateral by Deutsche Bundesbank	1,253,500,249.73	1,339,763,996.29
bb) From other issuers	875,748,722.52	1,041,157,569.36
of which: acceptable as collateral by Deutsche Bundesbank	875,748,722.52	1,041,157,569.36
c) Own debt instruments	—	—
Nominal amount	—	—
6. Stocks and other non-fixed-income securities	**196,980,890.17**	**188,705,774.86**
6a. Trading portfolio	**420,155.13**	**8,313,229.78**
7. Long-term equity investments	**413,955.00**	**458,843.54**
of which: in banking institutions	122,939.58	122,939.58
of which: in financial services institutions	—	22,251.54
8. Shares in affiliated companies	**52,000.00**	**52,000.00**
of which: in banking institutions	—	—
of which: in financial services institutions	—	—
9. Trust assets	**1,653,581.74**	**2,529,783.47**
of which: trust loans	604,620.81	810,081.42
10. Compensation receivables from government entities, including debt instruments from the exchange of those receivables	—	—
11. Intangible fixed assets	**8,844,464.62**	**8,676,175.03**
a) Internally generated industrial rights and similar rights and assets	799,402.16	—
b) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	8,045,062.46	8,676,175.03
c) Goodwill	—	—
d) Prepayments	—	—
12. Tangible fixed assets	**73,581,490.95**	**77,863,368.26**
13. Capital called but not yet paid	—	—
14. Other assets	**397,830,354.98**	**366,864,575.44**
15. Prepaid expenses	**4,843,065.02**	**5,349,465.94**
16. Deferred tax assets	—	—
17. Excess of plan assets over pension benefit liabilities	363,057.97	—
18. Deficit not covered by equity	—	—
Total assets	**14,367,191,400.91**	**14,108,025,407.60**

Equity and liabilities EUR	31.12.2017	31.12.2016
1. Liabilities to banks	**4,292,862,733.27**	**4,174,775,927.16**
a) Demand deposits	56,417,086.22	14,803,657.51
b) with agreed maturity or notice period	4,236,445,647.05	4,159,972,269.65
2. Liabilities to customers	**8,424,868,700.43**	**8,210,164,801.85**
a) Savings deposits	1,569,096,724.98	1,552,488,575.96
aa) with agreed withdrawal notice of three months	1,370,186,745.02	1,370,815,427.08
ab) with agreed withdrawal notice of more than three months	198,909,979.96	181,673,148.88
b) Other liabilities	6,855,771,975.45	6,657,676,225.89
ba) Demand deposits	5,730,700,916.20	5,435,632,490.02
bb) with agreed maturity or notice period	1,125,071,059.25	1,222,043,735.87
3. Securitized liabilities	**501,428,500.00**	**549,960,618.26**
a) Bonds issued	501,428,500.00	549,960,618.26
b) Other securitized liabilities	—	—
of which: money market paper	—	—
of which: own acceptances and promissory notes in circulation	—	—
3a. Trading portfolio	—	—
4. Trust liabilities	**1,653,581.74**	**2,529,783.47**
of which: trust loans	604,620.81	**810,081.42**
5. Other liabilities	**10,416,651.79**	**10,335,261.03**
6. Deferred income	**51,518,657.14**	**44,649,615.85**
6a. Deferred tax liabilities	—	—
7. Provisions	**214,961,211.26**	**195,763,568.21**
a) Provisions for pensions and similar obligations	148,079,429.36	137,968,974.82
b) Provisions for taxes	13,956,367.10	7,312,325.93
c) Other provisions	52,925,414.80	50,482,267.46
9. Subordinated debt	**175,163,863.43**	**257,708,404.69**
10. Profit participation rights outstanding	—	—
of which: due within two years	—	—
11. Fund for general bank risks	**24,792,261.97**	**12,788,791.87**
of which: special item per Sec. 340 e(4) of the Commercial Code (HGB)	9,964.94	6,494.84
12. Equity	**669,525,239.88**	**649,348,635.21**
a) Called capital	60,468,571.80	60,468,571.80
Subscribed capital	60,468,571.80	60,468,571.80
less: outstanding deposits not called	—	—
b) Capital reserves	208,306,686.77	208,306,686.77
c) Revenue reserves	372,433,376.59	345,354,690.71
ca) Legal reserve	171,066.50	171,066.50
cb) Reserves for shares in a parent or majority investor	—	—
cc) Reserves provided for by the Articles of Incorporation	—	—
cd) Other revenue reserves	372,262,310.09	345,183,624.21
d) Net retained profits / net accumulated losses	28,316,604.72	35,218,685.93
Total equity and liabilities	**14,367,191,400.91**	**14,108,025,407.60**

Off-balance-sheet items EUR	31.12.2017	31.12.2016
1. Contingent liabilities	**312,727,124.05**	**356,447,025.81**
a) Contingent liabilities from rediscounted bills of exchange	—	—
b) Obligations under suretyships and guarantees	312,727,124.05	356,447,025.81
c) Liability from collateral furnished for third-party liabilities	—	—
2. Other obligations	**643,350,050.63**	**767,668,563.77**
a) Repurchase obligations from nongenuine sale and repurchase agreements	—	—
b) Placement and underwriting commitments	—	—
c) Committed credit facilities	643,350,050.63	767,668,563.77

Income Statement of Oldenburgische Landesbank AG for the period January 1 – December 31, 2017

EUR	2017	2016
1. Interest income from	**355,608,612.00**	**389,084,454.17**
a) Credit and money market transactions	336,527,297.74	361,179,715.52
less: negative interest from credit and money market transactions	–4,576,273.49	–3,032,654.92
b) Fixed-income securities and book-entry securities	19,081,314.26	27,904,738.65
2. Interest expenses	**127,932,589.25**	**164,577,854.74**
less: positive interest	–7,628,944.60	–5,961,797.05
3. Current income from	**70,289.05**	**5,004,297.00**
a) Stocks and other non-fixed-income securities	43,034.85	179,932.58
b) Long-term equity investments	27,254.20	4,824,364.42
c) Shares in affiliated companies	—	—
4. Income from profit pooling, profit transfer or partial profit transfer agreements	**370,879.86**	**426,182.04**
5. Commission income	**84,447,532.05**	**90,615,808.32**
6. Commission expense	**16,392,797.13**	**22,707,701.99**
7. Net operating trading income / expense	**31,230.85**	**58,453.58**
of which: allocation to (–) or reversal of (+) special item per Sec. 340 g of the Commercial Code (HGB)	–3,470.10	–6,494.84
8. Other operating income	**27,520,317.53**	**15,968,386.37**
10. General administrative expenses	**214,494,482.31**	**211,396,319.47**
a) Personnel expenses	140,305,390.05	135,744,183.31
aa) Wages and salaries	113,257,093.98	111,402,791.50
ab) Social security, pension provisions and other employee benefit costs	27,048,296.07	24,341,391.81
of which: for pension provisions	8,065,586.19	5,024,069.62
b) Other administrative expenses	74,189,092.26	75,652,136.16
11. Amortization and write-downs of intangible fixed assets and write-downs of tangible fixed assets	**15,126,938.70**	**14,861,331.66**
12. Other operating expenses	**22,371,919.57**	**12,825,723.16**
13. Write-downs of receivables and certain securities and allocations to provisions in the credit business	**23,376,794.46**	**39,387,572.17**
of which: allocated to fund for general bank risks per Sec. 340 g HGB	12,000,000.00	—
14. Income from additions to receivables and certain securities and from the reversal of provisions in the credit business	—	—
15. Write-downs of long-term equity investments, shares in affiliated companies and securities treated as long-term financial assets	—	—
16. Income from additions to long-term equity investments, shares in affiliated companies and securities treated as long-term financial assets	**9,669,349.55**	**21,584,871.11**
17. Expenses for assumption of losses	—	—
19. Result from ordinary activities	**58,022,689.47**	**56,985,949.40**
20. Extraordinary income	**289,178.85**	**45,752.12**
21. Extraordinary expenses	**7,860,545.33**	**2,722,766.24**
22. Extraordinary result	**–7,571,366.48**	**–2,677,014.12**
23. Taxes on income	**21,145,458.32**	**18,207,721.53**
24. Other taxes not included under Item 12	**989,259.95**	**882,527.82**
25. Income from assumption of losses	—	—
26. Profits transferred under profit pooling or a profit transfer or partial profit transfer agreement	—	—
27. Net income / net loss for the fiscal year	**28,316,604.72**	**35,218,685.93**
28. Retained profits / accumulated losses brought forward	—	—
29. Withdrawals from capital reserves	—	—
30. Withdrawals from revenue reserves	—	—
a) from legal reserve	—	—
b) from reserves for shares in a parent or majority investor	—	—
c) from reserves provided for by the Articles of Incorporation	—	—
d) from other revenue reserves	—	—
31. Withdrawals from profit participation capital	—	—
32. Allocations to revenue reserves	—	—
a) to the legal reserve	—	—
b) to reserves for shares in a parent or majority investor	—	—
c) to reserves provided for by the Articles of Incorporation	—	—
d) to other revenue reserves	—	—
33. Replenishment of profit participation capital	—	—
34. Net retained profits / net accumulated losses	**28,316,604.72**	**35,218,685.93**

Statement of Changes in Equity of Oldenburgische Landesbank AG for the period January 1 – December 31, 2017

EUR	12/31/2016	Net income for the fiscal year	Change in special item per Sec. 340 e (4) Comm. Code (HGB)	Retained profits brought forward	Dividend distribution	Allocations to (+) / withdrawals from (–) reserves	12/31/2017
Fund for general bank risks	**12,788,791.87**	**—**	**3,470.10**	**—**	**—**	**12,000,000.00**	**24,792,261.97**
Subscribed capital	60,468,571.80	—	—	—	—	—	60,468,571.80
Capital reserves	208,306,686.77	—	—	—	—	—	208,306,686.77
Legal reserve	171,066.50	—	—	—	—	—	171,066.50
Other revenue reserves	345,183,624.21	—	—	—	—	27,078,685.88	372,262,310.09
Net retained profits	35,218,685.93	28,316,604.72	—	—	–8,140,000.05	–27,078,685.88	28,316,604.72
Equity	**649,348,635.21**	**28,316,604.72**	**—**	**—**	**–8,140,000.05**	**—**	**669,525,239.88**
Total	**662,137,427.08**	**28,316,604.72**	**3,470.10**	**—**	**–8,140,000.05**	**12,000,000.00**	**694,317,501.85**

Cash Flow Statement of Oldenburgische Landesbank AG for the period January 1 – December 31, 2017

EUR	2017
1. Profit for the period (net income / net loss for the fiscal year)	28,316,604.72
2. Depreciation (+), amortization (+) and write-downs (+) / reversals (–) of write-downs of receivables and fixed assets	29,026,940.89
3. Increase (+) / decrease (–) in provisions	–33,445,211.46
4. Other noncash expenses (+) / income (–)	37,786,280.53
5. Gain (–) / loss (+) on disposal of fixed assets	–1,123,856.06
6. Other adjustments (net – / +)	–15,585,375.43
7. Increase (–) / decrease (+) in receivables from banks	59,509,338.57
8. Increase (–) / decrease (+) in receivables from customers	–337,280,788.88
9. Increase (–) / decrease (+) in securities (other than long-term financial assets)	127,801,420.60
10. Increase (–) / decrease (+) in other assets from operating activities	–27,908,552.33
11. Increase (+) / decrease (–) in liabilities to banks	124,400,183.89
12. Increase (+) / decrease (–) in liabilities to customers	215,467,633.70
13. Increase (+) / decrease (–) in securitized liabilities	–48,126,500.00
14. Increase (–) / decrease (+) in other liabilities from operating activities	–74,655,769.68
15. Interest expense (+) / interest income (–)	–227,746,311.80
16. Expenses for (+) / income from (–) extraordinary items	7,571,366.48
17. Income tax expense (+) / income (–)	21,145,458.32
18. Interest and dividend payments received (+)	339,010,380.64
19. Interest paid (–)	–98,631,158.07
20. Extraordinary cash receipts (+)	—
21. Extraordinary cash payments (–)	–741,327.39
22. Income tax paid (–) / refunded (+)	–15,770,890.87
23. Cash flows from operating activities (total of lines 1 to 22)	**109,019,866.37**
24. Proceeds from disposal of long-term financial assets (+)	167,965,423.97
25. Payments to acquire long-term financial assets (–)	–41,220,137.00
26. Proceeds from disposal of tangible fixed assets (+)	1,685,691.06
27. Payments to acquire tangible fixed assets (–)	–8,462,295.29
28. Proceeds from disposal of intangible fixed assets (+)	2,292,321.28
29. Payments to acquire intangible fixed assets (–)	–5,405,211.87
30. Proceeds from disposals of entities included in the basis of consolidation (+)	—
31. Payments to acquire entities included in the basis of consolidation (–)	—
32. Change in cash funds from other investing activities (net +/–)	—
33. Cash receipts from extraordinary items (+)	—
34. Cash payments for extraordinary items (–)	—
35. Cash flows from investing activities (total of lines 24 to 34)	**116,855,792.15**
36. Proceeds from capital contributions by shareholders of the parent entity (+)	—
37. Proceeds from capital contributions by minority shareholders (+)	—
38. Cash payments to shareholders of the parent entity from the redemption of shares (–)	—
39. Cash payments to minority shareholders from the redemption of shares (–)	—
40. Cash receipts from extraordinary items (+)	—
41. Cash payments for extraordinary items (–)	—
42. Dividends paid to shareholders of the parent entity (–)	–7,342,280.05
43. Dividends paid to minority shareholders (–)	–797,720.00
44. Change in cash funds from other capital (net +/–)	12,003,470.10
45. Cash flows from financing activities (total of lines 36 to 44)	**3,863,470.05**
46. Net change in cash funds (total of lines 23, 35, 45)	**229,739,128.57**
47. Effect on cash funds of exchange rate movements and remeasurements (+/–)	—
48. Effect on cash funds of changes in the basis of consolidation (+/–)	—
49. Cash funds at beginning of period (+)	**333,020,759.67**
50. Cash funds at end of period (total of lines 46 to 49)	**562,759,888.24**

Notes to the Annual Financial Statements of Oldenburgische Landesbank AG for the 2017 Fiscal Year

I. General Information

Financial reporting regulations

Oldenburgische Landesbank AG, headquartered in Oldenburg and entered under number HRB 3003 in the Commercial Register of Oldenburg Local Court (Oldb), has prepared its annual financial statements in accordance with the German Commercial Code (HGB) in conjunction with the German Accounting Regulation for Banks and Financial Services Institutions (RechKredV) and in compliance with the terms of the German Stock Corporation Act (AktG).

