Annual Report 2016/2017

IKB Deutsche Industriebank

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Letter from the Chairman of the Board of Managing Directors

Ladies and Gentlemen,

IKB was able to further strengthen its sustainable and competitive position in the German banking market in the 2016/17 financial year. We advanced our strategic focus on the high-end German Mittelstand. IKB has sharpened its profile as the only bank to operate all over Germany with an exclusive focus on corporate customers in its lending business.

In the long-term lending business with the manufacturing sector and with our extensive expertise in public programme loans, we have a visible position in the German market, but also sufficient room for growth. We will leverage this in the years ahead on the basis of detailed target group analyses. We have already grown our new business with mid-cap clients for several years in a row, and for the first time we have now also again increased our total volume of loans in the Mittelstand business.

At the same time we are reducing non-strategic assets that have no direct relationship to our target customers. We made substantial progress toward achieving this goal. The residual portfolio now amounts to only € 0.3 billion, coming down from more than € 4 billion four years ago. We are also evaluating strategic options for our subsidiaries IKB Leasing and IKB Data. We are solely targeting corporate customers to focus even more on the most important part of our strategy: assisting our mid-cap clients with loans, risk management, capital market and advisory services.

Our business model is sustainably profitable. We reported positive consolidated net income for the fourth consecutive year, increasing net income to € 26 million. Our equity ratio has steadily increased over the same period. With a CET 1 ratio of currently 11.7%, we have a solid basis for further growth. We even have more headroom in our leverage ratio, which at 8.0% is at a high level compared to other banks.

The continued pricing discipline is particularly important for expanding our business activities. The success of this strategy can be seen by the fact that in the past financial year we generated a positive contribution to earnings from risk provisions, which are normally a cost factor. The NPA ratio, which – put quite simply – is the ratio of non-performing assets to credit volume, more than halved versus the previous year to currently 1.1%, and is now at a historically low level. Above all, we owe this to the good economic performance of our Mittelstand clients, who hold a leading position in their respective sectors.

Nevertheless, we cannot permanently rely on the current economic tailwind. The environment in both the capital markets and in politics is characterised by volatility. Regulatory requirements and the persistently low interest rate environment represent challenges and are a source of uncertainty. We also see risks to our export-oriented mid-cap clients, which in some sectors sell more than 80% of their production abroad, due to protectionist tendencies visible around the world.

We must further increase the Bank's profitability to safeguard IKB's position. This includes increasing income by addressing our target customers even more systematically, as well as cost-cutting measures. The Bank has made good progress in the past financial year in this respect as well.

We cut costs by 5% in the financial year and, like many banks in Germany, had to reduce the number of our employees to achieve this. This trend is set to continue for the time being. The redundancy scheme negotiated with employee representatives extends until April 2018. We are able to successfully manage the bank with a smaller headcount today because the bank's structure has already been simplified considerably.

We have made great progress in reducing the complexity of our capital structure. Following the completion of the squeeze-out in January 2017, Lone Star is now 100% shareholder of IKB. This allows us to react quickly and flexibly, for example by rapidly implementing measures involving the Annual General Meeting.

Our first Annual General Meeting after the squeeze-out was held in May 2017. The only item on the agenda was the election of a new auditor: Ernst & Young. After 10 years of co-operation with PwC, a change of our auditors was required by law. Ernst & Young successfully beat five competitors in an intensive tender process that lasted several months.

Our tender for the silent participations (Capital Raising and Hybrid Raising bonds) was accepted by 87.9% of investors. Thus, less than € 50 million of the nominal value of € 400 million in total is still outstanding. Our last remaining profit participation certificates expired at the end of the financial year. We will continue to optimise our capital structure.

Overall, we have had a quite satisfactory financial year 2016/17. IKB has steadily strengthened its market position in recent years and has further improved over the last financial year. With a business model focused on mid-cap clients, a solid equity position, ample liquidity and limited risks, we see good opportunities for further growth and increasing profitability.

Düsseldorf, 29 May 2017

M. Wiedmann

Dr Michael H. Wiedmann

Report of the Supervisory Board

In the financial year 2016/17, the Supervisory Board fulfilled the duties and obligations incumbent upon it in accordance with statutory provisions and the Articles of Association and its by-laws. The Supervisory Board supervised the management of the company and advised the Board of Managing Directors on the management of the company. The Supervisory Board was involved in all decisions of fundamental importance to the bank.

Overview

In its supervisory and advisory activities, the Supervisory Board received regular, timely and comprehensive reports from the Board of Managing Directors, in both oral and written form. The Board of Managing Directors informed the Supervisory Board of the business operations and the economic and financial development of the IKB Group and IKB AG. Other focal points of regular reporting were the general development of IKB and the development of the Group's risk situation. Furthermore, the Supervisory Board addressed Group planning and the actual development of business in the financial year 2016/17.

Reports by the Board of Managing Directors on the business situation and on specific issues were supplemented by written presentations and documentation which each member of the Supervisory Board received prior to the meeting for preparation purposes. The members of the Supervisory Board were also provided with the annual financial statements and consolidated financial statements and the auditors' reports in due time prior to the meeting convened to review the annual financial statements. The members of the Risk and Audit Committee and the Supervisory Board plenary meeting also received the half yearly financial report and quarterly reports in due time for preparation purposes.

The Supervisory Board held seven meetings in the financial year 2016/17. Regular meetings were held in June, August, December and March. The Supervisory Board also convened in September, following the Annual General Meeting for the financial year 2015/16, for a constitutive meeting. Two extraordinary meetings in October 2016 were held in preparation for the Extraordinary General Meeting on 2 December 2016 for adoption of the resolution concerning the transfer of the shares of the minority shareholders to LSF6 Europe Financial Holdings, L.P., Dallas, USA, pursuant to Sections 327a et seq. AktG (German Stock Corporation Act). The Chairmen of the Supervisory Board and the Board of Managing Directors also consulted regularly on key developments and decisions. Individual members were unable to attend some meetings of the Supervisory Board and sent their apologies.

