# 2018

OLB AG FINANCIAL REPORT

# OLB AG – Overview as of Dec. 31, 2018

| EUR m | 12/31/2018 | 12/31/2017 | Change | Change (%) |
|---|---|---|---|---|
| Cash reserve | 1,518.1 | 562.8 | 955.3 | n/a |
| Receivables from banks | 267.1 | 142.1 | 125.0 | 87.9 |
| Receivables from customers | 13,959.9 | 10,848.1 | 3,111.8 | 28.7 |
| Securities | 3,110.8 | 2,326.7 | 784.2 | 33.7 |
| Tangible fixed assets | 69.2 | 73.6 | –4.4 | –6.0 |
| Trust assets | 1.0 | 1.7 | –0.7 | –40.9 |
| Other assets | 167.0 | 412.3 | –245.3 | –59.5 |
| **Total assets** | **19,093.0** | **14,367.2** | **4,725.8** | **32.9** |
| Liabilities to banks | 5,583.9 | 4,292.9 | 1,291.1 | 30.1 |
| Liabilities to customers | 11,345.9 | 8,424.9 | 2,921.0 | 34.7 |
| Securitized liabilities | 116.2 | 501.4 | –385.2 | –76.8 |
| Subordinated debt | 274.5 | 175.2 | 99.3 | 56.7 |
| Trust liabilities | 1.0 | 1.7 | –0.7 | –40.9 |
| Other liabilities | 752.6 | 276.9 | 475.7 | n/a |
| **Equity and reserves per Sec. 340g HGB** | 1,018.9 | 694.3 | 324.6 | 46.8 |
| Equity held | 998.9 | 669.5 | 329.3 | 49.2 |
| Fund for general bank risks | 20.1 | 24.8 | –4.7 | –19.0 |
| **Total equity and liabilities** | **19,093.0** | **14,367.2** | **4,725.8** | **32.9** |

| EUR m | 01/01/2018 – 12/31/2018 | 01/01/2017 – 12/31/2017 | Change | Change (%) |
|---|---|---|---|---|
| Net interest income | 293.3 | 228.1 | 65.2 | 28.6 |
| Net commission income | 84.4 | 68.1 | 16.3 | 23.9 |
| Net operating trading income/expense | –0.1 | 0.0 | –0.1 | n/a |
| **Operating income** | **377.6** | **296.2** | **81.4** | **27.5** |
| Personnel expenses | –164.0 | –140.3 | –23.7 | 16.9 |
| Other administrative expenses | –107.1 | –74.2 | –32.9 | 44.4 |
| Write-downs of tangible fixed assets | –16.3 | –15.1 | –1.2 | 7.6 |
| **Administrative expenses** | **–287.4** | **–229.6** | **–57.8** | **25.2** |
| Net other operating income (+) and expenses (–) | 2.0 | 5.1 | –3.1 | –61.0 |
| **Operating result before risk provisions** | **92.2** | **71.7** | **20.4** | **28.5** |
| Risk provisions for credit business | –6.5 | –31.3 | 24.8 | –79.3 |
| Gain (+) / loss (–) on securities in the liquidity reserve | –4.5 | 7.9 | –12.4 | n/a |
| **Expenses for the credit business and liquidity reserve** | **–10.9** | **–23.4** | **12.5** | **–53.3** |
| **Net operating result** | **81.2** | **48.4** | **32.9** | **68.0** |
| Other result | –0.1 | 9.7 | –9.8 | n/a |
| Extraordinary result | –38.5 | –7.6 | –30.9 | n/a |
| **Profit before taxes** | **42.6** | **50.5** | **–7.8** | **–15.5** |
| Taxes on income | –18.1 | –21.1 | 3.0 | –14.3 |
| Other taxes | –4.0 | –1.0 | –3.0 | n/a |
| **Net income for the fiscal year** | **20.6** | **28.3** | **–7.7** | **–27.3** |
| **Cost–income ratio (in %)** | **76.1%** | **77.5%** | **n/a** | **n/a** |

| | 12/31/2018 | 12/31/2017 | | |
|---|---|---|---|---|
| Common Equity Tier 1 capital ratio per Sec. 10 of the German Banking Act (%) | 11.4 | 12.4 | | |
| Tier 1 capital ratio per Sec. 10 of the German Banking Act (%) | 11.9 | 12.4 | | |
| Aggregate capital ratio per Sec. 10 of the German Banking Act (%) | 14.5 | 15.5 | | |
| Number of employees | 2,154 | 1,905 | | |
| Full-time equivalents | 1,901 | 1,660 | | |
| Branches of Oldenburgische Landesbank AG | 208 | 199 | | |

# OLB – THE MODERN BANK.

WITH OUR STRONG, PRESTIGIOUS BRANDS, OLB AND BANKHAUS NEELMEYER, WE ARE THE MODERN OLB BANK, HAVING OUR CORE BUSINESS REGION IN NORTHWESTERN LOWER SAXONY AND SERVING CUSTOMERS IN THE WESER-EMS REGION AND THROUGHOUT GERMANY.

TODAY'S BANKING BUSINESS IS ABOUT FINDING THE RIGHT ANSWERS FOR THE CHANGING FRAMEWORK CONDITIONS, PARTICULARLY WITH A VIEW TO OUR CUSTOMERS' HABITS AND EXPECTATIONS.

ALREADY IN THE PAST, THE BANK HAS ADAPTED TO CHANGES AND TAKEN HOLD OF NEW OPPORTUNITIES AGAIN AND AGAIN. FOR OUR CUSTOMERS, FOR OUR EMPLOYEES AND FOR OUR SHAREHOLDERS, WE ARE MAKING OURSELVES READY TO WRITE A HISTORY OF SUCCESS IN THE COMING YEARS AS WELL.

# WE COMBINE THE BEST OF THREE WORLDS

## The New OLB

The starting shot for the joint future of OLB AG, Bremer Kreditbank AG (BKB) and Bankhaus Neelmeyer AG came in February 2018. In August 2018, OLB and BKB were merged under the umbrella of OLB. At the end of 2018, Bankhaus Neelmeyer AG was integrated as well. Today, the best of three worlds is now combined in our modern financial institution.

The merger of the houses of OLB, BKB and Bankhaus Neelmeyer was the outcome of strategic considerations. Our main driving motivation was a sustainable rise in earnings. The three institutions were already very successful in the market – the potential for further growth is increased by the merger. In the new configuration, we can work competently and expeditiously for the needs of our customers and inspire them with our personal consulting and digital services.

Given the low-interest environment and regulation, not only activities to boost earnings are needed, but also efficiency increases through cost reductions, in order to secure our future viability. Together, we are better equipped for that as well.

We have taken our future in hand, and our customers, employees and shareholders will profit from it.

**19,100**
TOTAL ASSETS
in 2018 in EUR m

**500,000**
CUSTOMERS
in 2018

**81.2**
NET OPERATING INCOME
in 2018 in EUR m

**1,200**
OWN FUNDS
in 2018 in EUR m

**11.9**
TIER 1 CAPITAL RATIO
in 2018 in %

**14.5**
AGGREGATE CAPITAL RATIO
in 2018 in %

**14,000**
TOTAL CUSTOMER LENDINGS (NET)
in 2018 in EUR m

**11,300**
CUSTOMER DEPOSITS
in 2018 in EUR m

**1,900**
FULL-TIME EQUIVALENTS
in 2018

# Contents

# HOW WE SEE OURSELVES

## Our Identity

We are a modern financial institution headquartered in Oldenburg. We provide a high level of expertise in our four strategic lines of business. We have the confidence of strong shareholders behind us.

We pursue a sustainable, profitable business model built on a solid balance sheet structure and oriented to clearly defined growth segments. Together, we at OLB offer our customers know-how, experience, and numerous services that meet our customers' needs.

150 YEARS OLB

OLB began its business operations on January 15, 1869. The initial three directors, one runner, and a regionally limited business area have grown into an institution with a large number of employees, total assets in excess of EUR 19 billion, and a nationwide service offering for private and corporate clients. In 2019, the Bank celebrates the anniversary of "150 years of OLB" with a cultural festival and special product offerings.

In our customer business, we focus on four strategic business segments:

- Private & Business Clients
- Private Banking & Wealth Management
- Corporate Clients
- Specialized Financing

The strengths that each individual house contributed remain supporting pillars: our broad customer base, our competent and dedicated employees, and our stable refinancing sources, to which our Pfandbrief bond license has added another dimension.

All OLB shares are held by shareholders that are connected with:

- Teacher Retirement System of Texas
  - Pension fund with retirement benefits and comparable services for approximately 1.5 million depositors and recipients within the public and higher education system, with a registered office in Texas, USA
- Apollo Global Management
  - Leading asset manager, doing business worldwide for equity, loan and real estate investments, with a registered office in Delaware, USA
- Grovepoint Investment Management
  - Distinctive private investment manager for direct investments and specialized loans for discerning investors, with a registered office in London, United Kingdom

# WE UNDERSTAND THE NEEDS OF OUR CUSTOMERS

## Our Four Strategic Lines of Business

### PRIVATE & BUSINESS CLIENTS

Through our network of centrally managed branches and our telephone customer services, we offer competent consulting and assistance services based on personal and confidential interaction. At the same time, customers are also directly able to access products that meet their needs and up-to-date services via online and mobile distribution channels. In the retail business, we are focused on current accounts and credit cards, free online banking and mobile applications via the OLB Banking app, installment credits, private construction financings and private financial investments. In addition, we offer insurance brokering and assistance with private real estate purchases and sales.

### PRIVATE BANKING & WEALTH MANAGEMENT

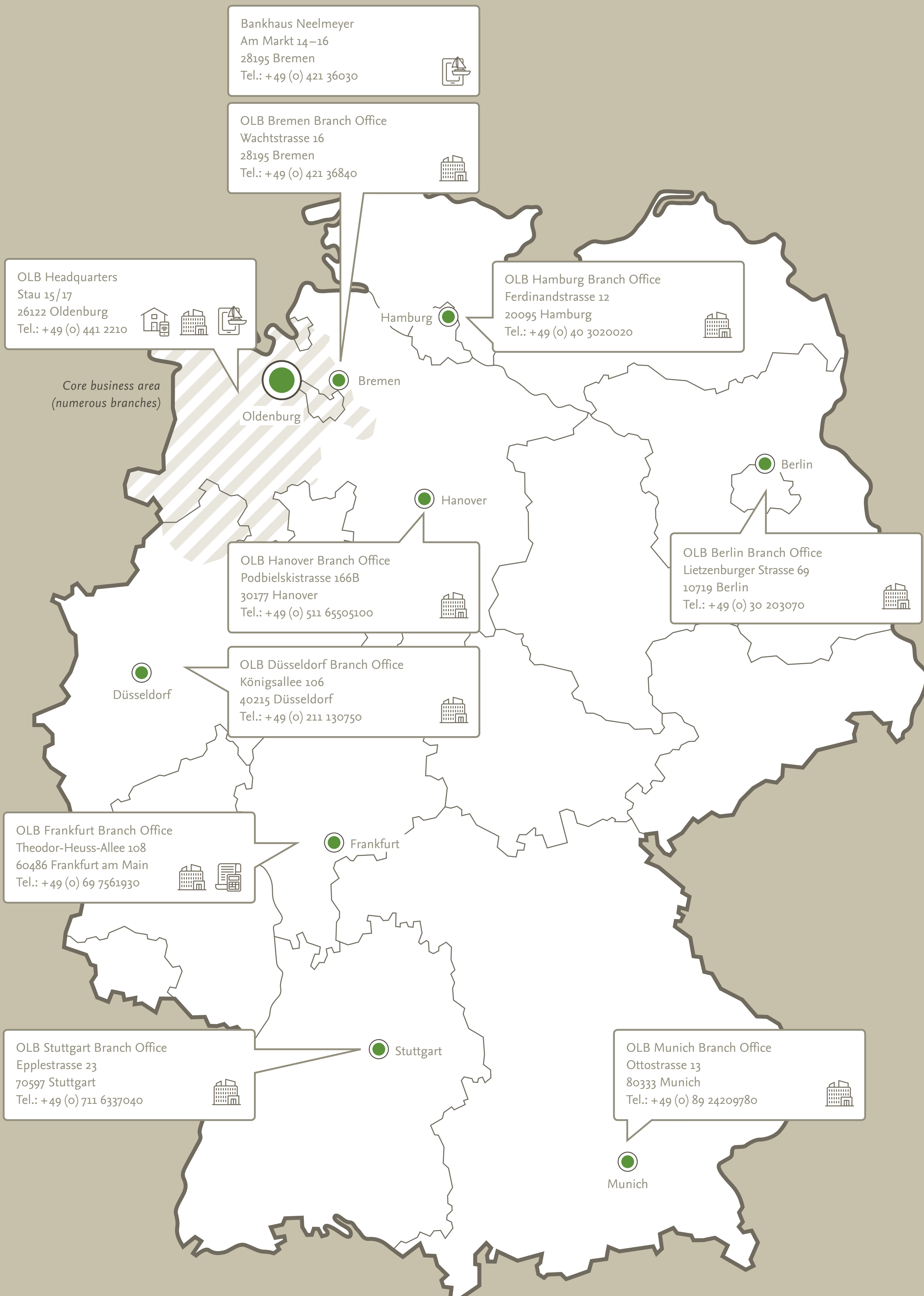
We offer sustainably oriented asset development advice and complex financing management. We combine sound expert knowledge and very personal, customized assistance. Our Bankhaus Neelmeyer brand in particular stands for a high level of competence and is synonymous with wealth management in the Bremen region and beyond, based on a market position established over many years. We round out our offering of asset management, exclusive financial and retirement planning and real estate management with generation management and foundation management.

### CORPORATE CLIENTS

Together with companies and entrepreneurs, we develop tailored solutions in the field of working capital financing, investment financing, export financing / documentary business and international payment transactions. In addition, we offer active interest rate, currency and liquidity management, assistance with start-ups, and project financing for renewable energies. Since February 2018, our services have been available beyond OLB's core business territory in the Weser-Ems region, with branches throughout Germany in Berlin, Bremen, Düsseldorf, Frankfurt, Hamburg, Hanover, Munich and Stuttgart.

### SPECIALIZED FINANCING

We concentrate on individual consulting for traditional and complex financing solutions in the Specialized Financing business segment. The focus is on the areas of acquisition financing, commercial real estate financing, and project financing, for example through assistance with takeovers of medium-sized companies, the arrangement of outside capital financing, and cash flow-oriented financing management. We offer real estate financing for builder-owners and developers and assistance to investors for real estate projects in Germany and the Netherlands.




Please visit us at www.olb.de, www.neelmeyer.de or on Facebook at www.facebook.com/olb.bank

# WE OFFER OUR CUSTOMERS ADDED VALUE

## The Challenges and Our Solutions

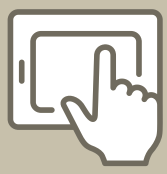
The banking landscape has been in a transformational phase for a long time. Banks need good answers to low interest rates, high regulatory requirements and especially digitalization and changing customer behavior. Our way: We offer our customers added value.

More and more banking customers in Germany use multiple access routes to their bank, for example going to the branch for personal interaction, using mobile devices for immediate handling of banking transactions or calling on the phone for customer services – in the technical jargon, they are using a "hybrid" approach. So we are guided by one essential question: How can we add value to our customers? Our answer: Through well-qualified consulting and up-to-date services. With a coordinated multichannel offering, we ensure that our customers have access everywhere and at all times to our world of products and services. So that the customer can always reach a suitable contact person with us and get his or her interest taken care of: in the branch, by telephone or through mobile or online access. Digitalization also creates the ability to offer a large number of services regardless of location or opening hours, and to achieve greater speed and efficiency for customers as well through automated business processes.

Given our long-standing business relationships with the vast majority of our private and corporate customers and our attractive offers to new customers, we have an excellent basis for something we value highly: mutually trustful and successful cooperation with our customers. It is important to us that our customers receive understandable, transparent and fairly priced products and consulting services. We want to create special customer experiences on the digital level and in personal interaction – that is our standard and that is what the customer expects of us as well. Adapted to changing customer needs, we continuously invest in expanding our accessibility via all contact channels and we consistently develop our digital banking services. A high degree of user-friendliness and flexible consultation formats are the particular focus area here. Our branches are frequently the first point of approach for customers who need advice on financial questions and place value on individual conversations with our experts. We offer a high level of special expertise in private banking and wealth management and an exclusive, holistic assistance for members of the professions. In the northwest and across Germany, we have great expertise in business with small and medium-sized firms and with regional cluster topics like renewable energies, in particular. For specialized financing in connection with corporate takeovers, we are one of the well-established firms and we design commercial real estate funding facilities for builder-owners, project developers and investors. The merger combined the strengths of OLB and BKB in these business segments and they continue to build on these strengths. This benefits us as a joint institution and, above all, it adds value for our customers.

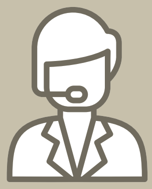
**11,000**

ADVISORY CONVERSATIONS AT BRANCHES
per month



**470,000**

TRANSFERS IN ONLINE BANKING
per month



**60,000**

PHONE CALLS TO CUSTOMER SERVICES
per month

Last but not least, in order to free up even more space for personal conversations on site, it is necessary to make everyday services available through mobile and online banking and by phone. Therefore, we are gradually expanding the range of products that can be concluded online. New digital payment options such as the contactless girocard have become standard with us, and we are gradually introducing further up-to-date improvements. We continuously optimize our own applications such as our secure OLB Banking app.

Through our centralized customer services, experienced bank employees can be reached by phone to take care of all matters to do with payment transactions and the giro account, to assist with online banking or to arrange appointments for more in-depth conversations. In addition, securities orders are received and questions on the capital market, stock exchange and custodian accounts are answered over the phone. For elderly persons, customer services by phone are a very good, customer-friendly medium, since with appropriate identity verification they can use all the relevant services for their bank business as needed from the comfort of their home.

Whether in the branch, through online or mobile offerings, or by calling customer services: Our customers have access everywhere and at all times to our entire range of products and services. That is the OLB way: That is how we offer added value to our clients and enhance the customer experience.

# CREDIT REFINANCING ON A BROAD AND SOLID BASIS

## The Challenges and Our Solutions

To the refinancing of our total lendings, which are growing as planned, we have added another important facet: After the license for Pfandbrief bond transactions was issued by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) in 2018, we enjoyed a successful debut with our initial issue in the form of registered Pfandbrief bonds at the start of 2019.

The volume of the initial issue amounted to over EUR 100 million. The demand for our new securities came from institutional investors and pension funds, utilities and insurance companies, but also from other banks and Sparkasse savings banks.

Investors' high level of interest in our Pfandbrief bonds showed us that we are viewed across regional boundaries as a professional and reliable capital market participant and that we enjoy a good reputation in this area.

We see the successful premier placement of our Pfandbrief bonds as an important step in the direction of a greater funding balance, but also with a view to the gradual expansion of our capital market presence. We plan additional issues for the target group of banks and institutional investors.

We will issue Pfandbrief bonds to refinance loans secured with mortgages. As crisis- and insolvency-protected securities, Pfandbrief bonds offer a high degree of reliability under all market conditions and have a flawless credit history in Germany as a financial center.

Pfandbrief bonds are attractive to us as the issuing bank, because the financing costs are considerably lower compared to other alternatives like bearer bonds. The issuance of Pfandbrief bonds as another solid and relatively inexpensive funding source helps us to safeguard the growth of the Bank and to be there as a financing partner for our private and corporate clients with rising total lendings.

From left: Hilger Koenig, Dr. Wolfgang Klein, Axel Bartsch, Karin Katerbau, Jens Rammenzweig

# OUR MANAGEMENT TEAM

## The Board of Managing Directors

### AXEL BARTSCH – CHAIRMAN OF THE BOARD OF MANAGING DIRECTORS

Axel Bartsch (born in 1955) has been involved in the banking business for more than thirty years. After studying law in Göttingen, he started his career at Commerzbank AG as a branch manager in 1988. In 1992, he came to Bremen to join Kredietbank-Bankverein AG (later KBC Bank Deutschland, then Bremer Kreditbank). Three years later, he became an alternate member, then a member of the management board in 1997. From 1999 to 2006, he was the spokesman of the management board of KBC Bank Deutschland, and from 2006 on he was the chairman of the management board of BKB. Following the merger of BKB and OLB, Axel Bartsch has been the Chairman of the Board of Managing Directors of OLB since September 2018.

### DR. WOLFGANG KLEIN – DEPUTY CHAIRMAN OF THE BOARD OF MANAGING DIRECTORS

Dr. Wolfgang Klein (born in 1964), after vocational training as a bank clerk, studied economics and earned a doctorate in 1999 while working professionally. After an adviser position at McKinsey & Co., he moved to Dresdner Bank in 1996. Two years later, he became a member of the management board of Deutscher Sparkassen- und Giroverband (German Savings Bank and Giro Bank Association). In 2001, he was appointed to the management board of Deutsche Postbank (German Postal Bank), which he chaired from 2007 to 2009. From 2010 to 2015, he was on the management board of BAWAG PSK Bank in Austria. After a time as an independent corporate consultant, Dr. Wolfgang Klein has been the Deputy Chairman of OLB's Board of Managing Directors since September 2018.

### KARIN KATERBAU – MEMBER OF THE BOARD OF MANAGING DIRECTORS

Karin Katerbau (born in 1963) completed her training as a bank clerk at Landesbank Rheinland-Pfalz (Rhineland-Palatinate Regional State Bank) and her international studies in business administration in Reutlingen and Reims (France). After four years at Société Générale, she worked in various executive and managerial positions in the Commerzbank Group from 1994 to 2012. From 2001, she worked at comdirect bank and became a member of the management board there as of 2004. In 2008, she became deputy chairwoman of the then BRE Bank SA Group (now mBank), one of Poland's largest banks. Karin Katerbau has been a member of OLB's Board of Managing Directors since April 2012.

### HILGER KOENIG – MEMBER OF THE BOARD OF MANAGING DIRECTORS

Hilger Koenig (born in 1967) completed training as a bank clerk at Commerzbank and studied economic pedagogy in Göttingen. In 1995, he worked in human resources at Commerzbank. As of 1996, he was a human resources manager for the regional branches in Bremen / Hamburg. In 2000, he joined OLB and took over a group management position in the Human Resources department. From 2004 to 2011, he was head of Human Resources. In 2012, he was appointed Chief Representative of the Bank with responsibility for the regional customer business and the subsidiaries. Hilger Koenig has been a member of OLB's Board of Managing Directors since January 2014.

### JENS RAMMENZWEIG – MEMBER OF THE BOARD OF MANAGING DIRECTORS

Jens Rammenzweig (born in 1970), after training to be a bank clerk for Sparkasse savings banks, continued his studies to become a banking specialist. From 1992 to 2002, he worked for Deutsche Bank in Berlin, Sydney (Australia) and Frankfurt. Then he moved to Eurohypo in London (UK) as head of credit risk management, and later to Frankfurt. From 2006 to 2007, based at the Eschborn location, as head of credit risk management he was responsible for European debt capital markets, among other things, and from 2008 to 2015 for the national and international markets. As of 2015, he was a member of the management board of BKB. Since September 2018, Jens Rammenzweig has been a member of OLB's Board of Managing Directors.

Dear Readers,

We have taken our future in hand. The starting shot for a new era at OLB came in February 2018 with the transfer of share ownership to BKB. In August 2018, BKB and OLB merged, and at the end of the year 2018 Bankhaus Neelmeyer AG was integrated as well. With these three banks under the OLB umbrella, we are a financially sound house. Competent, fast and efficient – we are a bank that supplies the best answers to the needs and requirements of its customers.

OLB started business operations 150 years ago. In its eventful past, it has always succeeded in adjusting to changes in the framework conditions and in customer behavior and in generating opportunities for business out of it. Now, it is important for us to strengthen our future viability and remain fit for the challenges in the market. We are acting for sustainable and lasting success, toward which we are orienting the Bank consistently.

In a time of high competitive pressure and a wide range of possibilities through new providers, one factor in particular can make the difference: the customer experience. The close, often long-term connection with the customer is one of our trademarks. On this basis, we intend to enhance the customer experience steadily and thus at the same time be attractive for new customers. How will we achieve this? By focusing our competence on advising. Consequently, we will invest in advisory services for our customers. At the same time, with a coordinated multichannel offering, we ensure that our customers have access everywhere and at all times to our world of products and services. We will invest further in being accessible on all channels, and in the user-friendliness of our digital services.

We will show you how we will be present for our customers in a more concrete way in the first part of this report. Generally speaking: Under the OLB brand, we provide the right expertise and products that meet the needs of private and business clients, corporate clients, professionals and specialized financing facilities. Under the Bankhaus Neelmeyer name, which we will deliberately maintain, we stand for a high level of specialized competence for numerous wealthy private customers in the Bremen region and beyond.

In the following report section, we explain the Bank's business development for the year 2018. Considering the special strains that a merger of three houses within one fiscal year brings with it, our financial performance for 2018 is satisfactory. But we also have the expectation of raising our pretax earnings and improving our return on equity.

Focusing on advising, expanding the multichannel offering, boosting earnings – in this way, everyone profits from the dynamic development of OLB: our customers, our employees and our shareholders.

Sincerely,

A. Bart

Axel Bartsch

Chairman of the Board of Managing Directors

# About the Company

As of the end of fiscal year 2018, OLB AG is set up as a modern financial institution with the OLB and Bankhaus Neelmeyer brands, with its core business territory in Northwest Germany and serving its customers in the Weser-Ems region and throughout Germany. The Bank offers a high level of expertise in advising corporate clients, specialized financing facilities and private and business clients, and is an experienced partner for customers in the field of private banking and wealth management.

On February 7, 2018, Allianz Deutschland AG's shareholdings in OLB were transferred to Bremer Kreditbank AG (BKB). BKB expanded its shareholding to 100 percent with a squeeze-out under stock corporation law in June 2018. The market listing of OLB stock was discontinued. Thus, the Bank is no longer capital market-oriented within the meaning of Sec. 264d of the German Commercial Code (HGB).

In the course of the change of shareholders in the past fiscal year, the complementary business models of three institutions were brought together in OLB. On August 31, 2018, the merger of BKB with OLB AG was completed – with retroactive effect as of January 1, 2018. In a further step, the integration of Bankhaus Neelmeyer AG (BHN) – in legal terms, as a branch office of OLB – occurred on December 28, 2018. For this merger, retroactive effect as of July 1, 2018, was agreed to. Thus, the Bank operates competently, quickly and efficiently under a common umbrella with the OLB and Bankhaus Neelmeyer brands.

In deviation from the situation under corporate law, OLB AG has already assumed the role of the parent company within the meaning of the German Banking Act (KWG) for regulatory purposes for the period from the purchase of the shares by BKB to the merger of OLB and BKB. The banking group ended as of the merger of BHN with OLB.

All shares of OLB are held by shareholders that are connected with the Teacher Retirement System of Texas, Apollo Global Management and Grovepoint Investment Management, long-term investors with a strong financial basis. The shareholders are mutually independent; each holds an indirect stake under 40 percent with the consequence that none of the shareholders controls OLB under corporate law. The Company's banking business operations are conducted by OLB AG. Moreover, it is the sole share owner of four companies and one compartment of Weser Funding S.A., which, however, are of subordinate importance for the Bank's assets, liabilities, financial position and financial performance and are therefore not included in the consolidated financial statements. The Bank additionally maintains two special funds, AGI-Fonds Ammerland and AGI-Fonds Weser-Ems, as long-term financial assets. Since there is no obligation to consolidate these shares either, OLB does not prepare consolidated financial statements.

The agreed purchase of Wüstenrot Bank AG Pfandbriefbank (WPB) by BKB in March 2018 was still under reservation of consent by regulatory authorities at the time the annual financial statements were prepared.