Explanation of accounting policies (disclosures per Sec. 284 (2) No. 1 of the Commercial Code (HGB))

Cash reserves are recognized at their nominal value; holdings in foreign currency are measured using the European Central Bank's reference exchange rates applicable at year's end.

Receivables are generally recognized at their nominal value, applying the relevant write-downs where needed. Any difference between the amount paid and the nominal value – if it has the nature of interest – is allocated to prepaid expenses or deferred income, as the case may be, and reversed pro rata temporis in profit or loss. Non-interest-bearing receivables are recognized at their present value.

The total figure for *risk provisions* is composed of the risk provision for receivables, which is deducted from assets, and the risk provision for contingent liabilities, which is recognized among the liabilities, under provisions. Acute default risks in the credit business are allowed for by recognizing write-downs and provisions. Risk provisions are measured in the same way as under International Financial Reporting Standards (IFRSs). In taking that measurement, OLB distinguishes between the standardized loan business, in which risk is distributed almost uniformly (homogeneous portfolio), the customized loan business, which has an individualized risk exposure, and the associated forms of provisioning: the PLLP (Portfolio Loan Loss Provision), SLLP (Specific Loan Loss Provision) and GLLP (General Loan Loss Provision). There is also a fund for general bank risks in accordance with Sec. 340 g of the Commercial Code. No interest is accrued for loans covered by an SLLP.

Written-down loans are measured individually no later than the expiration of defined maturities, and are covered by a specific loan loss provision (SLLP). The length of the maturities depends in particular on the collateral and the Bank's experience. This does not affect the validity or prosecution of the Bank's legal claims.

Risk provisions are generally deducted from the associated item in the balance sheet. If the risk provision pertains to off-balance-sheet credit operations (contingent liabilities, loan commitments), the risk provision is recognized among provisions.

As soon as a receivable becomes uncollectible, it is derecognized by taking a charge against any associated specific loan loss provision that has been established, or else by taking a charge directly against the income statement. A receivable is derecognized if it has been terminated and is uncollectible, and

- no receipts can be expected from a current insolvency proceeding and an opinion from the insolvency administrator to this effect is in hand,
- there is an affidavit in lieu of oath (submission of a list of assets) from the borrower,
- a bailiff has performed enforcement without results, and nothing more can be collected,
- the debtor is listed in a debtors' register of the German state concerned,
- consumer insolvency proceedings have been initiated.

Amounts received for written-off receivables are recognized in profit or loss under the item for "Write-downs of receivables and certain securities and allocations to provisions in the credit business."

The income statement exercises the *option under Sec. 340 f (3) of the Commercial Code.* and the net figure from expenses and income is recognized in the item for “Write-downs of receivables and certain securities and allocations to provisions in the credit business” or “Income from additions to receivables and certain securities and from the reversal of provisions in the credit business.”

Negative interest from credit and money-market transactions is recognized in Item 1.a in the income statement, “Interest income from credit and money market transactions.”

Negative interest from fixed-income securities and book-entry securities is recognized in Item 1.b in the income statement, “Interest income from fixed-income securities and book-entry securities.”

Positive interest for deposits received from the banking business is recognized in Item 2 of the income statement, “Interest expense.”

Most of securities held in the Bank’s own portfolio are maintained in the *liquidity portfolio.* This securities portfolio is measured by the strict lower of cost or market principle, at either its cost or the lower market price or fair value, allowing for the requirement to reinstate original values.

At the reporting date, the *portfolio of long-term investments* contained only marketable bonds and other fixed-income securities, for an amount of EUR 251.8 million. These holdings of bonds and other fixed-income securities that are to be held for the long term are recognized using the moderate lower of cost or market principle. That means that the securities concerned are measured at cost less any presumed lasting impairment. At the reporting date, fixed assets included no securities that had a fair value below their carrying amount.

Procedures have been established to ensure that lasting impairments of value induced by credit ratings can be distinguished from temporary changes in trading price induced by interest rates.

The Bank’s internal criteria for including financial instruments in the *trading portfolio* did not change during the year.

Financial instruments in the trading portfolio are recognized at fair value less a risk discount. These financial instruments are measured applying the measurement provisions under Sec. 340 e of the Commercial Code. The applied *risk discount* comprises the allowance amount for market price risks in the trading portfolio in accordance with the Solvency Regulation, as noted in the risk report (“Value at risk discount”), which is based on a 99 percent confidence level with a ten-day holding period and an observation period of 250 trading days (weighted).

The Bank examined whether *outstanding interest claims and interest obligations in the non-trading portfolio as a whole* yield a surplus of liabilities that would have to be taken into account by forming a provision under Sec. 340 a in conjunction with Sec. 249 (1) Sentence 1 of the Commercial Code, in compliance with opinion IDW RS BFA 3 of August 30, 2012, from the Institute of Public Auditors in Germany, and applying the net present value approach. Here the net present value of the non-trading portfolio was compared with the carrying amounts, after deducting proportionate costs for risk and administration. On the basis of this calculation, there was no need at the reporting date to form a provision for a surplus of liabilities from the business in interest-rate-based financial instruments in the non-trading portfolio.

For the *fair valuation* of non-derivative financial instruments in the trading portfolio, the applicable exchange or market price at the reporting date is generally applied. These non-derivative financial instruments are largely the Bank's own debt instruments. Own debt instruments that have been redeemed are measured at prices resulting from an internal model, using the present value-based discounted cash flow method and allowing for the risk-free interest rates observable in the market and OLB's credit spreads derived from market observations and expert estimates.

Own debt instruments intended for retirement are recognized at face value among "Other assets."

Derivatives in the non-trading portfolio are included in the loss-free measurement of interest-rate-related transactions in the non-trading portfolio, in accordance with opinion IDW RS BFA 3 of the Institute of Public Auditors in Germany.

Other equity investments and investments in associates are measured at cost. They are written down to a lower fair value in the event of a presumably lasting impairment.

Items among *tangible* and *intangible fixed assets* that have a limited useful life are depreciated or amortized, as the case may be, in accordance with the available tax options. Low-value assets that cost EUR 150 or less are written off in the year of acquisition. Low-value assets with costs of more than EUR 150 but not more than EUR 1,000 are gathered in a summary item as provided in Sec. 6 (2a) of the German Income Tax Act (EStG), and depreciated or amortized, as the case may be, on a straight-line basis over five years. Unscheduled write-downs are applied in the event of a lasting impairment.

Recoveries of value are recognized up to the original cost if the reasons for an impairment no longer apply.

Liabilities are measured at their performance amount. Discounts are recognized in prepaid expenses and written down in the income statement on a pro-rated basis.

Provisions are recognized at the necessary fulfillment amount as determined by a prudent commercial assessment; if they have a term of more than one year, they are discounted at the average market interest rate from the past seven fiscal years that corresponds to their maturity, as published by the German Bundesbank in accordance with the German Provision Discounting Regulation (RückAbzinsV). A different discount rate is applied to pension provisions.

Effects from changes in the discount rate and time effects from the discounting of provisions are netted under other operating expenses or other operating income, as applicable.

The pension provisions are calculated using actuarial principles. The conversion expense resulting from the legal requirements amended by the German Accounting Law Modernization Act (BilMoG) is spread over 15 years. In fiscal 2017, essentially one-fifteenth of this amount was recognized as an extraordinary expense. The provisions for employee job anniversaries, phased retirement and early retirement benefits are likewise calculated using actuarial principles and recognized in full among the liabilities. The discount rate applies the simplification rule available under Sec. 253(2) Sentence 2 of the Commercial Code (time remaining to maturity 15 years).

If the amounts of pensions and similar obligations are determined solely on the basis of the fair value of securities, the provisions for this purpose are measured at the fair value of those securities, provided that this value exceeds a guaranteed minimum.

Changes in credit risks in off-balance-sheet credit commitments and contingent liabilities are recognized in profit or loss by allocations to and reversals of provisions.

Contingent liabilities and other liabilities are recognized off the balance sheet at their nominal amount less provisions recognized in the balance sheet.

Definitions of terms for the income statement presentation in the management report (disclosures in accordance with the guidelines of the European Securities and Markets Authority [ESMA] for Alternative Performance Measures [APM])

Under ESMA Guideline 05/10/2015 | ESMA//2015/1415de, financial performance indicators must be explained that are not defined or specified in the framework reporting concept to be applied. In its presentation of the income statement in the financial statements, the Bank is bound to the format provided under the Regulation on Financial Reporting for Banking Institutions (RechKredV). The presentation of the income statement in the management report furthermore uses additional reporting figures, performance indicators and partial results to enhance the transparency and comprehensibility of the reporting. These are derived as follows from the items in the income statement form under the German Accounting Regulation for Banks and Financial Services Institutions (RechKredV):

“Net interest income” (per items 1–2+3+4 of the RechKredV)

1. Interest income from
   a) Credit and money market transactions
   b) Fixed-income securities and book-entry securities
2. Interest expenses
3. Current income from
   a) Stocks and other non-fixed-income securities
   b) Long-term equity investments
   c) Shares in affiliated companies
4. Income from profit pooling, profit transfer or partial profit transfer agreements

“Net commission income” (per Items 5–6 of the RechKredV)

5. Commission income
6. Commission expense

“Net operating trading income/expense” (per Item 7 of the RechKredV)

7. Net operating trading income/expense

“Operating income” (subtotal)

“Net interest income” + “Net commission income” + “Net operating trading income/expense”

"Personnel expenses" (per Item 10.a of the RechKredV)
10. General administrative expenses
    a) Personnel expenses

"Other administrative expenses" (per Item 10.b of the RechKredV)
10. General administrative expenses
    b) Other administrative expenses

"Write-downs of tangible fixed assets" (per Item 11 of the RechKredV)
11. Amortization and write-downs of intangible fixed assets and write-downs of tangible fixed assets

"General administrative expenses" (subtotal)
"Personnel expenses" + "Other administrative expenses" + "Write-downs of tangible fixed assets"

"Net other operating income (+) and expenses (–)"
(per Items 8–12 of the RechKredV)
8. Other operating income
12. Other operating expenses

"Operating result before risk provisions" (subtotal)
"Operating income" – "General administrative expenses" + "Net other operating income (+) and expenses (–)"

"Risk provisions for credit business" (per Items 13–14 of the RechKredV, of which pertaining to the credit business, without netting per Sec. 340 f of the HGB)
13. Write-downs of receivables and certain securities and allocations to provisions in the credit business
14. Income from additions to receivables and certain securities and from the reversal of provisions in the credit business

"Gain (+) / loss (–) on securities in the liquidity reserve" (per Items 13–14 of the RechKredV, of which pertaining to the liquidity reserve, without netting per Sec. 340 f of the HGB)
13. Write-downs of receivables and certain securities and allocations to provisions in the credit business
14. Income from additions to receivables and certain securities and from the reversal of provisions in the credit business

"Expenses for the credit business and liquidity reserve" (subtotal)
"Risk provisions for credit business" – "Gain (+) / loss (–) on securities in the liquidity reserve"

"Net operating result" (subtotal)
"Operating result before risk provisions" – "Expenses for the credit business and liquidity reserve"

"Other result" (per Items 16 – 15 + 25 – 17 – 26 of the RechKredV)
15. Write-downs of long-term equity investments, shares in affiliated companies and securities treated as long-term financial assets
16. Income from additions to long-term equity investments, shares in affiliated companies and securities treated as long-term financial assets
17. Expenses for assumption of losses
25. Income from assumption of losses
26. Profits transferred under profit pooling or a profit transfer or partial profit transfer agreement

"Extraordinary result" (per Item 22 of the RechKredV)
22. Extraordinary result

"Profit before taxes" (subtotal)
"Net operating result" + "Other result" + "Extraordinary result"

"Taxes" (per Items 23 + 24 of the RechKredV)
23. Taxes on income
24. Other taxes not included under Item 12

"Net income for the fiscal year" (per Item 27 of the RechKredV)
27. Net income / net loss for the fiscal year

"Cost-income ratio" or "CIR" (ratio stated in percent)
"General administrative expenses" / "Operating income"

"Earnings per share"
"Net income for the fiscal year" / (23,257,143 no-par shares – average holdings of treasury stock)

"Return on equity"
"Net profit for the fiscal year" / average equity per Item 12, "Equity and Liabilities," of the RechKredV

"NPL ratio"
Receivables from customers (non-performing) / gross receivables from customers before loan loss provisions

"Coverage ratio"
Special loan loss provisions (SLLPs) / receivables from customers (non-performing)

II. Explanations of Specific Disclosures under the RechKredV

In accordance with Sec. 284 of the Commercial Code (HGB), the notes to the financial statements are to include the disclosures that are required for the individual items of the balance sheet or income statement; they must be presented in the order in which the individual items appear in the balance sheet and income statement. It is not always meaningful or possible to provide an allocation to individual items in the balance sheet or income statement if the disclosures are removed from their context as a result. This is the case, for example, for disclosures that must be provided in compliance with specific legal requirements under a "lex specialis" (e.g., the German Bank Reporting Regulation, the "RechKredV"). These disclosure obligations are presented by way of a preface here:

Disclosures on the breakdown of maturities of balance sheet items by time remaining to maturity in accordance with Sec. 9 RechKredV

Under Sec. 340a(2) Sentences 1 and 2 of the Commercial Code, banking institutions are not to apply Secs. 267, 268(4) Sentence 1, and 268(5) Sentences 1 and 2; instead the breakdown of maturities of balance sheet items is to be organized by time remaining to maturity in accordance with Sec. 9 of the RechKredV.