Topics of the Supervisory Board plenary meeting

At all Supervisory Board meetings in the financial year 2016/17, the Supervisory Board was able to form a detailed opinion on the general development of the bank based on written and oral reporting by the Board of Managing Directors. In this respect, the Board of Managing Directors also provided the Supervisory Board with explanations concerning the development of business volume and result of the Group. Furthermore, the Board of Managing Directors examined in detail the development in the individual business segments and reported on the capital position, financial situation, including taxes, and Group risk. The Supervisory Board was continuously informed by the Board of Managing Directors about the regulatory capital position of the IKB Group and the status of material legal disputes.

At its meeting convened to review the annual financial statements in June 2016, the Supervisory Board examined inter alia the annual financial statements, consolidated financial statements and the dependent company report. The Board of Managing Directors also gave a comprehensive written and oral explanation of the risk situation of the IKB Group including the recovery indicators defined in the recovery plan. Group Internal Audit and the Chief Compliance Officer made their respective annual reports for 2015/16. PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Düsseldorf, reported on the audit findings, and the Chairman of the Risk and Audit Committee on preparations for the auditing of the annual financial statements and consolidated financial statements as of 31 March 2016 with the combined management report and dependent company report for the financial year 2015/16. The annual financial statements and consolidated financial statements were approved by the Supervisory Board. No objections were raised to the declaration of the Board of Managing Directors in the closing statement of the dependent company report. The report of the Supervisory Board for the financial year 2015/16 was also approved. Further topics were the explanation in written and oral form of Group planning and the remuneration systems for the company. The Supervisory Board further addressed the agenda for the Annual General Meeting of IKB in September 2016 and approved the Supervisory Board's proposed resolutions to the Annual General Meeting. Furthermore, the Supervisory Board deliberated on remuneration topics. In particular, the Supervisory Board determined the variable remuneration for the individual members of the Board of Managing Directors for the financial year 2015/16 and verified the determination of the pro-rata variable remuneration for the members of the Board of Managing Directors for the financial years 2013/14 and 2014/15 which, according to the *Institutsvergütungsverordnung* (Remuneration Ordinance for Institutions), had to be spread over a deferral period of several years.

At its following quarterly meetings, the Supervisory Board deliberated respectively on the business development and Group risk including the recovery indicators stipulated in the recovery plan and also addressed in this context the regulatory capital position, especially with respect to the further requirements under Basel III resp. CRD IV. The meetings in each case also addressed the Group Internal Audit report. The Board of Managing Directors informed the Supervisory Board on these topics both in written and oral form.

The Board of Managing Directors provided timely comprehensive information to the Supervisory Board in written and oral form on the business policy and fundamental management questions including the strategic further development of IKB. The business and risk strategy of IKB was also the subject of the Supervisory Board meetings in the reporting period. Remuneration matters were topics on the agenda as well such as the Report of the Remuneration Officer.

The Supervisory Board also deliberated on medium-term quantitative and qualitative HR planning and development.

Activities of the Committees

To ensure that the Supervisory Board exercises its functions efficiently, the Supervisory Board has set up different committees: the Supervisory Board Executive Committee, the Risk and Audit Committee, the Remuneration Control Committee and the Nomination Committee. The Committees prepare the deliberations and resolutions for approval in the plenary meeting. Furthermore, the authority to approve resolutions has also been delegated to the Committees themselves.

The Supervisory Board Executive Committee essentially prepared the meetings of the Supervisory Board and focused on business development and the strategic orientation of the bank and the Group. Discussion on the implementation of strategic measures and projects was prioritised. The Supervisory Board Executive Committee approved management measures requiring approval, such as the approval of large exposure loans or related party loans. In addition, the Supervisory Board Executive Committee deliberated on the preparation of the Annual General Meeting and Extraordinary General Meeting 2016.

The activities of the Risk and Audit Committee focused on monitoring accounting procedures, the efficiency of the internal control system, risk management, the internal audit system, risk strategy and compliance as well as the audit of the financial statements. The Committee deliberated on the preparation of the annual financial statements and the consolidated financial statements and the appointment of the auditor. The Risk and Audit Committee issued the audit assignment to the auditor and agreed on the audit fee with the auditor.

The Risk and Audit Committee addressed intensively the reforms introduced by the EU Regulation on specific requirements regarding statutory audit of public-interest entities (Regulation (EU) No 537/2014) and the *Abschlussprüferreformgesetz* (German law on reform of statutory audit) and the *Abschlussprüferaufsichtsreformgesetz* (German law on reform regarding supervision of statutory auditors), especially the strengthened role of the Audit Committee and the extended obligations and requirements resulting from this. In compliance with the new legal requirements on the obligatory rotation of the auditor, IKB conducted a tender procedure to select a new auditor for IKB AG and the Group for the financial year 2017/18. Determination of the main process steps, selection criteria and the evaluation procedure were the responsibility of the Risk and Audit Committee which was supported by the company with regard to the implementation of the selection procedure. The focus was at all times on issues such as the independence of the auditor and the provision of any non-audit services by a potential new auditor and these were continuously monitored. As a result of the selection procedure, the Risk and Audit Committee proposed the two shortlisted candidates, and recommended proposing Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, to the Annual General Meeting as new auditor. The Supervisory Board followed this recommendation.

The Remuneration Control Committee addressed the bank's remuneration systems, especially that of the Board of Managing Directors as well. The Remuneration Control Committee prepared the resolutions of the Supervisory Board relating to remuneration and furthermore addressed the annual review of the adequacy of the principles of the remuneration system for the members of the Board of Managing Directors.

The Nomination Committee discussed the proposals to the Supervisory Board regarding the election of Supervisory Board members by the Annual General Meeting on 1 September 2016. The Nomination Committee furthermore fulfilled the duties incumbent upon it according to Section 25 d (11) KWG (German Banking Act).

The members of the Committees engaged in deliberations among themselves outside the meetings as well and maintained contact with the Board of Managing Directors.

The plenary meetings were provided with accounts of the activities of the Committees.