With a view to its target customers, products and services, and locations, the Bank has positioned itself in four strategic lines of business:

In the segment of Private & Business Clients, OLB offers competent consulting and assistance services based on personal and confidential interaction through its network of centrally managed branches and its telephone customer services. At the same time, customers are also directly able to access products that meet their needs and up-to-date services via online and mobile distribution channels. In the retail business, OLB is focused on current accounts and credit cards, free online banking and mobile applications via the OLB Banking app, installment credits, private construction financings and private financial investments. In addition, insurance brokering and assistance with private real estate purchases and sales are offered. This segment is a very important source for the Bank's stable deposit base, and thus for the Bank's liquidity and refinancing base as well.

In the Corporate Clients segment, the Bank develops tailored solutions together with businesses and entrepreneurs in the areas of working capital financing, investment financing, export financing / documentary business and international payment transactions. In addition, OLB offers active interest rate, currency and liquidity management, assistance with start-ups and project financing for renewable energies. Since February 2018, this service offering has been available throughout Germany, beyond the former core business territory of OLB.

Experienced teams concentrate on individual consulting for traditional and complex financing solutions in the Specialized Financing segment. The focus here is on the areas of acquisition financing, commercial real estate financing, and project financing, for example through assistance in the course of takeovers of medium-sized companies, the arrangement of outside capital financing and cash-flow-oriented financing management. The service offering also includes customized real estate financing for builder-owners and developers and assistance to investors for real estate projects in Germany and the Netherlands.

The Private Banking & Wealth Management segment offers sustainably oriented asset development advice and complex financing management that combine sound expert knowledge and very personal, customized assistance. The offering of asset management, exclusive financial and retirement planning and real estate management is rounded out with generation management and foundation management.

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 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 (after-tax) return on equity [1], the Tier 1 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, 2019, at www.olb.de/nachhaltigkeitsberichte.

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

| | 2017 | 2018 | Projection |
|---|---|---|---|
| (After-tax) return on equity | 4.3 % | 2.0 % | ↗ Marked improvement |
| Tier 1 capital ratio | 12.4 % | 11.9 % | → Stable |
| Risk coverage ratio | 215.0 % | 206.0 % | → Stable |
| Liquidity coverage ratio | 117.5 % | 171.7 % | → Consistently above 100 % |
| Cost–income ratio | 77.5 % | 76.1 % | ↘ Marked improvement |

1 Ratio of result after taxes to average on-balance-sheet equity

2 Ratio of Tier 1 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

# Report on Economic Conditions

## Economic framework conditions and outlook

### Germany

The global expansion of the past few years continued in 2018 but lost some momentum. According to information from the International Monetary Fund (IMF), the global economy grew slightly more slowly in 2018, at +3.7 percent, than in the prior year (+3.8 percent). The differences in economic development between individual countries and regions increased. While the recovery in the United States was strengthened due to strong stimuli from tax policy (+2.9 percent growth after +2.2 percent in the prior year), China's economy i.a. began to show the initial impact of the smoldering trade conflict with the U.S. (+6.6 percent growth after +6.9 percent in the prior year). The European economic trend likewise lost steam. The IMF projection puts the increase in real gross domestic product for the euro zone at +1.8 percent in 2018 after +2.4 percent in 2017.

The growth curve of the German economy flattened out in what is now the ninth year of the recovery. According to preliminary calculations of the German Federal Statistical Office, real gross domestic product in Germany rose in 2018 by +1.5 percent (prior year: +2.2 percent). An important pillar was again the domestic economy, which was supported by the still intact employment structure and low interest rates. Both private and state consumer spending grew, at +1.0 and +1.1 percent, respectively (prior year: +1.8 and +1.6 percent), and investment in plant and equipment increased by +3.0 percent (prior year: +2.9 percent). Domestic demand as the weighted sum of consumer spending and investment in plant and equipment thus rose by +1.8 percent (prior year: +2.0 percent). In international trade, exports increased noticeably at +2.4 percent, but more slowly than in the prior year (+4.6 percent), and imports at +3.4 percent were also below the previous year's growth rate (+4.8 percent). Overall, the utilization of production capacities was at a high level. A further rise was blocked, however, by reasons on the demand side and the production side. For one thing, incoming orders declined particularly due to the slowing European economic trend. For another, domestic enterprises increasingly faced bottlenecks on the supply side in terms of workforce and intermediate goods.

In 2019, the growth of the global economy is expected to weaken. The IMF assumes worldwide economic growth of +3.5 percent for the year 2019. For the euro zone, the IMF anticipates a slowing of the annual growth rate to +1.6 percent for 2019. The reasons for the weakening momentum lie in the internationally germinating trade conflicts and in the consequences of a possible no-deal Brexit of the United Kingdom from the EU and the growing risk of a debt crisis in Italy.

According to the autumn 2018 opinion of the leading German economic research institutes, the outlook for the German economy nonetheless remains solid. Financial policy will stimulate the economy due to the governmental transfer payments and spending programs announced for 2019 as well as employee tax relief. Because of the observed workforce shortage, upcoming collective bargaining agreements are expected to include substantial pay increases, and available income of private households will rise noticeably. In this way, consumption by private households is likely to continue to contribute disproportionately to the overall economic expansion. The continued favorable monetary framework conditions will also continue to support the economy. Investment activity in 2019 should likewise remain quite strong given the very high capacity utilization and the good financing conditions. However, a very strong expansion would likely be blocked, not least by the fact that the recovery is gradually losing strength quite clearly and the bottlenecks in the labor market remain serious. Particularly in the building trades, capacity bottlenecks are impeding the expansion of construction activity. In consideration of these framework data, the German Council of Economic Experts, in the appraisal of the overall economic development in its November 2018 opinion, still expected gross domestic product to rise by 1.5 percent for 2019, adjusted for inflation.

The IMF takes a less optimistic view of the future for the German economy, according to a forecast from 2019, projecting a further slowing of the growth rate to +1.3 percent for 2019. As reasons, the IMF cites i.a. weaker industrial production and slowing international demand. The IMF's more cautious estimate compared to the autumn opinion is in line with the drop in the ifo Business Climate Index, which tracks the business situation for German enterprises and fell to 101.0 points at the end of 2018, noticeably lower than the high of 105.2 for the year. The expectations expressed by businesses according to the ifo survey also dimmed further at the end of the year. In this environment, the German Stock Index (DAX) lost 18.0 percent to close 2018 at 10,559, and on the international level as well, some major stock market indices recorded sharply negative performances.

### Evolution of interest rates

Interest rates in Germany remained very low in 2018. The key lending rates of the European Central Bank (ECB) were 0 percent (main refinancing rate), –0.40 percent (deposit rate) and +0.25 percent (marginal lending rate), and thus have remained unchanged at their historic lows since March 2016. The interest rate for unsecured overnight borrowing (EONIA) lay in a narrow range between –0.34 and –0.37 percent, and thus only slightly above the deposit rate. In the capital markets, the yield on ten-year German government bonds rose in the spring to as high as +0.78 percent, but then declined steadily over the rest of the year and fell to as low as +0.23 percent in December 2018, below the level at the start of the year.

Any projection concerning interest rates for the planning period depends above all on the future interest rate policy of the European Central Bank (ECB). While the ECB cut in half its additional bond purchases after October 2018, which had been most recently EUR 30 billion per month, and stopped them at the end of the year, barring unexpected developments it will replace expiring bonds with new purchases. A reversal of course from its expansionary monetary policy is therefore not to be expected any time soon. In particular, based on statements by the ECB, market watchers assume that there will be no interest rate increases in 2019 and no interest rate move can be expected before the start of 2020.

### The economy in Northwest Germany

The economy in Northwest Germany, as the core business territory of OLB, was stable in 2018, although there are signs of slowing momentum here, too. The business climate indices of the regional chambers of industry and commerce normalized at the end of 2018 and, after the prior year's high, were approximately back to the level of the long-term averages. This trend was mirrored almost in sync by the business conditions for industry, commerce and services, while the building trades continued to assess their own situation as sharply above average. Private consumer spending was supported by the ongoing good situation in the job market. Accordingly, at the end of 2018, unemployment in the Federal Employment Agency's Regional Directorate of Lower Saxony and Bremen was 5.3 percent, down another 0.5 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, foreign trade 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 47 percent.

### The banking environment

The development of the financial sector continues to be influenced by three factors: regulation, digitalization and the period of low interest rates. Legislators and the supervisory authorities have implemented numerous measures to strengthen banks' equity capitalization and liquidity, and to protect consumers. Most notably, these rules increased both the quantitative and qualitative requirements for liable equity capital and for banks' liquidity position. The digitalization of business models and processes due to increasingly changed customer behavior, and intensive competition, including new market entrants from the FinTech sector, are exerting strong adaptation pressure on existing banking institutions. With regard to the effects of the period of low interest rates, the Deutsche Bundesbank in its September 2018 monthly report listed the following findings in an analysis of the 2017 financial performance of German banks:

- With persistently low interest rates, operating income of German banks fell sharply. A decisive factor in this was the marked decline in net interest income, which was only made up to a minor degree by higher net commission income.
- To further stabilize interest income, banks increasingly lowered their interest on deposits even into the negative range, although essentially only large-volume demand deposits in the corporate customer business were affected.
- The cost reduction measures already carried out in German banks only balanced out the factors driving costs. With nearly unchanged administrative expenses, the expense-to-income ratio worsened by 2.6 percentage points to 71.9 percent across all bank groups.

The Bundesbank study furthermore found that the consolidation process is still continuing in the German banking sector. Above all, smaller and medium-sized banks are feeling increasing pressure to merge into larger entities to realize cost savings due to economies of scale. This observation is found again in the 2018 Bank Office Report of the Deutsche Bundesbank, which shows a 3.4 percent decline in the total number of banks in Germany in 2017, to 1,823 institutions.

### Effects of the M&A transactions on the assets, liabilities, financial position and financial performance

The assets, liabilities, financial position and financial performance of OLB AG were significantly impacted by the mergers with Bremer Kreditbank AG and Bankhaus Neelmeyer AG.

The merger of BKB with OLB was entered in the Commercial Register on August 31, 2018, with a retroactive merger date of January 1, 2018. Based on the stipulated retroactive effective date of the merger, OLB's result for the year includes the consolidated result of operating activities of Bremer Kreditbank AG for the first eight months of 2018, in the amount of EUR 20.4 million before taxes. The Bank's total assets rose by EUR 3.5 billion following the merger as of August 31, 2018, to EUR 18.0 billion. The carrying amounts of the balance sheet assets and liabilities were carried forward in accordance with Sec. 24 of the Law Regulating the Transformation of Companies (Umwandlungsgesetz – UmwG).

The merger of Bankhaus Neelmeyer AG with OLB became final on December 28, 2018. For this merger, retroactive effect as of July 1, 2018, was agreed to.

BHN's net earnings in 2018 were recognized in the net interest income. The asset, capital and liability items taken over at their carrying amounts through the merger of BHN in accordance with Sec. 24 UmwG are recognized in the balance sheet as of December 31, 2018, in their respective OLB items and led to a further rise in the Bank's total assets by EUR 1.2 billion to EUR 19.5 billion as of the end of 2018.

In the course of the mergers, the general accounting policies of BKB and BHN were largely converted to the methods applied at OLB. Significant adjustments affected the valuation and income recognition of securities and the conversion of the recognition of the PLLP (Portfolio Loan Loss Provision) and GLLP (General Loan Loss Provision) adjustments to the approach used at OLB based on statistical loss expectations. The securities in the investment portfolio taken over from BKB and BHN and the cash reserve were measured using the amortized cost method, so that additional expenses of EUR 1.1 million resulted. In the risk provision, the change of method resulted in an additional provision of EUR 8.0 million for non-troubled loans.

Since the aforementioned transactions were unknown at the time of reporting for fiscal year 2017, the projections made in the prior year deviate from the actual business development. A corresponding presentation in the Management Report is therefore dispensed with in what follows. For further information, please refer to the description of the mergers in the Notes to the Annual Financial Statements.

## Net assets and financial position

The goal of combining the complementary business models of three banks in one common institution was already achieved within one fiscal year through the legal mergers of BKB and BHN with OLB. An important milestone was thus reached in 2018, in order to continue the previous course of the banks in a new configuration. The combined basis of equity, liquidity, business volume and customer base forms the basic pillars for the future competitiveness and positioning of the Bank.

### On-balance-sheet equity

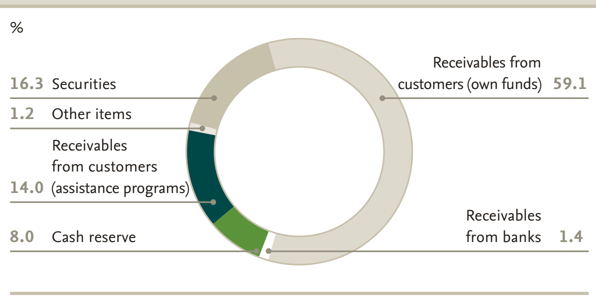
The merger of BKB and BHN with OLB gave rise to an institution that has on-balance-sheet equity of around one billion euros. Moreover, there is a fund for general bank risks under Sec. 340g HGB, endowed with EUR 20.1 million. Thus, a solid basis has been laid for future growth.

Even before the merger, both OLB (through the retention of earnings of EUR 22.5 million resolved on May 11, 2018) and BKB (through the retention of earnings of EUR 10.8 million and a capital increase of EUR 307 million by the shareholders) had each strengthened their capital bases considerably.

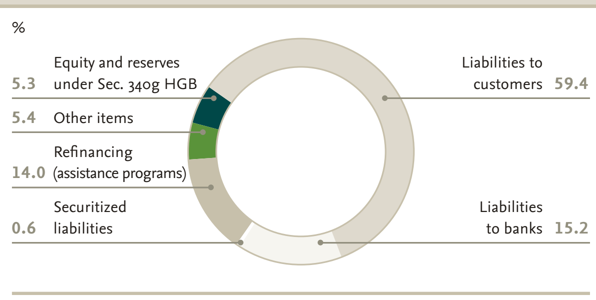
### Regulatory capital (Sec. 10 KWG in conjunction with Arts. 25 through 88 CRR)

The Bank's regulatory Common Equity Tier 1 capital essentially comprises its on-balance-sheet equity (excl. the net retained profits of EUR 20.6 million in 2018) and the fund for general bank risks, at EUR 20.1 million, while taking into account regulatory deductions of EUR 31.6 million. Bonds in the amount of EUR 42.3 million, which can be offset as additional Tier 1 capital under Art. 52 et seq. CRR, continue to be attributable to the Tier 1 capital. These bonds were issued by BKB before the merger. Since the banking group ended with the merger of BHN with OLB, the regulatory determination of capital ratios according to Sec. 10 KWG was done as in the prior year at the individual institution level of OLB AG based on HGB.

*Balance sheet ratios for assets*




*Balance sheet ratios for equity and liabilities*



| EUR m | 12/31/2018 | 12/31/2017 | Change | Change (%) |
|---|---|---|---|---|
| Common Equity Tier 1 capital | 966.3 | 622.8 | 343.5 | 55.1 |
| Additional Tier 1 capital (AT1) | 42.3 | — | 42.3 | n/a |
| **Tier 1 capital** | **1,008.6** | **622.8** | **385.8** | **61.9** |
| Tier 2 capital | 225.4 | 157.1 | 68.3 | 43.5 |
| **Share capital and reserves** | **1,234.0** | **779.9** | **454.1** | **58.2** |
| Risk assets for counterparty risks | 7,790.7 | 4,506.8 | 3,283.9 | 72.9 |
| Risk assets for market risks | —[1] | 16.8 | –16.8 | –100.0 |
| Risk assets for operational risks | 692.2 | 505.4 | 186.8 | 37.0 |
| **Risk assets** | **8,482.9** | **5,029.0** | **3,453.9** | **68.7** |

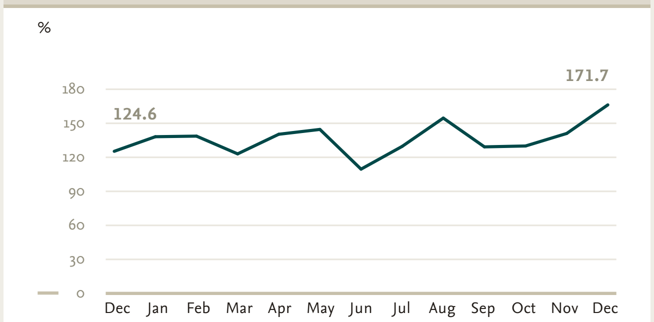
1 Risk assets for market risks were below the regulatory threshold.

| % | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Common Equity Tier 1 capital ratio | 11.4 | 12.4 |
| Tier 1 capital ratio | 11.9 | 12.4 |
| Aggregate capital ratio | 14.5 | 15.5 |

The Tier 1 capital of OLB totaled EUR 1,008.6 million (prior year: EUR 622.8 million), taking into consideration the retention of earnings of EUR 22.5 million from the prior year's net retained profits and the effects of the merger of BKB and BHN.

The offsettable Tier 2 capital essentially consists of subordinated liabilities. The increase over the prior year from EUR 157.1 million to EUR 225.4 million is largely attributable to the subordinated capital contributed by BKB as part of the merger.

*Liquidity reserve for long-term financial asset portfolio*



Through the merger of the credit business of BKB, BHN and OLB, and as a result of growth in the operating business of the three units, the risk assets rose to EUR 8,482.9 million (prior year: EUR 5,029.0 million).

In addition to the statutory minimum Tier 1 capital ratio of 8.5 percent, an institution-specific markup was defined in the course of the Supervisory Review and Evaluation Process (SREP). This markup was only 0.32 percentage points for OLB at the end of the year due to the regulator's positive evaluation of the risk management procedures and the risk situation. Thus, the Tier 1 capital ratio remained unchanged at 11.9 percent, considerably above the required regulatory minimum value of 8.82 percent.

### Liquidity and financial investments

The Bank had an appropriate level of liquidity at all times in 2018. 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. The liquidity coverage ratio (LCR) relevant under supervisory law was adhered to at all times. At the end of the year, LCR was 171.7 percent (prior year: 124.6 percent), and was thus, as it had been throughout the year, above the regulatory minimum of 100 percent. The marked rise of this figure at the end of the year is attributable to the liquidity items transferred over due to the merger of BHN into OLB.

OLB maintained a financial investment portfolio of EUR 3.1 billion as of the reporting date as a liquidity reserve. The portfolio consists mainly of investment-grade Pfandbrief bonds and government bonds as well as shares in two special funds.

### Total lendings

The merger of the credit business of OLB, BKB and BHN gave rise to a broadly diversified credit portfolio offering a good basis for further growth for the Bank's four strategic segments. Net total lendings after the risk provision came to around EUR 14.0 billion as of the end of the year (prior year: EUR 10.8 billion). In the course of the year, the Bank recorded brisk demand for loans. Business expanded particularly in private construction financing, the installment credit business and in the Specialized Financing segment.

The stable economic trend was also reflected in the further reduction of the share of non-performing loans ("NPL ratio") from 3.5 percent in the prior year to 2.7 percent in 2018. In the course of the merger of BKB and OLB, the method of recognition of the PLLP (Portfolio Loan Loss Provision) and GLLP (General Loan Loss Provision) adjustments was converted uniformly to the approach used at OLB based on statistical loss expectations. Due to the replacement of the method used at BKB to form general loan loss provisions according to the German Federal Ministry of Finance's letter of 1994, the conversion led to an additional allocation of EUR 8.0 million for non-troubled loans. This was the main driver for the rise in PLLP / GLLP in 2018.

| Total portfolio<br>EUR m | 12/31/2018 | 12/31/2017 | Change<br>EUR m/% points | Change<br>% |
|---|---|---|---|---|
| Receivables from customers | 14,153.1 | 11,034.8 | 3,118.3 | 28.3 |
| Receivables from customers (non-troubled) | 13,775.9 | 10,649.2 | 3,126.7 | 29.4 |
| Receivables from customers (non-performing) | 377.1 | 385.6 | – 8.5 | – 2.2 |
| Postponed interest (for non-performing receivables) | – 23.2 | – 23.7 | 0.6 | – 2.3 |
| **Loans and advances to customers (gross before risk provisions)** | **14,129.9** | **11,011.1** | **3,118.8** | **24.4** |
| General loan loss provisions (PLLP/GLLP) | – 26.1 | – 15.0 | – 11.1 | 74.5 |
| Specific loan loss provisions (SLLP) | – 143.9 | – 148.0 | 4.1 | – 2.7 |
| **Loans and advances to customers (net after risk provisions)** | **13,959.9** | **10,848.2** | **3,111.7** | **28.7** |
| For information: | | | | |
| Proportion of non-performing customer receivables (“NPL ratio”) | 2.7 % | 3.5 % | – 0.8 % | n/a |
| Lump-sum specific loan loss provisions assigned to non-performing receivables (–) | – 5.7 | – 4.7 | – 1.0 | 21.5 |
| Collateral assigned to non-performing receivables (–) | – 192.3 | – 214.9 | 22.5 | – 10.5 |
| Coverage ratio taking collateral and postponed interest into account | 96.8 % | 101.5 % | – 4.7 % | n/a |

The active restructuring of the freight-rate-dependent shipping portfolio was largely completed in 2018. The non-performing customer receivables were further reduced by write-downs as part of restructuring, proceeds from sales of ships and associated discharges of receivables. Overall, the portfolio showed such a stable development that a net discharge of EUR 6.8 million could be undertaken in 2018.

| Thereof: Freight-rate-dependent shipping portfolio EUR m | 12/31/2018 | 12/31/2017 | Change EUR m / % points | Change % |
|---|---|---|---|---|
| Receivables from customers | 237.5 | 274.4 | –36.9 | –13.4 |
| Receivables from customers (non-troubled) | 161.2 | 146.9 | 14.3 | 9.7 |
| Receivables from customers (non-performing) | 76.3 | 127.5 | –51.2 | –40.2 |
| Postponed interest (for non-performing receivables) | –6.3 | –6.5 | 0.2 | –3.1 |
| **Loans and advances to customers (gross before risk provisions)** | **231.2** | **267.9** | **–36.7** | **–13.7** |
| General loan loss provisions (PLLP/GLLP) | –2.0 | –3.0 | 1.0 | –33.3 |
| Specific loan loss provisions (SLLP) | –24.2 | –30.0 | 5.8 | –19.3 |
| **Loans and advances to customers (net after risk provisions)** | **205.0** | **234.9** | **–29.9** | **–12.7** |
| For information: | | | | |
| Proportion of non-performing customer receivables (“NPL ratio”) | 33.0 % | 47.6 % | –14.6 % | n/a |
| Lump-sum specific loan loss provisions assigned to non-performing receivables (–) | –0.68 | –1.6 | 0.9 | –57.3 |
| Collateral assigned to non-performing receivables (–) | –48.23 | –81.0 | 32.7 | –40.4 |
| Coverage ratio taking collateral and postponed interest into account | 104.1 % | 93.4 % | 10.7 % | n/a |

### Deposits and borrowed funds

Even after the merger with BKB and BHN, the deposit business forms the main pillar for refinancing the credit business of OLB. In view of the persistently low level of interest rates, the Bank’s customers continued to prefer short-term and/or demand deposits. On account of the good economic development in 2018 and the continued restraint of clients with regard to investments in securities, both the corporate and private customer businesses recorded rising volumes of deposits.

| EUR m | 12/31/2018 | 12/31/2017 | Change | Change (%) |
|---|---|---|---|---|
| **Customer deposits** | **11,345.9** | **8,424.9** | **2,921.0** | **34.7** |
| Demand deposits | 6,919.8 | 5,730.7 | 1,189.1 | 20.7 |
| Term deposits | 2,735.0 | 1,125.1 | 1,609.9 | n/a |
| Savings deposits | 1,691.1 | 1,569.1 | 122.0 | 7.8 |
| **Interbank money** | **5,583.9** | **4,292.9** | **1,291.1** | **30.1** |
| Demand deposits | 78.7 | 56.4 | 22.3 | 39.4 |
| Term deposits | 5,505.3 | 4,236.4 | 1,268.8 | 30.0 |
| **Securitized liabilities [1]** | **116.2** | **501.4** | **–385.2** | **–76.8** |
| **Subordinated debt** | **274.5** | **175.2** | **99.3** | **56.7** |
| **Total deposits and borrowed funds** | **17,320.5** | **13,394.3** | **3,926.2** | **29.3** |

1 Repurchased securitized liabilities of OLB in the amount of EUR 385.2 million, which were posted on the Bank’s asset side under “Other assets” likewise in the prior year, were derecognized on the asset and liability side in 2018.

## Business performance

### Earnings position

Due to the legal retroactive effect of the merger back as of January 1, 2018, the earnings calculation for the past fiscal year covers all income and expenses assignable to BKB for the entire fiscal year. In addition, the net income of BHN based on the merger and the previously existing control and profit-and-loss transfer agreement is included in the net interest income item. The prior-year figures reflect the financial performance of OLB at the time without consideration of BKB and BHN.

| EUR m | 2018 | 2017 | Change | Change (%) |
|---|---|---|---|---|
| Net interest income | 293.3 | 228.1 | 65.2 | 28.6 |
| Net commission income | 84.4 | 68.1 | 16.3 | 23.9 |
| Net operating trading income / expense | – 0.1 | 0.0 | – 0.1 | n / a |
| **Operating income** | **377.6** | **296.2** | **81.4** | **27.5** |
| Personnel expenses | – 164.0 | – 140.3 | – 23.7 | 16.9 |
| Other administrative expenses | – 107.1 | – 74.2 | – 32.9 | 44.4 |
| Write-downs of tangible fixed assets | – 16.3 | – 15.1 | – 1.2 | 7.6 |
| **Administrative expenses** | **– 287.4** | **– 229.6** | **– 57.8** | **25.2** |
| Net other operating income (+) and expenses (–) | 2.0 | 5.1 | – 3.1 | – 61.0 |
| **Operating result before risk provisions** | **92.2** | **71.7** | **20.4** | **28.5** |
| Risk provisions for credit business | – 6.5 | – 31.3 | 24.8 | – 79.3 |
| Gain (+) / loss (–) on securities in the liquidity reserve | – 4.5 | 7.9 | – 12.4 | n / a |
| **Expenses for the credit business and liquidity reserve** | **– 10.9** | **– 23.4** | **12.5** | **– 53.3** |
| **Net operating result** | **81.2** | **48.4** | **32.9** | **68.0** |
| Other result | – 0.1 | 9.7 | – 9.8 | n / a |
| Extraordinary result | – 38.5 | – 7.6 | – 30.9 | n / a |
| **Profit before taxes** | **42.6** | **50.5** | **– 7.8** | **– 15.5** |
| Taxes on income | – 18.1 | – 21.1 | 3.0 | – 14.3 |
| Other taxes | – 4.0 | – 1.0 | – 3.0 | n / a |
| **Net income for the fiscal year** | **20.6** | **28.3** | **– 7.7** | **– 27.3** |

The solid economic development provided good framework conditions for a positive financial performance by the Bank in 2018. Overall, steady growth was achieved in the credit business both in the private and corporate customer business and in the specialized financing area of the Bank. The net interest income was increased considerably due to earnings contributions from loans. The stable economic environment and the Bank's progress in actively restructuring the freight-rate-dependent shipping portfolio led, on the other hand, to a sharp decline in risk provision requirements.

The financial markets in the reporting year were characterized by a continuing low level of interest rates and a sharp drop in the stock markets in the fourth quarter. While the interest rate level continues to dampen net interest income, the investment in the AGI special fund resulted in significant write-downs.