EUR	12/31/2017	12/31/2016
Receivables from banks	**142,140,294.95**	**201,917,274.42**
b) Other receivables	29,421,729.11	59,411,525.71
of which: with a remaining time to maturity of three months or less	28,784,173.59	58,343,490.10
of which: with a remaining time to maturity of more than three months to one year	402,666.68	564,702.29
of which: with a remaining time to maturity of more than one year to five years	234,888.84	503,333.32
of which: with a remaining time to maturity of more than five years	—	—
Receivables from customers	**10,848,059,229.90**	**10,533,352,591.54**
of which: with indefinite maturities	528,636,232.81	576,797,731.81
of which: with a remaining time to maturity of three months or less	417,367,615.47	538,780,176.03
of which: with a remaining time to maturity of more than three months to one year	740,359,328.68	739,218,913.62
of which: with a remaining time to maturity of more than one year to five years	2,979,687,028.47	2,737,836,433.23
of which: with a remaining time to maturity of more than five years	6,182,009,024.47	5,940,719,336.85
Bonds and other fixed-income securities	**2,129,248,972.25**	**2,380,921,565.65**
of which: maturing in fiscal 2018 (2017)	90,421,915.91	476,849,026.93
Liabilities to banks	**4,292,862,733.27**	**4,174,775,927.16**
b) with agreed maturity or notice period	4,236,445,647.05	4,159,972,269.65
of which: with a remaining time to maturity of three months or less	717,666,280.79	1,024,004,317.90
of which: with a remaining time to maturity of more than three months to one year	1,034,792,786.09	845,038,461.45
of which: with a remaining time to maturity of more than one year to five years	1,043,241,258.55	991,374,210.15
of which: with a remaining time to maturity of more than five years	1,440,745,321.62	1,299,555,280.15
Liabilities to customers	**8,424,868,700.43**	**8,210,164,801.85**
a) Savings deposits	1,569,096,724.98	1,552,488,575.96
ab) with agreed withdrawal notice of more than three months	198,909,979.96	181,673,148.88
of which: with a remaining time to maturity of three months or less	3,123,499.70	5,962,494.73
of which: with a remaining time to maturity of more than three months to one year	165,806,732.44	143,510,308.01
of which: with a remaining time to maturity of more than one year to five years	29,979,747.82	32,200,346.14
of which: with a remaining time to maturity of more than five years	—	—
b) Other liabilities	6,855,771,975.45	6,657,676,225.89
bb) with an agreed maturity or notice period	1,125,071,059.25	1,222,043,735.87
of which: with a remaining time to maturity of three months or less	160,687,924.12	311,217,305.84
of which: with a remaining time to maturity of more than three months to one year	198,850,220.13	129,193,864.90
of which: with a remaining time to maturity of more than one year to five years	353,788,115.00	380,832,565.13
of which: with a remaining time to maturity of more than five years	411,744,800.00	400,800,000.00
Securitized liabilities	**501,428,500.00**	**549,960,618.26**
a) Bonds issued	501,428,500.00	549,960,618.26
of which: maturing in fiscal 2018 (2017)	—	48,532,118.26
b) Other securitized liabilities	—	—
of which: with a remaining time to maturity of three months or less	—	—
of which: with a remaining time to maturity of more than three months to one year	—	—
of which: with a remaining time to maturity of more than one year to five years	—	—
of which: with a remaining time to maturity of more than five years	—	—

Disclosures on amounts in foreign currency per Sec. 35 (1) No. 6 RechKredV

Disclosure of total amount of all assets and liabilities denominated in foreign currencies:

Amounts in foreign currency EUR	12/31/2017	12/31/2016
Assets	83,580,177.68	99,530,911.53
Liabilities	121,352,053.25	128,902,837.44

Disclosures on receivables from and liabilities to associates per Sec. 3 Sentence 1 Nos. 1 and 2 in conjunction with Sentence 2 RechKredV

Breakdown by balance sheet item EUR	12/31/2017	12/31/2016
Receivables from banks	—	—
Receivables from customers	—	95,696.81
Trust assets	—	—
Stocks and other non-fixed-income securities	196,880,889.17	188,605,773.86
Other assets	23,756,478.42	21,435,953.14
Total receivables	**220,637,367.59**	**210,137,423.81**
Liabilities to banks	—	—
Liabilities to customers	26,132,719.42	25,778,660.72
Trust liabilities	—	40,000.00
Provisions and other liabilities	457,321.06	294,837.64
Total liabilities	**26,590,040.48**	**26,113,498.36**

There were no guarantee lines for associated entities.

Receivables from other long-term investees and investors which are recognized as “Receivables from customers” came to EUR 0.6 million (prior year: EUR 0.6 million). Liabilities to other long-term investees and investors recognized as “Liabilities to customers” came to EUR 0.1 million (prior year: EUR 0.5 million).

Disclosures on securities and long-term financial investments per Sec. 35 (1) No. 1 RechKredV

The following balance sheet items include marketable securities:

	12/31/2017		
EUR	Total	Quoted in a market	Not quoted in a market
Bonds and other fixed-income securities	2,129,248,972.25	2,129,248,972.25	—
Stocks and other non-fixed-income securities	196,980,890.17	—	196,980,890.17
Trading portfolio	420,155.13	10,858.76	409,296.37
Long-term equity investments	413,955.00	—	413,955.00
Shares in affiliated companies	52,000.00	—	52,000.00
Other assets	366,004,500.00	—	366,004,500.00

The item for “Stocks and other non-fixed-income securities not quoted in a market” pertains essentially to the Bank’s two special funds, AGI-Fonds Ammerland and AGI-Fonds Weser-Ems.

Disclosures on changes in assets per Sec. 34 (3) of the RechKredV in conjunction with Sec. 284 (3) Sentences 1 through 3 of the HGB

EUR	Long-term securities	Long-term equity investments	Shares in affiliated companies	Land and buildings	Business and office equipment	Intangible assets
Historical acquisition costs	428,681,007.71	561,100.92	52,000.00	143,395,385.22	118,733,121.76	39,771,689.03
Historical write-ups	—	—	—	—	—	—
Historical write-downs	—	102,257.38	—	98,351,415.44	85,913,723.28	31,095,514.00
Carrying amount at 1/1/2017	**428,681,007.71**	**458,843.54**	**52,000.00**	**45,043,969.78**	**32,819,398.48**	**8,676,175.03**
Additions measured at cost	52,273.16	—	—	45,132.10	8,417,163.19	3,112,890.69
Disposals measured at cost	176,974,741.85	—	—	2,647,074.49	10,086,764.20	2,292,321.28
Write-ups included in disposals for the year	—	—	—	—	—	—
Write-downs included in disposals for the year	—	—	—	2,196,737.49	9,975,266.20	2,292,321.28
Additions through reclassification	—	—	—	—	—	—
Disposals through reclassification	—	—	—	—	—	—
Changes in portfolio during the year	**−176,922,468.69**	**—**	**—**	**−405,204.90**	**8,305,665.19**	**3,112,890.69**
Write-ups during the year	—	—	—	—	—	—
Write-downs during the year (scheduled)	—	—	—	3,019,774.00	9,162,563.60	2,944,601.00
Write-downs during the year (unscheduled)	—	44,888.54	—	—	—	—
Changes in measurement during the year	**—**	**−44,888.54**	**—**	**−3,019,774.00**	**−9,162,563.60**	**−2,944,601.00**
Carrying amount at 12/31/2017	**251,758,539.02**	**413,955.00**	**52,000.00**	**41,618,990.88**	**31,962,500.07**	**8,844,464.72**
Write-downs at 1/1/2017	**—**	**102,257.38**	**—**	**98,351,415.44**	**85,913,723.28**	**31,095,514.00**
Write-downs during the year (scheduled)	—	—	—	3,019,774.00	9,162,563.60	2,944,601.00
Write-downs during the year (unscheduled)	—	44,888.54	—	—	—	—
Write-downs included in disposals for the year	—	—	—	2,196,737.49	9,975,266.20	2,292,321.28
Reclassification of write-downs	—	—	—	—	—	—
Changes in write-downs	**—**	**44,888.54**	**—**	**823,036.51**	**−812,702.60**	**652,279.72**
Write-downs at 12/31/2017	**—**	**147,145.92**	**—**	**99,174,451.95**	**85,101,020.68**	**31,747,793.72**

99.4 percent of land and buildings (equivalent to a corresponding value of EUR 41.4 million) are used for our own activities. There were no write-downs on leased property. The depreciation, amortization and write-downs for the year include no write-downs for leased items.

Disclosures on portfolio allocation of long-term securities per Sec. 35(1) No. 2 of the RechKredV

Long-term securities are maintained in separate portfolios. An interest-rate-induced measurement yielded a fair value of EUR 270.2 million (carrying amount: EUR 247.1 million) at December 31, 2017. At the reporting date, long-term assets included no securities with a fair value below their carrying amount. Procedures have been established to ensure that lasting impairments of value induced by credit ratings can be distinguished from temporary changes in trading price induced by interest rates.

Disclosures on security furnished for own liabilities per Sec. 35(5) of the RechKredV

Security furnished EUR	12/31/2017	12/31/2016
Liabilities to banks	4,158,622,255.65	3,890,360,112.99
Liabilities to customers	—	—
Total amount of security furnished	**4,158,622,255.65**	**3,890,360,112.99**

The security furnished largely consists of securities transferred in repo transactions and receivables from customers under refinancing transactions with development banks.

At December 31, 2017, there were liabilities of EUR 50 million to the Bundesbank under open-market transactions (interest rate 0.00 percent with a term from January 21, 2017 to January 3, 2018), for which securities were pledged in exactly the same amount.

III. Notes to the Balance Sheet – Assets

Assets 5. Bonds and other fixed-income securities

EUR	12/31/2017	12/31/2016
Money market paper	—	—
from public issuers	—	—
from other issuers	—	—
Other bonds	**2,129,248,972.25**	**2,380,921,565,65**
from public issuers	1,253,500,249.73	1,339,763,996,29
from other issuers	875,748,722.52	1,041,157,569,36
Own debt instruments	—	—
Bonds and other fixed-income securities	**2,129,248,972.25**	**2,380,921,565,65**
of which: securities in the liquidity reserve	1,877,490,433.23	1,952,240,557.94
of which: long-term securities	251,758,539.02	428,681,007.71

Disclosures per Sec. 35(1) No. 2 of the RechKredV in conjunction with Sec. 285 No. 18 of the HGB a), b)

Items in the liquidity reserve are measured using the strict lower of cost or market principle. Long-term securities were measured using the moderate lower of cost or market principle. In the 2017 reporting year there were no securities that were not measured at the lower of cost or market.

Disclosures per Sec. 9(3) No. 2 of the RechKredV

Bonds and other fixed-income securities include paper with a value of EUR 90.4 million that matures in fiscal 2018.

Disclosures per Sec. 340 b (4) Sentence 4 of the HGB on assets sold under repurchase agreements

At the reporting date, the Bank had pledged securities with a nominal value of EUR 482.3 million for open-market transactions and for money market transactions secured by securities, with XEMAC, the securities management system of Clearstream Banking AG, of Frankfurt. To secure own-account trading on the EUREX exchange, securities with a nominal value of EUR 17.0 million were deposited with BNP Paribas S.A. As part of the loan presentation procedure, loan receivables worth EUR 82.9 million were deposited with the Bundesbank.

At the reporting date, there were repurchase obligations of EUR 1,319.8 million (carrying amount: EUR 1,270.7 million) for assets sold under repurchase agreements (the Eurex OTC and GC pooling platform).

Disclosures per Sec. 35 (1) No. 2 of the RechKredV in conjunction with Sec. 285 No. 18 of the HGB a), b)

Assets 6. Stocks and other non-fixed-income securities

At the reporting date, all marketable securities in this item were measured at the lower of cost or market.

Disclosures per Sec. 285 No. 26 of the HGB on shares of domestic investment funds within the meaning of Sec. 1 (6) of the German Investments Act (KAGB)

The shares of domestic investment funds comprise a special fund, which in turn had invested in public funds that pursue an “absolute return” strategy (AllianzGI-Fonds Weser-Ems). There is additionally a special fund that is invested in approximately equal proportions in stocks and fixed-income securities (AllianzGI-Fonds Ammerland).

	12/31/2017			2017
EUR	Balance sheet value	Market value	Difference of balance sheet value from market	Distribution
AllianzGI-Fonds WE	96,277,240.67	96,277,240.67	—	—
AllianzGI-Fonds Ammerland	100,603,648.50	100,603,648.50	—	24,014.90

The distribution described above consisted of offsettable investment income taxes. Shares can be redeemed daily. No write-downs were omitted.

Breakdown per Sec. 35 (1) No. 1a of the RechKredV

Assets 6a. Trading portfolio (asset value)

6a. Trading portfolio (asset value) EUR	12/31/2017	12/31/2016
Stocks and other non-fixed-income securities	22,957.82	21,108.24
Own debt instruments	398,862.23	8,292,121.54
Risk discount	**– 1,664.92**	—
Total	**420,155.13**	**8,313,229.78**

The asset item for the trading portfolio primarily contains redeemed own debt instruments of OLB.

The securities in the trading portfolio are measured using an internal model (less a credit spread for OLB).

The “Trading portfolio (asset value)” item includes EUR 0.2 million that will mature in 2018.

Breakdown per Sec. 6 (1) Sentence 2 of the RechKredV

Assets 9. Trust assets

Breakdown by balance sheet item EUR	12/31/2017	12/31/2016
Receivables from customers	1,653,581.74	2,529,783.47
Trust assets total	**1,653,581.74**	**2,529,783.47**

Assets 14. Other assets

Disclosures per Sec. 35 (1) No. 4 of the RechKredV

During the year, redeemed own debt instruments intended for retirement with a market value of EUR 41.2 million (prior year: EUR 99.6 million) were reallocated to “Other assets,” and EUR 2.7 million matured (partial derecognition for prior year: EUR 50.0 million). The total carrying amount of these debt instruments came to EUR 366.0 million (prior year: EUR 327.4 million).

This item also includes tax refund entitlements of EUR 0.4 million from the Tax Office, and claims of EUR 0.2 million against municipal governments (prior-year total: EUR 13.3 million), as well as receivables for premium refunds from accident insurance in the amount of EUR 19.7 million (prior year: EUR 17.8 million). An item of EUR 2.4 million (prior year: EUR 2.1 million) was recognized for outsourced plan assets under a Contractual Trust Agreement (CTA) for phased retirement obligations. At the 2017 reporting date, the item for “Other assets” no longer included receivables due under the Group Equity Incentive (GEI) plan (prior year: EUR 0.8 million). Various receivables for commissions were also recognized in this item.

Assets 15. Prepaid expenses

Disclosures per Sec. 250 (3) of the HGB

The item for prepaid expenses includes discounts on liabilities in the amount of EUR 2.2 million, pursuant to Sec. 250 (3) of the Commercial Code (HGB) in conjunction with Sec. 268 (6) of that code.

IV. Notes to the Balance Sheet – Equity & Liabilities

Equity & Liabilities 3. Securitized liabilities

Disclosures per Sec. 9 (3) No. 2 of the RechKredV

Issued bonds include no paper that will mature in fiscal 2018.