Audit of the annual financial statements and consolidated financial statements

The Annual General Meeting appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, as auditors for the annual financial statements and the consolidated financial statements and for any reviews or any audits of the interim financial statements resp. interim consolidated financial statements and the interim management report resp. interim Group management report for the first half of the financial year 2016/17 and all other interim financial statements resp. interim consolidated financial statements and interim management reports resp. interim Group management reports which are prepared prior to the Annual General Meeting 2017. PwC audited the annual financial statements of IKB AG and the Group and the combined management report for IKB AG and the Group and issued unqualified audit opinions. Examination of and deliberation on the annual financial statements, the consolidated financial statements and the relevant combined management report and the related written audit reports of PwC for the financial year 2016/17 by the Risk and Audit Committee and the plenary meeting of the Supervisory Board took place on 7/8 June 2017. All members of the Supervisory Board resp. Committees received these documents in due time prior to the respective meeting. The auditors participated in these deliberations. At the meeting of the Supervisory Board on 8 June 2017, they reported on the key findings of their audit, including findings in respect of the internal control and risk management system relating to the accounting process of the bank, answered questions and provided additional information. There were no circumstances which gave reason to doubt the impartiality of the auditors. The auditors furthermore informed the Supervisory Board of all additional services provided by them in connection with the audit.

The Supervisory Board approved the result of the audit of the financial statements at its meeting held on 8 June 2017. According to the final result of the Supervisory Board's own reviews of the annual financial statements and the consolidated financial statements and the combined management report, no objections were raised. The Supervisory Board approved the annual financial statements and the consolidated financial statements of 22 May 2017, prepared by the Board of Managing Directors, at its meeting on 8 June 2017. The annual financial statements have, therefore, been adopted.

Review and approval of the dependent company report

The report on business relationships with affiliated companies for the financial year 2016/17 (dependent company report) which was presented by the Board of Managing Directors was also examined by the auditors. The dependent company report was issued with the following unqualified audit opinion: "Having duly examined and assessed this report, we confirm that the factual statements made in the report are correct, the company's consideration with respect to the legal transactions listed in the report was not inappropriately high, and there are no circumstances that indicate a materially different assessment of the measures listed in the report from that given by the Board of Managing Directors."

At the meetings held on 7/8 June 2017, first the Risk and Audit Committee and then the Supervisory Board also deliberated on and reviewed the dependent company report. The members of the Supervisory Board resp. Committees received both the dependent company report and the related audit report of the auditors before the respective meeting, enabling them to address the respective contents in due time. The auditors also participated in the deliberations on the dependent company report of the Supervisory Board and the Risk and Audit Committee. At the meeting of the Supervisory Board on 8 June 2017, they reported on the result of their audit and were available to answer questions. The Supervisory Board approved the result of the audit by the auditors at its meeting on 8 June 2017.

In accordance with the final result of its own review by the Supervisory Board, no objections were raised against the declaration of the Board of Managing Directors at the end of the dependent company report.

Personalia – Supervisory Board

Messrs Mark Coker, Dr Karl-Gerhard Eick and Dr Lutz-Christian Funke, whose terms of office each ended at the close of the Annual General Meeting on 1 September 2016 were re-elected to the Supervisory Board by resolutions of the Annual General Meeting on 1 September 2016.

Mr Rainer Lenz retired from the Supervisory Board at the end of the Annual General Meeting as scheduled on 1 September 2016. Mr Stefan A. Baustert retired early from the Supervisory Board on the same date at his own request. Due to the reduction in size of the Supervisory Board adopted in 2015, this Committee will, therefore, from now on comprise only nine members.

At the Constitutive Meeting of the Supervisory Board on 1 September 2016, Dr Karl-Gerhard Eick was re-elected as Chairman of the Supervisory Board. In this function, he is also Chairman of the Supervisory Board Executive Committee, the Nomination Committee and the Remuneration Control Committee. At the same meeting, the members of the Supervisory Board elected Dr Karl-Gerhard Eick and Mr Bernd Klein, to replace the retiring Mr Rainer Lenz, as members of the Risk and Audit Committee and Mr Sven Boysen, likewise to replace the retiring Mr Rainer Lenz, as member of the Nomination Committee.

The Supervisory Board would like to thank all retiring members for their contributions to the Supervisory Board.

Personalia – Board of Managing Directors

There were no changes in the members of the Board of Managing Directors of the bank during the reporting period. Members of the Board of Managing Directors are, therefore, Dr Michael H. Wiedmann (Chairman), Mr Claus Momburg, Dr Jörg Oliveri del Castillo-Schulz and Mr Dirk Volz.

The Supervisory Board would like to thank the members of the Board of Managing Directors and all employees of the IKB Group for their personal commitment and contributions in the past financial year.

Düsseldorf, 8 June 2017

The Supervisory Board

Dr Karl-Gerhard Eick

Chairman

Combined Management Report for the Financial Year 2016/17

1. Basic information on the Group

IKB's business model is concentrated on the midmarket. IKB Deutsche Industriebank AG ("IKB" as a synonym for the Group and "IKB AG" for the individual company) supports medium-sized companies by providing loans, offering capital market and advisory services, assisting in risk management issues and providing instruments for managing market risk. The leasing activities performed by the subsidiary IKB Leasing expand IKB's financing range. In addition to providing financing from its own resources, IKB specialises in giving customers access to public programme loan schemes and to bank-independent refinancing via the capital markets or through credit funds. Since its formation in 1924, IKB has enjoyed a close relationship with German companies and entrepreneurs as an independent private bank with a particular focus on long-term financing for high-growth companies and ambitious projects. The Bank's business model is built upon these long-standing, stable customer relationships and a pronounced understanding of the topics that matter to medium-sized companies. In the years since the crisis of IKB, the Bank has refocused its business model on the midmarket and significantly expanded its service range for these companies.

IKB is an institution with a solid tier 1 capital base. This was also confirmed in the European Central Bank's (ECB) comprehensive assessments in 2014. IKB has a stable and diversified deposit base for refinancing. Taking into account its use of public programme loan schemes for medium-sized companies, IKB is almost entirely independent of the capital markets, which was not the case prior to the financial crisis.

IKB concentrates on customer business and its advisory, capital market, credit management and asset management activities. The integrated business strategy of regional sales, industry groups and product groups ensures solutions-oriented, high-quality support for customers. In its target customer segment, IKB has succeeded in acquiring new customers and building on active customer relationships. IKB's target customers are predominantly industrial medium-sized companies, often fast-growing companies that IKB expects to increase their sales in the next few years and whose activities have already been internationalised.