In order to further strengthen the competitiveness of the merged institution and optimize the interaction of the business units brought together in the merger, the Bank decided for the coming years to take measures and make investments to modernize and restructure. Appropriate provisions were established and unscheduled write-downs were performed for the measures decided on, and these were recognized in the extraordinary income.

### Net interest income

| EUR m | 2018 | 2017 | Change | Change (%) |
|---|---|---|---|---|
| Interest (and similar income) | 435.5 | 356.0 | 79.4 | 22.3 |
| Interest expense (and similar charges) | – 142.2 | – 127.9 | – 14.2 | 11.1 |
| **Net interest income** | **293.3** | **228.1** | **65.2** | **28.6** |
| Customer lending volume at end of period (after risk provisions) | 13,959.9 | 10,848.1 | 3,111.8 | 28.7 |

Through the merger of the three entities BKB, BHN and OLB, the credit portfolios were combined. This gave rise to one broadly diversified credit portfolio with a volume of EUR 14.0 billion. In ongoing activities, the Bank also recorded strong growth in total lendings. The major drivers were construction financing, installment credits and the expansion of the Specialized Financing portfolio. OLB was thus able to expand its interest income overall.

On the refinancing side, interest expenses for customer deposits fell further due to the persistent period of low interest rates. Through the integration of the refinancing costs of the former BKB, a slight rise in interest expenses was recorded overall.

In analyzing the net interest income, it must be noted that BHN's net income in the amount of EUR 2.9 million is recognized as interest income in the item for interest (and similar income).

### Net commission income

| EUR m | 2018 | 2017 | Change | Change (%) |
|---|---|---|---|---|
| Payment traffic | 23.2 | 21.9 | 1.3 | 6.1 |
| Securities business and asset management | 22.6 | 23.4 | – 0.8 | – 3.5 |
| Insurance, home loan and savings, and real estate business | 15.7 | 13.6 | 2.1 | 15.4 |
| Credit business | 15.2 | 3.0 | 12.2 | n / a |
| Other | 3.0 | 1.7 | 1.3 | 75.8 |
| Foreign business | 2.9 | 2.0 | 0.9 | 43.9 |
| Credit card business | 1.7 | 2.5 | – 0.7 | – 28.8 |
| **Net commission income** | **84.4** | **68.1** | **16.3** | **23.9** |

For the merged company, the main pillars of net commission income are still the payment transaction business (EUR 23.2 million), on the one hand, and the securities business including asset management (EUR 22.6 million), on the other. The increase in payment transactions compared to the prior year is mainly due to the merger of BKB and OLB. In the operating business, the net commission income for securities was dampened in particular by the weak market development in the fourth quarter. In contrast, the real estate and home loan and savings business profited from the persistent trend toward investment in real estate and home ownership. This more than made up for a slight weakening of the insurance business (contribution of EUR 15.7 million to income in 2018 after EUR 13.6 million in the prior year).

Commission income from the credit business gained sharply in importance with EUR 15.2 million (prior year: EUR 3.0 million). This was due in particular to the positive effect of integrating the BKB business in the Specialized Financing segment. Likewise, foreign business was significantly strengthened by the merger, which enabled an increase in net income from commissions (EUR 2.9 million after EUR 2.0 million in the prior year).

### Administrative expenses

| EUR m | 2018 | 2017 | Change | Change (%) |
|---|---|---|---|---|
| Personnel expenses | – 164.0 | – 140.3 | – 23.7 | 16.9 |
| Other administrative expenses | – 107.1 | – 74.2 | – 32.9 | 44.4 |
| Write-downs of tangible fixed assets | – 16.3 | – 15.1 | – 1.2 | 7.6 |
| **Administrative expenses** | **– 287.4** | **– 229.6** | **– 57.8** | **25.2** |
| Employees at December 31 | 2,154[1] | 1,905 | 249 | 13.1 |
| Full-time equivalents at December 31 | 1,901[2] | 1,660 | 240 | 14.5 |
| Cost–income ratio (in %) | 76.1 % | 77.5 % | n / a | n / a |

1 Thereof: 1,832 OLB, 322 BKB / BHN
2 Thereof: 1,598 OLB, 303 BKB / BHN

The amount of the administrative expenses in 2018 was primarily determined by the aggregate personnel and administrative expenses of OLB and BKB and the necessary one-time expenses of EUR 15.8 million for the preparation and implementation of the M & A transactions. Measures were taken at both banking firms over the course of the year to reduce full-time equivalents. In the area of material expenses as well, initial synergy potentials from the merger were opened up.

### Net other operating income and expenses

The balance between other operating income and expenses was significantly dominated in the prior year by cost reimbursements to Allianz Deutschland AG in the course of the sale of its equity interest in OLB. In the current year, the reduction, resulting from the one-time nature of these payments, was partially made up by the realization of a book profit from the sale of a building owned by the former subsidiary bank Fortmann & Söhne. Increased interest expenses for pension provisions were set off against declining allocations for trial costs and payments based on legal obligations. Overall, the positive balance of this item shrank from EUR 5.1 million in the prior year to EUR 2.0 million in the reporting year.

### Risk provisions for credit business

The risk provision expense from ongoing business activities was much lower at EUR 6.5 million for the merged bank in the past fiscal year than the corresponding expenses of OLB AG in the prior year (improvement by EUR 12.8 million, not counting the allocation of a Sec. 340g reserve in 2017). This is attributable, first, to the largely completed active restructuring of the freight-rate-dependent shipping portfolio. The Bank's actions resulted in the reversal of a risk provision in the amount of EUR 6.8 million. In addition, thanks to a stable economy in 2018, conditions for clients' economic performance remained favorable. The associated improvement in credit rating for the entire portfolio can also help explain why the risk provision formation in 2018 for the broad customer credit portfolio, at EUR 13.9 million, was lower than the prior year's projection based on the statistical expectations for an entire economic cycle.

### Result from securities in the liquidity reserve

Above all in the fourth quarter, increasing insecurity about future economic developments in light of an impending intensification of trade restrictions, the uncertain outcome of the Brexit process and political unrest in France led to a sharp fall in prices on stock markets. This weighed especially on the development of special funds. The necessary write-downs on carrying amounts of the fund shares were major drivers of a negative contribution to earnings in the amount of EUR 9.2 million, which was partly made up for by a partial reversal of the Sec. 340g HGB reserve in the amount of EUR 4.7 million which had been provided to balance the effects of general risk events. Overall, financial investments thus showed a loss of EUR 4.5 million (prior year: a gain of EUR 7.9 million).

### Extraordinary result

The extraordinary result was essentially influenced by anticipated costs for the planned restructuring of the Bank, the sustainable positioning of sales and the branch network and the boosting of efficiency in the operating and staff functions. Provisions were established or unscheduled write-downs were performed for actions in the personnel area and recognizable charges in the administrative area. The reversal of provisions for the "OLB 2019" program had a contrary influence. On balance, the total expense was EUR 32.6 million. Other items in this entry include ongoing restructuring expenses from prior-year measures, the profit from the merger of BHN and the amortization of the conversion effect of the change of valuation for pension provisions ("BilMoG effect"; BilMoG is the German Accounting Law Modernization Act).

### Taxes

Due to the mergers in the prior fiscal year, a real-estate transfer tax obligation for land and buildings of the participating companies was incurred to some degree. Corresponding provisions were established for taxes not yet fixed, which essentially explained the rise in other taxes to EUR 4.0 million (prior year: EUR 1.0 million).

Under income taxes, it must be noted that certain expenses under commercial law cannot be taken into account at all for tax purposes or only with very marked restrictions. This concerns, for one thing, the bank levy in the amount of EUR 5.2 million, for which tax deduction is prohibited. In addition, interest expenses for pension obligations are to be valued for tax purposes at an interest rate of 6.0 percent, while for commercial law purposes an interest rate for the end of 2018 was prescribed by law that was projected to be 3.20 percent. The extra expense of EUR 15.6 million resulting from this interest rate difference is not tax-deductible. Both items were major drivers for a marked rise in the tax rate. This rate, at 47 percent, was much higher than the anticipated arithmetical tax burden of 31 percent of pretax income.

## Executive summary

The development of the Bank's assets, liabilities, financial position and financial performance was determined in the past fiscal year by the mergers, the restructuring measures, the stable economic situation and the trend in the capital markets. The merger of the banks BKB, BHN and OLB gave rise to a financially sound institution with a broad economic foundation. For the preparation and implementation of M&A transactions, special expenses of EUR 15.8 million were recorded in 2018 and, on balance, EUR 32.6 million were made available for the restructuring required for the further development and modernization of the Bank. Consequently, the net income for the year at EUR 20.6 million was lower than for the prior year (EUR 28.3 million). Taking into consideration the aforementioned special charges in fiscal 2018, the financial performance of the Bank is satisfactory overall.

# 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 on anticipated developments in business and on the Company's situation. Additional information about the Bank's risk management system, individual risks, risk culture and risk situation can be found in the Risk Report section of the Management Report. Projected business performance for fiscal 2019 will be affected primarily by the following factors and the resulting opportunities and risks:

According to the autumn 2018 opinion of the leading German economic research institutes, the outlook for the German economy remains good. Financial policy will support the economy due to the governmental transfer payments and spending programs as well as employee tax relief. Upcoming collective bargaining agreements are expected to include substantial pay increases, disposable income will increase noticeably, and thus consumption should continue to contribute disproportionately to the overall economic expansion. The continued favorable monetary framework conditions will likely continue to support the economy. Investment activity in 2019 should likewise remain quite strong given the very high capacity utilization and the good financing conditions. The German Council of Economic Experts expects gross domestic product, adjusted for inflation, to increase by 1.5 percent in 2019. On this solid basis, the Bank assumes demand will continue in the coming fiscal year with regard to the credit business with private customers as well as in the business with corporate clients and the area of specialized financing. 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 sectoral issues, for example a possible spread of epizootic diseases in the agricultural sector. OLB does not expect that the potential departure of the United Kingdom from the EU ("Brexit"), anticipated for March 2019 – regardless of how it is structured – will have significant effects on the Bank's assets, liabilities, financial position and financial performance.

The development of interest rates in the coming year is largely dependent on the future policy of the European Central Bank. In its latest comments, the ECB indicated that no increase in base rates was to be expected before the start of 2020. OLB in its planning therefore assumes a constant interest rate level with interest rates in the negative range (particularly in the money markets). Due to the expiration of high-interest existing loans, the net interest income remains under pressure, since compensating for this on the refinancing side is possible only to a limited degree as interest rates on deposits are already largely zero. Based on the present balance sheet structure of OLB, the Bank profits from a rise in the yield curve. A sharp fall in the interest rate level would intensify the pressure on earnings.

Since the Bank's own credit business is largely funded by customer deposits, OLB has minimal structural vulnerability to disturbances in the money and capital markets that would make raising liquidity difficult or leave it vulnerable to high interest markups. Moreover, the Bank successfully placed its first Pfandbrief bond issue in the amount of over EUR 100 million at the start of fiscal year 2019, thereby expanding its refinancing possibilities.

OLB will work hard in 2019 to create the conditions for application of its own internal models for measurement of credit risks in the area of the credit business taken over from BKB and BHN. This will result in the medium term in an opportunity to sharply reduce the necessary capital requirements for this business. Moreover, the Bank will work on implementing the rules for major financial institutions under the Remuneration Regulation for Institutions (Instituts-Vergütungsverordnung – InstitutsVergV). The Bank does not anticipate any significant expense risks with the implementation of these two regulatory projects.

In the course of normal business operations, and in its capacity as an employer, investor and taxpayer, OLB is exposed to the risk of proceedings in the courts and before regulatory bodies. The Bank has taken due account of specific risks presented by such proceedings by forming adequate provisions. In connection with the squeeze-out process completed in 2018, the Bank as legal successor of BKB sees itself exposed to objections related to the reasonableness of the cash settlement made to former minority shareholders. OLB has analyzed the action legally and believes it is in a good legal position. Also with respect to other currently pending proceedings, the Bank does not perceive any elevated risks beyond the provisions made in specific cases. OLB is in intensive competition with Sparkasse savings banks and Volksbank cooperative banks, and also in the corporate client and specialized financing business with private large-scale and state banks and specialized commercial banks. All in all, competition is characterized by high intensity and persistent pressure on margins. At the same time, forward-looking investments are necessary in further digitalizing and automating business processes and customer services. This market situation yields risks, on the one hand, particularly with regard to the success of achieving planned growth targets and margin ambitions. On the other hand, digitalization in particular makes it possible to offer a variety of consulting services regardless of locations and opening hours and to reduce staffing needs through automated business processes and workflows. Finally, growth opportunities can arise for OLB from the withdrawal from the market or from restructuring measures at competitors. The agreed purchase of Wüstenrot Bank AG Pfandbriefbank (WPB) in March 2018 was still under reservation of consent by regulatory authorities when the annual financial statements were prepared. Thus, the shares in WPB have not yet been transferred to OLB. With the acquisition, the Bank expects to create further potential synergies. Exploiting these will necessitate a consistent integration of WPB into the OLB business model.

In the coming fiscal year, OLB will work with great focus on the integration and further development of business activities along the four defined business segments and on the creation of further synergies in the area of operating and staff functions. The Bank foresees additional growth opportunities in the coming years, especially in the Corporate Clients and Specialized Financing segments, through a selective mining of potential by way of systematic assignment of specialists, personal advice on complex products, and a multi-layered range of advisory services, independently from office locations and business hours. Also in the Private Banking & Wealth Management segment, the opportunity for further growth is seen in the commission business through customized assistance with complex asset structures and through offering high-quality individual advising in all asset and financial matters. In the area of private customers, a Bank-wide initiative is starting with a focus on an improvement of business processes across sales channels and a customer-focused orientation of all sales channels, including the creation of a central sales channel with telephone service, video consulting and a brokerage platform. Thus, our customers will have access everywhere and at all times to our entire range of products and services. Overall, OLB anticipates further growth for 2019 in total lendings and commission business and plans moderate growth in net interest and commission income in general.

In the area of administrative expenses, the Bank expects that further progress in the increasing digitalization of business processes and workflows, the reorganization of the branch network and synergies from the integration of operating and staff functions will enable a reduction in costs. Combined with the elimination of special expenses incurred in 2018 for the merger of BKB, BHN and OLB, the Bank plans for a reduction of administrative expenses in 2019. For the cost–income ratio, this likewise means a significant reduction based on the higher earnings expectations.

Planning for risk provisions is based on the assumption that defaults in the credit portfolio will remain at statistically expected levels. Since the past fiscal year was characterized by a favorable risk provision development, this means in planning terms a noticeable rise in the charge for risk provisions.

OLB anticipates a marked reduction in expenses in connection with the restructuring and modernization of the Bank.

Overall, the Bank intends to increase the planned earnings before taxes markedly against the backdrop of the aforementioned expectations. With an assumed tax rate at a comparable level as in 2018, the planned net income for the year and the expected return on equity should thus be markedly higher than in the past fiscal year.

# Other Mandatory Disclosures

### Branch offices

(At December 31, 2018)

OLB operates a branch office under the name Bankhaus Neelmeyer, Zweigniederlassung der Oldenburgischen Landesbank Aktiengesellschaft.

In addition, OLB maintains a total of 145 branches (prior year: 144) and 62 self-service branches (prior year: 55) with a focus on Northwest Germany and also in major metropolitan areas throughout Germany.

### Relations with affiliated companies

(At December 31, 2018)

In accordance with Sec. 271 (2) HGB, 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 held the majority of the capital of OLB 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 (AktG):

"Under the circumstances known to it at the time when legal transactions were carried out or measures were taken or not taken, OLB 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."

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

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.

Once the initial period for reaching these targets expired in June 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.

| | 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 % |

### Statutory gender quota / target for the Supervisory Board

By June 29, 2018 (end of market listing), OLB was subject to the statutory gender quota under Sec. 96 (2) Sentence 1 AktG, according to which the Bank's Supervisory Board must comprise at least 30 percent women and at least 30 percent men. This statutory gender quota was met.

With the discontinuation of market listing, OLB is subject to the obligation of Sec. 111 (5) AktG to define a target number for women's participation on the Supervisory Board and a corresponding implementation deadline. The target number for women's participation on the Supervisory Board was set at 2 / 12, or around 17 percent. The implementation period expires on December 2, 2023.

The composition of the Supervisory Board in the reporting year 2018 can be found in the disclosures of additional offices held by members of governing bodies per Sec. 285 No. 10 HGB.

# Risk Report

## Principles of Whole Bank risk management

### Basic principles of risk control

OLB 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 management at the Group level

On February 7, 2018, BKB effected the purchase of around 95.3 percent of the share capital of OLB. The squeeze-out was resolved at the Shareholders' Meeting of OLB on May 11, 2018. Based on any agreement with supervisory authorities, OLB AG – in deviation from the situation under corporate law – had already assumed the role of parent company within the meaning of the German Banking Act (KWG) for regulatory purposes for the period from the purchase of the shares by BKB to the merger of OLB and BKB. The banking group ended as of the merger of BHN with OLB on December 28, 2018.

Prior to the merger with BKB and, in a next step, with BHN, risk analyses according to MaRisk (Minimum Requirements for Risk Management) were conducted by OLB. Within the year, a focus of OLB was on fulfilling the regulatory requirements at the Group level, such as risk management at the Group level, Group reporting, implementation of a Group-wide compliance function (incl. compliance with money-laundering regulations), an audit function, and the establishment and development of process-organizational preventive measures at the Group level.

For the newly established Group, the Board of Managing Directors of OLB AG developed a Group risk strategy in coordination with BKB and BHN. On a quarterly basis at the Group level, detailed reports were provided on all major risks and the compliance with the risk-carrying capacity at the Group level was reviewed; moreover, the market and liquidity risk was reported on every month. Every quarter, the risk situations in the individual institutions and the Group risk reports were discussed in a joint Risk Committee at the Group level. The Group Risk Report was forwarded by the OLB Board of Managing Directors to the members of the Supervisory Board and the risk strategy framework was discussed with this body.

### Risk strategy

The Bank's Board of Managing Directors adopts the risk strategy, reviews it at least once a year, and discusses it with the Supervisory Board. It 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.

*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:*

Operational risk (OR) is the risk of losses due to the inadequacy or failure of internal procedures, persons, or systems or due to external events that are manifested in the institution itself.

OLB also subsumes the following types of risk under the "operational risk" category:

- *Legal risk and risk of legal changes*
  Legal risk refers to the risk that damage might be incurred because of a complete or partial noncompliance with the legal framework prescribed by statute, regulations and case law. The risk of legal changes represents the risk for transactions concluded in the past on account of a change in the legal situation (changed jurisprudence or legislative amendments) as well as the risks that might arise due to inadequate or nonexistent implementation of legal bases entering into force in the future.
- *Conduct risk*
  By conduct risk, OLB means the abstract risks of other criminal acts through internal offenses, such as corruption offenses, antitrust violations and violations of investor / consumer protection.
- *Compliance risk*
  Compliance risk is defined as the risk of criminal or administrative law penalties, fines (e.g., based on GDPR or the German Money Laundering Act) and other financial losses or reputational damage as a result of violations of legal and administrative regulations, regulatory orders and codes of conduct / ethics in connection with the regulated activities of the Bank (collectively, the "regulations"). Compliance risk also includes the risk of losses based on other criminal acts of third parties (externally).
- *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 inconsistencies in the model (the model is outdated or improperly formed). A (possible) model 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.
- *Outsourcing risk*
  Outsourcing risk comprises the risk of deficient or limited service provision by external service providers for essential bank functions.
- *IT and information security risk*
  This means the risk that a loss might arise from the disclosure, manipulation or lack of accessibility of IT systems or information.

## 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. In 2019, in accordance with current bank supervision requirements, the Bank will convert the analysis of risk-carrying capacity to the economic and normative perspective as steering groups of equal value.

*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 99.9 percent and a holding period of one year.

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 Tier 1 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 Tier 1 capital or to stressed liable equity, as the case may be, and the Bank examines whether the Tier 1 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 ratio 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. 25c 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 Chief Representative for Lending, 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 and the Operational Risk 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 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 |
| 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 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 the 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 CreditMetrics™ 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 (99.9 percent / 1 year) is used to measure and control risk.

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. 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.

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. At the same time, the collateral provided by the customer is evaluated. This valuation takes place with involvement of the back office or by external experts, depending on the scope and complexity. The total lendings, 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. As a rule, a manual update of the rating is performed annually. Furthermore, automated status ratings are carried out monthly.

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. 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 Bank's Risk Committee, the full Board of Managing Directors, and the Supervisory Board.

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, partial-portfolio limits are also defined above and beyond areas of authority. Monitoring these limits is the task of the Risk Controlling department.

The risk provision is determined with use of a discounted cash flow model. 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. 340g HGB.

The credit portfolio migrated from BKB was evaluated in September 2018 for the first time according to the risk provision models of OLB. Due to the replacement of the method used at BKB to form general loan loss provisions according to the German Federal Ministry of Finance’s letter of 1994, the conversion led to an additional allocation of EUR 8.0 million for non-troubled loans.

No interest is accrued for loans covered by an SLLP. The credit portfolio taken over at the end of the year through the merger of BHN with OLB was taken over with existing risk provision balances. Specific loan loss provisions of failed loans are measured based on the balance between the receivable claim and the offsettable collateral. General loan loss provisions were established and were formed and taken over in accordance with the German Federal Ministry of Finance's letter of 1994.

Written-down loans are measured individually no later than the expiration of defined maturities, and are covered by an SLLP (specific loan loss provision). 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.

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.

### 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 CRR) is trading portfolio business that is always less than 5 percent of total assets or less than EUR 15 million.

*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 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. The result of the value at risk with a 99.9 percent confidence level and a one-year holding period represents the risk position for credit risks in the analysis of risk-carrying capacity.

*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, stocks and mutual funds, diversifying the risk.

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.

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 1 million.

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 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 of the Bank 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 (99.9 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.

Treasury largely manages the risk of interest rate changes by means of interest rate derivatives. In addition, Treasury can influence the securities held in the liquidity reserve at any time with respect to the volume and the fixed interest rate.

### 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.

Compliance with the regulatory key performance indicator, the liquidity coverage ratio (LCR) according to the Delegated Regulation, is a part of the risk measurement. LCR calls for maintaining a liquidity buffer that will at least cover net outpayments for 30 days under market-wide and idiosyncratic stress conditions. 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 99.9 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 its own Treasury with access to all the major capital market segments: KEV (loan submitter) procedure, Pfandbrief bond issues, customer deposits and asset-backed securities. 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*

Liquidity risks are limited based on the institution-specific funding matrix and the regulatory key indicator LCR. In order to ensure compliance with the requirement at all times, internal limits and early warning thresholds are defined. The Bank's Risk Committee is regularly informed of the evolution of these key ratios. 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 in the funding matrix 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.

Liquidity risk is controlled by the Bank Management Committee and the Risk Committee of the Bank. 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. Liquidity needs are covered through customer business, by taking out fixed deposits and refinancing loans or by placing borrower's note loans. Moreover, the initial issue of Pfandbrief bonds took place at the start of 2019.

### 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.

Until the OLB internal model for measurement of post-merger operational risks can take account of the effects of the new institution in the scenario analyses, the conservative result of the Bank's standard method for measurement of operational risks goes into the calculation of risk-carrying capacity. OLB manages operational risks according to the results of the latest scenario analysis.

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 (incl. through continuing training and by using up-to-date communication methods), as well as taking out insurance against major losses (e.g., a fire at the Bank's 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 | 12/31/2018 |
|---|---|
| Credit risk | 378 |
| Market risk | 125 |
| Liquidity cost risk | 0 |
| Operational risk | 55 |
| **Whole Bank risk** | **558** |

The available risk coverage potential was able to cover 206 percent of Whole Bank risk as of December 2018 (prior year: 215 percent). The allocated limits were covered for 144 percent (prior year: 135 percent) at the same closing date by the risk coverage potential. The coverage ratio is expected to remain stable in fiscal year 2019.

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 99.9 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 increase in the credit risk from EUR 246.3 million at the end of 2017 to EUR 377.9 million as of the closing date December 31, 2018, results from the growth of the Bank's credit portfolio primarily due to the merger with BKB and BHN.

*Market risk in the non-trading portfolio*
The increase in the market risk in the non-trading portfolio was disproportionately low against the backdrop of the merger with BKB and BHN; it rose from EUR 101.0 million at the end of 2017 to EUR 125.2 million at the closing date December 31, 2018, since the added activities have a lower average fixed interest rate compared to the prior portfolio.

*Operational risk*
As operating risk capital at the end of 2018, the risk key indicator determined according to the standard approach under CRR is applied, which is calculated by adding the key indicators of the individual institutes. After the mergers with BKB and BHN, an update of the individual scenario analyses in the form of a risk assessment still has to be done for the utilization of the OLB's internal model.

*Liquidity cost risk*
Liquidity cost risk for the entire year of 2018 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, 2018, came to EUR 558.5 million (prior year: EUR 364.1 million). The increase is a result of the merger of OLB with BKB and BHN.

*Risk-carrying capacity under the going-concern approach*
The Bank maintained the regulatory minimum capitalization at all times in 2018 in the "Severe economic downturn" scenario.

## Credit risk
The customer credits of OLB and the former BHN were largely granted to private customers and small and medium-sized corporate customers, expanded by the credit portfolio of the former BKB with an emphasis on the business areas of commercial real estate and acquisition financing. 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–VI | < 0.02 %–0.46 % | Ability to meet payment obligation |
| VII–IX | 0.46 %–2.45 % | Ability to meet payment obligation with limitations |
| X–XII | 2.45 %–13.25 % | Impaired ability to meet payment obligation |
| XIII–XIV | 13.25 %–<100 % | Increased or severe vulnerability to delinquency |
| XV–XVI | 100 % | Borrower is delinquent under CRR or is considered to have defaulted |

The chart below shows the distribution of credit ratings for the gross credit risk in the customer lending business as of December 31, 2018. 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.

*See chart below left*

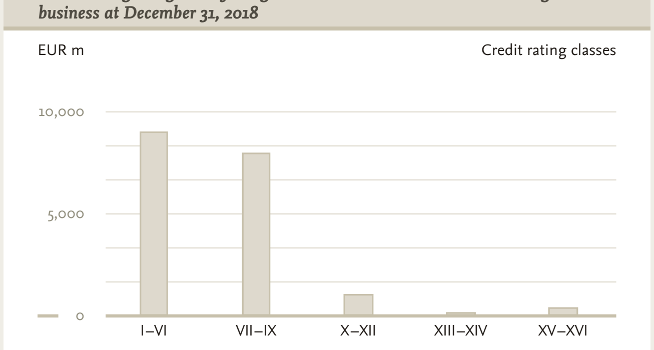
The credit rating structure of the gross credit risk indicates that the major part of the portfolio, at 91 percent, is in very good to average categories (I – IX). Only 3 percent are in critical credit ratings (XIII – XVI).

All in all, about 42 percent of the gross credit risk is secured with collateral. Most of this collateral is liens on residential and commercial property. Further receivable claims are mainly secured with liquid collateral such as account balances, building loan agreements and chattel mortgages.

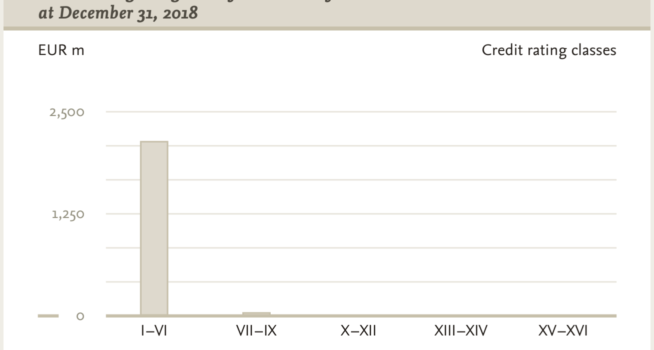
*Risk concentrations*
The distribution of the credit portfolio by sector is generally determined by the clientele resident in the Bank's business region. In addition, the credit business constitutes a focus in the area of project financing, commercial real estate and acquisition financing.