Breakdown per Sec. 6 (1) Sentence 2 of the RechKredV

Equity & Liabilities 4. Trust liabilities

Breakdown by balance sheet item EUR	12/31/2017	12/31/2016
Liabilities to banks	1,321,662.99	2,106,314.74
Liabilities to customers	331,918.75	423,468.73
Total trust liabilities	**1,653,581.74**	**2,529,783.47**

Equity & Liabilities 5. Other liabilities

Disclosures per Sec. 35 (1) No. 4 of the RechKredV

This item pertains primarily to amounts of investment income tax, value added tax, payroll withholding tax and church tax that are still to be remitted, in the amount of EUR 4.0 million; trade accounts payable of EUR 2.8 million; liabilities of EUR 1.1 million for contributions to the voluntary deposit protection fund; and EUR 1.1 million in outstanding compensation for the Supervisory Board together with the associated value added tax.

Disclosures per Sec. 340 e (2) of the HGB

Deferred income includes EUR 3.2 million in discount amounts and processing fees for receivables in accordance with Sec. 340 e (2) of the Commercial Code (HGB).

Equity & Liabilities 6. Deferred income

Statement of changes in provisions

Equity & Liabilities 7. Provisions

EUR	1/1/2017	Used	Reversed	Additions	Notional interest rate	Conversions	12/31/2017
a) Provisions for pensions and similar obligations	**137,968,974.82**	**6,301,862.93**	**96,160.58**	**5,160,564.05**	**13,970,840.97**	**–2,622,926.97**	**148,079,429.36**
b) Provisions for taxes	**7,312,325.93**	**768,208.81**	**—**	**7,412,249.98**	**—**	**—**	**13,956,367.10**
c) Other provisions	**50,482,267.46**	**22,610,718.97**	**9,275,949.26**	**34,402,668.46**	**1,068,640.89**	**–1,141,493.78**	**52,925,414.80**
Uncertain liabilities	34,963,769.78	20,313,722.04	3,203,989.82	24,333,359.54	960,084.81	–1,141,493.78	35,598,008.49
Provisions for credit business	5,982,601.73	—	2,053,368.37	1,694,089.42	67,647.61	—	5,690,970.39
Other	9,535,895.95	2,296,996.93	4,018,591.07	8,375,219.50	40,908.47	—	11,636,435.92
Total	**195,763,568.21**	**29,680,790.71**	**9,372,109.84**	**46,975,482.49**	**15,039,481.86**	**–3,764,420.75**	**214,961,211.26**

Disclosures per Sec. 285 Nos. 24 and 25 of the HGB and Art. 67 (2) of the Introductory Act to the Commercial Code (EGHGB) on provisions for pensions and similar obligations

Oldenburgische Landesbank AG has made pension commitments for which it forms pension provisions. The fulfillment amount is calculated on the basis of the projected unit credit method, or, where applicable, as the net present value of an acquired entitlement to benefits. If commitments linked to securities are involved, the fair value of the offset asset items is used.

%	12/31/2017	12/31/2016
Discount rate (10-year average)	3.68	4.01
Discount rate (7-year average)	2.81	3.23
Pension trend	1.50	1.50
Salary trend	2.50	2.50
Salary trend (incl. average career trend)	3.25	3.25

In 2016, the Act Implementing the Mortgage Credit Directive and Amending Provisions of the Commercial Code went into effect. Among other provisions, it includes an amendment of Sec. 253 of the Commercial Code concerning the measurement of pension obligations. Since that time, the interest rate for calculating pension obligations must be calculated as a ten-year average instead of a seven-year average as before. Furthermore, any positive difference that results from measuring post-employment obligations with the ten-year average rate instead of the seven-year average rate is subject to a block on distribution (Sec. 253 (6) Sentence 2 HGB).

As an exception from this rule, for some pension commitments the guaranteed interest rate on the pension commitment of 2.75 percent per annum and a guaranteed pension rise of 1.0 percent per annum are used as a basis.

The above changes apply only for the measurement of pension obligations, but not for the measurement of other personnel obligations such as phased retirement, job anniversary benefits, or early retirement benefits.

Additionally, the simplification option under Sec. 253 (2) Sentence 2 of the Commercial Code (time remaining to maturity 15 years) is still exercised for the discount rate, using an interest rate projected as of the reporting date as a basis, just as in the prior year.

The biometric basis for calculation is the current Heubeck Guideline Tables, RT2005G, with adjustments to conditions specific to the Allianz Group for mortality, disability and staff turnover.

The applied retirement age is the age limit provided by contract, or, as the case may be, the limit that results from the German Statutory Pension Insurance Retirement Age Adjustment Act of 2007.

A portion of the Bank's pension commitments is hedged under a Contractual Trust Arrangement (Methusalem Trust e.V.). This trust asset represents nettable covering assets, which are fair-valued on the basis of asset value or market value of the trust asset, as applicable.

EUR	12/31/2017	12/31/2016
Cost of offset assets	39,393,387.25	35,444,514.47
Fair value of offset assets	39,760,546.08	35,666,046.90
Fulfillment amount of offset liabilities	205,170,072.03	193,469,152.45
Unrecognized provision amount per Art. 67 (2) Introductory Act to the Commercial Code (EGHGB)	17,330,096.59	19,834,130.76

Further explanations of the recognition of pensions and similar obligations can be found in these notes under "Disclosures on other financial obligations."

Disclosures on pension commitments and similar obligations to former members of the Board of Managing Directors and other managing directors, or their survivors

Pension commitments and similar obligations to former members of the Board of Managing Directors and other managing directors, or their survivors, are as follows:

EUR	12/31/2017	12/31/2016
Cost of offset assets	906,642.00	888,932.22
Fair value of offset assets	906,642.00	888,932.22
Fulfillment amount of offset liabilities	15,580,033.00	15,542,269.76
Unrecognized provision amount per Art. 67 (2) Introductory Act to the Commercial Code (EGHGB)	1,486,935.00	1,705,028.26
Pension provision	13,186,456.00	12,948,309.28

Offset assets are fair-valued on the basis of the asset value of the associated reinsurance policies.

Disclosures on provisions for taxes

The provisions for taxes are intended to cover risks from on-site tax audits still in progress and for tax payments under assessment notices not yet received.

Disclosures on other provisions

The “Other provisions” of EUR 52.9 million largely include provisions for severance payments, restructuring measures, job anniversary bonuses, and provisions for the credit business and for legal risks.

The Company has obligations under phased-retirement agreements that are recognized under the “Other provisions.” A portion of these obligations is hedged under a Contractual Trust Arrangement (Methusalem Trust e. V.). The assets set aside with Methusalem Trust e. V. for phased-retirement hedging represent nettable covering assets, which are fair-valued on the basis of the asset value or market value of the reserved assets, as applicable.

These obligations are essentially measured analogously to pension commitments, on the basis of the same calculation assumptions.

EUR	12/31/2017	12/31/2016
Cost of offset assets	5,535,385.27	4,029,570.23
Fair value of offset assets	5,735,709.97	4,244,947.97
Fulfillment amount of offset liabilities	8,641,703.00	8,278,135.71

Disclosures per Sec. 35 (3) of the RechKredV

Equity & Liabilities 9. Subordinated debt

Borrowings representing more than 10 percent of the total pertain to the following items:

OLB bearer bonds and borrower’s note loans

Nominal amount EUR	Nominal interest rate %	Maturity Year	Issue currency
20,000,000.00	4.35	2018	EUR
20,000,000.00	3.2	2023	EUR
20,000,000.00	4.4	2028	EUR

Subordinated debt has a total nominal value of EUR 170.1 million.

EUR	12/31/2017	12/31/2016
Subordinated debt instruments	45,000,000.00	108,000,000.00
Subordinated borrower’s note loans	123,500,000.00	141,500,000.00
Subordinated customer deposits	1,557,500.00	1,287,500.00
Total (nominal)	**170,057,500.00**	**250,787,500.00**

The following applies to all borrowings:
There is no possibility of an early repayment obligation. In the event of insolvency or liquidation, subordinated debt can be repaid only after all non-subordinated creditors have been satisfied. Such debt serves to reinforce liable equity capital as provided under the Banking Act.

The total interest expense for subordinated debt during the year was EUR 8.7 million (prior year: 10.5 million).

Equity & Liabilities 11. Fund for general bank risks

Equity & Liabilities 12. Equity

The Bank's equity and reserves under Sec. 340 g of the Commercial Code (HGB) changed as follows:

EUR	12/31/2016	Net income for the fiscal year	Change in special item per Sec. 340 e (4) Comm. Code (HGB)	Retained profits brought forward	Dividend distribution	Allocations to (+) / withdrawals from (–) reserves	12/31/2017
Fund for general bank risks	**12,788,791.87**	**—**	**3,470.10**	**—**	**—**	**12,000,000.00**	**24,792,261.97**
Subscribed capital	60,468,571.80	—	—	—	—	—	60,468,571.80
Capital reserves	208,306,686.77	—	—	—	—	—	208,306,686.77
Legal reserve	171,066.50	—	—	—	—	—	171,066.50
Other revenue reserves	345,183,624.21	—	—	—	—	27,078,685.88	372,262,310.09
Net retained profits	35,218,685.93	28,316,604.72	—	—	–8,140,000.05	–27,078,685.88	28,316,604.72
Equity	**649,348,635.21**	**28,316,604.72**	**—**	**—**	**–8,140,000.05**	**—**	**669,525,239.88**
Revenue reserves	**662,137,427.08**	**28,316,604.72**	**3,470.10**	**—**	**–8,140,000.05**	**12,000,000.00**	**694,317,501.85**

The subscribed capital is divided into 23,257,143 no-par bearer shares.

Disclosures per Sec. 285 No. 34 of the HGB on the resolution for allocation of profits for fiscal 2016

The 2016 income statement showed a relevant net profit of EUR 35.2 million for the fiscal year. As there were no carry-forwards or changes in reserves, this corresponded to the net retained profits. On May 24, 2017, the Shareholders' Meeting decided to utilize a total of EUR 8.1 million to pay a dividend of EUR 0.25 per no-par share together with a non-recurring dividend of EUR 0.10 per no-par share. The remainder of EUR 27.1 million was allocated to the other revenue reserves.

Disclosures per Sec. 340 e (4) Sentence 2 No. 1 of the HGB

Each fiscal year, an amount of at least 10 percent of the net operating trading income is to be allocated to the special item "Fund for general bank risks" under Sec. 340 g, and is to be recognized separately under that item. This item may be reversed to settle net operating trading expenses. A total of EUR 3,470.10 for the year was allocated to this special item.

Disclosures per Sec. 340 g (2) of the HGB

In addition to the above allocation on the basis of Sec. 340 e, an additional amount of EUR 12.0 million was appropriated to the "Fund for general bank risks." It is recognized separately as an "of which" item under No. 13 of the income statement, "Write-downs of receivables and certain securities and allocations to provisions in the credit business."

Disclosures per Sec. 285 No. 14 of the HGB

At the reporting date, Allianz Deutschland AG held a majority interest in Oldenburgische Landesbank AG.

Allianz SE, of Munich, prepares consolidated financial statements that include the annual financial statements of Oldenburgische Landesbank AG. The consolidated financial statements of Allianz SE are published in the electronic version of the German Federal Gazette, the Bundesanzeiger.

The reader is furthermore referred to the disclosures per Sec. 285 No. 33 of the Commercial Code (HGB) on events of particular significance after the end of the fiscal year that are not reflected in either the income statement or the balance sheet.

Disclosures on number of shares under Sec. 160 (1) No. 3 of the Stock Corporation Act (AktG)

The Company's share capital comes to EUR 60,468,571.80. It is divided into 23,257,143 no-par shares, each of which is included in the share capital at a notional value of EUR 2.60 per no-par share.

Disclosures on authorized capital per Sec. 160 (1) No. 4 of the AktG

The Board of Managing Directors is authorized to increase the Company's share capital on one or more occasions on or before May 23, 2022, subject to the consent of the Supervisory Board, by issuing new no-par shares in return for cash contributions, for a total of not more than EUR 15,000,000. The shareholders are to be given preemptive rights; however, the Board of Managing Directors is authorized to exclude fractional amounts from the shareholders' preemptive rights, subject to the consent of the Supervisory Board. This authorization was not exercised during fiscal 2017.

Disclosures on treasury shares per Sec. 160 (1) No. 2 of the AktG

There is no authorization for the Bank to acquire its own shares.

At December 31, 2017, it held no treasury shares in its portfolio. There were no additions or withdrawals in 2017.

As of the end of the year, 5,501 own shares with a notional value of EUR 14 thousand had been pledged. This represents 0.02 percent of the Bank's share capital.

Disclosures on the bar on distribution per Secs. 268 (8) and 253 (6) of the HGB

Under Sec. 253 (8) of the Commercial Code (HGB), the following amounts are barred from distribution:

Amount barred from distribution EUR	**12/31/2017**	**12/31/2016**
Income from capitalization of internally generated intangible fixed assets	799,402.16	—
Income from fair valuation above cost of assets covering **phased retirement**	200,324.70	215,377.74
Income from fair valuation above cost of assets covering **pension plans**	367,158.83	221,993.43
Total	**1,366,885.69**	**437,371.17**

Under Sec. 253 (6) of the HGB, the following amounts are barred from distribution:

Amount barred from distribution EUR	**12/31/2017**	**12/31/2016**
Positive difference from calculation of provision for pension obligations under Sec. 253 (6) HGB	24,190,050.00	19,941,128.96
Total	**24,190,050.00**	**19,941,128.96**

V. Notes to the Balance Sheet – Off-Balance-Sheet Items

Off-Balance-Sheet Item 1. Contingent liabilities

Disclosures per Secs. 35 (4) and 34 (2) No. 4 of the RechKredV

EUR	12/31/2017	12/31/2016
Obligations under suretyships and guarantees	**312,727,124.05**	**356,447,025.81**
Credit suretyships	8,491,300.16	12,508,663.87
Other suretyships and guarantees	299,277,192.41	335,169,989.83
Documentary credits	4,958,631.48	8,768,372.11
including: credit openings	4,958,631.48	8,258,872.11
including: credit confirmations	—	509,500.00
Liability from furnishing collateral for third-party liabilities	—	—

Where there are risks that recourse might be taken against the Bank as a consequence of underlying customer relationships, these risks were covered by forming provisions. In every case, the probability that a claim would be asserted was estimated at less than 50 percent. The liabilities are monitored and ranked on a credit-related basis.

Off-Balance-Sheet Item 2. Other liabilities

Disclosures per Secs. 35 (6) and 34 (2) No. 4 of the RechKredV

EUR	12/31/2017	12/31/2016
Current account lines, short-term	94,803,413.30	141,817,922.71
Current account lines, long-term	383,263,666.40	392,299,677.05
Guarantee lines	91,215,786.49	100,193,549.86
Mortgage loans / public-sector loans	74,067,184.44	133,357,414.15
Committed credit facilities	**643,350,050.63**	**767,668,563.77**

For committed credit facilities, the indicated volumes represent amounts not yet utilized.