IKB has a sales network of locations that covers all regions of Germany and parts of Western Europe. The foreign branches were closed as at the end of the financial year. Acquisition financing business for Western Europe will be operated from Germany moving ahead. The IKB Leasing Group has a total of 14 leasing companies in ten European countries (Germany, France, Italy, Austria, Poland, Romania, Russia, Slovakia, Czech Republic and Hungary).

The Bank held a share of the market for long-term corporate loans to the German manufacturing industry of around 3.2% as at 31 December 2016. The market share for commercial public subsidy loans was around 10.6% at the same date. IKB AG's strongest competitors are the major universal banks and selected larger institutions from the public and cooperative banking sector. In terms of acquisition finance, IKB works together with private equity companies.

IKB also develops financing solutions for its customers that do not affect its balance sheet. This firstly includes guiding companies onto the capital market, for example by issuing promissory notes. Secondly, IKB has established fund solutions (Valin funds) with a range of non-bank investors to provide companies with financing that also frees them from a reliance on bank loans. This allows interested companies to access extremely long-term financing and subordinated funds.

Following the establishment of the banking union and the assumption of banking supervisory activities by the ECB, IKB is classified as follows:

- There is no direct supervision by the ECB.
- IKB is overseen by the German Federal Financial Supervisory Authority (BaFin). BaFin does not currently classify IKB as potentially posing a risk to the banking system.

IKB's business model is predominantly influenced by the conditions imposed by the banking regulatory authorities in the form of a wide range of provisions and regulations. To date, the following consequences for IKB's business model have emerged:

- the provision of its own customers with funding will be organised via alternative financing sources to an increasing degree,
- credit periods for corporate financing will be shorter on the whole, even though there is corresponding demand for long-term financing among companies,
- hedging via derivatives will become more expensive for companies on account of the changes in the regulatory framework,
- customers will be faced with higher credit costs due to increased capital requirements and the necessary price discipline,
- deposit-based financing is a key element, and
- corporate loans in particular will be primarily refinanced from deposits where it is not possible for public programme loan schemes to be used.

In the second phase of new regulation that is currently underway, banks' business models and governance are being assessed to a greater degree and an economic review of the level of required capital and liquidity is being conducted on an individual basis. Generally, the regulatory authorities wish to be able to intervene at an early stage on the basis of comprehensive information. Banks' restructuring and settlement ability is also being continuously monitored and new capital requirements are being imposed in the form of a "bail-in" ratio. The significantly heightened notification requirements are accompanied by demands by the regulatory authorities in terms of the quality (accuracy, security, speed) of information systems, which are affecting banking processes and the IT architecture.

This regulation is also placing a considerable burden on the business model. One example is the highly complex and, in some cases, contradictory target system for overall bank management that has arisen and will continue to arise from the various regulations. There are many diseconomies of scale for smaller banks. Regulatory requirements now affect almost all areas/processes and are interwoven throughout the entire structural and procedural organisation. Accordingly, the Bank's business model will depend to a large extent on a high degree of cost discipline, particularly when it comes to implementing regulatory provisions, the optimisation of risk-weighted assets and the anticipation of potential future regulations. Other important factors include IT security and the establishment of an IT architecture that is suitable to ensure flexible and timely reporting for the banking authorities in particular.

2. Economic report

Macroeconomic and industry-specific conditions

The global economy recovered in the summer of 2016. Economic output in the industrialised nations grew stronger again, while the emerging economies stabilised as a result of the recovery in commodity prices. However, the underlying growth trend in the global economy was still weaker than in the years prior to the major recession.

The US economy grew moderately by 1.6% in 2016. The improvement on the labour market likewise continued. In view of this development and rising inflation, the US Federal Reserve (Fed) raised its key interest rate by 0.25 percentage points in both December 2016 and March 2017 to currently 0.75% to 1.0%.

The economic recovery in the euro area was noticeably stronger. The growth rate in gross domestic product (GDP) was 1.7% in 2016 and therefore slightly higher than in the US. In France and Italy, however, economic growth remained modest at 1.2% and 0.9% for 2016. By contrast, the Spanish economy continued to expand at 3.2%.

The solid development in Germany continued in 2016. GDP adjusted for inflation rose by 1.9% for the year as a whole. Developments were driven in particular by private and public consumption on the back of the positive employment situation and spending for refugees. There was also a positive contribution to economic growth from construction investment, which benefited from low interest rates during construction and rising property prices and rents. However, equipment investment was a weak point for the German economy, and grew by only 1.1% despite favourable financing conditions. Corporate investment propensity was apparently weakened by widespread uncertainty. Foreign trade had a slightly negative effect as imports increased more than exports.

There has been no slowdown of growth in the UK since the Brexit vote in June 2016, not least because of the depreciation of pound sterling. The UK economy expanded by 1.8% over the year as a whole.

Inflation rates were temporarily significantly higher in most economies at the start of 2017 as a result of increases in commodity prices and base effects. Thus, the rate of inflation in the euro area rose to 2.0% in the spring of 2017. Unlike the US Fed, which initiated its interest rate reversal, the European Central Bank announced in December 2016 that it would extend its bond purchase programme until the end of 2017, albeit with a reduced monthly volume of € 60 billion from April 2017. Key lending rates remained at 0% (main refinancing operations rate) and -0.4% (deposit rate). The ECB did not respond to improved growth momentum by tightening monetary policy as there is still too much uncertainty regarding the growth prospects of the euro area. Moreover, the crisis of the monetary union has not yet been resolved. There is still great heterogeneity within the euro area. Some Member States remain heavily indebted and have low growth rates and considerable structural problems.

For the banking sector, the pressure on profitability remained. Low interest rates, restructuring measures and regulatory requirements are still squeezing earnings, which are also suffering from intensive competition per se and increasing competition from providers of digital financial services. Lending to companies in the euro zone remained muted. Banks in some Member States, e.g. Italy and Spain, are still suffering from a high share of loans at risk of default. In particular, the problems that emerged again in the Italian banking sector in the summer of 2016 appear to have curbed domestic lending in recent months. Although corporate lending in Spain headed downwards, this trend has slowed. In France and Germany, development was generally positive but remained cautious on account of the continued low level of investment activity. Companies are benefiting from the liquidity being provided by the ECB by making use of alternative sources of financing via the capital market. In Germany, many companies are so well positioned that they are able to finance most of their investments internally. The lower cost of loan loss provisioning is continuing to have a supporting effect.