*Financing for oceangoing vessels*
In the past, financing for oceangoing vessels took up a large portion of the risk provision. In 2018, the risks from the freight-rate-dependent portfolio were largely reduced by sales of oceangoing vessels at normal market prices and successful restructuring measures. No additional charges arose from the portfolio in the reporting year. In the freight-rate-dependent shipping portfolio, OLB again sees very selective market opportunities with very manageable risks.

*Credit rating categories of the gross credit risk in the customer lending business at December 31, 2018*




*Credit rating categories of receivables from banks and bank bonds at December 31, 2018*



*Collateral*

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

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 appraisals |

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 very good to good credit ratings, I – VI. Barely 0.2 percent of total receivables fall within the credit ratings from VII to IX.

See chart, p. 059 right

The chart below shows the distribution of credit ratings for receivables from banks and bank bonds at December 31, 2018.

*Country risk*

See chart below

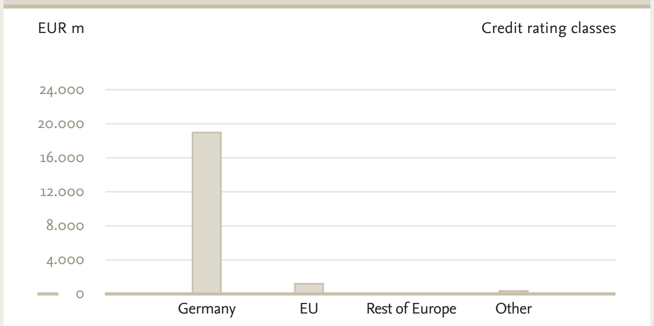
Ninety-two percent of the customer and bank credit business pertains to Germany, 7 percent to the rest of the world, mainly the EU.

## 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.

*Country risk*



*Non-trading portfolio*

**Value at risk for the non-trading portfolio (99.9 percent / 1 year, or (99.93 percent / 1 year) in 2018:**

| EUR m | VaR (99.9 %) August to December 2018 | VaR (99.93 %) January to July 2018 |
|---|---|---|
| Minimum | 125.2 | 103.4 |
| Mean | 130.7 | 109.3 |
| Maximum | 139.7 | 115.1 |

The market price risks for the non-trading portfolio (VaR model 99.93 percent / 1 year) for January to July 2018 stayed mostly below the prior-year level. The average value at risk for the first seven months of 2018, at EUR 109.3 million, was less than the 2017 figure of EUR 112.4 million. The merger of OLB with BKB was completed in August and the merger with BHN in December. The established limit of EUR 150 million (until August 2018: EUR 125 million) was not exceeded in the course of the year. The utilization of limits in market price risks is intentional in passive interest-rate book management.

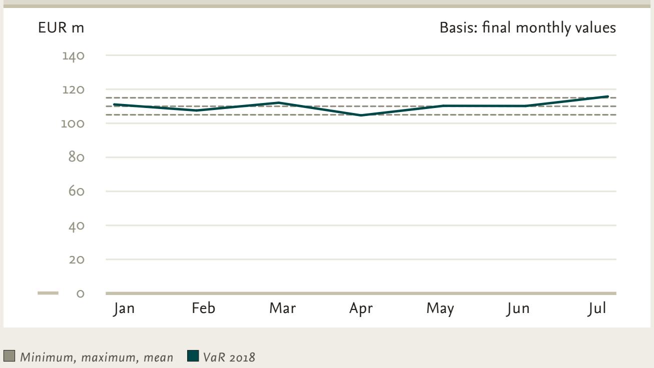
Market risk in the non-trading portfolio is assessed and limited on a value basis through historical changes in interest rates and stock prices. The growing lending business was the driver behind risk.

See chart below

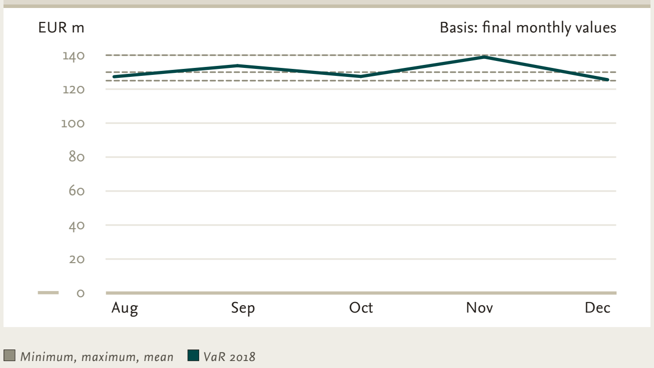
The interest risk coefficient in 2018 was 17.72 percent at maximum.

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. 340a in conjunction with Sec. 249 (1) Sentence 1 HGB, in compliance with opinion IDW RS BFA 3 of October 16, 2017, from the Institute of Public Auditors in Germany, and applying the net present value approach. Equity as a refinancing resource is not assessed as part of the interest-bearing assets and debts. The cash value of the non-trading portfolio was compared to the carrying amounts after deduction of prorated risk and administrative expenses (in each case on the basis of standard risk costs, the risk of loss from market price fluctuations incl. for highly liquid securities, the risk of loss from the volatility of the Bank's own liquidity and credit spread and of expense-cash-flow estimates). 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.

*VaR for non-trading portfolio, January to July 2018 (99.93 percent / 1 year)*




*VaR for non-trading portfolio, August to December 2018 (99.9 percent / 1 year)*



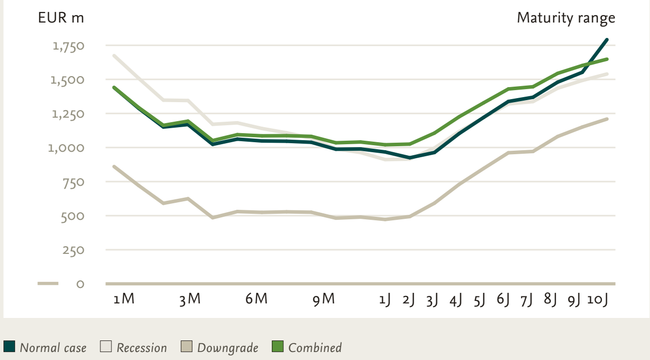
Foreign currency is converted in accordance with Sec. 340h HGB in conjunction with Sec. 256a HGB, also taking into account opinion IDW RS BFA 4 from the Institute of Public Auditors in Germany. Assets and liabilities denominated in foreign currency, as well as cash transactions not yet settled at the 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 0.5 million on any day. Income and expenses resulting from the conversion of specially covered transactions are recognized in profit or loss in accordance with Sec. 340h 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. The relevant scenarios are discussed at risk workshops with experts from the specialized departments, who assess them for the potential level and frequency of losses. The value-at-risk for the operational risk is then determined using a Monte Carlo simulation. If changes occur under scenarios during the year, the corresponding scenarios are reassessed.

From January 2018 to July 2018 the risk amount determined via the internal model came to EUR 16.8 million (VaR 99.93 percent/1 year). From September 2018 to November 2018, the risk amount calculated using the standard approach in the course of a change of method came to EUR 51 million (sum of the individual amounts credited to OLB and the former BKB). As of the end of 2018, OLB had a risk capital for operational risk according to the standard approach in the amount of EUR 55.4 million (sum of the individual amounts credited to OLB, the former BKB and BHN).

*10-year liquidity cash flows*




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

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 ratio

The Bank checks the key indicator of liquidity coverage ratio (LCR) of CRR daily. The positions are stated by the report of the key indicator according to the Delegated Regulation, and have been since September 1, 2016.

| LCR | August to December 2018 | January to July 2018 | 2017 |
| --- | --- | --- | --- |
| Minimum | 129 % | 106 % | 110 % |
| Mean | 146 % | 132 % | 122 % |
| Maximum | 172 % | 147 % | 143 % |

The minimum value of 100 percent for LCR was maintained throughout the year. On average, the figure after the merger with BKB was 46 percentage points above the required minimum of 100 percent. As of December 31, 2018, the figure after the merger with BHN was 172 percent.

#### Liquidity cash flows at December 31, 2018

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. 062

Oldenburg, March 1, 2019
OLB AG

The Board of Managing Directors

| Axel Bartsch | Dr. Wolfgang Klein | Karin Katerbau | Hilger Koenig | Jens Rammenzweig |
| --- | --- | --- | --- | --- |
| Chairman | Vice Chairman | | | |

# Report of the Supervisory Board for Fiscal Year 2018

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.

As a result of the change of shareholders and the regular expiration of the term of office of all Supervisory Board members, the composition of the Supervisory Board changed on March 16, 2018, and again on May 11, 2018. The current Supervisory Board was finally constituted on August 31, 2018, in the course of the merger of BKB with OLB AG. The composition of the Supervisory Board at each point can be deduced from the information given in the Annual Report on the members of governing bodies per Sec. 285 No. 10 HGB.

## Matters Addressed by the Full Board

In addition to the three constituting meetings, the entire Supervisory Board met in fiscal year 2018 for six in-person meetings and three additional meetings by telephone conference. The meetings were held twice in March, then in April, in July, twice in August, then in October, and twice in December. The Chairman of the Supervisory Board also maintained continual 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 Supervisory Board's regular deliberations concerned the economic condition of OLB. 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. The Supervisory Board 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, the Supervisory Board also obtained reports from the independent auditors. In implementation of the rotation of the public auditor as prescribed by law, the Supervisory Board placed the audit of the Annual Financial Statements and the securities service business out for competitive bidding and appointed Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, as public auditors for fiscal year 2018.

The Supervisory Board repeatedly dealt with issues in connection with the change of shareholders. Consequently, considerable time was spent on discussion of the strategic orientation of the Bank developed by the Board of Managing Directors. In this context, the Supervisory Board addressed the business plan of the Board of Managing Directors for 2019 and the medium-term plan for 2020/2021. In advance of the successfully executed mergers of BKB and Bankhaus Neelmeyer AG (BHN) with OLB, the Supervisory Board was given regular reports by the Board of Managing Directors on the current status of the project work for the legal and technical migration.

The Supervisory Board addressed the Board of Managing Directors and compensation issues multiple times. In particular, it was persuaded that the compensation system for the Board of Managing Directors complies with the relevant statutory regulations, and it was satisfied that the compensation system is oriented toward the business and risk strategy goals of OLB and does not provide incentives to take inordinately high risks. Further information about the compensation of the Board of Managing Directors is provided in the Compensation Report.

The Supervisory Board consented to the request of Patrick Tessmann to end his chairmanship of the Board of Managing Directors and his term of office as a member of the Board of Managing Directors effective August 31, 2018. After the merger of BKB with OLB, the Supervisory Board appointed Axel Bartsch, Dr. Wolfgang Klein and Jens Rammenzweig to the Board of Managing Directors of the Company effective September 1, 2018, and appointed Axel Bartsch as Chairman of the Managing Board and Dr. Wolfgang Klein as Vice-Chairman. Effective October 1, 2018, Dr. Rainer Polster was appointed chief Representative of the Bank.

## Work in the Committees of the Supervisory Board

For efficient performance of its responsibilities, the Supervisory Board has set up various committees. In addition to the five existing committees – the Chairmanship and Compensation Control Committee, the Audit Committee, the Risk Committee, the Nomination Committee and the Mediation Committee – a new committee named the Credit Committee was instituted in 2018.

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.

In the reporting year 2018, the *Chairmanship and Compensation Control Committee* held a total of four meetings, including one teleconference and one video conference. The meetings discussed mainly the Board of Managing Directors and compensation issues that were to be decided and made recommendations for decisions.

The *Audit Committee* met four times in fiscal year 2018, including once by way of teleconferencing. The committee audited, among other things, the Annual Financial Statements of OLB, the Management Report and the Audit Report, and discussed these financial statement documents with the independent auditors. 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. The same is true of the report of the public auditors on the audit of the securities service business, prepared in the course of the year. After the decision to perform the legally prescribed rotation of the public auditor already for fiscal year 2018, the Audit Committee recommended a resolution to the full Supervisory Board on the selection of the independent auditors based on the outcome of the competitive bidding procedure.

The *Risk Committee* held a total of four in-person meetings in the past fiscal year, in which it discussed in-depth the current risk situation of the Bank. These quarterly risk reports addressed such matters as risk-carrying capacity, credit risks, market price risks, liquidity risks and operational risks. It also met three times by way of teleconferencing, to deliberate and decide on individual credit exposures and other matters. This responsibility was transferred in the course of the year to the Credit Committee, which met for this purpose thirteen times by teleconferencing.

The *Nomination Committee* met twice in the past fiscal year, including once by teleconferencing, each time to vote on the preparation of candidate proposals for the Supervisory Board elections.

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

## Audit of the Annual Financial Statements

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, of Munich, has audited the Annual Financial Statements of Oldenburgische Landesbank AG as of December 31, 2018, 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 Deloitte's associated audit reports for fiscal year 2018 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 December 3, 2018 and March 20, 2019, and by the full Supervisory Board at its meeting of March 20, 2019. The auditors participated in all of these meetings. They reported on the material results of their audits and were available to answer questions and provide additional information.

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 Deloitte'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.

As of December 31, 2018, the Bank has prepared a separate nonfinancial report pursuant to Sec. 289b HGB. The Supervisory Board audited this report; its audit revealed no cause for objection.

OLB AG was a company affiliated with Allianz SE until February 7, 2018. The Board of Managing Directors therefore presented a Report on Relations with Affiliated Companies (the so-called dependency report) for the reporting period from January 1 to February 7, 2018, as well as the Audit Report on this prepared by Deloitte. The public auditors' certificate did not contain any objections.

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. It 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.

The Supervisory Board wishes to thank every employee of OLB and the members of the Board of Managing Directors for their valuable dedication and for their successful hard work.

Oldenburg, March 20, 2019

For the Supervisory Board

Dr. Ernst Thomas Emde
Chairman

# Balance Sheet of OLB AG as of 12/31/2018

| Assets EUR | 12/31/2018 | 12/31/2017 |
|---|---|---|
| 1. Cash reserve | **1,518,067,252.84** | **562,759,888.24** |
| a) Cash on hand | 528,595,341.15 | 307,873,662.01 |
| b) Balances with central banks | 989,471,911.69 | 254,886,226.23 |
| thereof: with the Deutsche Bundesbank | 989,471,911.69 | 254,886,226.23 |
| 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 | **267,118,566.03** | **142,140,294.95** |
| a) Demand deposits | 165,304,384.76 | 112,718,565.84 |
| b) Other receivables | 101,814,181.27 | 29,421,729.11 |
| 4. Receivables from customers | **13,959,904,303.61** | **10,848,059,229.89** |
| a) thereof: Secured with land liens | 6,288,784,569.48 | 5,644,644,243.74 |
| thereof: Public-sector loans | 58,316,281.95 | 72,870,343.91 |
| 5. Bonds and other fixed-income securities | **2,922,887,277.56** | **2,129,248,972.25** |
| a) Money market paper | — | — |
| aa) from public issuers | — | — |
| thereof: Acceptable as collateral by the Deutsche Bundesbank | — | — |
| ab) from other issuers | — | — |
| thereof: Acceptable as collateral by the Deutsche Bundesbank | — | — |
| b) Other bonds | 2,922,887,277.56 | 2,129,248,972.25 |
| ba) from public issuers | 1,444,648,769.67 | 1,253,500,249.73 |
| thereof: Acceptable as collateral by the Deutsche Bundesbank | 1,444,648,769.67 | 1,253,500,249.73 |
| bb) from other issuers | 1,478,238,507.89 | 875,748,722.52 |
| thereof: Acceptable as collateral by the Deutsche Bundesbank | 1,478,238,507.89 | 875,748,722.52 |
| c) Own debt instruments | — | — |
| Nominal amount | — | — |
| 6. Stocks and other non-fixed-income securities | **186,997,974.30** | **196,980,890.17** |
| 6a. Trading portfolio | **920,879.82** | **420,155.13** |
| 7. Long-term equity investments | **620,431.96** | **413,955.00** |
| thereof: in banking institutions | — | 122,939.58 |
| thereof: in financial services institutions | — | — |
| 8. Shares in affiliated companies | **103,129.19** | **52,000.00** |
| thereof: in banking institutions | — | — |
| thereof: in financial services institutions | — | — |
| 9. Trust assets | **976,975.53** | **1,653,581.74** |
| thereof: Loans for a third-party account | 484,749.95 | 604,620.81 |
| 10. Compensation receivables from government entities, incl. debt instruments from the exchange of those receivables | — | — |
| 11. Intangible fixed assets | **9,293,649.49** | **8,844,464.62** |
| a) Internally generated industrial rights and similar rights and assets | 777,119.37 | 799,402.16 |
| b) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets | 8,516,530.12 | 8,045,062.46 |
| c) Goodwill | — | — |
| d) Prepayments | — | — |
| 12. Tangible fixed assets | **69,154,837.74** | **73,581,490.95** |
| 13. Capital called but not yet paid | — | — |
| 14. Other assets | **144,865,844.47** | **397,830,354.98** |
| 15. Deferred income | **11,623,557.92** | **4,843,065.02** |
| 16. Deferred tax assets | — | — |
| 17. Excess of plan assets over pension benefit liabilities | **500,922.25** | **363,057.97** |
| 18. Deficit not covered by equity | — | — |
| **Total assets** | **19,093,035,602.71** | **14,367,191,400.91** |

| Equity & Liabilities EUR | 12/31/2018 | 12/31/2017 |
|---|---|---|
| 1. Liabilities to banks | **5,583,930,695.65** | **4,292,862,733.27** |
| a) Demand deposits | 78,668,424.10 | 56,417,086.22 |
| b) with agreed maturity or notice period | 5,505,262,271.55 | 4,236,445,647.05 |
| 2. Liabilities to customers | **11,345,866,560.51** | **8,424,868,700.43** |
| a) Savings deposits | 1,691,125,777.81 | 1,569,096,724.98 |
| aa) with agreed withdrawal notice of three months | 1,493,713,963.98 | 1,370,186,745.02 |
| ab) with agreed withdrawal notice of more than three months | 197,411,813.83 | 198,909,979.96 |
| b) Other liabilities | 9,654,740,782.70 | 6,855,771,975.45 |
| ba) Demand deposits | 6,919,770,767.44 | 5,730,700,916.20 |
| bb) with agreed maturity or notice period | 2,734,970,015.26 | 1,125,071,059.25 |
| 3. Securitized liabilities | **116,233,000.00** | **501,428,500.00** |
| a) Bonds issued | 116,233,000.00 | 501,428,500.00 |
| b) Other securitized liabilities | — | — |
| thereof: Money market paper | — | — |
| thereof: Own acceptances and promissory notes in circulation | — | — |
| 3a. Trading portfolio | — | — |
| 4. Trust liabilities | **976,975.53** | **1,653,581.74** |
| thereof: Loans for a third-party account | 484,749.95 | 604,620.81 |
| 5. Other liabilities | **416,620,281.31** | **10,416,651.79** |
| 6. Deferred income | **35,033,686.58** | **51,518,657.14** |
| 6a. Deferred tax liabilities | — | — |
| 7. Provisions | **300,944,745.04** | **214,961,211.26** |
| a) Provisions for pensions and similar obligations | 196,527,010.07 | 148,079,429.36 |
| b) Provisions for taxes | 11,823,199.60 | 13,956,367.10 |
| c) Other provisions | 92,594,535.37 | 52,925,414.80 |
| 9. Subordinated debt | **274,480,485.93** | **175,163,863.43** |
| 10. Profit participation rights outstanding | — | — |
| thereof: Due within two years | — | — |
| 11. Fund for general bank risks | **20,092,261.97** | **24,792,261.97** |
| thereof: Special item per Sec. 340 e (4) HGB | 9,964.94 | 9,964.94 |
| **12. Equity held** | **998,856,910.19** | **669,525,239.88** |
| 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 | 517,332,330.40 | 208,306,686.77 |
| c) Revenue reserves | 394,935,695.56 | 372,433,376.59 |
| 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 | 394,764,629.06 | 372,262,310.09 |
| d) Net retained profits / net accumulated losses | 26,120,312.43 | 28,316,604.72 |
| Contingent capital (balance sheet note) | 11,978,954.00 | 0.00 |
| **Total equity and liabilities** | **19,093,035,602.71** | **14,367,191,400.91** |

| Off-balance-sheet items EUR | 12/31/2018 | 12/31/2017 |
|---|---|---|
| 1. Contingent liabilities | **504,622,335.70** | **312,727,124.05** |
| a) Contingent liabilities from rediscounted bills of exchange | — | — |
| b) Obligations under suretyships and guarantees | 504,622,335.70 | 312,727,124.05 |
| c) Liability from collateral furnished for third-party liabilities | — | — |
| 2. Other obligations | **1,782,400,900.87** | **643,350,050.63** |
| a) Repurchase obligations from non-genuine sale and repurchase agreements | — | — |
| b) Placement and underwriting commitments | — | — |
| c) Committed credit facilities | 1,782,400,900.87 | 643,350,050.63 |

# Income Statement of OLB AG for the period January 1 – December 31, 2018

| EUR | 2018 | 2017 |
|---|---|---|
| 1. Interest income from | **431,952,023.09** | **355,608,612.00** |
| a) Credit and money market transactions | 405,394,807.39 | 336,527,297.74 |
| thereof: Negative interest from credit and money market transactions | –7,298,591.43 | –4,576,273.49 |
| b) Fixed-income securities and book-entry securities | 26,557,215.70 | 19,081,314.26 |
| thereof: Negative interest from fixed-income securities and book-entry securities | — | — |
| 2. Interest expenses | **–142,156,059.29** | **–127,932,589.25** |
| thereof: Positive interest | 13,325,987.65 | 7,628,944.60 |
| 3. Current income from | **111,249.48** | **70,289.05** |
| a) Stocks and other non-fixed-income securities | 77,022.70 | 43,034.85 |
| b) Long-term equity investments | 34,226.78 | 27,254.20 |
| c) Shares in affiliated companies | — | — |
| 4. Income from profit pooling, profit transfer or partial profit transfer agreements | **1,111,329.82** | **370,879.86** |
| 4a. Result obtained for third-party account from the transferring legal entity | **2,295,363.33** | — |
| 5. Commission income | **100,219,648.20** | **84,447,532.05** |
| 6. Commission expense | **–15,868,360.40** | **–16,392,797.13** |
| 7. Net operating trading income / expense | **–94,170.14** | **31,230.85** |
| thereof: Allocation to (–) or reversal of (+) special item per Sec. 340 g HGB | — | –3,470.10 |
| 8. Other operating income | **25,507,534.48** | **27,520,317.53** |
| 10. General administrative expenses | **–271,125,911.37** | **–214,494,482.31** |
| a) Personnel expenses | –164,013,854.56 | –140,305,390.05 |
| aa) Wages and salaries | –132,146,317.98 | –113,257,093.98 |
| ab) Social security, pension provisions and other employee benefit costs | –31,867,536.58 | –27,048,296.07 |
| thereof: for pension provisions | –11,259,189.94 | –8,065,586.19 |
| b) Other administrative expenses | –107,112,056.81 | –74,189,092.26 |
| 11. Amortization and write-downs of intangible fixed assets and write-downs of tangible fixed assets | **–16,283,742.57** | **–15,126,938.70** |
| 12. Other operating expenses | **–23,498,765.68** | **–22,371,919.57** |
| 13. Write-downs of receivables and certain securities and allocations to provisions in the credit business | **–10,920,794.62** | **–23,376,794.46** |
| thereof: Appropriated to fund for general bank risks per Sec. 340 g HGB | — | –12,000,000.00 |
| thereof: Reversal from the fund for general bank risks per Sec. 340 g HGB | 4,700,000.00 | — |
| 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 | **–124,922.46** | — |
| 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** |
| 17. Expenses for assumption of losses | **–4,565.58** | — |
| **19. Result from ordinary activities** | **81,119,856.29** | **58,022,689.47** |
| 20. Extraordinary income | **3,596,993.17** | **289,178.85** |
| 21. Extraordinary expenses | **–42,071,997.72** | **–7,860,545.33** |
| 22. Extraordinary result | **–38,475,004.55** | **–7,571,366.48** |
| 23. Taxes on income | **–18,117,083.09** | **–21,145,458.32** |
| 24. Other taxes not included under Item 12 | **–3,950,883.97** | **–989,259.95** |
| 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** | **20,576,884.68** | **28,316,604.72** |
| 28. Retained profits / accumulated losses brought forward | **5,543,427.75** | — |
| 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** | **26,120,312.43** | **28,316,604.72** |

# Notes to the Annual Financial Statements of OLB AG for the Fiscal Year 2018

## I. General Information

*Bases for preparation of the annual financial statements and accounting rules*

OLB AG (OLB) is registered with the Local Court of Oldenburg (Comm. Reg. B 3003). The former Bremer Kreditbank AG (BKB) was registered with the Local Court of Bremen (Comm. Reg. B 4188) until the merger by entry in the Commercial Register on August 31, 2018. The former Bankhaus Neelmeyer AG (BHN) was registered with the Local Court of Bremen (Comm. Reg. B 4425) until the merger by entry in the Commercial Register on December 28, 2018.

OLB AG drew up its annual financial statements according to the rules of the German Commercial Code (HGB) in conjunction with the German Accounting Directive for Banks and Financial Services Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV) and in observance of the regulations of the German Stock Corporation Act (AktG). The structure of the balance sheet and the income statement is based on RechKredV.

Until February 7, 2018, Allianz Deutschland AG, of Munich, held approximately 90.2 percent of the shares of OLB AG. The sole shareholder of Allianz Deutschland AG is Allianz SE, of Munich. On February 7, 2018, all conditions for the execution of the sale of this equity stake to BKB were fulfilled.

By resolution of the extraordinary shareholders' meeting of BKB held on May 24, 2017, an increase of the company's capital was decided, and in February 2018 it was executed by the issuance of 507,186 units of new stock. The share capital increased by EUR 26,378,743.86 to EUR 55,881,538.07. The capital reserve increased by EUR 280,620,941.94 to EUR 507,460,958.86. The capital increase essentially served the purpose of financing the aforementioned acquisition of the majority stake of 90.2 percent in OLB.

On the basis of a takeover bid to purchase all registered no-par shares of OLB, BKB in 2017 acquired another 3.236 percent of the OLB shares indirectly through BKB Beteiligungsholding AG in accordance with Secs. 29 et seq. of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz – WpÜG). In addition, outside the tender procedure, a purchase agreement for 1.92 percent of the OLB shares was entered into by BKB indirectly through BKB Beteiligungsholding AG in 2017. BKB Beteiligungsholding AG was merged into BKB, and therefore the aforementioned shareholding was transferred to BKB in 2017.

At the ordinary shareholders' meeting of BKB held on March 14, 2018, a capital increase from company funds without issue of new shares was resolved, which was completed by conversion of a partial amount of the retained earnings. The share capital increased by EUR 15,000,000.00 to EUR 70,881,538.07. The capital reserves remained unchanged. This capital increase mainly served the purpose of financing the aforementioned takeover bid for acquisition by private contract of additional shares in excess of 5 percent of the shares of OLB.

Taking account of the portion of stock acquired from Allianz, this yielded a shareholding of 95.35 percent of OLB stock for BKB as of February 7, 2018.

To simplify its group structure, BKB sought a squeeze-out of other shareholders (minority shareholders) in accordance with Secs. 327a et seq. AktG, in return for a fair and reasonable cash settlement. The OLB Shareholders' Meeting of May 11, 2018 resolved to transfer the shares of the remaining shareholders to the primary shareholder BKB in exchange for a cash settlement. This transfer became effective with the entry in the Commercial Register dated June 27, 2018. In this way, BKB expanded its shareholding to 100 percent by means of a squeeze-out under stock corporation law.