VI. Notes to the Income Statement

Income Statement 1. Interest income

Income Statement 2. Interest expenses

Income Statement 3. Operating income

Income Statement 4. Income from profit pooling, profit transfer or partial profit transfer agreements

EUR	2017	2016
Interest income	**355,608,612.00**	**389,084,454.17**
from credit and money market transactions	336,527,297.74	361,179,715.52
less: negative interest (–) from credit and money market transactions	–4,576,273.49	–3,032,654.92
from fixed-income securities and book-entry securities	19,081,314.26	27,904,738.65
less: negative interest (–) from fixed-income securities and book-entry securities	—	—
Interest expenses	**127,932,589.25**	**164,577,854.74**
less: positive interest (–)	–7,628,944.60	–5,961,797.05
Operating income	**70,289.05**	**5,004,297.00**
from stocks and other non-fixed-income securities	43,034.85	179,932.58
from long-term equity investments	27,254.20	4,824,364.42
from shares in affiliated companies	—	—
Income from profit pooling, profit transfer or partial profit transfer agreements	**370,879.86**	**426,182.04**
Net interest income	**228,117,191.66**	**229,937,078.47**

Interest income from credit and money-market transactions includes EUR 1.2 million in out-of-period interest income for interest received late, largely as a result of loan workouts.

Income Statement 5. Commission income

EUR	2017	2016
Securities business and asset management	23,442,720.62	22,323,638.12
Payment traffic	21,902,009.64	22,155,893.72
Foreign business	4,028,274.38	4,063,869.02
Insurance, home loan and savings, real estate business	13,595,138.47	13,918,888.82
Credit card business	2,455,287.28	1,736,816.42
Trustee and other fiduciary activities	12,007.74	15,240.57
Other	2,619,296.79	3,693,759.66
Net commission income	**68,054,734.92**	**67,908,106.33**

The Bank received commission income of EUR 0.4 million from the property and casualty insurance business and EUR 0.7 million from the life insurance business, under target achievement agreements with product providers. This commission income is attributable to previous fiscal years.

Income Statement 8. Other operating income

Other operating income is made up of items that cannot be allocated to other items in the income statement.

The other operating income includes interest effects from the change in times remaining to maturity and from changes in the interest rate for measuring the net present value of provisions, as follows:

	2017	
EUR	Pensions and similar obligations	Other obligations
Income from fair valuation of offset assets	—	—
Notional interest income on fulfillment amount of offset liabilities	—	40,519.92
Effect from change in discount rate for fulfillment amount	—	—
Net total of offset income (+) and expenses (–)	**—**	**40,519.92**

The other operating income includes income of EUR 9.2 million from a payment for the full integration of the former Allianz Bank's business into the regional banking business, EUR 7.0 million from the reversal of provisions, EUR 0.4 million in accounting credits, and EUR 0.3 million in input tax corrections, all of which are to be allocated to prior fiscal years.

The figure for the year under report also includes income of EUR 1.9 million from foreign currency translation (prior year: expense of EUR 0.6 million).

Foreign currency is converted in accordance with Sec. 340 h of the Commercial Code in conjunction with Sec. 256 a of that Code, also taking into account opinion IDW RS BFA 4 from the Institute of Public Auditors in Germany. Assets and liabilities denominated in foreign currency, as well as cash transactions not yet settled at the reporting date, are converted at the ECB's reference exchange rate for the reporting date. Assets, liabilities and pending transactions are subject to particular coverage depending on the currency involved. Procedural precautions ensure that open currency positions are closed each day. Income and expenses resulting from the conversion of specially covered transactions are recognized in profit or loss in accordance with Sec. 340 h of the Commercial Code. Peak amounts from open foreign currency positions that do not net one another out are recognized in accordance with the general accounting policies.

Income Statement 10. General administrative expenses

Income Statement 11. Amortization and write-downs of intangible fixed assets and write-downs of tangible fixed assets

EUR	2017	2016	Change	Change (%)
Personnel expenses	140,305,390.05	135,744,183.31	4,561,206.74	3.4
Other administrative expenses	74,189,092.26	75,652,136.16	– 1,463,043.90	– 1.9
Write-downs of tangible fixed assets	15,126,938.70	14,861,331.66	265,607.04	1.8
Administrative expenses	**229,621,421.01**	**226,257,651.13**	**3,363,769.88**	**1.5**

The “Other administrative expenses” include out-of-period expenses of EUR 0.6 million.

Income Statement 12. Other operating expenses

Other operating expenses are made up of items that cannot be allocated to other items in the income statement. The expenses for fiscal 2017 pertain in particular to payments of EUR 6.7 million made because of potential legal obligations from litigation.

Other operating expenses also include the interest effects from the change in remaining times to maturity and from changes in the discount rate for the net present valuation of provisions, as follows:

	2017	
EUR	Pensions and similar obligations	Other obligations
Income (–) from fair valuation of offset assets	– 1,064,149.68	—
Notional interest income on fulfillment amount of offset liabilities	7,170,286.58	717,460.48
Effect from change in discount rate for fulfillment amount	7,864,704.07	322,129.08
Net total of offset income (–) and expenses (+)	**13,970,840.97**	**1,039,589.56**

Income Statement 13. and 14. Write-downs and income from write-ups of receivables and certain securities and additions to or reversals of provisions in the credit business

EUR	2017	2016
Risk provisions for credit business	31,291,131.49	37,083,466.68
Gain (+) / loss (–) on securities in the liquidity reserve	7,914,337.03	– 2,304,105.49
Expenses for the credit business and liquidity reserve	**23,376,794.46**	**39,387,572.17**

Changes in risk provisions in the credit business EUR	SLLP	PLLP	GLLP	Impairment	Provisions [1]	Total portfolio
At 1/1	**178,866,506.07**	**5,422,352.90**	**12,125,290.51**	**196,414,149.48**	**5,982,601.73**	**202,396,751.21**
Used	52,255,873.96	1,505,212.73	—	53,761,086.69	—	53,761,086.69
Additions	45,963,587.04	914,661.25	2,849,994.12	49,728,242.41	1,761,737.03	51,489,979.44
Reversals	23,137,338.22	—	4,854,453.41	27,991,791.63	2,053,368.37	30,045,160.00
Reversals through unwinding	1,485,646.15	—	—	1,485,646.15	—	1,485,646.15
At 12/31	**147,951,234.78**	**4,831,801.42**	**10,120,831.22**	**162,903,867.42**	**5,690,970.39**	**168,594,837.81**

1 Changes in credit risks in off-balance-sheet credit commitments and contingent liabilities are recognized in profit or loss by allocations to and reversals of provisions.

Income statement presentation EUR	2017	2016
Net result of impairment provisions	**21,736,450.78**	**39,192,970.12**
Additions to impairment provisions	49,728,242.41	84,782,873.64
Reversals of impairment provisions	27,991,791.63	45,589,903.52
Net result from provisions	**– 291,631.34**	**528,107.24**
Additions to provisions	1,761,737.03	1,850,683.08
Reversals of provisions	2,053,368.37	1,322,575.84
Net result of changes in fund for general bank risks per Sec. 340 g HGB	**12,000,000.00**	—
Appropriated to fund for general bank risks per Sec. 340 g HGB	12,000,000.00	—
Direct write-downs (off-balance-sheet)	53,811.60	73,517.72
Receipts on written-off customer receivables (off-balance-sheet)	2,207,499.55	2,711,128.40
Risk provisions for credit business	**31,291,131.49**	**37,083,466.68**

Combined presentation EUR	2017	2016
At 1/1	**202,396,751.21**	**215,100,382.83**
Risk provisions for credit business	31,291,131.49	37,083,466.68
Net result of changes in fund for general bank risks per Sec. 340 g HGB	12,000,000.00	—
Recognized direct write-downs	53,811.60	73,517.72
Receipts on written-off receivables	2,207,499.55	2,711,128.40
Allocation to LLP with subsequent write-down	53,761,086.69	50,747,060.20
Reversals through unwinding	1,485,646.15	1,677,648.78
At 12/31	**168,594,837.81**	**202,396,751.21**

Risk provisions for the credit business include EUR 2.2 million in out-of-period receipts on written-off customer receivables.

Income Statement 16. Income from additions to long-term equity investments, shares in affiliated companies and securities treated as long-term financial assets

In accordance with Sec. 340 c (2) Sentence 2 of the Commercial Code (HGB), this item is to include both income from additions to and income from transactions in these assets (i. e., income from long-term equity investments, income from shares in affiliated companies, and income from securities treated as fixed assets).

On January 13, 2017, OLB sold its ownership interest in Concardis GmbH, of Frankfurt. The contract was signed as part of a joint transaction of the shareholders with Eagle Eschborn GmbH. Following approval from the appropriate authorities in July 2017, the transaction closed and the Bank reaped proceeds totaling EUR 9.7 million. OLB decided not to take further profits by disposing of securities during the period.

Income Statement 22. Extraordinary result

Although the new version of Sec. 277 of the Commercial Code, which has been in effect since July 23, 2015, no longer provides for components of profit or loss to be allocated to the “Extraordinary result,” the vertical presentation format under the governing reporting regulation for banks, the RechKredV, is still based on this allocation.

The scheduled allocation of the difference from the valuation of pension obligations under the first application of the Accounting Law Modernization Act (BilMoG) yielded an extraordinary expense of EUR 2.5 million (prior year: EUR 2.5 million).

Additionally, the Bank allocated EUR 4.6 million to restructuring provisions for the expected costs of integrating the former Allianz Bank business into the regional banking business, and also as a result of a review of the financial expenses still needed for the strategic "OLB 2019" program for the future.

The "Extraordinary result" includes income of EUR 0.2 million from the reversal of restructuring provisions, which is to be attributed to previous fiscal years.

Income Statement 23. Taxes on income

The tax expense for the year was EUR 21.1 million. Of this total tax expense, EUR 11.0 million was for corporate income tax and EUR 10.1 million was for local business income tax ("trade tax"). A total of EUR 1.2 million was attributable to previous fiscal years.

Disclosures on deferred taxes

Deferred taxes, which on balance yield a net refund, were not recognized, exercising the option under Sec. 274(1) Sentence 2 of the Commercial Code.

The most extensive differences between the measurement approach under the Commercial Code and the approach for tax purposes arise among the following balance sheet items that yield deferred tax amounts.

			12/31/2017
EUR	Deferred tax assets	Deferred tax liabilities	Net
Receivables from customers	842,880.37	—	842,880.37
Shares in affiliated companies	2,679,003.73	—	2,679,003.73
Other assets	5,471,559.53	247,814.67	5,223,744.86
Pension provisions	19,084,945.33	—	19,084,945.33
Other provisions	753,707.26	—	753,707.26
Total balance sheet item	**28,832,096.22**	**247,814.67**	**28,584,281.55**

Deferred tax items are measured at a tax rate of 31.000 percent. This tax rate is composed of the current corporate income tax rate of 15.825 percent (including reunification surtax, or "solidarity surcharge," of 5.500 percent), as well as the local business income tax rate of 15.175 percent that applies to the Allianz Group.

VII. Other Disclosures

Derivative transactions – Presentation of volumes

Disclosures on transactions in derivatives per Sec. 285 Nos. 19 and 3 of the HGB and Sec. 36 of the RechKredV

EUR	Nominal value 12/31/2017	Nominal value 12/31/2016	Positive market value 12/31/2017	Negative market value 12/31/2017
Caps	28,207,590.16	25,667,618.56	40,692.23	–40,704.64
Floors	9,600,000.00	—	34,716.48	–34,716.48
Forward rate agreements (FRAs)	—	—	—	—
Swaptions	—	—	—	—
Swaps (customer business)	1,036,729,096.62	498,405,609.51	13,894,828.90	–6,674,157.58
Swaps (non-trading portfolio management)	1,823,000,000.00	1,818,000,000.00	36,851,859.82	–74,487,599.80
Interest rate risks (OTC contracts)	**2,897,536,686.78**	**2,342,073,228.07**	**50,822,097.43**	**–81,237,178.50**
Currency options (long)	—	—	—	—
Currency options (short)	—	—	—	—
FX swaps and currency forwards	294,423,404.48	190,258,483.58	2,959,347.20	–3,479,229.36
Foreign currency risks (OTC contracts)	**294,423,404.48**	**190,258,483.58**	**2,959,347.20**	**–3,479,229.36**

Derivative transactions – Counterparty breakdown

EUR	Nominal value 12/31/2017	Nominal value 12/31/2016	Positive market value 12/31/2017	Negative market value 12/31/2017
OECD banks	2,538,297,771.49	2,203,905,021.45	41,593,353.16	–82,252,999.98
Other counterparties	653,662,319.77	328,426,690.20	12,188,091.47	–2,463,407.88
Total derivatives	**3,191,960,091.26**	**2,532,331,711.65**	**53,781,444.63**	**–84,716,407.86**

Derivative transactions – Nominal values by time remaining to maturity

Time remaining to maturity	Interest rate risk 12/31/2017	Interest rate risk 12/31/2016	Foreign currency risk 12/31/2017	Foreign currency risk 12/31/2016
Three months or less	22,600,000.00	52,516,397.22	171,959,527.68	134,615,597.42
Over 3 months to 1 year	56,631,654.46	243,461,600.00	119,128,597.87	55,098,611.42
Over 1 year to 5 years	769,182,385.82	669,443,647.68	3,335,278.91	544,274.74
Over 5 years	2,049,122,646.50	1,376,651,583.17	—	—
Total derivatives	**2,897,536,686.78**	**2,342,073,228.07**	**294,423,404.46**	**190,258,483.58**

At December 31, 2017, there were no derivatives in the trading portfolio.

Derivative transactions are used largely to hedge fluctuations in interest rates, foreign exchange rates or stock prices. The increase in the nominal value of the item for interest rate risks (OTC contracts) to EUR 2,897.5 million results primarily from new interest rate swaps that were entered into with corporate customers through selective approaches to clients and individual consultation.

The calculation of a possible surplus of obligations under interest-rate-related transactions in the non-trading portfolio includes interest rate swaps for management of the non-trading portfolio, for a total of EUR 1,823.0 million. The negative fair value of these interest rate swaps at the reporting date was EUR –74.5 million; the positive value was EUR +36.9 million. Additionally, interest rate contracts resulting from the customer business are included for a total of EUR 1,036.7 million. These had positive fair values of EUR +13.9 million and negative fair values of EUR –6.7 million. The market values of these interest rate swaps are not shown in the balance sheet.

Derivatives are used in customer transactions in intermediate trading (squaring of risks from derivative transactions with customers) and in connection with asset-liability management.