Significant events in the period under review

Classification as not potentially posing a risk to the banking system

Reversing the previous classification by the German Federal Financial Supervisory Authority (BaFin) in consultation with Deutsche Bundesbank, IKB was classified as not potentially posing a risk to the banking system in accordance with section 20 (1) sentence 3 of the German Act on the Recovery and Resolution of Institutions and Financial Groups (SAG) by way of a letter dated 8 April 2016. This classification may be changed again in future.

Changes in the Group

IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG and IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG were formed on 21 June 2016. The purpose of both companies is real estate acquisition, disposal, management and letting. They may also perform all activities directly or indirectly serving this purpose. IKB AG is the limited partner of IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG, with a mandatory capital contribution of € 18,980,000.00 and a liable capital contribution of € 94,900.00. The personally liable partner is IKB Grundstücksgesellschaft Düsseldorf GmbH. IKB Grundstücks GmbH & Co. Objekt Holzhausen KG is the limited partner of IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG, with a mandatory capital contribution of € 6,832,800.00 and a liable capital contribution of € 94,900.00. The personally liable partner is IKB Grundstücks GmbH.

The closure of IKB AG's foreign locations, except for the Luxembourg office, at the end of the 2016/17 financial year, which was resolved by the Board of Managing Directors at the end of September 2016, was largely implemented on schedule. Foreign business is now operated from the Frankfurt/Main and Düsseldorf offices.

IKB achieved a significant streamlining of its equity investment structure overall in the 2016/17 financial year. A total of 23 equity investments were discontinued. As part of the systematic continuation of the strategy with its focus on high-end midmarket customers, seven equity investments in state development banks (Bavaria, Saarland and Baden-Württemberg) have been sold.

Legally relevant events

Debt issuance programme

The debt issuance programme was updated on 25 August 2016. This programme has since been used for various new issues.

Profit participation certificate/hybrid instrument lawsuit

IKB was served with process in January 2017. The provisional total value in dispute is around € 22 million. Investors in profit participation certificates and hybrid instruments have also repeatedly stated in the past that they will take legal action over losses suffered or the alleged incorrect calculation of the performance of contributions. The main allegations are the allegedly incorrect allocation of losses to individual profit participation certificates and an alleged unauthorised allocation of the fund for general banking risks in accordance with section 340g HGB by IKB. The Bank considers the allegations unfounded and assesses its defence prospects are good.

Settlement with US companies over investment in RMBS securities

IKB AG and IKB International S.A. in Liquidation concluded a settlement agreement with Goldman Sachs Group Inc. (“Goldman Sachs”) and other plaintiffs on 20 December 2016 in connection with investments in residential mortgage-backed securities (RMBS) from the years prior to the financial crisis. On this basis, IKB AG and IKB International S.A. in Liquidation received financial compensation from the plaintiffs in January 2017. It was agreed not to disclose the content of the settlement. The claims against Goldman Sachs and others are thus satisfied.

Personnel changes

Supervisory Board

Mr Mark Coker, Dr Karl-Gerhard Eick and Dr Lutz-Christian Funke, whose terms of office expired at the end of the Annual General Meeting on 1 September 2016, were reelected to the Supervisory Board by resolutions of the Annual General Meeting on 1 September 2016.

As scheduled, Mr Rainer Lenz stepped down from the Supervisory Board at the end of the Annual General Meeting on 1 September 2016. At his own request, Mr Stefan A. Baustert stepped down from the Supervisory Board ahead of schedule on the same date. Reflecting the reduction in size that was resolved in 2015, the Supervisory Board now has only nine members.

At the constituent meeting of the Supervisory Board on 1 September 2016, Dr Karl-Gerhard Eick was reelected as Chairman of the Supervisory Board. In this function, he is also the Chairman of the Executive Committee, the Nomination Committee and the Remuneration Control Committee. At the same meeting, the members of the Supervisory Board elected Dr Karl-Gerhard Eick and Mr Bernd Klein as members of the Risk and Audit Committee, with the latter replacing the departing Mr Rainer Lenz. They also elected Mr Sven Boysen as a member of the Nomination Committee, again replacing the departing Mr Rainer Lenz.

Board of Managing Directors

There were no changes in the composition of the Board of Managing Directors in the period under review.

Annual General Meeting on 1 September 2016

The Annual General Meeting of IKB AG for the financial year 2015/16 was held in Düsseldorf on 1 September 2016. The Annual General Meeting adopted all the resolutions proposed by the Bank’s management by a large majority. The results of the individual votes can be found on the Bank’s website at https://www.ikb.de/en/investor-relations/general-meeting. There are no pending legal proceedings against resolutions of the General Meeting.

IKB shares

Entry of the squeeze-out resolution in the commercial register

The resolution adopted at the Extraordinary General Meeting of IKB Deutsche Industriebank AG on 2 December 2016 to transfer the remaining shares to the main shareholder, LSF6 Europe Financial Holdings, L.P., Dallas, USA, (“LSF6”) against cash compensation was entered in the commercial register on 23 January 2017. LSF6 therefore now holds 100% of IKB shares.

The events leading to the squeeze-out resolution are presented in chronological order below:

- ***LSF6 informs IKB of intention to conduct a squeeze-out***

  On 8 September 2016, LSF6 informed IKB AG that it would hold more than 95% of the shares and the share capital of IKB AG following the settlement of its voluntary public acquisition offer for all of the shares of IKB AG of 8 August 2016 and that, as the principal shareholder of IKB AG, it had resolved to conduct squeeze-out proceedings in accordance with section 327a et seq. of the German Stock Corporation Act (AktG) following the settlement of the offer. By way of a letter dated 12 September 2016, LSF6 informed IKB AG that it held 95.88% of the shares and the share capital of IKB AG and that it had decided to conduct squeeze-out proceedings. At the same time, LSF6 requested that the Board of Managing Directors of IKB AG hold an Extraordinary General Meeting to resolve on the transfer of the shares of the minority shareholders to LSF6 in exchange for payment of adequate cash compensation. By resolution on 13 September 2016, amended by a resolution on 20 September 2016 to correct a clerical error concerning the resolution date, the Düsseldorf Regional Court appointed Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, as the expert auditor responsible for examining the appropriateness of the proposed cash compensation.