With the entry in the Commercial Register dated August 31, 2018, OLB as the acquiring legal entity merged with BKB in accordance with the merger agreement dated August 14, 2018, and the consent resolutions of its own Shareholders' Meeting dated August 14, 2018, and the shareholders' meeting of the transferring legal entity BKB dated August 14, 2018. The merger (to form "NewCo1") occurred without a capital increase as a "downstream merger" according to commercial law, with retroactive effect as of January 1, 2018. In this way, OLB also became the owner of BKB's 100 percent stake in Bankhaus Neelmeyer AG (BHN).

The Shareholders' Meeting dated August 14, 2018, resolved in favor of a contingent increase in the share capital by an amount up to EUR 9,430,855.20 (Contingent Capital 2018/I) and a contingent increase of the share capital by an amount up to EUR 2,548,098.80 (Contingent Capital 2018/II). On this, see also the section "Disclosures on authorized capital per Sec. 160 (1) No. 4 AktG" in these Notes.

With the entry in the Commercial Register dated December 28, 2018, OLB as the acquiring legal entity merged with BHN in accordance with the merger agreement dated December 4, 2018, and the consent resolutions of its own Shareholders' Meeting dated December 4, 2018, and the shareholders' meeting of the transferring legal entity dated December 4, 2018. The merger (to form "NewCo2") occurred as an "upstream merger" according to commercial law, with retroactive effect as of July 1, 2018.

As of the time of these mergers taking effect, all rights and obligations of BKB and BHN existing on the respective date were transferred to OLB by means of universal succession. By this means, the former BKB ceased to exist. BHN lost its legal independence and now appears as a branch office of OLB.

The representation of the mergers under commercial law occurred in observance of the rules of the IDW position statement on accounting: Effects of a merger on the annual financial statements under commercial law (IDW RS HFA 42). On this, see also the section "Disclosures on the depiction of the merger occurring during the year under commercial law" in these Notes.

Through the merger with BKB and BHN, in application of Sec. 296 (2) HGB (waiver of inclusion) in conjunction with Sec. 290 (5) HGB (duty to prepare), all remaining controlled subsidiaries individually and collectively are of subordinated importance for the Group's assets, liabilities, financial position and financial performance, so that the preparation of consolidated financial statements as of the reporting date is waived.

***Explanation of accounting policies (disclosures per Sec. 284 (2) No. 1 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. The risk provision is determined with use of a discounted cash flow model. 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).

The credit portfolio migrated from BKB was evaluated in September 2018 for the first time according to the risk provision models of OLB. Due to the replacement of the method used at BKB to form general loan loss provisions according to the “German Federal Ministry of Finance’s letter of 1994,” the conversion led to an additional allocation of EUR 8.0 million for non-troubled loans.

No interest is accrued for loans covered by an SLLP. The credit portfolio taken over at the end of the year through the merger with Bankhaus Neelmeyer was taken over with existing risk provision balances. Specific loan loss provisions of failed loans are measured based on the balance between the receivable claim and the offsettable collateral. General loan loss provisions were established and were formed and taken over in accordance with the “German Federal Ministry of Finance’s letter of 1994.”

There is also a *fund for general bank risks* in accordance with Sec. 340g HGB.

*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 current insolvency proceedings, 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.

Usages of SLLP in 2018 in the amount of EUR 106.1 million include usages from the BKB portfolio of EUR 93.1 million that involved the aforementioned derecognition criteria in preparation for the technical migration of BKB.

*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. 340f (3) HGB*, 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 separately 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 separately in Item 2 of the income statement, “Interest expense.”

Most of the 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 amortized cost or the lower market price or fair value, allowing for the requirement to reinstate original values. For balance sheet accounting purposes, a surcharge or discount is interpreted as an interest prepayment. Since interest is realized with the temporary transfer of use of capital, the surcharge or discount is amortized and is reflected in an amortized cost valuation. The conversion of the former BKB or BHN portfolio to this method in the current accounts led on balance to charges of EUR 0.6 million and EUR 0.5 million, respectively, in the income statement.

At the reporting date, the *portfolio of long-term investments* contained marketable bonds and other fixed-income securities, for an amount of EUR 539.8 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 amortized cost according to the "amortized cost valuation" (see above) less any presumed lasting impairment. At the reporting date, fixed assets included no securities from this 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.

In 2017, BKB legally assigned customer receivables of nominally EUR 400.0 million to the special purpose vehicle Weser Funding S.A. These receivables were securitized by Weser Funding S.A. in a senior tranche of EUR 310.0 million (ISIN XS1609257875) and a subordinated, non-marketable junior tranche of EUR 90.0 million (ABS notes) and taken over by BKB in the context of an asset-backed security (ABS) transaction (so-called "on-balance legal true sale transaction"). The key element of the true sale securitization transaction is the purchase of assets by the special purpose vehicle Weser Funding S.A. from the originator BKB. Since the economic ownership of the securitized receivables is with OLB (as legal successor of the originator BKB), OLB continues to carry them on the balance sheet. The acquired ABS notes are valued at cost and recognized as fixed assets in the balance sheet item "Bonds and other fixed-income securities" (senior tranche) and "Other assets" (junior tranche). They will remain in OLB's portfolio until the final maturity or until repaid. In the equivalent amount of EUR 400.0 million, liabilities from the securitization transaction are recognized as owed to Weser Funding S.A. under "Other liabilities." To determine the fair value of the junior tranche, the projected cash flows were discounted. Taking into account negative discount yields, an interest-induced cash value over the nominal value resulted. This is opposed to potential model failure risks (based on very good credit ratings) of the securitized loans, which were recorded in the income statement at EUR 1.3 million as a GLLP as part of the risk provision measurement.

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. 340e HGB. The applied *risk discount* comprises the allowance amount for market price risks in the trading portfolio in accordance with the Solvency Regulation (SolvV), 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* including derivatives yield a surplus of liabilities that would have to be taken into account by forming a provision under Sec. 340a in conjunction with Sec. 249 (1) Sentence 1 HGB, in compliance with opinion IDW RS BFA 3 of October 16, 2017, from the Institute of Public Auditors in Germany, and applying the net present value approach. Equity as a refinancing resource is not assessed as part of the interest-bearing assets and debts. The cash value of the non-trading portfolio was compared to the carrying amounts after deduction of prorated risk and administrative expenses (in each case on the basis of standard risk costs, the risk of loss from the volatility of the Banks own liquidity and credit spread, and of expense / cash flow estimates). 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. The Bank's own repurchased bonds are valued at prices that come from an internal model. The valuation is done using the cash-value-oriented discounted cash flow method, taking into consideration the risk-free interest rates observable on the market as well as OLB credit spreads derived from market observations and expert estimates.

*Own bonds that are planned for collection* were recognized in the prior year under other assets and assessed at nominal value, and were fully derecognized in 2018.

*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 250 or less (prior year: EUR 150 or less) are written off in the year of acquisition. Low-value assets with costs of more than EUR 250 (prior year: 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. Prorated interest expenses for subordinated bonds are recognized among other liabilities.

*Provisions* are recognized at the necessary fulfilment 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 Deutsche 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 year 2018, essentially one-fifteenth of this amount was recognized as an extraordinary expense. In 2018, a special repayment of the conversion expense in the amount of EUR 3.76 million was recorded as extraordinary expenses. The unrecognized provision amount per Art. 67 (2) Introductory Act to the Commercial Code (EGHGB) came to EUR 11.9 million as of the reporting date. 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 HGB (time remaining to maturity: 15 years).

In 2018, the transition was made from the Heubeck-based “Mortality Tables AT2010GA” (for OLB employee pensions) used in the Allianz Group, or from the general “Heubeck Mortality Tables 2005 G” (for former BKB and BHN employee pensions) to the “Heubeck Mortality Tables 2018 G”. This was made necessary by the departure of OLB from the Allianz Group and the acknowledgement of the Heubeck table change by a German Federal Ministry of Finance letter in 2018.

According to Sec. 6a (4) Sentence 2 of the Income Tax Act (Einkommensteuergesetz – EStG), the difference amount based on the first-time application of the “Heubeck Mortality Tables 2018 G” is divided evenly across three fiscal years and allocated to the respective tax retirement provision. The corresponding amount was recorded under commercial law under other operating income and the expense as personnel expense.

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.

***Disclosures on the depiction under commercial law of the merger occurring during the year***

The merger of BKB with OLB (to form NewCo1) occurred without a capital increase as a downstream merger according to commercial law, with retroactive effect as of January 1, 2018.

The merger of BHN with OLB (to form NewCo2) occurred as an upstream merger according to commercial law, with retroactive effect as of July 1, 2018.

The representation of the mergers under commercial law occurred in observance of the rules of the IDW position statement on accounting: "Effects of a merger on the annual financial statements under commercial law" (IDW RS HFA 42).

The asset transfer as a result of a merger represented an acquisition from the viewpoint of OLB, as the party taking them over. Both acquisition events were depicted as a carrying amount linkage with use of a right-to-choose under Sec. 24 UmwG. For this, the carrying amounts from the final balance sheet of the transferring BKB and BHN were rated as at cost.

The assets and debts were transferred to OLB through transactions in the current accounts. Not to be taken over by OLB, however, were assets and debts that came to an end on the occasion of the merger. This related to the receivables and liabilities existing between the companies involved, that expired through confusion of goods.

From the standpoint of OLB, positive net assets were transferred in the merger of BKB, since BKB's book equity exceeded the eliminated investment carrying amount of OLB. Thus, there was a no-charge shareholder payment in the sense of a contribution in kind, the equivalent value of which at EUR 309,025,643.63 was to be placed in the capital reserves under Sec. 272 (2) No. 4 HGB.

From the standpoint of OLB, positive net assets were transferred in the merger of BHN, since BHN's book equity plus the fund for general bank risks exceeded the eliminated investment carrying amount of BHN. In the case of this upstream merger, the difference between the carrying amount of the eliminated shares and the carrying amount of the net assets taken over (incl. the fund for general bank risks) resulted in a positive difference, which was recorded at EUR 1,360,364.11 in the income statement with an effect on income.

The transactions of BHN conducted for the account of OLB as the acquiring legal entity since the merger date of July 1, 2018, were recorded by posting a net balance at OLB under the designation "Income earned by the transferring legal entity for third-party account."

The annual financial statements were prepared technically through use of two financial accounting systems. Then, the balance sheet items of NewCo1 and BHN were combined generally using the accounting policies of OLB.

*Comparability to the prior year from a merger in the course of the year*

In order to enable financial comparability for the balance sheet and income statement in the prepared financial statements with the prior year, corresponding pro-forma values for the prior year were developed that are depicted below.

For the balance sheet, the aggregated balance sheet of the three individual companies (OLB, BKB, BHN), less consolidation items that existed only between BKB and BHN in 2017, represents a useful standard of comparison.

| Assets | EUR |
|---|---|
| 1. | Cash reserve |
| | a) Cash on hand |
| | b) Balances with central banks |
| | thereof: with the Deutsche Bundesbank |
| | 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 |
| | a) Demand deposits |
| | b) Other receivables |
| 4. | Receivables from customers |
| | a) thereof: Secured with land liens |
| | thereof: Public-sector loans |
| 5. | Bonds and other fixed-income securities |
| | a) Money market paper |
| | aa) from public issuers |
| | thereof: Acceptable as collateral by the Deutsche Bundesbank |
| | ab) from other issuers |
| | thereof: Acceptable as collateral by the Deutsche Bundesbank |
| | b) Other bonds |
| | ba) from public issuers |
| | thereof: Acceptable as collateral by the Deutsche Bundesbank |
| | bb) from other issuers |
| | thereof: Acceptable as collateral by the Deutsche Bundesbank |
| | c) Own debt instruments |
| 6. | Stocks and other non-fixed-income securities |
| 6a. | Trading portfolio |
| 7. | Long-term equity investments |
| | thereof: in banking institutions |
| | thereof: in financial services institutions |
| 8. | Shares in affiliated companies |
| | thereof: in banking institutions |
| | thereof: in financial services institutions |
| 9. | Trust assets |
| | thereof: Loans for a third-party account |
| 10. | Compensation receivables from government entities, incl. debt instruments from the exchange of those receivables |
| 11. | Intangible fixed assets |
| | a) Internally generated industrial rights and similar rights and assets |
| | b) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets |
| | c) Goodwill |
| | d) Prepayments |
| 12. | Tangible fixed assets |
| 13. | Capital called but not yet paid |
| 14. | Other assets |
| 15. | Deferred income |
| 16. | Deferred tax assets |
| 17. | Excess of plan assets over pension benefit liabilities |
| 18. | Deficit not covered by equity |
| | **Total assets** |

| | | | | | | 12/31/2017 |
|---|---|---|---|---|---|---|
| | OLB | BKB | NewCo1 | BHN | Consolidation NewCo1/BHN | NewCo2 |
| | **562,759,888.24** | **189,040,556.62** | **751,800,444.86** | **469,231,529.15** | **—** | **1,221,031,974.01** |
| | 307,873,662.01 | 266,171.91 | 308,139,833.92 | 2,354,657.96 | — | 310,494,491.88 |
| | 254,886,226.23 | 188,774,384.71 | 443,660,610.94 | 466,876,871.19 | — | 910,537,482.13 |
| | 254,886,226.23 | 188,774,384.71 | 443,660,610.94 | 466,876,871.19 | — | 910,537,482.13 |
| | — | — | — | — | — | — |
| | **—** | **—** | **—** | **—** | **—** | **—** |
| | — | — | — | — | — | — |
| | — | — | — | — | — | — |
| | **142,140,294.95** | **63,746,691.48** | **205,886,986.43** | **122,753,102.40** | **−67,748,051.71** | **260,892,037.12** |
| | 112,718,565.84 | 59,026,697.79 | 171,745,263.63 | 7,645,427.39 | −7,748,051.71 | 171,642,639.31 |
| | 29,421,729.11 | 4,719,993.69 | 34,141,722.80 | 115,107,675.01 | −60,000,000.00 | 89,249,397.81 |
| | **10,848,059,229.89** | **2,013,131,863.29** | **12,861,191,093.18** | **555,989,087.71** | **—** | **13,417,180,180.89** |
| | 5,644,644,243.74 | 457,569,299.00 | 6,102,213,542.74 | 111,092,083.54 | — | 6,213,305,626.28 |
| | 72,870,343.91 | — | 72,870,343.91 | 15,151,062.04 | — | 88,021,405.95 |
| | **2,129,248,972.25** | **512,253,339.98** | **2,641,502,312.23** | **129,512,938.36** | **—** | **2,771,015,250.59** |
| | — | — | — | — | — | — |
| | — | — | — | — | — | — |
| | — | — | — | — | — | — |
| | — | — | — | — | — | — |
| | — | — | — | — | — | — |
| | 2,129,248,972.25 | 512,253,339.98 | 2,641,502,312.23 | 129,512,938.36 | — | 2,771,015,250.59 |
| | 1,253,500,249.73 | 202,253,339.98 | 1,455,753,589.71 | 129,512,938.36 | — | 1,585,266,528.07 |
| | 1,253,500,249.73 | 202,253,339.98 | 1,455,753,589.71 | 129,512,938.36 | — | 1,585,266,528.07 |
| | 875,748,722.52 | 310,000,000.00 | 1,185,748,722.52 | — | — | 1,185,748,722.52 |
| | 875,748,722.52 | 310,000,000.00 | 1,185,748,722.52 | — | — | 1,185,748,722.52 |
| | — | — | — | — | — | — |
| | **196,980,890.17** | **—** | **196,980,890.17** | **—** | **—** | **196,980,890.17** |
| | **420,155.13** | **—** | **420,155.13** | **—** | **—** | **420,155.13** |
| | **413,955.00** | **297,992.42** | **711,947.42** | **752.00** | **—** | **712,699.42** |
| | 122,939.58 | 279,232.42 | 402,172.00 | 2.00 | — | 402,174.00 |
| | — | — | — | — | — | — |
| | **52,000.00** | **68,213,894.19** | **68,265,894.19** | **—** | **−68,162,765.00** | **103,129.19** |
| | — | 68,162,765.00 | 68,162,765.00 | — | −68,162,765.00 | — |
| | — | — | — | — | — | — |
| | **1,653,581.74** | **—** | **1,653,581.74** | **687.14** | **—** | **1,654,268.88** |
| | 604,620.81 | — | 604,620.81 | 687.14 | — | 605,307.95 |
| | **—** | **—** | **—** | **—** | **—** | **—** |
| | **8,844,464.62** | **1,032,235.44** | **9,876,700.06** | **158,735.03** | **—** | **10,035,435.09** |
| | 799,402.16 | — | 799,402.16 | — | — | 799,402.16 |
| | 8,045,062.46 | 1,032,235.44 | 9,077,297.90 | 158,735.03 | — | 9,236,032.93 |
| | — | — | — | — | — | — |
| | — | — | — | — | — | — |
| | **73,581,490.95** | **2,735,209.29** | **76,316,700.24** | **723,663.83** | **—** | **77,040,364.07** |
| | **—** | **—** | **—** | **—** | **—** | **—** |
| | **397,830,354.98** | **125,451,520.97** | **523,281,875.95** | **783,330.55** | **−2,756,090.48** | **521,309,116.02** |
| | **4,843,065.02** | **2,306,421.13** | **7,149,486.15** | **307,195.13** | **—** | **7,456,681.28** |
| | **—** | **—** | **—** | **—** | **—** | **—** |
| | **363,057.97** | **—** | **363,057.97** | **—** | **—** | **363,057.97** |
| | **—** | **—** | **—** | **—** | **—** | **—** |
| | **14,367,191,400.91** | **2,978,209,724.81** | **17,345,401,125.72** | **1,279,461,021.30** | **−138,666,907.19** | **18,486,195,239.83** |

| Equity and liabilities EUR | |
|---|---|
| 1. Liabilities to banks | |
| a) Demand deposits | |
| b) with agreed maturity or notice period | |
| 2. Liabilities to customers | |
| a) Savings deposits | |
| aa) with agreed withdrawal notice of three months | |
| ab) with agreed withdrawal notice of more than three months | |
| b) Other liabilities | |
| ba) Demand deposits | |
| bb) with agreed maturity or notice period | |
| 3. Securitized liabilities | |
| a) Bonds issued | |
| b) Other securitized liabilities | |
| thereof: Money market paper | |
| thereof: Own acceptances and promissory notes in circulation | |
| 3a. Trading portfolio | |
| 4. Trust liabilities | |
| thereof: Loans for a third-party account | |
| 5. Other liabilities | |
| 6. Deferred income | |
| 6a. Deferred tax liabilities | |
| 7. Provisions | |
| a) Provisions for pensions and similar obligations | |
| b) Provisions for taxes | |
| c) Other provisions | |
| 9. Subordinated debt | |
| 10. Profit participation rights outstanding | |
| thereof: Due within two years | |
| 11. Fund for general bank risks | |
| thereof: Special item per Sec. 340 e (4) HGB | |
| **12. Equity held** | |
| a) Called capital | |
| Subscribed capital | |
| less: Outstanding deposits not called | |
| b) Capital reserves | |
| c) Revenue reserves | |
| ca) Legal reserve | |
| cb) Reserves for shares in a parent or majority investor | |
| cc) Reserves provided for by the Articles of Incorporation | |
| cd) Other revenue reserves | |
| d) Net retained profits / net accumulated losses | |
| Contingent capital (balance sheet note) | |
| **Total equity and liabilities** | |

| | | | | | 12/31/2017 |
|---:|---:|---:|---:|---:|---:|
| OLB | BKB | NewCo1 | BHN | Consolidation NewCo1/BHN | NewCo2 |
| **4,292,862,733.27** | **737,067,269.10** | **5,029,930,002.37** | **140,376,307.43** | **−67,748,051.71** | **5,102,558,258.09** |
| 56,417,086.22 | 1,324,809.35 | 57,741,895.57 | 17,142,282.31 | −7,748,051.71 | 67,136,126.17 |
| 4,236,445,647.05 | 735,742,459.75 | 4,972,188,106.80 | 123,234,025.12 | −60,000,000.00 | 5,035,422,131.92 |
| **8,424,868,700.43** | **1,333,053,488.93** | **9,757,922,189.36** | **1,036,182,649.23** | — | **10,794,104,838.59** |
| 1,569,096,724.98 | 683,774.83 | 1,569,780,499.81 | 54,973,400.00 | — | 1,624,753,899.81 |
| 1,370,186,745.02 | 683,573.61 | 1,370,870,318.63 | 54,040,776.92 | — | 1,424,911,095.55 |
| 198,909,979.96 | 201.22 | 198,910,181.18 | 932,623.08 | — | 199,842,804.26 |
| 6,855,771,975.45 | 1,332,369,714.10 | 8,188,141,689.55 | 981,209,249.23 | — | 9,169,350,938.78 |
| 5,730,700,916.20 | 501,481,164.59 | 6,232,182,080.79 | 906,901,117.41 | — | 7,139,083,198.20 |
| 1,125,071,059.25 | 830,888,549.51 | 1,955,959,608.76 | 74,308,131.82 | — | 2,030,267,740.58 |
| **501,428,500.00** | — | **501,428,500.00** | — | — | **501,428,500.00** |
| 501,428,500.00 | — | 501,428,500.00 | — | — | 501,428,500.00 |
| — | — | — | — | — | — |
| — | — | — | — | — | — |
| — | — | — | — | — | — |
| — | — | — | — | — | — |
| **1,653,581.74** | — | **1,653,581.74** | **687.14** | — | **1,654,268.88** |
| 604,620.81 | — | 604,620.81 | 687.14 | — | 605,307.95 |
| **10,416,651.79** | **421,784,246.10** | **432,200,897.89** | **3,745,494.24** | **−2,756,090.48** | **433,190,301.65** |
| **51,518,657.14** | **404,785.14** | **51,923,442.28** | **215,912.72** | — | **52,139,355.00** |
| — | — | — | — | — | — |
| **214,961,211.26** | **31,534,368.75** | **246,495,580.01** | **29,416,841.43** | — | **275,912,421.44** |
| 148,079,429.36 | 11,949,039.24 | 160,028,468.60 | 16,405,599.00 | — | 176,434,067.60 |
| 13,956,367.10 | 2,943,291.21 | 16,899,658.31 | 905,000.00 | — | 17,804,658.31 |
| 52,925,414.80 | 16,642,038.30 | 69,567,453.10 | 12,106,242.43 | — | 81,673,695.53 |
| **175,163,863.43** | **78,276,784.81** | **253,440,648.24** | — | — | **253,440,648.24** |
| — | — | — | — | — | — |
| — | — | — | — | — | — |
| **24,792,261.97** | — | **24,792,261.97** | **5,550,000.00** | **−5,550,000.00** | **24,792,261.97** |
| 9,964.94 | — | 9,964.94 | — | — | 9,964.94 |
| **669,525,239.88** | **376,088,781.98** | **1,045,614,021.86** | **63,973,129.11** | **−62,612,765.00** | **1,046,974,385.97** |
| 60,468,571.80 | 29,502,794.21 | 89,971,366.01 | 12,800,000.00 | −12,800,000.00 | 89,971,366.01 |
| 60,468,571.80 | 29,502,794.21 | 89,971,366.01 | 12,800,000.00 | −12,800,000.00 | 89,971,366.01 |
| — | — | — | — | — | — |
| 208,306,686.77 | 226,840,016.92 | 435,146,703.69 | 36,600,000.00 | −36,600,000.00 | 435,146,703.69 |
| 372,433,376.59 | 108,958,734.33 | 481,392,110.92 | 14,573,129.11 | −14,573,129.11 | 481,392,110.92 |
| 171,066.50 | 102,258.38 | 273,324.88 | 510,000.00 | −510,000.00 | 273,324.88 |
| — | — | — | — | — | — |
| — | — | — | — | — | — |
| 372,262,310.09 | 108,856,475.95 | 481,118,786.04 | 14,063,129.11 | −14,063,129.11 | 481,118,786.04 |
| 28,316,604.72 | 10,787,236.52 | 39,103,841.24 | — | 1,360,364.11 | 40,464,205.35 |
| — | 8,175,837.24 | 8,175,837.24 | — | — | 8,715,837.24 |
| **14,367,191,400.91** | **2,978,209,724.81** | **17,345,401,125.72** | **1,279,461,021.30** | **−138,666,907.19** | **18,486,195,239.83** |

| Off-balance-sheet items<br>EUR | 12/31/2017<br>OLB | BKB | NewCo1 | BHN | Consolidation NewCo1/BHN | NewCo2 |
|---|---|---|---|---|---|---|
| **1. Contingent liabilities** | **312,727,124.05** | **223,530,901.29** | **536,258,025.34** | **28,426,070.51** | — | **564,684,095.85** |
| a) Contingent liabilities from rediscounted bills of exchange | — | — | — | — | — | — |
| b) Obligations under suretyships and guarantees | 312,727,124.05 | 223,530,901.29 | 536,258,025.34 | 28,426,070.51 | — | 564,684,095.85 |
| c) Liability from collateral furnished for third-party liabilities | — | — | — | — | — | — |
| **2. Other obligations** | **643,350,050.63** | **540,058,547.00** | **1,183,408,597.63** | **20,802,332.87** | — | **1,204,210,930.50** |
| a) Repurchase obligations from non-genuine sale and repurchase agreements | — | — | — | — | — | — |
| b) Placement and underwriting commitments | — | — | — | — | — | — |
| c) Committed credit facilities | 643,350,050.63 | 540,058,547.00 | 1,183,408,597.63 | 20,802,332.87 | — | 1,204,210,930.50 |

For the income statement, it must be taken into account that the net income of BHN was transferred to BKB in 2017 under a control and profit-and-loss transfer agreement, and therefore is fully contained in an income statement item (Item 4). Again in 2018, BHN's earnings for the first half of the year will be recorded in Item 4 and for the second half of the year in only one Item (item 4a.) at OLB by reporting a balance under the designation "Result obtained for third-party account from the transferring legal entity." This makes a comparison of OLB 2018 (NewCo2) and NewCo1 (as the sum of OLB and BKB) meaningful for the income statement analysis.