If no market price is quoted (OTC derivatives), the estimation methods established in the financial markets (including present valuing and option pricing models) are applied. The market value of a derivative here is equivalent to the total of all future cash flows discounted to the measurement date (present value or dirty closeout value), as automatically calculated by the Bank's PRIME trading system. The above tables show the nominal values and the positive and negative market values of the derivative transactions in the portfolio at the reporting date. The nominal values generally serve only as a reference figure for the calculation of the mutually agreed settlement payments, and thus do not represent receivables and / or payables in the balance sheet sense.

Disclosures on other financial obligations per Sec. 285 Nos. 3 and 3a of the HGB

EUR	12/31/2017	12/31/2016
Obligations under rental and lease agreements	100,491,448.48	110,855,902.30
Obligations for maintenance of information technology	4,692,000.00	4,644,000.00
Obligations under commenced capital spending projects	2,653,208.00	1,906,000.00
Total	**107,836,656.48**	**117,405,902.30**
of which: liabilities to affiliated companies	9,222,000.00	8,908,000.00

The obligations measured at nominal value include maturities up to 2031, primarily under long-term leases.

Call commitments and joint liability

Amounts of EUR 0.6 million were paid in connection with the bank levy in 2017 and contributions of EUR 1.2 million were paid into the Compensation Scheme of German Private Banks (EdB) as an irrevocable payment commitment. The total amounts for irrevocable payment commitments to the Federal Agency for Financial Market Stabilization (FMSA) (the bank levy) and to the EdB came to EUR 2.3 million each.

Contingent liabilities from the sale of an ownership interest in Concardis GmbH

On January 13, 2017, OLB sold its ownership interest in Concardis GmbH, of Frankfurt. The Bank received proceeds totaling EUR 9.7 million from this transaction in July 2017. Still-outstanding valuation risks from this transaction yield a residual liability for the sellers on the basis of statutory limitation periods; their amount is limited to EUR 1.0 million for OLB.

Liabilities for pension benefits and similar commitments

The Bank has liabilities under its pension benefits plan. The Bank's pension benefits plan for employees who joined the Company on or before December 31, 2014, is based as a rule on their membership in a retirement fund, Allianz Versorgungskasse VVaG (AVK), which is subject to oversight by the Federal Financial Supervisory Authority (BaFin) as a legally independent and regulated pension fund. AVK's benefits are financed under the single-premium system through endowments by the sponsoring companies to the fund via salary deductions.

Oldenburgische Landesbank AG is required to bear a proportionate share of AVK's administrative expenses, and to provide additional contributions as required by the fund's legal basis. Additionally, the sponsoring companies pay into Allianz Pensionsverein e. V. (APV), a congruently reinsured corporate group support fund, for employees who joined the Company on or before December 31, 2014. Both the AVK and the APV were closed to new entrants as of January 1, 2015. The Company's pension benefits plan was reorganized for persons joining the Company on or after January 1, 2015. For these employees, Oldenburgische Landesbank AG makes a monthly contribution to a direct insurance plan with Allianz Lebensversicherungs-AG that is financed through deductions from employee paychecks. There is also a monthly employer contribution provided as a direct grant.

Bank's liabilities for compensation payment commitments to BVV for Bank employees

The Bank is a member of two insurance associations, BVV Versicherungsverein des Bankgewerbes a. G. and BVV Versorgungskasse des Bankgewerbes e. V. (together, "BVV") that are tasked under their charters with providing benefits for the employees insured with BVV and their survivors, in connection with retirement, disability or death. The Bank has not had any new entrants to BVV since January 1, 2015. On June 24, 2016, the members' meeting of BVV adopted a change to the charter that entailed benefit reductions for members who joined BVV before January 1, 2005. The Bank has promised to compensate for these reductions by paying an additional amount to BVV beginning January 1, 2017. The amount of the additional contribution is limited for each employee to the amount needed to achieve the same pension level for that employee that would have resulted without the additional contribution using the increases and annuitization factors that were in effect until December 31, 2016. This compensation amount came to EUR 1.23 million for the 2017 reporting year. This is a voluntary commitment explicitly limited to the charter amendment of June 24, 2016, and does not establish any legal entitlement to future benefits in comparable situations.

Other call commitments and joint liability

Call commitments for other shareholdings came to EUR 0.2 million in connection with a revived liability; there were no joint liabilities under Sec. 26 of the German Act on Limited Liability Companies in GmbH form (GmbH-Gesetz)

Disclosures on management and brokerage services per Sec. 35 (1) No. 5 of the RechKredV

Further required disclosures

The following management and brokerage services provided for third parties account for a significant portion of the Bank's business:

- Securities deposit management
- Asset management
- Brokerage of insurance and home loan and savings transactions
- Management of trust loans

Disclosures on employees per Sec. 285 No. 7 of the HGB

On average for the year, the Bank had 2,106 employees (prior year: 2,197). The staff breakdown is as follows:

	2017		
Average for year	Men	Women	Total
Full-time employees	883	545	1,428
Part-time employees	54	624	678
Total	**937**	**1,169**	**2,106**

At December 31, 2017, the workforce numbered 2,071 employees (prior year: 2,153). Oldenburgische Landesbank AG also had 159 trainees, temporary workers and interns.

Disclosures on corporate governance per Sec. 286 No. 16 of the HGB in conjunction with Sec. 161 of the AktG

The Declaration of Compliance with the Recommendations of the Government Commission on the German Corporate Governance Code was issued in December 2017 by the Board of Managing Directors and the Supervisory Board as required under Sec. 161 of the German Stock Corporation Act (AktG), and is kept permanently available to shareholders on the Internet, in the Investor Relations area of the Web site at www.olb.de (URL: https://www.olb.de/OLB/Investor-Relations/IR/Corporate-Governance).

Disclosures of compensation paid to members of governing bodies per Sec. 285 Nos. 9a and b of the HGB, and disclosures on credit granted to members of governing bodies per Sec. 34(2) No. 2 of the RechKredV

Credit granted to members of the Supervisory Board was as follows as of December 31, 2017: Approved credit lines totaled EUR 262.3 thousand (prior year: EUR 290.3 thousand), EUR 11.7 thousand of which (prior year: EUR 21.9 thousand) had been used as of December 31, 2017. The interest rates charged for each line were between 3.22 percent and 7.92 percent. The interest rates and credit terms are on an arm's length basis. At the reporting date, EUR 4.4 thousand (prior year: EUR 4.1 thousand) in credit card lines had been utilized, out of total limits of EUR 107.3 thousand (prior year: EUR 109.3 thousand).

There were furthermore loan commitments of EUR 4,771.3 thousand (prior year: EUR 3,781.4 thousand), of which EUR 4,171.3 thousand (prior year: EUR 3,781.4 thousand) had been drawn as of December 31, 2017. The interest rates are between 0.81 percent and 4.98 percent. The interest rates and loan terms are on an arm's length basis.

Credit granted to members of the Board of Managing Directors was as follows as of December 31, 2017: Approved credit lines totaled EUR 90.4 thousand (prior year: EUR 90.4 thousand), EUR 0.0 thousand of which (prior year: EUR 6.8 thousand) had been used as of December 31, 2016. The interest rate charged for each line was 4.42 percent. The interest rates and credit terms are on an arm's length basis. At the reporting date, EUR 13.2 thousand (prior year: EUR 4.6 thousand) in credit card lines had been utilized, out of total limits of EUR 60.2 thousand (prior year: EUR 60.2 thousand).

There were no loan commitments as of December 31, 2017 (prior year: EUR 341.6 thousand).

The total compensation paid to the Board of Managing Directors under Sec. 285 No. 9 of the Commercial Code (HGB) for fiscal 2017 came to EUR 3.7 million (prior year: EUR 3.1 million). This figure for the prior year included Restricted Stock Units (RSUs) with a fair value totaling EUR 0.5 million. As of December 31, 2017, the number of share-based rights held by the active members of the Board of Managing Directors totaled 14,628 RSUs. In connection with OLB's departure from the Allianz Group, the total of EUR 0.5 million of the variable component of compensation for the members of the Board of Managing Directors for fiscal 2017, which would normally have been granted in RSUs, was granted and paid in cash.

The total compensation for fiscal 2017 additionally included a transaction bonus of EUR 1.0 million that was reimbursed by Allianz Deutschland AG, and that therefore does not constitute a charge for Oldenburgische Landesbank AG.

A total of EUR 0.5 million (prior year: EUR 0.5 million) was spent to increase pension provisions for active members of the Board of Managing Directors. As of December 31, 2017, the pension provisions for members of the Board of Managing Directors who were in service at that time came to EUR 2.5 million (prior year: EUR 2.0 million).

A total of EUR 1.6 million was paid to former members of the Board of Managing Directors or their survivors. The discounted performance amount of pension obligations for this group of persons came to EUR 15.6 million (prior year: EUR 15.5 million).

Total compensation paid to the Supervisory Board under Sec. 285 No. 9 of the Commercial Code for fiscal 2017, including meeting honoraria, came to EUR 1.0 million (prior year: EUR 1.0 million). The statutory value added tax applicable to total compensation and meeting honoraria came to EUR 0.2 million and was reimbursed.

In addition, in 2017 Carl-Ulfert Stegmann received EUR 2 thousand (prior year: EUR 2 thousand) plus value added tax as compensation for his membership on the Advisory Board of Oldenburgische Landesbank AG.

Dr. Petra Pohlmann received compensation in the amount of EUR 40 thousand (prior year: EUR 40 thousand) and meeting honoraria of EUR 0.6 thousand (prior year: EUR 0.9 thousand), each plus value added tax, from Allianz Versicherungs-AG for her activity on this Company's Supervisory Board.

The total individual compensation of the Board of Managing Directors and the Supervisory Board is presented in the management report.

Disclosures on equity interests held per Sec. 285 No. 11 of the HGB

Below is a summary, in compliance with Sec. 285 No. 11 of the Commercial Code (HGB), of the equity interests of 20 percent or more held by OLB AG:

Name and registered office of the company	Share of capital held %	Equity EUR	Profit for 2017 period[1] EUR	Profit for 2016 period[1] EUR
OLB-Service GmbH, Oldenburg	100	26,000.00	—	—
OLB-Immobiliendienst GmbH, Oldenburg	100	26,000.00	—	—

1 Profit for period after transfer of profit and loss

There are profit-and-loss transfer agreements applied with the two listed subsidiaries.

OLB furthermore holds the following equity interests of less than 20 percent:

Name and registered office of the company	Share of capital held %	Equity EUR	Profit for 2017 period[1] EUR	Profit for 2016 period[1] EUR
Bürgschaftsbank Bremen GmbH, Bremen	2.51	6,838,857.75	n / a	548,432.48
Niedersächsische Bürgschaftsbank (NBB) Gesellschaft mit beschränkter Haftung, Hanover	2.78	24,463,564.48	n / a	1,273,000.00
EURO Kartensysteme GmbH, Frankfurt am Main	1.51	11,635,404.22	n / a	172,979.08
Parkhaus am Waffenplatz Gesellschaft mit beschränkter Haftung, Oldenburg	3.43	6,013,526.85	n / a	545,589.48
Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mbH, Hanover	5.50	13,130,663.17	n / a	895,064.76
TGO Besitz GmbH & Co.KG, Oldenburg	8.91	950,811.74	n / a	53,003.38
Paydirekt Beteiligungsgesellschaft privater Banken mbH	2.02	6,683,460.78	n / a	550,000.00
Fiducia Mailing Services eG, Karlsruhe	0.06	83,046.00	n / a	—
Wirtschaftsförderung Wesermarsch GmbH, Brake	2.50	393,332.03	n / a	16,163.20
MFP Munich Film Partners GmbH & Co.I. Produktions KG i. L., Grünwald	0.19	1,777,822.39	n / a	– 105,449.54
Society for Worldwide Interbank Financial Telecommunication S. C. R. L. (S. W. I. F. T.), La Hulpe	0.01	415,332,000.00	n / a	26,219,000.00

1 n / a = not available; information about the most recent profit for the period is not yet available

Disclosure on fees paid to the independent auditor per Sec. 285 No. 17 of the HGB

EUR	2017	2016
Audit of financial statements	733,105.11	835,425.79
Other confirmation and valuation services	37,559.87	18,341.94
Total	**770,664.98**	**853,767.73**

In addition to services for the audit of the annual financial statements, the auditors also provided the securities deposit audit under the Securities Trading Act, an audit service during the course of the year concerning the furnishing of financing, and other certification services typical of an auditor for banking institutions. Allianz Deutschland AG reimbursed the expenses for the audit of financial statements and other confirmation and valuation services incurred in the course of the process of selling Allianz's ownership interest in OLB.

Disclosures of additional offices held by members of governing bodies per Sec. 285 No. 10 of the HGB

Supervisory Board

The members of the Supervisory Board held the positions listed below (as of December 31, 2017):

Rainer Schwarz
Chairman
Member of the Supervisory Board, Oldenburgische Landesbank AG, Munich

Uwe Schröder
Vice-Chair
Banker, Oldenburgische Landesbank AG, Oldenburg; Chairman of the Corporate Employee Council

Prof. Dr. Werner Brinker
Honorary Professor, CvO University, Oldenburg, and member of the Supervisory Board of Oldenburgische Landesbank AG, Rastede
Memberships in comparable supervisory bodies:
- Encevo S.A., Luxembourg
- Enovos Luxembourg S.A., Luxembourg
- Jacobs University, Bremen
- Heinrich Gräper Holding GmbH & Co. KG, Ahlhorn (Chairman)

Prof. Dr. Andreas Georgi
Honorary Professor, LMU University, Munich,
Executive Advisor and member of various supervisory boards and their committees, Starnberg
Positions on other legally required supervisory boards of German companies:
- Asea Brown Boveri AG, Mannheim
- Rheinmetall AG, Düsseldorf

Memberships in comparable supervisory bodies:
- Felix Schoeller Holding GmbH & Co. KG, Osnabrück (Vice-Chair)

Svenja-Marie Gnida
Head, Private Banking, Oldenburgische Landesbank AG, Osnabrück

Dr. Peter Hemeling
Attorney at law and former General Counsel, Allianz SE, Krailling

Stefan Lübbe
Director and member of the management for corporate customers and private banking, Oldenburger Münsterland, Oldenburgische Landesbank AG, Vechta
Memberships in comparable supervisory bodies:
- Stöckel Anlagen GmbH & Co. KG, Bippen-Vechtel (Chairman)

Dr. Petra Pohlmann
Professor, WWU University, Münster
Positions on other legally required supervisory boards of German companies:
- Allianz Versicherungs-AG, Munich

Horst Reglin
Union Secretary for Financial Services, Vereinte Dienstleistungsgewerkschaft ver.di, Oldenburg
Positions on other legally required supervisory boards of German companies:
- Öffentliche Lebensversicherungsanstalt, Oldenburg
- Oldenburgische Landesbrandkasse, Oldenburg

Carl-Ulfert Stegmann
Sole Director, AG Reederei Norden-Frisia, Norderney
Memberships in comparable supervisory bodies:
- Wyker Dampfschiffs-Reederei Föhr-Amrum GmbH, Wyk auf Föhr

Gabriele Timpe
Customer Support, Oldenburgische Landesbank AG, Haselünne

Christine de Vries
Project Manager, Oldenburgische Landesbank AG, Oldenburg

Board of Managing Directors

The members of the Board of Managing Directors held the positions listed below (as of December 31, 2017).