- ***Squeeze-out request by LSF6***

  After defining the cash consideration, LSF6 specified the details of its request of 12 September 2016, including stating that the cash compensation defined was € 0.49 per no-par value bearer share, in a letter dated 17 October 2016.

  In response to the squeeze-out request by LSF6, IKB decided to hold an Extraordinary General Meeting on 2 December 2016 to resolve on the transfer of the shares of the minority shareholders of IKB AG to LSF6 in exchange for payment of adequate cash compensation.

- ***Extraordinary General Meeting on 2 December 2016***

  The Extraordinary General Meeting of IKB AG was held in Düsseldorf on 2 December 2016. The Extraordinary General Meeting approved the management's proposal with regard to the only item on the agenda, namely the transfer of the shares of the minority shareholders of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, to LSF6 in exchange for payment of adequate cash compensation in accordance with sections 327a et seq. AktG. The results of the votes can be found on the Bank's website at https://www.ikb.de/en/investor-relations/general-meeting. There are no pending legal proceedings against resolutions of the General Meeting.

Delisting and purchase offer

- ***Delisting***

  Following an application by IKB AG on 29 February 2016, trading in the shares of IKB AG in the Entry Standard of the Deutsche Börse AG, Frankfurt, was discontinued from the end of 11 April 2016. The Düsseldorf Stock Exchange discontinued trading of IKB AG's shares in its Primary Market effective from the end of 31 March 2016.

  The Düsseldorf Stock Exchange announced that the listing of IKB AG's shares on its unofficial market would be terminated effective from the end of 30 September 2016. Owing to a clerical error, however, the listing was not discontinued until 4 October 2016.

- ***Purchase offer by LSF6***

  LSF6 made a purchase offer to the shareholders of IKB AG (ISIN DE 0008063306/WKN 806 330) on 8 August 2016. The acceptance period for the offer by LSF6 ended at midnight (CEST) on 5 September 2016.

Tender for the statutory audit of the IKB Group

IKB AG conducted a public tender for the statutory audit of the single-entity and consolidated financial statements of IKB AG and the financial statements of certain subsidiaries included in the consolidated financial statements for the financial year 2017/18 in accordance with the requirements of the EU regulation on the statutory audit of public-interest entities (Regulation (EU) No. 537/2014). As a result of the selection process, the Supervisory Board of IKB – at the recommendation of its Risk and Audit Committee – resolved to propose Ernst & Young, GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, to the Annual General Meeting of IKB AG for election as the auditor. For information on further developments, please also see note (70) “Significantevents after 31 March 2017”.

Dissenting view of the tax authorities

In the 2016/17 financial year, the tax authorities issued negative decisions in the appeal proceedings against the tax assessments for corporation tax, the solidarity surcharge and trade tax for 2009. IKB then brought actions before the Düsseldorf Fiscal Court in good time. A decision by the Federal Constitutional Court dated 29 March 2017 on the incompatibility of part of the provision of section 8c KStG classifying detrimental acquisitions of between 25% and 50% as incompatible with German Basic Law has further improved the risk assessment from IKB AG’s perspective (see section 3. “Risk report”).

Background information and further comments can be found under “Legal risk” in section 3. “Risk report”.

Reconciliation of interests/redundancy scheme

In order to implement cost-cutting and optimisation measures, a new reconciliation of interests and redundancy scheme was negotiated with employee representatives and signed on 15 April 2016. The agreement provides for the downsizing of a total of 151 full-time employees (FTE) within two years. The financial expenses arising from this were already taken into account in the 2015/16 financial year by recognising a corresponding restructuring provision.

Net assets, financial position and results of operations

Unless noted otherwise, the comments below apply to both the Group management report (Group) and the management report of IKB AG (IKB AG).

Business development

With demand for credit on the market still muted and selective lending by IKB, the Group’s new business volume increased by € 0.5 billion year-on-year to € 4.2 billion in the financial year 2016/17 (IKB AG: by € 0.4 billion to € 3.3 billion). In the period under review, loans from own funds accounted for 55% of the new business volume in the Group (IKB AG: 70%) after 52% in the previous year (IKB AG: 65%), while public programme loans accounted for 23% (IKB AG: 30%) after 28% in the previous year (IKB AG: 35%) and equipment leasing in the Group accounted for 21% after 20% in the previous year.

Results of operations

IKB generated consolidated net income after taxes of € 26 million in the 2016/17 financial year (previous year: € 10 million).

As in the previous year, IKB AG reported net income of € 0 million after taxes.

Key factors affecting IKB's results of operations were net interest income and net commission income as well as the positive net risk provision income.

The main reasons for the development in the results of operations of the Group and IKB AG are further progress in reducing administrative expenses and the reduction of risk provisions by the Bank's active risk management coupled with an improved overall economic situation.

Net interest and lease income

Net interest income includes interest income and expenses, current income from financial instruments, equity investments, investments in affiliated companies, and close-out payments for the early dissolution of derivative transactions in the banking book in connection with ongoing portfolio management. Net lease income (Group only) consists of lease income, expenses and write-downs.

The Group's net interest and lease income (IKB AG: net interest income) increased to € 291 million in the reporting period (IKB AG: € 258 million) despite the forecast minor decline. The figure for the previous year was € 284 million (IKB AG: € 230 million). The good performance in Corporate Clients business contributed to this positive development.

Net fee and commission income

As forecast, the Group's net fee and commission income was significantly higher than the previous year's figure of € 30 million (IKB AG: € 33 million) at € 39 million (IKB AG: € 41 million). The rise is largely due to higher structuring income from customer business and higher credit default swap (CDS) collateral commission.

Administrative expenses

Administrative expenses comprise personnel expenses, other administrative expenses and depreciation and write-downs of intangible and tangible assets.