| Income statement<br>EUR | January 1 – December 31, 2017<br>OLB | <br>BKB (incl. BHN) | <br>NewCo1 |
|---|---|---|---|
| 1. Interest income from | **355,608,612.00** | **91,280,659.38** | **446,889,271.38** |
| a) Credit and money market transactions | 336,527,297.74 | 82,167,988.14 | 418,695,285.88 |
| thereof: Negative interest from credit and money market transactions | −4,576,273.49 | −161,306.95 | −4,737,580.44 |
| b) Fixed-income securities and book-entry securities | 19,081,314.26 | 9,112,671.24 | 28,193,985.50 |
| thereof: Negative interest from fixed-income securities and book-entry securities | — | — | — |
| 2. Interest expenses | **127,932,589.25** | **31,276,680.97** | **159,209,270.22** |
| thereof: Positive interest | −7,628,944.60 | −117,542.32 | −7,746,486.92 |
| 3. Current income from | **70,289.05** | **17,080.00** | **87,369.05** |
| a) Stocks and other non-fixed-income securities | 43,034.85 | — | 43,034.85 |
| b) Long-term equity investments | 27,254.20 | 17,080.00 | 44,334.20 |
| c) Shares in affiliated companies | — | — | — |
| 4. Income from profit pooling, profit transfer or partial profit transfer agreements | **370,879.86** | **2,126,755.63** | **2,497,635.49** |
| 5. Commission income | **84,447,532.05** | **25,593,262.29** | **110,040,794.34** |
| 6. Commission expense | **16,392,797.13** | **16,107,854.88** | **32,500,652.01** |
| 7. Net operating trading income / expense | **31,230.85** | — | **31,230.85** |
| thereof: Allocation to (–) or reversal of (+) special item per Sec. 340 g HGB | −3,470.10 | — | −3,470.10 |
| 8. Other operating income | **27,520,317.53** | **3,760,142.80** | **31,280,460.33** |
| 10. General administrative expenses | **214,494,482.31** | **48,833,864.10** | **263,328,346.41** |
| a) Personnel expenses | 140,305,390.05 | 20,215,051.76 | 160,520,441.81 |
| aa) Wages and salaries | 113,257,093.98 | 17,521,186.16 | 130,778,280.14 |
| ab) Social security, pension provisions and other employee benefit costs | 27,048,296.07 | 2,693,865.60 | 29,742,161.67 |
| thereof: for pension provisions | 8,065,586.19 | 312,945.64 | 8,378,531.83 |
| b) Other administrative expenses | 74,189,092.26 | 28,618,812.34 | 102,807,904.60 |
| 11. Amortization and write-downs of intangible fixed assets and write-downs of tangible fixed assets | **15,126,938.70** | **1,421,516.69** | **16,548,455.39** |
| 12. Other operating expenses | **22,371,919.57** | **3,163,955.05** | **25,535,874.62** |
| 13. Write-downs of receivables and certain securities and allocations to provisions in the credit business | **23,376,794.46** | **4,887,102.94** | **28,263,897.40** |
| thereof: Appropriated to fund for general bank risks per Sec. 340 g HGB | 12,000,000.00 | — | 12,000,000.00 |
| thereof: Reversal from the fund for general bank risks per Sec. 340 g HGB | — | — | — |
| 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** | — | **9,669,349.55** |
| 17. Expenses for assumption of losses | | — | |
| **19. Result from ordinary activities** | **58,022,689.47** | **17,086,925.47** | **75,109,614.94** |
| 20. Extraordinary income | **289,178.85** | | **289,178.85** |
| 21. Extraordinary expenses | **7,860,545.33** | **142,999.00** | **8,003,544.33** |
| 22. Extraordinary result | **−7,571,366.48** | **−142,999.00** | **−7,714,365.48** |
| 23. Taxes on income | **21,145,458.32** | **6,141,323.25** | **27,286,781.57** |
| 24. Other taxes not included under Item 12 | **989,259.95** | **17,136.34** | **1,006,396.29** |
| 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** | **10,785,466.88** | **39,102,071.60** |
| 28. Retained profits / accumulated losses brought forward | — | **1,769.64** | **1,769.64** |
| 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** | **10,787,236.52** | **39,103,841.24** |

In the comparison with the adjusted prior-year figures on the balance sheet, the following development emerged:

**Table: Assets benchmark *NewCo2* 2018 vs *NewCo2* 2017**

| **Assets** EUR | **12/31/2018 NewCo2** | **12/31/2017 NewCo2** |
|---|---|---|
| 1. Cash reserve | **1,518,067,252.84** | **1,221,031,974.01** |
| a) Cash on hand | 528,595,341.15 | 310,494,491.88 |
| b) Balances with central banks | 989,471,911.69 | 910,537,482.13 |
| thereof: with the Deutsche Bundesbank | 989,471,911.69 | 910,537,482.13 |
| 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 | **267,118,566.03** | **260,892,037.12** |
| a) Demand deposits | 165,304,384.76 | 171,642,639.31 |
| b) Other receivables | 101,814,181.27 | 89,249,397.81 |
| 4. Receivables from customers | **13,959,904,303.61** | **13,417,180,180.89** |
| a) thereof: Secured with land liens | 6,288,784,569.48 | 6,213,305,626.28 |
| thereof: Public-sector loans | 58,316,281.95 | 88,021,405.95 |
| 5. Bonds and other fixed-income securities | **2,922,887,277.56** | **2,771,015,250.59** |
| a) Money market paper | — | — |
| aa) from public issuers | — | — |
| thereof: Acceptable as collateral by the Deutsche Bundesbank | — | — |
| ab) from other issuers | — | — |
| thereof: Acceptable as collateral by the Deutsche Bundesbank | — | — |
| b) Other bonds | 2,922,887,277.56 | 2,771,015,250.59 |
| ba) from public issuers | 1,444,648,769.67 | 1,585,266,528.07 |
| thereof: Acceptable as collateral by the Deutsche Bundesbank | 1,444,648,769.67 | 1,585,266,528.07 |
| bb) from other issuers | 1,478,238,507.89 | 1,185,748,722.52 |
| thereof: Acceptable as collateral by the Deutsche Bundesbank | 1,478,238,507.89 | 1,185,748,722.52 |
| c) Own debt instruments | — | — |
| Nominal amount | — | — |
| 6. Stocks and other non-fixed-income securities | **186,997,974.30** | **196,980,890.17** |
| 6a. Trading portfolio | **920,879.82** | **420,155.13** |
| 7. Long-term equity investments | **620,431.96** | **712,699.42** |
| thereof: in banking institutions | — | 402,174.00 |
| thereof: in financial services institutions | — | — |
| 8. Shares in affiliated companies | **103,129.19** | **103,129.19** |
| thereof: in banking institutions | — | — |
| thereof: in financial services institutions | — | — |
| 9. Trust assets | **976,975.53** | **1,654,268.88** |
| thereof: Loans for a third-party account | 484,749.95 | 605,307.95 |
| 10. Compensation receivables from government entities, including debt instruments from the exchange of those receivables | — | — |
| 11. Intangible fixed assets | **9,293,649.49** | **10,035,435.09** |
| a) Internally generated industrial rights and similar rights and assets | 777,119.37 | 799,402.16 |
| b) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets | 8,516,530.12 | 9,236,032.93 |
| c) Goodwill | — | — |
| d) Prepayments | — | — |
| 12. Tangible fixed assets | **69,154,837.74** | **77,040,364.07** |
| 13. Capital called but not yet paid | — | — |
| 14. Other assets | **144,865,844.47** | **521,309,116.02** |
| 15. Deferred income | **11,623,557.92** | **7,456,681.28** |
| 16. Deferred tax assets | — | — |
| 17. Excess of plan assets over pension benefit liabilities | **500,922.25** | **363,057.97** |
| 18. Deficit not covered by equity | — | — |
| **Total assets** | **19,093,035,602.71** | **18,486,195,239.83** |

## Table: Liabilities benchmark *NewCo2* 2018 vs *NewCo2* 2017

| Equity and liabilities EUR | 12/31/2018 NewCo2 | 12/31/2017 NewCo2 |
|---|---|---|
| 1. Liabilities to banks | **5,583,930,695.65** | **5,102,558,258.09** |
| a) Demand deposits | 78,668,424.10 | 67,136,126.17 |
| b) with agreed maturity or notice period | 5,505,262,271.55 | 5,035,422,131.92 |
| 2. Liabilities to customers | **11,345,866,560.51** | **10,794,104,838.59** |
| a) Savings deposits | 1,691,125,777.81 | 1,624,753,899.81 |
| aa) with agreed withdrawal notice of three months | 1,493,713,963.98 | 1,424,911,095.55 |
| ab) with agreed withdrawal notice of more than three months | 197,411,813.83 | 199,842,804.26 |
| b) Other liabilities | 9,654,740,782.70 | 9,169,350,938.78 |
| ba) Demand deposits | 6,919,770,767.44 | 7,139,083,198.20 |
| bb) with agreed maturity or notice period | 2,734,970,015.26 | 2,030,267,740.58 |
| 3. Securitized liabilities | **116,233,000.00** | **501,428,500.00** |
| a) Bonds issued | 116,233,000.00 | 501,428,500.00 |
| b) Other securitized liabilities | — | — |
| thereof: Money market paper | — | — |
| thereof: Own acceptances and promissory notes in circulation | — | — |
| 3a. Trading portfolio | — | — |
| 4. Trust liabilities | **976,975.53** | **1,654,268.88** |
| thereof: Loans for a third-party account | 484,749.95 | **605,307.95** |
| 5. Other liabilities | **416,620,281.31** | **433,190,301.65** |
| 6. Deferred income | **35,033,686.58** | **52,139,355.00** |
| 6a. Deferred tax liabilities | — | — |
| 7. Provisions | **300,944,745.04** | **275,912,421.44** |
| a) Provisions for pensions and similar obligations | 196,527,010.07 | 176,434,067.60 |
| b) Provisions for taxes | 11,823,199.60 | 17,804,658.31 |
| c) Other provisions | 92,594,535.37 | 81,673,695.53 |
| 9. Subordinated debt | **274,480,485.93** | **253,440,648.24** |
| 10. Profit participation rights outstanding | — | — |
| thereof: Due within two years | — | — |
| 11. Fund for general bank risks | **20,092,261.97** | **24,792,261.97** |
| thereof: Special item per Sec. 340 e (4) HGB | 9,964.94 | 9,964.94 |
| **12. Equity held** | **998,856,910.19** | **1,046,974,385.97** |
| a) Called capital | 60,468,571.80 | 89,971,366.01 |
| Subscribed capital | 60,468,571.80 | 89,971,366.01 |
| less: Outstanding deposits not called | — | — |
| b) Capital reserves | 517,332,330.40 | 435,146,703.69 |
| c) Revenue reserves | 394,935,695.56 | 481,392,110.92 |
| ca) Legal reserve | 171,066.50 | 273,324.88 |
| cb) Reserves for shares in a parent or majority investor | — | — |
| cc) Reserves provided for by the Articles of Incorporation | — | — |
| cd) Other revenue reserves | 394,764,629.06 | 481,118,786.04 |
| d) Net retained profits / net accumulated losses | 26,120,312.43 | 40,464,205.35 |
| Contingent capital (balance sheet note) | 11,978,954.00 | 8,715,837.24 |
| **Total equity and liabilities** | **19,093,035,602.71** | **18,486,195,239.83** |

| Off-balance-sheet items EUR | 12/31/2018 NewCo2 | 12/31/2017 NewCo2 |
|---|---|---|
| 1. Contingent liabilities | **504,622,335.70** | **564,684,095.85** |
| a) Contingent liabilities from rediscounted bills of exchange | — | — |
| b) Obligations under suretyships and guarantees | 504,622,335.70 | 564,684,095.85 |
| c) Liability from collateral furnished for third-party liabilities | — | — |
| 2. Other obligations | **1,782,400,900.87** | **1,204,210,930.50** |
| a) Repurchase obligations from non-genuine sale and repurchase agreements | — | — |
| b) Placement and underwriting commitments | — | — |
| c) Committed credit facilities | 1,782,400,900.87 | 1,204,210,930.50 |

In the comparison with the adjusted prior-year figures on the income statement, the following development emerged:

**Table: Income statement benchmark *NewCo2* 2018 vs *NewCo1* 2017**

| EUR | 2018 NewCo2 | 2017 NewCo1 |
|---|---|---|
| 1. Interest income from | **431,952,023.09** | **446,889,271.38** |
| a) Credit and money market transactions | 405,394,807.39 | 418,695,285.88 |
| thereof: Negative interest from credit and money market transactions | –7,298,591.43 | –4,737,580.44 |
| b) Fixed-income securities and book-entry securities | 26,557,215.70 | 28,193,985.50 |
| thereof: Negative interest from fixed-income securities and book-entry securities | — | — |
| 2. Interest expenses | **–142,156,059.29** | **–159,209,270.22** |
| thereof: Positive interest | 13,325,987.65 | 7,746,486.92 |
| 3. Current income from | **111,249.48** | **87,369.05** |
| a) Stocks and other non-fixed-income securities | 77,022.70 | 43,034.85 |
| b) Long-term equity investments | 34,226.78 | 44,334.20 |
| c) Shares in affiliated companies | — | — |
| 4. Income from profit pooling, profit transfer or partial profit transfer agreements | **1,111,329.82** | **2,497,635.49** |
| 4a. Result obtained for third-party account from the transferring legal entity | 2,295,363.33 | — |
| 5. Commission income | **100,219,648.20** | **110,040,794.34** |
| 6. Commission expense | **–15,868,360.40** | **–32,500,652.01** |
| 7. Net operating trading income / expense | **–94,170.14** | **31,230.85** |
| thereof: Allocation to (–) or reversal of (+) special item per Sec. 340 g HGB | — | –3,470.10 |
| 8. Other operating income | **25,507,534.48** | **31,280,460.33** |
| 10. General administrative expenses | **–271,125,911.37** | **–263,328,346.41** |
| a) Personnel expenses | –164,013,854.56 | –160,520,441.81 |
| aa) Wages and salaries | –132,146,317.98 | –130,778,280.14 |
| ab) Social security, pension provisions and other employee benefit costs | –31,867,536.58 | –29,742,161.67 |
| thereof: for pension provisions | –11,259,189.94 | –8,378,531.83 |
| b) Other administrative expenses | –107,112,056.81 | –102,807,904.60 |
| 11. Amortization and write-downs of intangible fixed assets and write-downs of tangible fixed assets | **–16,283,742.57** | **–16,548,455.39** |
| 12. Other operating expenses | **–23,498,765.68** | **–25,535,874.62** |
| 13. Write-downs of receivables and certain securities and allocations to provisions in the credit business | **–10,920,794.62** | **–28,263,897.40** |
| thereof: Appropriated to fund for general bank risks per Sec. 340 g HGB | — | –12,000,000.00 |
| thereof: Reversal from the fund for general bank risks per Sec. 340 g HGB | 4,700,000.00 | — |
| 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 | **–124,922.46** | — |
| 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** |
| 17. Expenses for assumption of losses | **–4,565.58** | — |
| **19. Result from ordinary activities** | **81,119,856.29** | **75,109,614.94** |
| 20. Extraordinary income | **3,596,993.17** | **289,178.85** |
| 21. Extraordinary expenses | **–42,071,997.72** | **–8,003,544.33** |
| 22. Extraordinary result | **–38,475,004.55** | **–7,714,365.48** |
| 23. Taxes on income | **–18,117,083.09** | **–27,286,781.57** |
| 24. Other taxes not included under Item 12 | **–3,950,883.97** | **–1,006,396.29** |
| 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** | **20,576,884.68** | **39,102,071.60** |
| 28. Retained profits / accumulated losses brought forward | **5,543,427.75** | **1,769.64** |
| 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** | **26,120,312.43** | **39,103,841.24** |

The conversion of the former BKB or BHN portfolio to the amortized cost method in the current accounts led on balance to charges of EUR 0.6 million and EUR 0.5 million, respectively, in the income statement. The valuation adjustments were made in the items "2. Interest expenses" and "13. Write-downs of receivables and certain securities and allocations to provisions in the credit business."

The credit portfolio migrated from BKB was evaluated in September 2018 for the first time according to the risk provision models of OLB. Due to the replacement of the method used at BKB to form general loan loss provisions according to the "German Federal Ministry of Finance's letter of 1994," the conversion led to an additional allocation of EUR 8.0 million for non-troubled loans. The valuation adjustments were made in item "13. Write-downs of receivables and certain securities and allocations to provisions in the credit business."

Item "6. Commission expenses" in the prior year contains option expenses from the BKB customer business amounting to EUR 14.6 million. This expense component was recorded in 2018 according to the OLB recognition system under item "12. Other operating expenses."

In what follows, these aforementioned benchmarks for comparison are not applied, and in the further course of the Notes the respective values of OLB (NewCo2) in 2018 are used with the value of OLB (old) in 2017.

***Definition 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 German Accounting Directive for Banks and Financial Services Providers (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 generally derived as follows from the items in the income statement form under RechKredV:

*"Net interest income"* (per Items 1–2+3+4 under RechKredV) + addendum 4a

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
   a) Income for third-party account from the transferring legal entity

*"Net commission income"* (per Items 5–6 under RechKredV)

5. Commission income
6. Commission expense

*"Net operating trading income/expense"* (per Item 7 under 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 under RechKredV)

10. General administrative expenses
    a) Personnel expenses

*"Other administrative expenses"* (per Item 10.b under RechKredV)
10. General administrative expenses
    b) Other administrative expenses

*"Write-downs of tangible fixed assets"* (per Item 11 under 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 under 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 under RechKredV, of which pertaining to the credit business, without netting per Sec. 340 f under 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 under RechKredV, of which pertaining to the liquidity reserve, without netting per Sec. 340f under 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 under 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 under RechKredV)
22. Extraordinary result

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

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

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

*"Cost-income ratio" or "CIR"* (ratio stated in %)
"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," under RechKredV

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

*"Coverage ratio taking collateral and postponed interest into account"*
[Specific loan loss provisions (SLLP) + General loan loss provisions (GLLP / PLLP) assigned to non-performing receivables + Collateral assigned to non-performing receivables + Deferred interest (for non-performing receivables)] / [Receivables from customers (non-performing)]

## II. Explanations of Specific Disclosures under RechKredV

In accordance with Sec. 284 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 Accounting Directive for Banks and Financial Services Providers – "RechKredV"). These disclosure obligations are presented by way of a preface here:

### Disclosures on subordinated assets in accordance with Sec. 4 RechKredV

The balance sheet item "Receivables from customers" contains a subordinated loan in the nominal amount of EUR 5.8 million.

Another EUR 940 thousand (nominal value) in the balance sheet item "Trading portfolio" were issued as subordinated bonds and were bought back from the market in prior years.

The "Other assets" include EUR 90 million from the subordinated junior note from the ABS transaction assigned to fixed assets.

### 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 HGB, 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 RechKredV.

| EUR | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Receivables from banks** | **267,118,566.03** | **142,140,294.95** |
| b) Other receivables | 53,239,600.04 | 29,421,729.11 |
| thereof: with a remaining time to maturity of three months or less | 44,951,115.52 | 28,784,173.59 |
| thereof: with a remaining time to maturity of more than three months to one year | 5,735,744.60 | 402,666.68 |
| thereof: with a remaining time to maturity of more than one year to five years | 20,267,984.48 | 234,888.84 |
| thereof: with a remaining time to maturity of more than five years | 30,804,890.13 | — |
| **Receivables from customers** | **13,959,904,303.62** | **10,848,059,229.90** |
| thereof: with indefinite maturities | 1,136,360,928.06 | 528,636,232.81 |
| thereof: with a remaining time to maturity of three months or less | 558,798,257.04 | 417,367,615.47 |
| thereof: with a remaining time to maturity of more than three months to one year | 983,532,454.99 | 740,359,328.68 |
| thereof: with a remaining time to maturity of more than one year to five years | 4,234,718,772.25 | 2,979,687,028.47 |
| thereof: with a remaining time to maturity of more than five years | 7,046,493,891.28 | 6,182,009,024.47 |
| **Bonds and other fixed-income securities** | **2,922,887,277.56** | **2,129,248,972.25** |
| thereof: maturing in fiscal year 2019 (2018) | 602,324,807.02 | 90,421,915.91 |
| **Liabilities to banks** | **5,583,930,695.65** | **4,292,862,733.27** |
| b) with agreed maturity or notice period | 5,456,742,136.86 | 4,236,445,647.05 |
| thereof: with a remaining time to maturity of three months or less | 1,346,018,080.33 | 717,666,280.79 |
| thereof: with a remaining time to maturity of more than three months to one year | 1,000,598,233.32 | 1,034,792,786.09 |
| thereof: with a remaining time to maturity of more than one year to five years | 1,722,273,256.41 | 1,043,241,258.55 |
| thereof: with a remaining time to maturity of more than five years | 1,436,372,701.49 | 1,440,745,321.62 |
| **Liabilities to customers** | **11,345,866,560.51** | **8,424,868,700.43** |
| a) Savings deposits | 1,691,125,777.81 | 1,569,096,724.98 |
| ab) with agreed withdrawal notice of more than three months | 197,411,813.83 | 198,909,979.96 |
| thereof: with a remaining time to maturity of three months or less | 2,698,309.35 | 3,123,499.70 |
| thereof: with a remaining time to maturity of more than three months to one year | 162,046,596.70 | 165,806,732.44 |
| thereof: with a remaining time to maturity of more than one year to five years | 32,666,907.78 | 29,979,747.82 |
| thereof: with a remaining time to maturity of more than five years | — | — |
| b) Other liabilities | 9,654,740,782.70 | 6,855,771,975.45 |
| bb) with an agreed maturity or notice period | 2,734,970,015.26 | 1,125,071,059.25 |
| thereof: with a remaining time to maturity of three months or less | 798,002,871.01 | 160,687,924.12 |
| thereof: with a remaining time to maturity of more than three months to one year | 971,145,182.37 | 198,850,220.13 |
| thereof: with a remaining time to maturity of more than one year to five years | 598,857,180.88 | 353,788,115.00 |
| thereof: with a remaining time to maturity of more than five years | 366,964,781.00 | 411,744,800.00 |
| **Securitized liabilities** | **116,233,000.00** | **501,428,500.00** |
| a) Bonds issued | 116,233,000.00 | 501,428,500.00 |
| thereof: maturing in fiscal year 2019 (2018) | — | — |
| b) Other securitized liabilities | — | — |
| thereof: with a remaining time to maturity of three months or less | — | — |
| thereof: with a remaining time to maturity of more than three months to one year | — | — |
| thereof: with a remaining time to maturity of more than one year to five years | — | — |
| thereof: 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 | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Assets | 140,476,754.86 | 83,580,177.68 |
| Debts | 180,623,657.58 | 121,352,053.25 |

### Disclosures on receivables from and liabilities to associates and long-term investees and investors per Sec. 3 Sentence 1 Nos. 1 and 2 in conjunction with Sentence 2 RechKredV

| Breakdown by balance sheet item EUR | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Receivables from banks | — | — |
| Receivables from customers | 1,000,000.00 | — |
| Bonds and other fixed-income securities | 310,000,000.00 | — |
| **Total receivables due from or to affiliated companies** | **311,000,000.00** | **—** |
| Liabilities to banks | — | — |
| Liabilities to customers | 759,491.94 | 26,132,719.42 |
| Securitized liabilities | — | — |
| Subordinated debt | 1,518,192.62 | — |
| **Total liabilities owed to or by affiliated companies** | **2,277,684.56** | **26,132,719.42** |

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 0.2 million (prior year: EUR 0.1 million).

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

The following balance sheet items include marketable securities:

| | 12/31/2018 | | |
|---|---|---|---|
| EUR | Total | Quoted in a market | Not quoted in a market |
| Bonds and other fixed-income securities | 2,922,887,277.56 | 2,922,887,277.56 | — |
| Stocks and other non-fixed-income securities | 186,997,974.30 | — | 186,997,974.30 |
| Trading portfolio | 920,879.82 | 919,210.97 | 1,668.85 |
| Other assets | — | — | — |

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

## Disclosures on development of long-term securities according to Sec. 34 (3) RechKredV in conjunction with Sec. 284 (3) Sentences 1 to 3 HGB

| EUR | Long-term securities | Long-term equity investments | Shares in affiliated companies | Land and buildings | Operating and business equipment | Intangible assets |
|---|---|---|---|---|---|---|
| Historical acquisition costs | 651,949,086.29 | 1,001,891.01 | 68,265,894.19 | 144,310,462.89 | 128,892,007.10 | 53,094,316.53 |
| Historical write-ups | — | — | — | — | — | — |
| Historical write-downs | — | −256,536.59 | — | −101,537,758.43 | −94,807,971.08 | −43,092,537.69 |
| **OLB book value as of January 1, 2018** | **251,758,539.02** | **413,955.00** | **52,000.00** | **41,619,043.88** | **31,962,500.07** | **8,844,464.62** |
| Addition of BKB as of January 1 | 400,190,547.27 | 331,399.42 | 68,213,894.19 | 1,031,155.05 | 1,704,054.24 | 1,032,235.44 |
| Addition of BHN as of July 1 | — | — | — | 122,505.53 | 417,481.71 | 125,078.78 |
| Additions measured at cost | — | 2.00 | — | 29,971.00 | 8,816,169.09 | 2,429,296.97 |
| Disposals measured at cost | −22,106,878.87 | — | −68,162,765.00 | — | −11,848,217.70 | −8,944,855.53 |
| Write-ups included in disposals for the year | — | — | — | — | — | — |
| Write-downs included in disposals for the year | — | — | — | — | 11,720,486.40 | 8,861,380.01 |
| **Changes in portfolio during the year** | **378,083,668.40** | **331,401.42** | **51,129.19** | **1,183,631.58** | **10,809,973.74** | **3,503,135.67** |
| Write-ups during the year | — | — | — | — | — | — |
| Write-downs during the year (scheduled) | — | — | — | −3,008,342.62 | −10,316,488.91 | −3,053,950.80 |
| Write-downs during the year (unscheduled) | — | −124,924.46 | — | — | −3,095,480.00 | — |
| **Changes in measurement during the year** | **—** | **−124,924.46** | **—** | **−3,008,342.62** | **−13,411,968.91** | **−3,053,950.80** |
| **Carrying amount at December 31, 2018** | **629,842,207.42** | **620,431.96** | **103,129.19** | **39,794,332.84** | **29,360,504.90** | **9,293,649.49** |
| **Write-downs at January 1, 2018** | **—** | **−256,536.59** | **—** | **−101,537,758.43** | **−94,807,971.08** | **−43,092,537.69** |
| Write-downs during the year (scheduled) | — | — | — | −3,008,342.62 | −10,316,488.91 | −3,053,950.80 |
| Write-downs during the year (unscheduled) | — | −124,924.46 | — | — | −3,095,480.00 | — |
| Write-downs included in disposals for the year | — | — | — | — | 11,720,486.40 | 8,861,380.01 |
| **Changes in write-downs** | **—** | **−124,924.46** | **—** | **−3,008,342.62** | **−1,691,482.51** | **5,807,429.21** |
| **Write-downs at December 31, 2018** | **—** | **−381,461.05** | **—** | **−104,546,101.05** | **−96,499,453.59** | **−37,285,108.48** |

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

Marketable long-term securities are maintained in separate portfolios. An interest-rate-induced measurement yielded a fair value of EUR 563.1 million (carrying amount: EUR 535.5 million) at December 31, 2018. At the reporting date, long-term assets included no marketable 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) RechKredV

| **Security furnished** EUR | **12/31/2018** | **12/31/2017** |
|---|---|---|
| Liabilities to banks | 5,060,493,250.28 | 4,158,622,255.65 |
| Liabilities to customers | 24,000,000.00 | — |
| **Total amount of security furnished** | **5,084,493,250.28** | **4,158,622,255.65** |

The transferred collateral consists essentially of receivables as part of a true-sale receivables securitization by the SPV Weser Funding S.A. (ABS) and from the transfer of credits within the framework of the loan submission procedure (KEV). Moreover, it consists of transferred securities as part of repo transactions and customer receivables as part of the refinancing business with development banks.

As of 12/31/2018, liabilities to the Bundesbank existed totaling EUR 650 million from open-market transactions, including EUR 70 million with a maturity of 12/19/2018 to 01/02/2019 without interest, and EUR 200 million from 06/29/2016 to 06/24/2020, EUR 35 million from 12/21/2016 to 12/16/2020 and EUR 264 million from 03/29/2017 to 03/24/2021, all bearing interest at –0.4%. On the other hand, loans in the loan submission procedure in the amount of EUR 269.2 million were deposited with the Bundesbank and securities, among other things, from the securitization in the amount of EUR 310 million, which result from the transfer of corresponding loans (EUR 347.5 million) to the SPV Weser Funding S.A. To avoid double charging of securities and loans, only the transferred receivables are considered charged.