Patrick Tessmann
Chairman of the Board of Managing Directors, Oldenburgische Landesbank AG

Dr. Thomas Bretzger
Member of the Board of Managing Directors, Oldenburgische Landesbank AG (until December 31, 2017)

Karin Katerbau
Member of the Board of Managing Directors, Oldenburgische Landesbank AG

Hilger Koenig
Member of the Board of Managing Directors, Oldenburgische Landesbank AG
Memberships in comparable supervisory bodies:
- OLB-Immobiliendienst-GmbH, Oldenburg (Chairman)

Disclosures per Sec. 285 No. 33 of the Commercial Code (HGB) on events of particular significance after the end of the fiscal year that are not reflected in either the income statement or the balance sheet

At the reporting date, December 31, 2017, Allianz Deutschland AG, of Munich, held approximately 90.2 percent of the shares of Oldenburgische Landesbank AG. The sole shareholder of Allianz Deutschland AG is Allianz SE, of Munich. On June 23, 2017, Allianz Deutschland AG and Allianz SE informed the Board of Managing Directors of OLB that the entire ownership interest held by Allianz Deutschland AG, corresponding to approximately 90.2 percent of the Bank's share capital, had been sold to BKB Beteiligungsholding AG. Closing of the sale was subject to certain conditions precedent. These included obtaining the necessary approvals from the antitrust and other regulatory authorities, including from the bank regulators. On February 7, 2018, information was received from Allianz Deutschland AG and Allianz SE that all conditions for closing the sale had been met.

Under the offer document for a tender offer published on July 19, 2017, for all no-par bearer shares of OLB, under Secs. 29 et seq. of the German Securities Acquisition and Takeovers Act (WpÜG), and according to a notice of September 8, 2017, BKB Beteiligungsholding AG was offered 3.236 percent of OLB stock for purchase. Additionally, on September 7, 2017, BKB Beteiligungsholding AG gave notice that apart from the tender offer, a purchase agreement had been entered into for 1.92 percent of OLB stock.

Since that time, BKB Beteiligungsholding AG has been merged into Bremer Kreditbank AG (BKB), and therefore the aforementioned shareholding was transferred to Bremer Kreditbank AG as of December 8, 2017. Taking account of the portion of stock acquired from Allianz, this yields a shareholding of 95.35 percent of OLB stock for Bremen Kreditbank AG. As the new majority shareholder, BKB will seek to quickly refill the positions of shareholder representatives on the Supervisory Board. OLB has therefore invited its shareholders to a special Shareholders' Meeting on Friday, March 16, 2018. The only agenda item is the election of new shareholder representatives for the Supervisory Board. To simplify its group structure, BKB has announced a squeeze-out of other shareholders (minority shareholders) in accordance with Secs. 327a et seq. of the Stock Corporation Act, in return for a fair and reasonable cash settlement. Accordingly, the Board of Managing Directors of Oldenburgische Landesbank AG was served on February 7, 2018, with a written request from the majority shareholder, Bremer Kreditbank AG, under Sec. 327 a(1) Sentence 1 of the Stock Corporation Act, to take all necessary measures in order that the next Shareholders' Meeting of Oldenburgische Landesbank AG to take place after the special Shareholders' Meeting on March 16, 2018, can adopt a transfer resolution under Sec. 327 a(1) Sentence 1 of the Stock Corporation Act.

Disclosures per Sec. 285 No. 34 of the HGB on the proposal for allocation of profits for fiscal 2017

The income statement for 2017 shows net retained profits of EUR 28.3 million. The Board of Managing Directors and the Supervisory Board propose allocating a total of EUR 5.8 million to pay a dividend of EUR 0.25 per no-par share. The remainder of EUR 22.5 million will be proposed for allocation to other revenue reserves.

Oldenburg, February 20, 2018
Oldenburgische Landesbank AG

The Board of Managing Directors

Patrick Tessmann
Chairman

Karin Katerbau

Hilger Koenig

Management's Statement of Responsibility

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the Company's net assets, financial position, and results of operations, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the Company's expected development.

Oldenburg, February 20, 2018
Oldenburgische Landesbank AG

The Board of Managing Directors

Patrick Tessmann	Karin Katerbau	Hilger Koenig
Chairman		

Notes to the Annual Financial Statements per Sec. 26 a of the German Banking Act (KWG), Disclosure by Banks

Notes to the Annual Financial Statements per Sec. 26 a of the German Banking Act (KWG), Disclosure by Banks

CRR banks are required to furnish the following disclosures, on a consolidated basis, broken down by Member States of the European Union and third countries where the banks have branches, in notes appended to the annual financial statements within the meaning of Sec. 26 a (1) Sentence 2, which must be audited by independent auditors as provided in Sec. 340 k of the Commercial Code, and must be published.

Names of companies, nature of activities and geographical location of branches

The Company's name is: Oldenburgische Landesbank Aktiengesellschaft. According to its Articles of Incorporation, the purpose of the Company is to conduct banking and financial transactions of all kinds, with the exception of the investment business, as well as those transactions and services that may promote the sale of banking and financial products. The Company's registered office and all its branch offices are located in the Federal Republic of Germany.

Revenue

"Revenue" within the meaning of Sec. 26 a (1) Sentence 2 of the Banking Act (KWG) comprises net interest income, net commission income, net operating trading income or expense, and other operating income, in accordance with the annual financial statements of Oldenburgische Landesbank AG prepared under the Commercial Code and the definitions of terms for income statements in the management report in accordance with the Guidelines of the European Securities and Markets Authority (ESMA) on Alternative Performance Measures (APMs):

EUR	2017	2016
Net interest income	228,117,191.66	229,937,078.47
Net commission income	68,054,734.92	67,908,106.33
Net operating trading income / expense	31,230.85	58,453.58
Operating income / revenue	**296,203,157.43**	**297,903,638.38**

Number of recipients of wages and salaries in full-time equivalents

On average for the year, OLB had 2,106 employees (prior year: 2,197). This corresponds to a capacity of 1,690 full-time equivalents (prior year: 1,758).

Profit or loss before taxes

As "profit before taxes," the net income for the year recognized in the annual financial statements of Oldenburgische Landesbank AG is presented, with taxes on profit or loss added back (taxes on income and other taxes, unless recognized under Item 12):

EUR	2017	2016
Net income for the fiscal year	28,316,604.72	35,218,685.93
./. Taxes on profit or loss	22,134,718.27	19,090,249.35
Profit before taxes	**50,451,322.99**	**54,308,935.28**

Taxes on profit or loss

As “taxes on profit,” the taxes on income and the other taxes (unless included under Item 12) recognized in the annual financial statements of Oldenburgische Landesbank AG are presented:

EUR	2017	2016
Taxes on income	21,145,458.32	18,207,721.53
Other taxes not included under Item 12	989,259.95	882,527.82
Taxes on profit or loss	**22,134,718.27**	**19,090,249.35**

Government assistance received

During the year, as in the prior year, Oldenburgische Landesbank Aktiengesellschaft received no government assistance.

Ratio of net profit to total assets (return on capital)

In their annual reports, CRR banks are to disclose their return on capital, calculated as the ratio of net profit to total assets.

The Bank defines the net income for the year in the annual financial statements as its net profit. The Bank defines the total of assets or of equity and liabilities in the annual financial statements as its total assets:

EUR	2017	2016
Net profit / net income for year	28,316,604.72	35,218,685.93
Total assets / total of assets or of equity and liabilities	14,367,191,400.91	14,108,025,407.60
Ratio of net profit to total assets (return on capital)	**0.20 %**	**0.25 %**

Independent Auditors' Report

Report on the Audit of the Annual Financial Statements and Management Report

Opinions

We have audited the annual financial statements of Oldenburgische Landesbank Aktiengesellschaft, of Oldenburg, which comprise the balance sheet as at December 31, 2017, the income statement, the cash flow statement and the statement of changes in equity for the financial year from January 1 through December 31, 2017, and notes to the financial statements, including the summary of significant accounting policies. In addition, we have audited the management report on the situation of Oldenburgische Landesbank Aktiengesellschaft, of Oldenburg, for the financial year from January 1 to December 31, 2017. In accordance with the requirements of German law, we have not audited the content of the Management Declaration that is included in the management report on the Company's situation.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to banking institutions, and, in compliance with German Legally Required Accounting Principles, give a true and fair view of the assets, liabilities, and financial position of the Company as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and

- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the Management Declaration mentioned above.

Pursuant to Section 322(3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and EU Audit Regulation No. 537/2014 (referred to below as the "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the entity in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10(2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5(1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of Special Loan Loss Provisions for Receivables from Customers in the Bulk Credit Business

For an explanation of the risk management system, we refer to section "4.1.5 Counterparty risk" in the management report. Concerning the applied accounting policies of Oldenburgische Landesbank Aktiengesellschaft for special loan loss provisions, we refer to Section VI of the notes to the financial statements of the Company.

The Financial Statement Risk

Oldenburgische Landesbank recognizes receivables from customers that represent 76 percent of total assets, and, as a component of the income statement item "Write-downs of receivables and certain securities and allocations to provisions in the credit business," risk provisions for the credit business (prior to appropriations to the fund for general bank risks) that amount to EUR 19.3 million net. The majority of receivables from customers are in the bulk, primarily commercial credit business, which comprises customers in the strategic "Corporate Customers" business sector and major financing for agriculture, as well as project and specialized financing, including a residual portion of the portfolio for "freight rate-dependent ships," which is being phased out.

The calculation of the necessary special loan loss provisions requires forward-looking estimates of anticipated return flows on claims for interest and principal, which must be made taking account to the projected development of assumptions and parameters used for measurement, and which extensively call for judgments. The material assumptions and parameters used for measurement include, in particular, the exposure strategy (going-concern or liquidation scenarios), and also, depending on the circumstances of the particular case, the development of the procurement and sale markets relevant to the credit customers concerned, or, if applicable, the prospects for success of customers' concepts for reorganization or restructuring, or, in the liquidation scenario, the inflows that can presumably be obtained from a realization of the value of security.

As these estimates and exercises of judgment are subject to uncertainty and may have a significant influence on the amount of any necessary special loan loss provisions, it was of particular significance in our audit that the material assumptions and parameters used for measurement are properly derived, and, in estimating the anticipated return flows, were applied consistently with the requirements of external reporting.

Our Audit Approach

Applying the risk-oriented audit approach, we based our audit opinion on both controls-based audit procedures and substantive audit procedures. Accordingly, including consultation with KPMG specialists in credit risk, we performed the following audit procedures, among others:

In a first step, we obtained a comprehensive view of the evolution of the credit portfolio, the associated counterparty default risks, the applied methods and models, and the system of internal controls, with regard to the monitoring and assessment of counterparty default risks within the credit portfolio.

In order to assess the adequacy of the Group's internal control system regarding the establishment of exposure strategies and the determination of assumptions and parameters used for measurement, we conducted surveys and examined the relevant documentation in order to identify the controls relevant in this regard. We subsequently satisfied ourselves of the implementation of these controls and tested their effectiveness. For the IT systems used for this purpose, we tested the efficacy of the system and application controls by involving our IT experts.

Finally, on the basis of a deliberate selection of credit exposures from the underlying full portfolio of the bulk credit business, based primarily on risk-oriented criteria, we satisfied ourselves that the values of the special loan loss provisions were determined on the basis of assumptions and parameters that had been established appropriately. We assessed the reliability of the underlying risk-oriented selection criteria on the basis of a representative sample of single cases. In the case of special loan loss provisions to be formed, we also reproduced their calculation and examined that they had been accurately recorded in the financial reporting system.

Our Observations

The assumptions and parameters underlying the calculation of the special loan loss provisions for receivables from customers in the bulk credit business were chosen appropriately and in estimating the expected returns, were used consistently with the accounting principles to be applied in determining the value of special loan loss provisions.

Other Information

Management is responsible for the other information. The other information comprises:

- The Management Declaration,
- The remaining parts of the financial report, with the exception of the audited annual financial statements and management report, the notes to the annual financial statements pursuant to Section 26a of the Banking Act (KWG), and our auditor's report.

Our opinions on the annual financial statements and the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially consistent with the annual financial statements, the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the Management Report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law for banking institutions, and that the annual financial statements, in compliance with German Legally Required Accounting Principles, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company. In addition, management is responsible for such internal control as they have determined necessary, in accordance with German Legally Required Accounting Principles, to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless circumstances of fact or law oppose such an approach.

Furthermore, management is responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in such a manner that the annual financial statements, in compliance with German Legally Required Accounting Principles, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information Pursuant to Article 10 of the EU Audit Regulation

We were elected as independent auditor by the Shareholders' Meeting on March 24, 2017. We were engaged by the supervisory board on May 25, 2017. In compliance with the transitional provision under Article 41 (2) of the EU Audit Regulation, we have been the independent auditor of the Oldenburgische Landesbank Aktiengesellschaft without interruption since financial year 2003.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement
The German Public Auditor responsible for the engagement is Harald König.