As expected, administrative expenses were reduced by € 16 million in the Group to € 284 million (IKB AG: by € 20 million to € 225 million).

Personnel expenses for the Group declined by € 11 million to € 172 million (IKB AG: by € 15 million to € 127 million). The decline is essentially as a result of the successful continuation of cost-cutting and optimisation measures.

Other administrative expenses and depreciation and write-downs of intangible and tangible assets were reduced by € 5 million to € 111 million at Group level (IKB AG: by € 5 million to € 98 million). The decline at Group level essentially relates to the rental expense saved by buying back the building of IKB's headquarter in Düsseldorf. The significant decline at IKB AG relates to lower write-downs and reduced expenses for protection funds and advertising.

Net other income

Net other income comprises other operating and extraordinary income and expenses and write-downs and reversals of write-downs on equity investments, investments in affiliated companies and long-term investments.

The main factors influencing net other income, which decreased by € 19 million to € -19 million (IKB AG: by € 57 million to € -77 million), are presented below.

Close-out payments in connection with the strategic early dissolution and closing-out of derivative transactions in the banking book resulted in expenses of € 261 million (IKB AG: € 247 million) after expenses of € 213 million in the previous year (IKB AG: € 213 million).

The measurement and sale of long-term investments resulted in net income of € 254 million (IKB AG: € 184 million) after net income of € 263 million (IKB AG: € 242 million) in the previous year.

IKB made extraordinary additions of € 27 million (IKB AG: € 23 million) to pension obligations in the reporting year that were previously distributed over 15 years in line with the option provided for by the BilMoG first-time adoption regulations.

Interest on pension obligations resulted in expenses of € 29 million (IKB AG: € 25 million) in the reporting period after € 21 million in the previous year (IKB AG: € 18 million).

The performance of the assets outsourced under contractual trust arrangements (CTA) resulted in net income of € 18 million (IKB AG: € 16 million) in the reporting period after net expenses of € 26 million in the previous year (IKB AG: € 23 million net).

Planned restructuring measures led to an expense of € 11 million (IKB AG: € 11 million) as against € 29 million in the previous year (IKB AG: € 24 million).

Net risk provisioning

(Note: Additional information on risk provisioning can be found in the “Provisions for possible loan losses” table in section 3. “Risk report”.)

Net risk provisioning included in amortisation/depreciation and write-downs of receivables, specific securities and additions to loan loss provisions improved by € 26 million compared to the 2015/16 financial year to income of € 17 million (IKB AG: by € 28 million to € 20 million).

Group provisions for possible loan losses include a net amount of € 15 million (IKB AG: € 17 million) in income from net reversals of specific valuation allowances, provisions, income from recoveries on receivables written off and write-downs. This was offset by net expenses of € 17 million in the previous year (IKB AG: € 16 million). The improvement was due in particular to the net reversal of specific valuation allowances.

In terms of general allowances for lending business in the Group, there was a net reversal of € 10 million in the year under review (IKB AG: € 12 million) after a net addition of € 7 million in the previous year (IKB AG: € 7 million). The reason for the reversal was essentially lower historical loss rates. The development in general allowances is explained in more detail in note (6) “Provisions for possible loan losses”.

Net risk provisioning includes income from liquidity reserve securities and derivatives in the amount of € 1 million (IKB AG: € 1 million) after € 9 million in the previous year (IKB AG: € 9 million).

Taxes

Tax expenses amounted to € 20 million (IKB AG: € 18 million) in the reporting period after € 1 million (IKB AG: tax income of € 3 million) in the previous year.

Net income

Compared to the moderate increase in net income forecast in IKB’s 2015/16 annual report, net income of € 26 million (previous year: € 10 million) was generated in the 2016/17 financial year, a considerable increase in percentage terms. As forecast, net income at IKB AG remained unchanged at € 0 million.

Net assets

The Group's total assets declined by € 0.4 billion in the period under review, amounting to € 19.2 billion on the reporting date (IKB AG: decrease of € 0.9 billion to € 18.4 billion).

The Group's gross credit volume, which also includes off-balance sheet business (see also section 3. "Risk report"), fell from € 22.8 billion to € 22.3 billion (IKB AG: from € 23.4 billion to € 22.6 billion) as at the reporting date, and essentially comprises medium-term and long-term loans to banks, loans to customers, liabilities held for trading, asset derivatives in the non-trading book and guarantees.

Assets

Receivables from banks in the Group decreased by € 0.5 billion to € 1.7 billion (IKB AG: from € 2.0 billion to € 1.5 billion).

Contrary to forecasts, receivables from customers were stable year-on-year at € 9.9 billion in the Group. As forecast, the slight decline at IKB AG of € 0.1 billion to € 11.3 billion is essentially as a result of restrained credit demand on the market and selective lending by IKB. Despite the increases in new business volumes, repayments were not fully offset in the period under review.

Bonds and other fixed-income securities in the Group climbed by € 0.3 billion to € 5.3 billion (IKB AG: stable year-on-year at € 4.7 billion).

Liabilities

Liabilities to banks decreased by € 0.3 billion to € 7.6 billion at Group level (IKB AG: by € 0.3 billion to € 7.6 billion), particularly due to the lower utilisation of public programme loans.

Liabilities to customers fell by € 0.1 billion to € 7.6 billion (IKB AG: by € 0.1 billion to € 7.6 billion), largely as a result of the reduction in the volume of customer deposits.

Securitised liabilities in the Group were stable year-on-year at € 0.8 billion. In IKB AG, they decreased from € 0.9 billion to € 0.8 billion, essentially as a result of repayments of bearer bonds in the amount of € 0.3 billion and new issues of € 0.2 billion.

Subordinated liabilities in the Group decreased from € 0.9 billion to € 0.7 billion (IKB AG: from € 0.4 billion to € 0.2 billion), essentially as a result of repayments.

The fund for general banking risks consists of reserves in accordance with section 340g HGB and is unchanged year-on-year at € 585 million.

Equity

As a result of the consolidated net income and the change in foreign exchange differences recognised in equity in the period under review in particular, equity increased by € 28 million, from € 1,011 million to € 1,039 million (IKB AG: unchanged at € 1,207 million).