## III. Notes to the Balance Sheet – Assets

*Assets 5. Bonds and other fixed-income securities*

| EUR | 12/31/2018 | 12/31/2017 |
|---|---|---|
| **Money market paper** | — | — |
| from public issuers | — | — |
| from other issuers | — | — |
| **Other bonds** | **2,922,887,277.56** | **2,129,248,972.25** |
| from public issuers | 1,444,648,769.67 | 1,253,500,249.73 |
| from other issuers | 1,478,238,507.89 | 875,748,722.52 |
| **Own debt instruments** | — | — |
| **Bonds and other fixed-income securities** | **2,922,887,277.56** | **2,129,248,972.25** |
| thereof: Securities in the liquidity reserve | 2,383,045,070.14 | 1,877,490,433.23 |
| thereof: Long-term securities | 539,842,207.42 | 251,758,539.02 |

### Disclosures per Sec. 35 (1) No. 2 RechKredV in conjunction with Sec. 285 No. 18 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 2018 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 602.3 million that matures in fiscal year 2019.

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

At the reporting date, the Bank had pledged securities with a nominal value of EUR 726.3 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 8 million were deposited with BNP Paribas S.A. As part of the loan presentation procedure, loan receivables worth EUR 269.2 million were deposited with the Bundesbank.

At the reporting date, there were repurchase obligations of EUR 1,531.2 million (carrying amount) for assets sold under repurchase agreements (OTC). There were no transactions via the GC pooling platform as of the reporting date.

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

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

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 HGB on shares of domestic investment funds within the meaning of Sec. 1 (6) of the German Investment Code (KAGB)

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

| | 12/31/2018 | | | 2018 |
|---|---|---|---|---|
| EUR | Balance sheet value | Market value | Difference of balance sheet value from market | Distribution |
| AllianzGI-Fonds Weser-Ems | 92,543,958.38 | 92,543,958.38 | — | — |
| AllianzGI-Fonds Ammerland | 94,454,014.92 | 94,454,014.92 | — | 67,901.23 |

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 RechKredV

*Assets 6a. Trading portfolio (asset value)*

| 6a. Trading portfolio (asset value) EUR | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Stocks and other non-fixed-income securities | 20,146.96 | 22,957.82 |
| Own debt instruments | 900,732.86 | 398,862.23 |
| Risk discount | — | –1,664.92 |
| **Total** | **920,879.82** | **420,155.13** |

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 item does not contain any securities payable in 2019 (prior year: EUR 0.2 million).

### Breakdown per Sec. 6 (1) Sentence 2 RechKredV

*Assets 9. Trust assets*

| Breakdown by balance sheet item EUR | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Receivables from customers | 976,975.53 | 1,653,581.74 |
| **Total trust assets** | **976,975.53** | **1,653,581.74** |

*Assets 14. Other assets*

### Disclosures per Sec. 35 (1) No. 4 RechKredV

The junior tranche in the amount of EUR 90 million, not available for charging, arising from the transfer of receivables as part of a true-sale receivables securitization by the SPV Weser Funding S.A. (ABS), and the cash deposit of EUR 13 million with Société Générale Bank and Trust S.A., Luxembourg, in connection with the securitization, were likewise recognized under “Other assets”.

In addition, this item contains not only tax refund claims against the tax office in the amount of EUR 2.8 million, but also receivables from an accident insurance policy with a premium refund in the amount of EUR 21.4 million (prior year: EUR 19.7 million). Various receivables for commissions were also recognized in this item.

*Assets 15. Deferred income*

### Disclosures per Sec. 250 (3) HGB

The item for prepaid expenses includes discounts on liabilities in the amount of EUR 2.8 million, pursuant to Sec. 250 (3) HGB in conjunction with Sec. 268 (6) HGB.

## IV. Notes to the Balance Sheet – Equity & Liabilities

*Equity & Liabilities*
*3. Securitized liabilities*

### Disclosures per Sec. 9 (3) No. 2 RechKredV

Issued bonds include no paper that will mature in fiscal year 2019.

### Breakdown per Sec. 6 (1) Sentence 2 RechKredV

*Equity & Liabilities*
*4. Trust liabilities*

| Breakdown by balance sheet item EUR | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Liabilities to banks | 484,749.95 | 1,321,662.99 |
| Liabilities to customers | 492,225.58 | 331,918.75 |
| **Total trust liabilities** | **976,975.53** | **1,653,581.74** |

### Disclosures per Sec. 35 (1) No. 4 RechKredV

*Equity & Liabilities*
*5. Other liabilities*

This item essentially relates to liabilities from the ABS transaction (SPV Weser-Funding S.A.) in the amount of EUR 400 million, liabilities from currency options received in the amount of EUR 5.5 million and trade accounts payable in the amount of EUR 3.6 million.

### Disclosures per Sec. 340e (2) HGB

*Equity & Liabilities*
*6. Deferred income*

Deferred income includes EUR 2.4 million in discount amounts and processing fees for receivables in accordance with Sec. 340e (2) of the Commercial Code (HGB).

*Equity & Liabilities*
*7. Provisions*

## Statement of changes in provisions

| EUR | 01/01/2018 | Addition of BKB | Addition of BHN |
|---|---|---|---|
| a) Provisions for pensions and similar obligations | **148,079,429.36** | **11,949,039.24** | **16,791,077.00** |
| b) Provisions for taxes | **13,956,367.10** | **2,943,291.21** | **905,000.00** |
| c) Other provisions | **52,925,414.80** | **16,642,038.30** | **6,821,141.37** |
| Uncertain liabilities | 35,598,008.49 | 13,481,935.91 | 5,111,459.51 |
| Provisions for credit business | 5,690,970.39 | 1,490,102.39 | 144,925.36 |
| Other | 11,636,435.92 | 1,670,000.00 | 1,564,756.50 |
| **Total** | **214,961,211.26** | **31,534,368.75** | **24,517,218.37** |

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

OLB AG has made pension commitments for which it forms pension provisions. The fulfilment 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.

| % | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Discount rate (10-year average) | 3.20 | 3.68 |
| Discount rate (7-year average) | 2.32 | 2.81 |
| Pension trend | 1.75 | 1.50 |
| Salary trend | 2.50 | 2.50 |

| | Used | Reversed | Additions | Mathematical interest rate | Conversions | 12/31/2018 |
|---|---|---|---|---|---|---|
| | **–7,432,739.11** | **–3,810,907.20** | **12,287,314.74** | **20,467,197.25** | **–1,803,401.21** | **196,527,010.07** |
| | **–12,878,447.45** | **–306,777.81** | **7,203,766.55** | **—** | **—** | **11,823,199.60** |
| | **–35,147,805.69** | **–13,940,968.53** | **69,273,491.63** | **994,594.09** | **–4,973,370.60** | **92,594,535.37** |
| | –31,866,620.84 | –6,194,676.38 | 59,223,846.05 | 845,035.97 | –4,973,370.60 | 71,225,618.11 |
| | –25,671.43 | –927,823.26 | 6,983,077.44 | — | — | 13,355,580.89 |
| | –3,255,513.42 | –6,818,468.89 | 3,066,568.14 | 149,558.12 | — | 8,013,336.37 |
| | **–55,458,992.25** | **–18,058,653.54** | **88,764,572.92** | **21,461,791.34** | **–6,776,771.81** | **300,944,745.04** |

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 HGB 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 to 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.

If a reversal of provisions is required based on the change in the valuation of obligations that require formation of a provision, these provisions may be retained if the amount to be reversed would have to be added back by no later than December 31, 2024. If use is made of the right to choose according to Sentence 2, the amount of the coverage surplus is to be indicated in the Notes. The amount of the coverage surplus as of 12/31/2018 was EUR 0.5 million.

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 HGB (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 current Heubeck Mortality Tables RT2018G are used as biometric computational bases.

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 of Allianz Treuhand GmbH. 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 | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Cost of offset assets | 42,619,538.13 | 39,393,387.25 |
| Fair value of offset assets | 42,764,467.06 | 39,760,546.08 |
| Fulfilment amount of offset liabilities | 251,215,533.56 | 205,170,072.03 |
| Unrecognized provision amount per Art. 67 (2) EGHGB | 11,924,056.43 | 17,330,096.59 |

Further explanations of the recognition of pensions and similar obligations can be found in the 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 | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Cost of offset assets | 1,513,794.06 | 906,642.00 |
| Fair value of offset assets | 1,513,794.06 | 906,642.00 |
| Fulfilment amount of offset liabilities | 16,630,621.06 | 15,580,033.00 |
| Unrecognized provision amount per Art. 67 (2) EGHGB | 905,328.22 | 1,486,935.00 |
| Pension provision | 14,211,498.78 | 13,186,456.00 |

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 relate to provisions essentially for risks regarding tax payments based on outstanding notices.

### Disclosures on other provisions

The “Other provisions” of EUR 92.6 million largely include provisions for restructuring measures, severance payments, 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 of Allianz Treuhand GmbH. The assets set aside herein 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 | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Cost of offset assets | 10,847,630.84 | 5,535,385.27 |
| Fair value of offset assets | 10,758,389.25 | 5,735,709.97 |
| Fulfilment amount of offset liabilities | 10,257,467.00 | 8,641,703.00 |

### Disclosures per Sec. 35 (3) 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 |
|---|---|---|---|
| 76,500,000.00 | 9 | 2024 | EUR |

Subordinated debt has a total nominal value of EUR 267.3 million.

| EUR | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Subordinated debt instruments | 141,580,089.00 | 45,000,000.00 |
| Subordinated borrower’s note loans | 123,500,000.00 | 123,500,000.00 |
| Subordinated customer deposits | 2,172,500.00 | 1,557,500.00 |
| **Total (nominal)** | **267,252,589.00** | **170,057,500.00** |

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 15.0 million (prior year: 8.7 million).

*Equity & Liabilities*
*11. Fund for general bank risks*

*Equity & Liabilities*
*12. Equity held*

The Bank's equity and reserves under Sec. 340g HGB changed as follows:

| EUR | 12/31/2017 | Net income for the fiscal year | Change in special item per Sec. 340e (4) HGB | Dividend distribution | Allocations to (+) / withdrawals from (–) reserves | 12/31/2018 |
|---|---|---|---|---|---|---|
| **Fund for general bank risks** | **24,792,261.97** | **—** | **—** | **—** | **–4,700,000.00** | **20,092,261.97** |
| Subscribed capital | 60,468,571.80 | — | — | — | — | 60,468,571.80 |
| Capital reserves | 208,306,686.77 | — | — | — | 309,025,643.63 | 517,332,330.40 |
| Legal reserve | 171,066.50 | — | — | — | — | 171,066.50 |
| Other revenue reserves | 372,262,310.09 | — | — | — | 22,502,318.97 | 394,764,629.06 |
| Net retained profits | 28,316,604.72 | 20,576,884.68 | — | –270,858.00 | –22,502,318.97 | 26,120,312.43 |
| **Equity held** | **669,525,239.88** | **20,576,884.68** | **—** | **–270,858.00** | **309,025,643.63** | **998,856,910.19** |
| **Total** | **694,317,501.85** | **20,576,884.68** | **—** | **–270,858.00** | **304,325,643.63** | **1,018,949,172.16** |

The subscribed capital is divided into 23,257,143 no-par shares. The no-par shares are made out to the bearer.

### Disclosures per Sec. 285 No. 34 HGB on the resolution for allocation of profits for fiscal year 2017

The income statement for 2017 showed a definitive profit for the year of EUR 28.3 million. As there were no carry-forwards or changes in reserves, this corresponded to the net retained profits. On May 11, 2018, the Shareholders' Meeting decided to utilize a total of EUR 5.8 million to pay a dividend of EUR 0.25 per share. The remainder of EUR 22.5 million was allocated to the other revenue reserves.

Through the retroactive merger of BKB with OLB, the dividend share pertaining to BKB for EUR 5.5 million was canceled, so that net EUR 0.3 million could be distributed from retained earnings.

### Disclosures per Sec. 340e (4) Sentence 2 No. 1 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. 340g, and is to be recognized separately under that item in accordance with Sec. 340e. This item may be reversed to settle net operating trading expenses. There was no addition to the special item in the fiscal year.

### Disclosures per Sec. 340g (2) HGB

An amount of EUR 4.7 million was redeemed from the "Fund for general bank risks" according to Section 340g. It is recognized separately as an "thereof" item under No. 13 of the income statement, "Write-downs of receivables and certain securities and allocations to provisions in the credit business."

### Disclosures on the number of shares under Sec. 160 (1) No. 3 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. See also below: "Disclosures on contingent capital."

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

The Board of Managing Directors is authorized, with the consent of the Supervisory Board, to increase the share capital until October 1, 2019, through one or more issues by a total of EUR 6,184,927.00 by issuing new no-par shares in exchange for cash contribution, and to decide the conditions of the share issue.

### Disclosures on contingent capital per Sec. 152 (1) No. 3 AktG

The share capital was increased on a contingent basis by two resolutions by up to EUR 9,430,855.20 or by an additional EUR 2,548,098.80. The contingent capital increase shall be executed by the issue of up to 3,627,252 units, or an additional 980,038 units, of new registered no-par shares, which will carry dividend rights from the fiscal year when they are issued. The contingent capital serves exclusively to secure the claims of holders of convertible bonds that OLB, as universal legal successor to the former Bremer Kreditbank AG, issued based on the authorizing resolutions dated October 1, 2014, and June 25, 2018, and for which the Company grants equal rights according to Sec. 23 UmwG based on the merger agreement with Bremer Kreditbank AG dated August 14, 2018. The contingent capital increase will only be carried out to the extent that the holders of the aforementioned convertible bonds make use of their conversion right or to the extent that the holders that are obligated to convert fulfill their duty to convert. Only the holders of convertible bonds are entitled to subscribe. The Board of Managing Directors has been authorized to determine the additional details on the execution of the contingent capital increase.

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

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

At December 31, 2018, it held no treasury shares in its portfolio. There were no additions or withdrawals in 2018.

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

Under Sec. 268 (8) HGB, the following amounts are barred from distribution:

| **Amounts barred from distribution** EUR | **12/31/2018** | **12/31/2017** |
|---|---|---|
| Income from capitalization of internally generated intangible fixed assets | 777,119.37 | 799,402.16 |
| Income from fair valuation above cost of assets covering phased retirement | — | 200,324.70 |
| Income from fair valuation above cost of assets covering pension plans | 144,928.93 | 367,158.83 |
| **Total** | **922,048.30** | **1,366,885.69** |

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

| **Amounts barred from distribution** EUR | **12/31/2018** | **12/31/2017** |
|---|---|---|
| Positive difference from calculation of provision for pension obligations under Sec. 253 (6) HGB | 33,643,636.00 | 24,190,050.00 |
| **Total** | **33,643,636.00** | **24,190,050.00** |

## 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 RechKredV

| EUR | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Credit suretyships | 33,347,128.17 | 8,491,300.16 |
| Other suretyships and guarantees | 410,726,059.64 | 299,277,192.41 |
| Documentary credits | 60,549,147.89 | 4,958,631.48 |
| **Obligations under suretyships and guarantees** | **504,622,335.70** | **312,727,124.05** |
| thereof: Credit openings | 10,612,497.45 | 4,958,631.48 |
| thereof: Credit confirmations | 49,936,650.44 | — |

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 obligations*

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

| EUR | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Current account lines, short-term | 176,042,148.17 | 94,803,413.30 |
| Current account lines, long-term | 1,354,768,580.61 | 383,263,666.40 |
| Guarantee lines | 160,075,637.00 | 91,215,786.49 |
| Mortgage loans/public-sector loans | 91,514,535.09 | 74,067,184.44 |
| **Committed credit facilities** | **1,782,400,900.87** | **643,350,050.63** |

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 | 2018 | 2017 |
|---|---|---|
| **Interest income** | **431,952,023.09** | **355,608,612.00** |
| from credit and money market transactions | 405,394,807.39 | 336,527,297.74 |
| thereof: Negative interest | −7,298,591.43 | −4,576,273.49 |
| from fixed-income securities and book-entry securities | 26,557,215.70 | 19,081,314.26 |
| thereof: Negative interest | — | — |
| **Interest expenses** | **−142,156,059.29** | **−127,932,589.25** |
| thereof: Positive interest | 13,325,987.65 | 7,628,944.60 |
| **Operating income** | **111,249.48** | **70,289.05** |
| from stocks and other non-fixed-income securities | 77,022.70 | 43,034.85 |
| from long-term equity investments | 34,226.78 | 27,254.20 |
| from shares in affiliated companies | — | — |
| **Income from profit transfer agreements** | **1,111,329.82** | **370,879.86** |
| **Result obtained for third-party account from the transferring legal entity** | **2,295,363.33** | — |
| **Net interest income** | **293,313,906.43** | **228,117,191.66** |

Interest income from credit and money-market transactions includes EUR 2.2 million in out-of-period interest income for interest received late, largely as a result of loan workouts.

Income Statement
5. Commission income
Income Statement
6. Commission expense

| EUR | 2018 | 2017 |
|---|---|---|
| Payment traffic | 23,227,789.36 | 21,902,009.64 |
| Securities business and asset management | 22,628,592.86 | 23,442,720.62 |
| Insurance, home loan and savings, and real estate business | 15,693,702.64 | 13,595,138.47 |
| Credit business | 15,169,439.85 | 2,952,319.23 |
| Other | 3,020,536.74 | 1,718,148.53 |
| Foreign business | 2,863,109.54 | 1,989,111.15 |
| Credit card business | 1,748,116.81 | 2,455,287.28 |
| **Net commission income** | **84,351,287.80** | **68,054,734.92** |

The Bank received commission income of EUR 0.6 million from the life insurance business, under target achievement agreements with product providers. This commission income is attributable to previous fiscal years.

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

Income Statement
8. Other operating income

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:

| | 2018 | |
|---|---|---|
| EUR | Pensions and similar obligations | Other obligations |
| Income from fair valuation of offset assets | — | — |
| Notional interest income on fulfilment amount of offset liabilities | — | 8,257.45 |
| Effect from change in discount rate for fulfilment amount | — | — |
| **Net total of offset income (+) and expenses (–)** | **—** | **8,257.45** |

The other operating income also includes EUR 12.6 million in income from the reversal of provisions and EUR 0.4 million in input tax adjustments and EUR 0.7 million in VAT refunds which are attributable to prior fiscal years.

Foreign currency is converted in accordance with Sec. 340h HGB in conjunction with Sec. 256a HGB, 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 0.5 million on any day. Income and expenses resulting from the conversion of specially covered transactions are recognized in profit or loss in accordance with Sec. 340h HGB. 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*

| EUR | 01/01–12/31/2018 | 01/01–12/31/2017 | Change (EUR) | Change (%) |
|---|---|---|---|---|
| Personnel expenses | –164,013,854.56 | –140,305,390.05 | –23,708,464.51 | 16.9 |
| Other administrative expenses | –107,112,056.81 | –74,189,092.26 | –32,922,964.55 | 44.4 |
| Write-downs of tangible fixed assets | –16,283,742.57 | –15,126,938.70 | –1,156,803.87 | 7.6 |
| **Administrative expenses** | **–287,409,653.94** | **–229,621,421.01** | **–57,788,232.93** | **25.2** |

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

*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 2018 pertain in particular to payments of EUR 1.6 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:

| EUR | 01/01–12/31/2018 | |
|---|---|---|
| | **Pensions and similar obligations** | **Other obligations** |
| Income (–) from fair valuation of offset assets | 1,026,643.36 | — |
| Notional interest income on fulfilment amount of offset liabilities | –7,672,306.60 | –573,420.05 |
| Effect from change in discount rate for fulfilment amount | –13,100,111.01 | –331,980.80 |
| **Net total of offset income (–) and expenses (+)** | **–19,745,774.25** | **–905,400.85** |

*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 | 01/01–12/31/2018 | 01/01–12/31/2017 |
|---|---|---|
| Risk provisions for credit business | –6,464,354.07 | –31,291,131.49 |
| Gain (+) / loss (–) on securities in the liquidity reserve | –4,456,440.55 | 7,914,337.03 |
| **Expenses for the credit business and liquidity reserve** | **–10,920,794.62** | **–23,376,794.46** |

The item "Gain/loss on securities in the liquidity reserve" of the fiscal year contains a reversal from the fund for general bank risks per Sec. 340g HGB in the amount of EUR 4.7 million.

The risk provisions for credit business of the prior year contain an addition to the "Fund for general bank risks" per Sec. 340g HGB in the amount of EUR 12.0 million.

| Development of existing risk provisions for credit business<br>EUR | SLLP | PLLP | GLLP | Value adjustment | Provisions [1] | Total provisions |
|---|---|---|---|---|---|---|
| **At January 1** | **147,951,234.78** | **4,831,801.42** | **10,120,831.22** | **162,903,867.42** | **5,690,970.39** | **168,594,837.81** |
| Addition of BKB as of January 1 | 102,514,742.57 | — | 6,928,417.76 | 109,443,160.33 | 1,490,102.39 | 110,933,262.72 |
| Addition of BHN as of July 1 | 3,563,566.20 | — | 568,000.00 | 4,131,566.20 | 144,925.36 | 4,276,491.56 |
| Transfers | 91,022.65 | — | — | 91,022.65 | — | 91,022.65 |
| Used | –106,142,758.29 | –1,316,494.27 | — | –107,459,252.56 | –25,671.43 | –107,484,923.99 |
| Allocations [2] | 35,734,864.09 | 515,263.45 | 4,648,810.93 | 40,898,938.47 | 6,983,077.44 | 47,882,015.91 |
| Reversals [2] | –38,988,721.96 | — | –183,000.00 | –39,171,721.96 | –927,823.26 | –40,099,545.22 |
| Reversals through unwinding | –829,465.48 | — | — | –829,465.48 | — | –829,465.48 |
| **At December 31** | **143,894,484.56** | **4,030,570.60** | **22,083,059.91** | **170,008,115.07** | **13,355,580.89** | **183,363,695.96** |

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.
2 Incl. EUR 1.7 million in earnings for BHN, shown as part of income statement item 4a “Result obtained for third-party account from the transferring legal entity”

| Risk provisions for credit business – Income Statement view EUR | 01/01 – 12/31/2018 | 01/01 – 12/31/2017 |
|---|---|---|
| **Net result of impairment provisions** | **–2,405,148.30** | **–21,736,450.78** |
| Additions to impairment provisions | –40,898,938.47 | –49,728,242.41 |
| Reversals of impairment provisions | 38,493,790.17 | 27,991,791.63 |
| **Net result from provisions** | **–6,140,110.61** | **291,631.34** |
| Additions to provisions | –6,983,077.44 | –1,761,737.03 |
| Reversals of provisions | 842,966.83 | 2,053,368.37 |
| **Net result from changes to reserves per Sec. 340g HGB** | **—** | **–12,000,000.00** |
| Additions to reserves per Sec. 340g HGB | — | –12,000,000.00 |
| Reversals to reserves per Sec. 340g HGB | — | — |
| Direct write-downs (off-balance-sheet) | –1,429,021.37 | –53,811.60 |
| Receipts on written-off customer receivables (off-balance-sheet) | 3,509,926.21 | 2,207,499.55 |
| **Risk provisions for credit business** | **–6,464,354.07** | **–31,291,131.49** |

Risk provisions for the credit business include EUR 3.5 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. 340c (2) Sentence 2 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).

***Income Statement 22. Extraordinary result***

Although the new version of Sec. 277 HGB, 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 extraordinary result contains a provision formation for restructuring expenses in the amount of EUR 30.3 million.

In addition, it contains the profit from the BHN merger in the amount of EUR 1.4 million, which results from the addition of the net income in the same amount.

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). Moreover, the Bank performed an unscheduled repayment in the amount of EUR 3.8 million.

The "Extraordinary result" includes income of EUR 2.2 million from the reversal of restructuring provisions, which were to be attributed to previous fiscal years.

***Income Statement 23. Taxes on income***

***Income Statement 24. Other taxes not included under Item 12***

The income tax expense for the reporting year is EUR 18.1 million. Of this total tax expense, EUR 9.0 million was for corporate income tax (incl. solidarity contribution) and EUR 9.1 million was for local business income tax ("trade tax"). A total of EUR 0.5 million in trade tax back payments was attributable to previous fiscal years.

Due to the M & A transactions in the prior fiscal year, a real-estate transfer tax obligation for land and buildings of the participating companies was incurred to some degree. Corresponding provisions were established for taxes not yet fixed, which essentially explained the rise in other taxes to EUR 4.0 million.

### 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 HGB.

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.

| EUR | 12/31/2018 Deferred tax assets | Deferred tax liabilities | Net |
|---|---|---|---|
| Receivables from customers | 921,566.00 | — | 921,566.00 |
| Shares in affiliated companies | 3,400,210.00 | — | 3,400,210.00 |
| Tangible fixed assets | 3,225,387.00 | — | 3,225,387.00 |
| Other assets | 13,550,281.00 | 240,907.00 | 13,309,374.00 |
| Pension provisions | 14,139,996.00 | — | 14,139,996.00 |
| Other provisions | 2,559,253.00 | 93,000.00 | 2,466,253.00 |
| **Total balance sheet item** | **37,796,693.00** | **333,907.00** | **37,462,786.00** |

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 (incl. reunification surtax, or "solidarity surcharge," of 5.500 percent), as well as a local business income tax rate of 15.175 percent.

## VII. Other Disclosures

### Derivative transactions – Presentation of volumes

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

| EUR m | Nominal value | | Positive market value | | Negative market value | |
|---|---|---|---|---|---|---|
| | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 | 12/31/2018 | 12/31/2017 |
| **Stock/index-related risks** | **3.6** | — | **0.3** | — | **–0.3** | — |
| Caps | 1,545.3 | 28.2 | 1.2 | 0.0 | –1.2 | –0.0 |
| Floors | 104.6 | 9.6 | 0.5 | 0.0 | –0.5 | –0.0 |
| Forward rate agreements (FRAs) | — | — | — | — | — | — |
| Swaptions | — | — | — | — | — | — |
| Swaps (customer business) | 1,654.0 | 1,036.7 | 23.1 | 13.9 | –13.7 | –6.7 |
| Swaps (non-trading portfolio management) | 2,253.0 | 1,823.0 | 31.7 | 36.9 | –84.7 | –74.5 |
| **Interest rate risks (OTC contracts)** | **5,556.9** | **2,897.5** | **56.4** | **50.8** | **–99.9** | **–81.2** |
| Cross-currency swaps | 44.6 | — | 2.1 | — | –1.9 | — |
| Currency options (long) | 238.9 | — | 4.3 | — | — | — |
| Currency options (short) | 238.9 | — | — | — | –4.3 | — |
| FX swaps and currency forwards | 1,226.7 | 294.4 | 12.9 | 3.0 | –12.7 | –3.5 |
| **Foreign currency risks (OTC contracts)** | **1,749.1** | **294.4** | **19.3** | **3.0** | **–18.9** | **–3.5** |

### Derivative transactions – Counterparty breakdown

| EUR m | Nominal value 12/31/2018 | Nominal value 12/31/2017 | Positive market value 12/31/2018 | Positive market value 12/31/2017 | Negative market value 12/31/2018 | Negative market value 12/31/2017 |
|---|---|---|---|---|---|---|
| OECD banks | 4,871.3 | 2,538.3 | 51.0 | 41.6 | –101.6 | –82.3 |
| Other counterparties | 2,438.3 | 653.7 | 25.0 | 12.2 | –17.5 | –2.5 |
| **Total derivatives** | **7,309.6** | **3,192.0** | **76.0** | **53.8** | **–119.1** | **–84.7** |

### Derivative transactions – Nominal values by time remaining to maturity

| EUR m | Interest rate risk 12/31/2018 | Interest rate risk 12/31/2017 | Foreign currency risk 12/31/2018 | Foreign currency risk 12/31/2017 | Stock- and index-related risks 12/31/2018 | Stock- and index-related risks 12/31/2017 |
|---|---|---|---|---|---|---|
| Three months or less | 252.0 | 22.6 | 693.5 | 172.0 | 0.4 | — |
| Over 3 months to 1 year | 427.5 | 56.6 | 939.8 | 119.1 | 2.7 | — |
| Over 1 year to 5 years | 2,190.1 | 769.2 | 115.9 | 3.3 | 0.6 | — |
| Over 5 years | 2,687.2 | 2,049.1 | — | — | — | — |
| **Total derivatives** | **5,556.9** | **2,897.5** | **1,749.1** | **294.4** | **3.6** | **—** |

At December 31, 2018, 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 of the nominal volume of the interest rate risks (OTC contracts) item to EUR 5,556.9 million essentially results from the merger of OLB with BKB and BHN.