Frankfurt am Main, February 21, 2018
KPMG AG
Wirtschaftsprüfungsgesellschaft

König	Korth
Certified public auditor	Certified public auditor

ADDITIONAL INFORMATION

Additional Information

Advisory Board

Hans-Dieter Kettwig – Chairman
Chairman of the Executive Board, Aloys-Wobben-Stiftung, Aurich

Dr. Maria Apel – Vice-Chair
General partner of Pöppelmann GmbH & Co. GmbH, Lohne

Robert Allmers
Publisher of Jeversches Wochenblatt, Jever

Prof. Dr. Heinz-W. Appelhoff
Independent income, Rastede

Harald Beenen
Managing Director, H. Beenen Vermögensverwaltung GmbH & Co. KG, Aurich

Dr. Jan Bernd Berentzen
Managing Shareholder, Berentzen Mally Marketing plus Services GmbH, Meerbusch

Clemens van den Berg
Shareholder, van den Berg GmbH & Co. KG, Lingen

Dr. Franz J. Bönkhoff
Partner, Wirtschaftsprüfer- und Steuerberaterkanzlei Dr. Bönkhoff & Partner, Oldenburg

Dr. Bernhard Brons
Board of Management, Reederei Aktien-Gesellschaft "EMS," Emden

Bernd Bröring
Managing Director, H. Bröring GmbH & Co. KG, Dinklage

Heinz Buse
Owner and Managing Director, Heinz Buse Corporate Group, Leer

Philip Freiherr von dem Bussche
Farmer, Bad Essen

Dr. Markus Connemann
Managing Director, Hammerlit GmbH, Leer

Claas E. Daun
Chairman of the Board of Management, Daun & Cie. AG, Rastede

Stefan Delkeskamp
Managing Director, Delkeskamp Verpackungswerke GmbH, Nortrup

Dr. Olaf Holzkämper
Member of the Executive Board, CEWE Stiftung & Co. KGaA, Oldenburg

Isabel Hüppe
Attorney-at-law, Grossenkneten-Huntlosen

Tido Graf zu Inn- und Knyphausen
Independent businessman in agriculture and forestry, renewable energies, tourism and golf, Lütetsburg

Prof. Dr. Dr. h. c. Hans Kaminski
Institute Director and Managing Director, Institut für Ökonomische Bildung, Oldenburg

Michael Koch
Board of Management, O. K. Leasing AG, Sylt

Dr. Dieter Köster
Chairman of the Supervisory Board, Köster Holding AG, Osnabrück

Angela Krüger-Steinhoff
Managing Director, Steinhoff Familienholding GmbH, Westerstede

Dr. Andreas Kühnl
Managing Director, H. Kemper GmbH & Co. KG, Nortrup

Friedrich-Wilhelm Freiherr von Landsberg-Velen
Managing Partner, Ferienzentrum Schloss Dankern GmbH, Haren

Hermann Lanfer
Managing Shareholder, Lanfer Logistik GmbH, Meppen

Johannes van der Linde
Managing Partner, LUDWIG FREYTAG GmbH & Co. Kommanditgesellschaft, Oldenburg

Dirk Lütvogt
Managing Partner, Friedrich Lütvogt GmbH & Co. KG, Wagenfeld

Bernd Meerpohl
CEO, Big Dutchman AG, Vechta

Bernard Meyer
Managing Director, MEYER WERFT GmbH & Co. KG, Papenburg

Eske Nannen
Chairwoman of the Supervisory Board, Stiftung Henri und Eske Nannen und Schenkung Otto van de Loo, Emden

Holger Neumann
Managing Director, Pallas Group, Diepholz

Fritz-Dieter Nordmann
Managing Shareholder, Nordmann corporate group, Wildeshausen

Peter Pickel
Managing Partner, August Pickel GmbH & Co. KG, Oldenburg

Christian Rauffus
Owner, shareholder and Chairman of the Supervisory Board, Rügenwalder Mühle Carl Müller GmbH & Co. KG, Bad Zwischenahn

Klaus Rücker
Managing Shareholder, Rücker Group, Aurich / Wismar

Dr. Heiko Sanders
Tax advisor and corporate consultant, Wiesmoor

Ralf Schu
Managing Director, Papier- u. Kartonfabrik Varel GmbH & Co. KG, Varel

Dirk Schulte Strathaus
Editor and Publisher, Delmenhorster Kreisblatt, Delmenhorst

Dr. Carl-Ulfert Stegmann
Honorary President, Chamber of Industry and Commerce for East Frisia and Papenburg, Norden

Carl-Ulfert Stegmann
Sole Director, AG Reederei Norden-Frisia, Norderney

Felix Thalmann
Chairman of the Management, BÜFA GmbH & Co. KG, Oldenburg

Franz Thiele jun.
Managing Director, Thiele & Freese GmbH & Co. KG, Emden

Harald Vogelsang
Managing Director, Hugo Vogelsang Maschinenbau GmbH, Essen Oldb.

Manfred Wendt
Speaker for the Management, Johann Bunte Bauunternehmung GmbH & Co. KG, Papenburg

Doris Wesjohann
Member of the Board of Management, PHW Group, Visbek

Roland Zerhusen
Managing Director, ZERHUSEN Kartonagen GmbH, Damme

As of March 12, 2018

We mourn the passing of:

The following retirees

Werner Hellwig
d. January 22, 2017

Christel Finke
d. February 2, 2017

Edith Besecke
d. February 17, 2017

Hermann Wiedau
d. March 2, 2017

Johanne Breithaupt-Wolfgang
d. March 19, 2017

Peter Linnemann
d. March 20, 2017

Norbert Schomecker
d. March 27, 2017

Erika Blümel
d. April 8, 2017

Theodor Schröder
d. April 23, 2017

Wilfried Lülfing
d. April 26, 2017

Hannelore Lorenz
d. April 28, 2017

Erwin Odrian
d. May 6, 2017

Bernard Drees
d. May 13, 2017

Ilse Christen
d. May 13, 2017

Karlheinz Bäker
d. June 5, 2017

Aloisius Vehring
d. June 6, 2017

Gunda Gardeler
d. June 13, 2017

Gisela Elias
d. July 3, 2017

Gerhard Schniebel
d. July 18, 2017

Christian Kuschel
d. August 12, 2017

Waltraud Schaefer
d. August 30, 2017

Karl-Heinz Hoopmann
d. September 3, 2017

Monika Knauff
d. September 12, 2017

Helga Tautz
d. September 21, 2017

Monika Göttert
d. October 24, 2017

Harald Binder
d. October 30, 2017

Benno Kröger
d. November 12, 2017

Friederike Kulmegies
d. November 19, 2017

Klaus-Dieter Kossors
d. November 23, 2017

Johannes Rolfes
d. December 20, 2017

Hildegard Brunßen
d. December 26, 2017

Gertrud Liebl
d. January 22, 2018

Hermann Fangmann
d. February 1, 2018

Wilhelm Bakker
d. February 17, 2018

Heinz Weinrich
d. March 1, 2018

Irmgard Elling
d. March 3, 2018

Marie-Luise Dornieden
d. March 4, 2018

As of March 12, 2018

Glossary

A

Allianz Equity Incentive (AEI) An instrument by which an Allianz company establishes a long-term bond with executives by issuing company stock to them and thus strengthening their identification with the company, or bringing their interests into line with its own.

Allianz Sustained Performance Plan All elements of performance-based compensation are governed by a simplified, uniform goal agreement form, and are described in a model that applies throughout the Allianz Group: the Allianz Sustained Performance Plan (ASPP). The goal agreement form establishes both the goals for each year and the three-year medium-term goals.

B

Basel II / III New regulatory standards set by the Basel Committee on Banking Supervision.

C

CDAX (Composite DAX) Banks Also CDAX Banken. A stock index calculated and published by Deutsche Börse AG. It includes a number of German bank stocks that are listed for trading in the official segment of the market.

Confidence level A way of expressing the probability that a potential loss will not exceed an upper limit defined by the value at risk.

Cost-Income Ratio Ratio of administrative expenses to operating income.

Cox-Rubinstein binomial model Strictly speaking, the Cox-Ross-Rubinstein (1979) model or binomial model. A model for pricing options consistently with the market, based on a binary structure that reflects the decrease or increase in a stock's trading price per unit of time.

Credit spread The credit spread refers to the risk premium that the issuer must pay to the buyer of a bond at risk of default. It may take the form of markdowns on the bond's price, or premiums on yield, whose amount is determined by the issuer's credit standing.

Current service cost A current expense that derives from employee pension entitlements, and that is distributed linearly according to actuarial assumptions across the periods in which the employee performs work. Used as a basis for calculating a present value for a given period, such as a fiscal year.

D E

Delta The delta of an option indicates how the option's price responds to changes in the price of the "underlying" (the underlying security or price).

Discount A discount is the amount by which the issue price of a security, such as a stock, falls below its par value. Discount is also the term for an amount deducted from the nominal amount of a loan before it is disbursed.

Dow Jones EURO STOXX Price Index
A stock index of the 50 largest, most important stocks in the European Monetary Union. The index has been maintained in Zurich since February 26, 1998.

Expected loss Expected loss refers to the loss expected on a risk position within a given holding time

F G

Future A forward agreement that is standardized in quantity, quality and settlement date, under which a commodity traded on the money market, capital market, precious metals market or foreign exchange market must be delivered or accepted at a fixed price at a specified future date.

Gamma The gamma of an option indicates how the option's delta responds to changes in the price of the "underlying" (the underlying security or price).

General loan loss provision (GLLP)
See Risk provisions.

Gross domestic product (GDP) All economic output of a country within a given period.

Group Equity Incentive Plan (GEI Plan)
This Allianz program for share-based compensation applied only until 2010, and was replaced by the share-based Allianz Equity Incentive program.

Guarantee Includes suretyships and guarantees.

H

Hedging Safeguarding asset items against exposure to the risk of fluctuations in stock prices, interest rates, and foreign exchange rates. By taking a contrary position in the forward market (using futures and options), hedging attempts to compensate for losses of value in a cash position (purchase of securities, currencies, merchandise). Hedging strategies using futures or options are subject to a wide variety of imponderables; the efficiency of the entire position must be monitored constantly.

K N O

Non-trading-portfolio institution A banking institution can qualify as a non-trading-portfolio institution if it does not exceed extremely low regulatory limits in connection with its own trading transactions.

Non-trading portfolio Sometimes called the "bank book" or "non-trading book"; the portfolio of all banking transactions not attributable to the trading portfolio – in other words, transactions that cannot be traded.

No-par share A share of company stock without a par value. Dividing the nominal share capital by the total number of no-par shares issued yields a notional par value, which must come to at least one euro according to the No-Par Shares Act.

Option The right to buy (in a call option) or sell (in a put option) a commodity such as securities or currency to or from another party, at a fixed price, within a certain period or at a certain date.

Over the counter (OTC) Pertaining to financial instruments (derivatives): not traded in a standardized manner, on a stock exchange, but directly between market participants (over the counter).

P R

Portfolio loan loss provision (PLLP) See Risk provisions.

Premium A markup, in percent or units of currency, for example on securities or loans. For newly issued securities, this is the amount by which the issue price exceeds the par value, or the amount by which the trading price exceeds the intrinsic value of the investment. For many funds, this is the compensation paid for advisory services at the time of acquisition, or also a sales fee paid, as a percentage, to a bank, financial advisor, or fund company. For loans, the premium is the markup to be paid by the debtor in addition to the interest. The opposite is called a discount.

Projected unit credit method An actuarial method of determining the present value of expectancies in order to determine the value of pension provisions.

Rating A standardized method for independent agencies to evaluate the creditworthiness of companies (issuer rating) and the bonds and money-market paper they issue (issue rating). The procedures used by banks to determine borrowers' creditworthiness are also called rating methods.

Repo agreements In a repurchase agreement ("repo"), the Group sells securities and at the same time agrees to buy them back at an agreed-upon price at a certain date. The Group retains the risks and rewards associated with the securities for the entire duration of the arrangement. Accordingly, the securities continue to be recognized in the Group's balance sheet as trading assets or financial assets. The value of the legal sale is included in the balance sheet item for amounts due to banks or amounts due to customers, as the case may be, and is recognized as a liability from a repurchase agreement.

R

Restricted Stock Units (RSU) Virtual shares that are issued, for example under a Group Equity Incentive Plan, as share-based payments from the company to its employees. As a rule, RSUs are exercised after certain goals set by the company are met, or after the expiration of a vesting period. They may also be exercised in the form of an equivalent amount in cash, or other equivalents.

Reverse repo agreements In a reverse repurchase agreement ("reverse repo"), the Group buys securities and at the same time agrees to sell them back at an agreed-upon price at a certain date. The other party to the contract retains the risks and rewards associated with the securities as a consequence of changes in interest rates or defaults, for the life of the transaction. Accordingly, the securities are not recognized as trading assets or financial assets in the Group's balance sheet. The value of the legal purchase is included in the balance sheet item for loans and advances to banks or loans and advances to customers, as the case may be, and as a receivable from reverse repo transactions.

Risk controlling Ongoing measurement and monitoring of risk, including the development of methods and the associated system for risk analysis and reporting, by a neutral, independent unit.

R

Risk management Operating management of business in specific portfolios from the viewpoint of risk and return.

Risk provisions Recognizable risks of default are taken into account by forming Specific Loan Loss Provisions and other provisions. Specific Loan Loss Provisions (SLLPs) are determined taking all expected discounted future cash flows into account. For counterparty risks on lending transactions that may have already arisen at the reporting date, but that have not been identified yet, Portfolio Loan Loss Provisions are formed, whose amount depends on the empirical calculation of historical probabilities of default and loss ratios on loan portfolios that are not otherwise covered by provisions. Particular Loan Loss Provisions (PLLPs) are formed for the homogeneous credit portfolio. General Loan Loss Provisions (GLLPs) are formed for the non-homogeneous portfolio.

S

Specific loan loss provision (SLLP) See Risk provisions.

Stock Appreciation Rights (SAR) Virtual options that are granted, for example under a Group Equity Incentive plan, as share-based payments from the company to its employees. The exercise of the options is directly linked to the company's results, usually the price of its stock. Options may be exercised in the form of cash payments, stock or other equivalents.

Swap The general term for an exchange of property, rights, etc., especially for exchanges of cash flows in the same currency (interest rate swap) or in different currencies (currency swap).

T V

Trading portfolio A banking regulatory term for positions in financial instruments, bonds and negotiable receivables that are held by banking institutions for the purpose of short-term resale, taking advantage of fluctuations in prices and interest rates.

"True and fair view" principle Under Sec. 264(2) of the German Commercial Code (HGB), accounting information, such as in an annual report, must provide a "true and fair view" of the actual condition of the company's net assets, financial position and results of operations.

Value at risk (VaR) Value at risk is defined as the potential loss on a risk position that will not be exceeded with a defined probability (confidence level) under normal market conditions, for a given holding period.

Volatility A measure of the past (historical) or expected (implicit) range of fluctuation of the value of stocks, currencies and interest rates. If a stock's price fluctuates widely, the stock has a high volatility. For investors, this means an opportunity for fast, large trading gains – but also a risk of losses that can be just as fast.

Publisher
Oldenburgische Landesbank AG
Stau 15/17
26122 Oldenburg
Germany
Telephone +49 441 221-0
Telefax +49 441 221-1457
E-mail olb@olb.de

Contact
Corporate Communications

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Both versions may be downloaded on the
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www.olb.de