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 2,253.0 million. The negative fair value of these interest rate swaps at the reporting date was EUR –84.7 million; the positive value was EUR +31.7 million. Additionally, interest rate contracts resulting from the customer business are included for a total of EUR 1,654.0 million. These had positive fair values of EUR +23.1 million and negative fair values of EUR –13.7 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 (incl. 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.

| EUR | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Obligations under rental and lease agreements | 121,531,633.02 | 100,491,448.48 |
| Obligations for maintenance of information technology | 4,728,000.00 | 4,692,000.00 |
| Obligations under commenced capital spending projects | 2,253,000.00 | 2,653,208.00 |
| **Other financial obligations** | **128,512,633.02** | **107,836,656.48** |
| thereof: Liabilities to affiliated companies | — | 9,222,000.00 |

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

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

### Call commitments and joint liability

Amounts of EUR 0.8 million were paid in connection with the bank levy in 2018 and contributions of EUR 1.5 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 totaled EUR 6.9 million as of the reporting date. For the first time, the deposit insurance fund enables the payment of up to 30 percent of the apportionment for the year 2018 via an irrevocable payment commitment. This amount was paid in January 2019 in the amount of EUR 1.1 million to Einlagensicherungsbank GmbH.

### 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 of OLB (not including former BKB and former BHN 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. OLB 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, from January 1, 2015, OLB made a monthly contribution to a direct insurance plan with Allianz Lebensversicherungs-AG that was financed through deductions from employee paychecks. There is also a monthly employer contribution provided as a direct grant.

Since August 1, 2018, new registration for the company retirement pension scheme for OLB AG as "NewCo2" has been performed uniformly via the "BVV Versicherungsverein des Bankgewerbes a.G." and in the "BVV Versorgungskasse des Bankgewerbes e.V." (BVV).

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

OLB AG as "NewCo2" 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. Between January 1, 2015, and July 31, 2018, OLB (excl. the former BKB and the former BHN) recorded no new BVV memberships. 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. OLB, the former BKB and the former BHN have 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 totaled EUR 1.33 million for NewCo2 for the 2018 reporting year. It comprises EUR 1.17 million for OLB, EUR 0.10 million for the former BKB (full fiscal year 2018) and EUR 0.06 million for the former BHN (second half of 2018). 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).

*Further required disclosures*

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

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
- Investment business

### Disclosures on employees per Sec. 285 No. 7 HGB

On average for the year, the Bank had 2,136 employees (prior year: 1,931) (of which OLB provided 1,867, and BKB was taken into account for the whole year, BHN in the second half). The staff breakdown is as follows:

| | 2018 | | |
|---|---|---|---|
| Average for year | Men | Women | Total |
| Full-time employees | 974 | 523 | 1,497 |
| Part-time employees | 65 | 574 | 639 |
| **Total** | **1,039** | **1,097** | **2,136** |

On December 31, 2018, the number of employees was 2,154 – including 1,832 OLB and 322 BKB / BHN (prior year: 1,905 – OLB without BKB / BHN).

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

Total pay for the Board of Managing Directors under Sec. 285 No. 9a HGB in fiscal year 2018 was 6.0 million (also incl. pay for members of the Board of Managing Directors who left during the year or members of the managing boards of the predecessor companies Bremer Kreditbank AG and Bankhaus Neelmeyer AG). That includes a transaction premium of EUR 0.8 million that resulted from a commitment from fiscal year 2017 that was reimbursed by Allianz Deutschland AG and thus did not have a negative impact on OLB AG. A total of EUR 2.4 million was paid to former members of the Board of Managing Directors or their survivors in accordance with Sec. 285 No. 9 b) HGB. The discounted performance amount of pension obligations for this group of persons came to EUR 24.1 million.

Total pay for the Supervisory Board under Sec. 285 No. 9a HGB in fiscal year 2018, including attendance fees, was EUR 1.2 million (also incl. pay for members of the Supervisory Board who left during the year or members of the supervisory boards of the predecessor companies Bremer Kreditbank AG and Bankhaus Neelmeyer AG).

Credit was granted to members of the Board of Managing Directors as of December 31, 2018, as follows: There was no utilization of lines of credit. Credit card limits of EUR 2.1 thousand were utilized on the reporting date. There were no loan commitments as of December 31, 2018.

Credit was granted to members of the Supervisory Board as of December 31, 2018, as follows: The use of credit lines totaled EUR 8.9 thousand. Credit card limits were used up to EUR 2.6 thousand as of the reporting date. There were also loan commitments of EUR 382.8 thousand, which were utilized in the amount of EUR 382.8 thousand as of December 31, 2018.

### Disclosures on equity interests held per Sec. 285 No. 11 HGB

Below is a summary, in compliance with Sec. 285 No. 11 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 held EUR | Profit for period 2018 [1] EUR | Profit for period 2017 [1] EUR |
|---|---|---|---|---|
| OLB-Service GmbH, Oldenburg | 100 | 26,000.00 | — | — |
| OLB-Immobiliendienst GmbH, Oldenburg | 100 | 26,000.00 | — | — |
| Vermögensverwaltungsgesellschaft Merkur mbH, Bremen | 100 | 51,129.19 | — | — |

1 Profit for period after transfer of profit and loss

Profit-and-loss transfer agreements exist with the three listed direct subsidiaries. There is no profit-and-loss transfer agreement with QuantFS GmbH, of Hamburg, a wholly owned subsidiary of Vermögensverwaltungsgesellschaft Merkur mbH, Bremen.

OLB furthermore holds the following equity interests of less than 20 percent:

| Name and registered office of the company | Share of capital held<br>% | Equity held<br>EUR | Profit for period 2018[1]<br>EUR | Profit for period 2017<br>EUR |
|---|---|---|---|---|
| Bürgschaftsbank Bremen GmbH, Bremen | 5.75 | 7,400,496.99 | n / a | 561,639.24 |
| AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main | 0.42 | 238,732,103.15 | n / a | 11,080,000.00 |
| Niedersächsische Bürgschaftsbank (NBB) Gesellschaft mit beschränkter Haftung, Hanover | 3.08 | 26,397,391.55 | n / a | 1,933,827.07 |
| EURO Kartensysteme GmbH, Frankfurt am Main | 1.51 | 11,834,836.14 | n / a | 590,161.01 |
| Parkhaus am Waffenplatz Gesellschaft mbH, Oldenburg | 3.43 | 6,017,874.83 | n / a | 504,347.98 |
| Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mbH, Hanover | 5.50 | 13,637,686.42 | n / a | 507,023.25 |
| TGO Besitz GmbH & Co. KG, Oldenburg | 8.91 | 1,056,186.47 | n / a | 105,374.73 |
| Paydirekt Beteiligungsgesellschaft privater Banken mbH, Munich | 2.02 | 6,114,786.18 | n / a | 2,745.40 |
| Fiducia Mailing Services eG, Karlsruhe | 0.18 | 81,996.00 | n / a | — |
| Wirtschaftsförderung Wesermarsch GmbH, Brake | 2.50 | 399,688.84 | n / a | 6,356.81 |
| MFP Munich Film Partners GmbH & Co.I. Produktions KG i. L., Grünwald | 0.19 | 1,666,921.07 | n / a | – 132,601.38 |
| Society for Worldwide Interbank Financial Telecommunication S. C. R. L. (S. W. I. F. T.), La Hulpe | 0.04 | 469,330,000.00 | n / a | 45,119,000.00 |

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 auditors per Sec. 285 No. 17 HGB

| EUR | 2018 | 2017 |
|---|---|---|
| Audit of financial statements | 724,970.00 | 733,105.11 |
| Other confirmation and valuation services | 14,600.00 | 37,559.87 |
| **Total** | **739,570.00** | **770,664.98** |

# Disclosures of Additional Offices Held by Members of Governing Bodies per Sec. 285 No. 10 HGB

## Supervisory Board

**Dr. Ernst Thomas Emde since August 31, 2018**
*Chairman*
Attorney-at-law, Frankfurt am Main

**Jens Grove since May 11, 2018**
*Vice Chairman*
Bank clerk and Chairman of the General Works Council, Oldenburg

**Claus-Jürgen Cohausz since August 31, 2018**
Corporate consultant, Münster

**Brent George Geater since August 31, 2018**
Investment manager, London (United Kingdom)

**Michael Glade since May 11, 2018**
Director and Deputy Head of Corporate Banking, Oldenburg

**Svenja-Marie Gnida**
Head of Private Banking, OLB AG, Osnabrück

**Thomas Kuhlmann since May 11, 2018**
Chairman of the Works Council of the Region Oldenburg/Ammerland/Friesland and Headquarters, Oldenburg

**Gernot Wilhelm Friedrich Löhr since August 31, 2018**
Investment professional, London (United Kingdom)

**Dr. Manfred Puffer since August 31, 2018**
Senior investment adviser, Meerbusch

**Horst Reglin**
Union Secretary for Financial Services at Vereinte Dienstleistungsgewerkschaft ver.di, Oldenburg

**Sascha Säuberlich since August 31, 2018**
Chartered Accountant (South Africa), London (United Kingdom)

**Christine de Vries**
Project Manager at OLB AG, Oldenburg

## Members of the Supervisory Board members who resigned in the course of the year

**Rainer Schwarz until March 16, 2018**
*Chairman*
Member of the Supervisory Board of OLB AG, Munich

**Axel Bartsch from March 16, 2018 to August 31, 2018**
*Chairman*
At this time, Chairman of the Management Board of Bremer Kreditbank AG, Bremen

**Uwe Schröder until May 11, 2018**
*Vice Chairman*
Bank clerk at OLB AG, Oldenburg

**Prof. Dr. Werner Brinker until March 16, 2018**
Honorary Professor at CvO University of Oldenburg and
Member of the Supervisory Board of OLB AG, Rastede

**Chris Florian Eggert from March 16, 2018 to August 31, 2018**
At this time, Head of Credit Analysis and Processing
at Bremer Kreditbank AG, Bremen

**Prof. Dr. Andreas Georgi until March 16, 2018**
Honorary Professor at LMU Munich, executive advisor and member
of various supervisory boards and their committees, Starnberg

**Dr. Peter Hemeling until March 16, 2018**
Attorney-at-law and former General Counsel at Allianz SE, Krailling

**Dr. Wolfgang Klein from March 16, 2018 to August 31, 2018**
At this time, independent corporate consultant, Bonn

**Stefan Lübbe until May 11, 2018**
Director and Member of the Management for Corporate Clients and
Private Banking, Oldenburger Münsterland at OLB AG, Vechta

**Jenny Lutz from March 16, 2018 to August 31, 2018**
At this time, Head of Risk Controlling and Finance at
Bremer Kreditbank AG, Bremen

**Jutta Nikolic from March 16, 2018 to August 31, 2018**
At this time, Manager Financial Institutions
at Bremer Kreditbank AG, Frankfurt am Main

**Prof. Dr. Petra Pohlmann until March 16, 2018**
Professor at WWU University of Münster

**Jens Rammenzweig from March 16, 2018 to August 31, 2018**
At this time, Member of the Management Board at Bremer Kreditbank AG, Bremen

**Carl-Ulfert Stegmann until March 16, 2018**
Sole Director at AG Reederei Norden-Frisia, Norderney

**Gabriele Timpe until May 11, 2018**
Customer Manager at OLB AG, Haselünne

## Board of Managing Directors

**Axel Bartsch since September 1, 2018**
Chairman of the Board of Managing Directors of OLB AG

**Dr. Wolfgang Klein since September 1, 2018**
Vice Chairman of the Board of Managing Directors of OLB AG

**Karin Katerbau**
Member of the Board of Managing Directors of OLB AG

**Hilger Koenig**
Member of the Board of Managing Directors of OLB AG

**Jens Rammenzweig since September 1, 2018**
Member of the Board of Managing Directors of OLB AG

**Members of the Board of Managing Directors who resigned in the course of the year**

**Patrick Tessmann until August 31, 2018**
Chairman of the Board of Managing Directors of OLB AG

# Disclosures per Sec. 285 No. 33 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 time of preparation of these annual financial statements, there were no events of particular significance that had occurred after the close of the fiscal year and that were not considered in either the income statement or the balance sheet.

# Disclosures per Sec. 285 No. 34 HGB on the Proposal for Allocation of Profits for Fiscal Year 2018

The income statement for 2018 shows net retained profits of EUR 26.1 million. The Board of Managing Directors and the Supervisory Board recommend using the entire amount for placement in other revenue reserves.

Oldenburg, March 1, 2019
OLB AG

The Board of Managing Directors

| Axel Bartsch | Dr. Wolfgang Klein | Karin Katerbau | Hilger Koenig | Jens Rammenzweig |
|---|---|---|---|---|
| Chairman | Vice Chairman | | | |

# Notes to the Annual Financial Statements per Sec. 26a 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. 26a (1) Sentence 2, which must be audited by independent auditors as provided in Sec. 340k HGB, and must be published:

### Names of companies, nature of activities and geographical location of branches

The name of the Company is: Oldenburgische Landesbank AG. According to its Articles of Incorporation, the purpose of the Company is to conduct banking and financial transactions of all kinds 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. 26a (1) Sentence 2 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 OLB AG prepared under HGB 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 | 2018 | 2017 |
|---|---|---|
| Net interest income | 293,313,906.43 | 228,117,191.66 |
| Net commission income | 84,351,287.80 | 68,054,734.92 |
| Net operating trading income / expense | –94,170.14 | 31,230.85 |
| **Operating income / revenue** | **377,571,024.09** | **296,203,157.43** |

### Number of recipients of wages and salaries in full-time equivalents

On average for the year, OLB AG had 2,136 employees (prior year: 1,931). This corresponds to an average employee capacity of 1,884 full-time equivalents (prior year: 1,689).

### Profit or loss before taxes

As "Profit before taxes," the net income for the year recognized in the annual financial statements of OLB AG is presented, with taxes on profit or loss added back (taxes on income and other taxes, unless recognized under Item 12):

| EUR | 2018 | 2017 |
|---|---|---|
| Net income for the fiscal year | 20,576,884.68 | 28,316,604.72 |
| ./. Taxes on profit or loss | 22,067,967.06 | 22,134,718.27 |
| **Profit before taxes** | **42,644,851.74** | **50,451,322.99** |

### Taxes on profit or loss

As “Taxes on profit,” the taxes on income and the other taxes (unless recognized under Item 12) recognized in the annual financial statements of OLB AG are presented:

| EUR | 2018 | 2017 |
|---|---|---|
| Taxes on income | –18,117,083.09 | –21,145,458.32 |
| Other taxes not included under Item 12 | –3,950,883.97 | –989,259.95 |
| **Taxes on profit or loss** | **–22,067,967.06** | **–22,134,718.27** |

### 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 | 2018 | 2017 |
|---|---|---|
| Net profit / net income for year | 20,576,884.68 | 28,316,604.72 |
| Total assets / total of assets or of equity and liabilities | 19,093,035,602.71 | 14,367,191,400.91 |
| **Ratio of net profit to total assets (return on capital)** | **0.11 %** | **0.20 %** |

# Independent Auditors' Report

To Oldenburgische Landesbank AG, Oldenburg

## Report on the Audit of the Annual Financial Statements and Management Report

We have audited the annual financial statements of Oldenburgische Landesbank AG, Oldenburg, consisting of the balance sheet as of December 31, 2018, and the income statement for the fiscal year from January 1 through December 31, 2018, and the Notes, including the description of the accounting policies. In addition, we have audited the management report on the situation of Oldenburgische Landesbank AG, of Oldenburg, for the fiscal year from January 1 to December 31, 2018.

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 corporations, 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, 2018, and of its financial performance for the fiscal year from January 1 to December 31, 2018, 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.

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.

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## Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 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 "Auditors' Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditors' 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 Art. 10 (2) Item (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 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 fiscal year from January 1 to December 31, 2018. 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.

Below we describe what in our view are the key audit matters:

1. Mergers of Bremer Kreditbank AG (BKB) and Bankhaus Neelmeyer AG (BHN) with Oldenburgische Landesbank AG (OLB)

2. Risk provision in the customer lending business

3. Representation of restructuring measures in the annual financial statements

We structured our representation of these key audit matters as follows:

a) Description of key audit matters (incl. citation of associated information in the annual financial statements and the management report)

b) Audit procedure

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## Mergers of Bremer Kreditbank AG (BKB) and Bankhaus Neelmeyer AG (BHN) with Oldenburgische Landesbank AG (OLB)

a) In fiscal 2018, Bremer Kreditbank AG, Bremen (BKB), was merged as part of a downstream merger and Bankhaus Neelmeyer AG, Bremen (BHN), was merged as part of an upstream merger with Oldenburgische Landesbank AG, of Oldenburg (OLB). BKB and BHN transferred their assets as a whole to OLB by way of a merger by acquisition in accordance with Sec. 2 No. 1 UmwG. The transfer of the assets of BKB to OLB, which was completed with legal effect on August 31, 2018, occurred with economic effect as of January 1, 2018. It was completed technically by data migration and in the current accounts as of August 31, 2018. The transfer of the assets of BHN to OLB, which was completed with legal effect on December 28, 2018, occurred with economic effect as of July 1, 2018, on the basis of the final balance sheet of BHN prepared as of June 30, 2018. The balance sheet and income statement of BHN were prepared in the bookkeeping system of BHN for purposes of the OLB annual financial statements as of December 31, 2018. Then, taking into consideration merger effects, the balance sheet values of OLB and BHN were manually combined at the level of OLB. The result of BHN for the second half of 2018 is recognized in the OLB Income Statement on balance in a separate item.

   Since M&A events like mergers are complex transactions and there is a significant risk in relation to the correct recording and proper representation in the annual financial statements, the representation of the two merger events is among the most significant matters in the annual financial statements.

The information of the legal representatives on the mergers are contained in the sections "Bases for preparation of the annual financial statements and accounting rules" and "Information on the depiction of the merger occurring during the year" in the Notes and in the section on "Effects of the M&A transactions on the assets, liabilities, financial position and financial performance" in the management report.

b) In a first step, we reviewed the merger agreements underlying the merger. As part of the audit, we assessed the accounting-related organizational structure and operations in relation to the recording and representation of the mergers in the OLB annual financial statements. We tested the correct and complete recording and the proper valuation of the assets, capital and liabilities. Moreover, we examined whether offsetting of reciprocal receivables and liabilities and elimination of expenses and income from transactions that occurred within the year had taken place within the income statement, and whether uniform accounting policies had been applied in the annual financial statements as of December 31, 2018, and/or existing differences were explained in the Notes. In addition, we traced the major valuation effects from the application of uniform accounting policies after the mergers and reviewed the effects impacting the income statement as to their proper recording in the income statement. Moreover, we assessed the information of the legal representatives concerning the mergers in the Notes with respect to its completeness and accuracy. Since, on account of the merger-based additions to assets and liabilities in the acquiring OLB, there is fundamentally no comparability with the prior-year figures, we audited the explanations in the Notes as to the establishment of comparability with the prior-year figures and the transition calculation performed by OLB regarding comparable prior-year values. We conducted the audit of the migration of BKB data with the involvement of our IT specialists in reliance on IDW PS 850. In particular, we performed an audit of the reasonableness of the implemented, project-related internal control system and a review of the assurance of the requirements for appropriateness and security in the expansion of the applications of OLB and the data migration. In addition, we reviewed for accuracy the manual combination of the balance sheet values of BHN with the balance sheet of OLB.

### Risk Provision in the Customer Lending Business

a) In the annual financial statements as of December 31, 2018, receivables from customers based on customer credit transactions were recorded in the amount of EUR 14.0 billion (73.1 percent of the total assets). In addition, there are contingent liabilities from the customer lending business as of the reporting date and irrevocable credit commitments totaling EUR 2.3 billion. OLB reviews regularly, and/or when defined impairment criteria exist, whether the receivables from customers are recoverable. An identified impairment requirement is determined using the cash value method as a specific loan loss provision for a customer receivable and is measured as the difference between the outstanding credit amount (exposure at default) and the discounted future anticipated cash flow, taking into account existing collateral. The flat-rate specific loan loss provisions and the general loan loss provisions are calculated at the level of OLB based on statistical or historical failure data according to mathematical and statistical methods. For contingent liabilities and irrevocable credit commitments, an identified impairment requirement in the amount of the fulfilment amount required in accordance with prudent business judgment is set as a provision for uncertain liabilities, while the determination of the amount at the level of OLB is done by analogy to the methods for specific or lump-sum specific loan loss provisions. The amount of the established risk provision in the customer lending business is very significant for the financial position and performance of OLB. There is considerable discretionary room given to legal representatives in estimating the input parameters and the anticipated future incoming payments. Against this backdrop, this matter was particularly important in the context of our audit.

The information provided by the legal representatives on the valuation of the receivables from customers and the risk provision is contained in the section "Explanation of accounting policies" in the Notes and in the section on the business development in the management report.

b) In our audit, we assessed the reasonableness of the design and functional capacity and effectiveness of the relevant controls in OLB's customer lending business. We took into consideration the credit processes, the underlying IT systems and the valuation methods of OLB. In addition, we reviewed the interfaces between the IT systems for calculating risk provisions and the credit systems managing the portfolio to ensure that the data basis for calculating risk provisions was fully transmitted and properly delimited. Our audit covered in particular the assessment of the reasonableness and effectiveness of the implemented controls to identify receivables at risk of default and of the establishment of risk provisions. Based on a risk-oriented selected sample, we tested the valuation of customer receivables with respect to the appropriate estimation of the creditworthiness of the borrowers and the reasonableness of estimated values. We assessed the underlying assumptions with regard to the economic situation of the borrowers and the recoverability of the relevant collaterals. For the purposes of our audit, our IT specialists supported us in auditing the IT systems as part of the audit team. In addition, we assessed for accuracy and completeness the information given by the legal representatives in the Notes regarding the risk provision established and the information on the accounting policies applied in relation to the establishment of the risk provision.

## Representation of Restructuring Measures in the Annual Financial Statements

a) After the mergers of BKB and BHN with OLB, the legal representatives of OLB decided on various additional restructuring measures to modernize and strengthen the Bank's competitiveness, among which are measures in the personnel area, in particular in fiscal year 2019 and the following years. For the anticipated costs of the full implementation of these measures, provisions have been recognized in the OLB balance sheet as of December 31, 2018, for uncertain liabilities in the amount of EUR 31.6 million. In addition, OLB in this connection has performed unscheduled write-downs of tangible fixed assets (operating and business equipment) in the amount of EUR 3.0 million. Taking into consideration contrary effects from the reversal of restructuring provisions for measures in prior years in the amount of EUR 2.0 million, there is an expense on balance totaling EUR 32.6 million for 2018, that is shown in the income statement under extraordinary result. The recognition of the restructuring measures in the balance sheet in the annual financial statements as of December 31, 2018 was determined by us to be a particularly important audit matter, as the recognition and measurement of these provisions, which are significant in terms of amount, as well as the amount of the impairment losses recognized are based to a large extent on estimates and assumptions made by the legal representatives and have a considerable influence on the annual result.

The information given by the legal representatives concerning the aforementioned measures and their amount are contained in the sections on "Notes to the Balance Sheet – Equity & Liabilities" and "Notes to the income statement" in the Notes. The management report contains supplementary information in the sections "Business development – Financial performance" and "Risk report."

b) The focus of our audit procedures with respect to the presentation of the restructuring measures in the annual financial statements was on assessing the completeness and proper measurement of the provisions recognized. To audit the approach, completeness and valuation of existing obligations, we assessed in particular the underlying resolutions, cost estimates and calculations, minutes and information provided to the works council. We examined the documentation presented to us by OLB with regard to the estimates performed by the legal representatives as to the amount and the plausibility of the assumptions made and we traced their balance sheet accounting on the basis of this.

We critically questioned the major assumptions and had them demonstrated to us, if necessary, with additional evidence (incl. about the parameters used).

To audit the amount of the provisions or the partial reversal of provisions from measures of earlier years, we retraced the calculations performed by the Human Resources department and checked the plausibility of the major assumptions underlying the calculation. In relation to the unscheduled write-downs, we reconstructed the calculations made and checked the plausibility of the major assumptions underlying the calculation. We discussed the planned measures with the managers in charge of the Human Resources department and the legal representatives and critically questioned the assumptions posited. In addition, we tested the information provided in the Notes regarding the planned measures for completeness and accuracy.

## Other Information

The legal representatives are responsible for the other information. The other information comprises:

- The separate nonfinancial report, which is referred to in the management report and is expected to be published by April 30, 2019, on the OLB website
- All other parts of the annual report, with the exception of the audited financial statements and the management report, as well as our audit certificate

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

The legal representatives are responsible for the preparation of the annual financial statements which comply with the regulations of German commercial law applicable to corporations in all material respects, so that the annual financial statements give a true and fair view of the financial position, liquidity position and financial performance of the Company, in accordance with generally accepted German accounting standards. In addition, the legal representatives are responsible for the internal controls they have identified as necessary in accordance with generally accepted German accounting standards in order to enable the preparation of annual financial statements that are free from material misstatements, whether intentional or unintentional.

In preparing the annual financial statements, the legal representatives are responsible for assessing the Group'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 using the going-concern basis of accounting, unless factual or legal circumstances prevent this.

In addition, the legal representatives are responsible for the preparation of the management report, which as a whole provides a suitable view of the Company's position, is consistent with the annual financial statements in all material respects, complies with German legal regulations and suitably presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for such arrangements and measures (systems) which they have deemed necessary in order to enable the preparation of a management report in accordance with the applicable German legal regulations and to furnish sufficient and appropriate evidence for the statements 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.

## Auditors' 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 auditors' 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 Sec. 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 the accounting policies used by the legal representatives and the reasonableness of accounting estimates and related disclosures made by the legal representatives.

- Form a conclusion on the appropriateness of the legal representatives’ use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists relating 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 auditors’ 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 auditors’ 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 forward-looking information presented by the legal representatives in the management report. On the basis of sufficient appropriate audit evidence, we particularly evaluate the significant assumptions underlying the forward-looking information by the legal representatives and evaluate the correct derivation of forward-looking 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 auditors’ report unless law or regulation precludes public disclosure about the matter.

## Other Legal and Regulatory Requirements

### Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as independent auditors by the Shareholders' Meeting on August 14, 2018. We were appointed by the Chairman of the Supervisory Board in a letter dated August 29/30, 2018. We first began working as independent auditors of Oldenburgische Landesbank AG, Oldenburg, in fiscal year 2018.

We declare that the opinions expressed in this auditors' report are consistent with the additional report to the Audit Committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

We performed the following services, which are not indicated in the annual financial statements or in the management report of the audited company, for the audited company or for the companies under its control in addition to the audit of the financial statements:

- Custodian account and German Securities Trading Act audit in calendar year 2018 (for BKB and BHN)

- Audit of the statement of BHN and BKB to the Deutsche Bundesbank in calendar year 2018 (loan receivables – submission and administration – KEV)

- Audit of final balance sheet as of June 30, 2018 (BHN)

### German public auditor responsible for the engagement

The German public auditor responsible for the engagement is Andreas Feige.

Hanover, March 6, 2019
Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Dr. Ulrich Braun | Andreas Feige |
| Public Auditor | Public Auditor |

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