When calculating regulatory own funds, the fund for general banking risks in the amount of € 585 million is taken into account as common equity tier 1 capital.

Unrealised gains and losses have arisen in recent financial years from financial instruments in the banking book in the form of securities, from derivatives and from the refinancing of the credit book without matching maturities as a result of changes in market interest rates, exchange rates and credit ratings. The Group generated net losses in the value of derivatives and securities of € 11 million in the 2016/17 reporting period as a result of strategic selling or changing derivative positions. Further details on the calculation of unrealised gains and losses can be found under note (64) "Unrealised gains and losses". Unrealised losses could lead to a lower level of net interest income or losses on disposal in future financial years. As in the previous year, the calculation in accordance with IDW RS BFA3 did not result in any provisioning requirements.

Financial position

IKB's liquidity situation is stable. The funding mix and the lower level of interest rates mean that refinancing is generally achievable at more favourable conditions than in the previous periods. In addition to earmarked and other secured refinancing, IKB is accepting revolving deposits from corporate clients and retail customers. The Bank is also issuing bearer bonds in the retail customer segment, further reducing its volume of non-strategic assets in order to generate liquidity and being selective when it comes to entering into new lending business.

Regarding the presentation of the maturities of liabilities, please refer to the breakdown of remaining terms in the notes. Please see section 3. "Risk report" for information on the liquidity and financing situation.

Overall assessment

The result of operations is satisfactory for the Bank. Net assets and the financial position are in order.

From the Bank's perspective, its business performance was positive on the whole.

Financial and non-financial performance indicators

Non-financial performance indicators are of minor importance in terms of management at IKB. In addition to a wide range of management-related sub-indicators, IKB applies the following key financial performance indicators for management purposes.

Regulatory tier 1 ratio

The regulatory tier 1 ratio or common equity tier 1 ratio is calculated as the ratio of tier 1 capital or CET 1 to regulatory risk-weighted assets. Details of the reconciliation of regulatory CET 1 and risk-weighted assets can be found in the information on the regulatory capital situation in section 3. "Risk report".

As at 31 March 2017, the CET 1 ratio amounted to 11.7% for the IKB Group and 15.5% for IKB AG (for details see section 3. "Risk report"). As anticipated in the annual report as at 31 March 2016, this meant that IKB maintained its common equity tier 1 ratio at a high level and exceeded the statutory minimum requirement (CRR) of 4.5% for the CET 1 ratio plus a capital conservation buffer of 1.25% and the additional SREP capital requirement.

Leverage ratio

In addition to the risk-weighted capital requirements forming part of the solvency system, the provisions of the CRR introduced the leverage ratio as an indicator of indebtedness effective 1 January 2014.

The leverage ratio compares the largely unweighted total of balance sheet and off-balance sheet transactions with regulatory tier 1 capital. At present, this indicator is disclosed for monitoring purposes only and is not expected to become binding until 1 January 2019. The draft of the revised Capital Requirements Regulations (CRR2) published on 23 November 2016 contains a binding minimum ratio of 3%. Although the exact figure for this date is still to be determined, a benchmark of at least 3.0% has established itself internationally.

Under the transitional provisions and applying the terms of Delegated Regulation EU 2015/62 of 17 January 2015, the leverage ratio of the IKB Group in accordance with Article 429 CRR was 8.05% (IKB AG: 9.22%) as at 31 March 2017. The benchmark of 3.0% was therefore clearly exceeded and, as forecast in the annual report as at 31 March 2016, was approximately the same as in the previous year. The higher than forecast rise in the leverage ratio at IKB AG is largely due to the fact that the Bank exercised its option in accordance with Article 429 (7) CRR and its intragroup exposure was exempted from the calculation of the ratio.

Net income after taxes

As forecast in the 2015/16 annual report, IKB generated positive operating results in the financial year 2016/17 including disposals of financial instruments. Consolidated net income amounted to € 26 million as at 31 March 2017. IKB AG's net income for the year was € 0 million.

Cost/income ratio

The cost/income ratio describes administrative expenses in relation to total net interest income, net commission income and net trading income and, as expected, improved to 85.8% in the Group as at 31 March 2017 as against 93.7% in the previous year.

Banking income and net banking income

The Group's banking income, which consists of net interest and lease income and net fee and commission income, amounted to € 331 million at Group level as at 31 March 2017 compared to € 313 million in the previous year.

Net banking income is calculated as banking income less provisions for possible loan losses and amounted to € 346 million at Group level as at 31 March 2017 compared to € 296 million in the previous year.

Liquidity ratio in accordance with section 2 (1) of the German Liquidity Regulation

The liquidity ratio in accordance with section 2 (1) of the German Liquidity Regulation (LiqV) is used to evaluate short-term liquidity risk. The LiqV defines the liquidity ratio as the ratio of the cash and cash equivalents available within a period of up to one month to the payment obligations callable during this period. A liquidity ratio of 1 or greater is necessary in order to meet the requirement.

With a liquidity ratio in accordance with section 2 (1) LiqV of between 1.47 and 2.61 and an average for the year of 1.66, IKB AG had an adequate liquidity buffer at all times throughout the period under review. This meant the liquidity ratio was within/above the forecast range of 1.25 to 2.00 for the financial year 2016/17 as announced by IKB in its annual report as at 31 March 2016.

As the Liquidity Regulation will no longer apply from 31 December 2017, the LiqV liquidity ratio will no longer be used as a performance indicator from the 2017/18 financial year.

Liquidity coverage ratio (LCR)

The LCR is the ratio of highly liquid assets (liquidity buffer) to short-term net liquidity requirements, quantified as the net amount of all cash inflows and outflows in the next 30 calendar days. In accordance with Article 460 (2) of Regulation (EU) No. 575/2013 in conjunction with Article 38 (2) of Delegated Regulation 2015/61/EU, a minimum LCR of 60% came into effect on 1 October 2015, and increased to 70% as at 1 January 2016 and 80% as at 1 January 2017.

Following the introduction of binding minimum requirements, IKB performed liquidity management on the basis of both the LiqV ratio and the LCR. The LCR was 328% at Group level as at 31 March 2017 (IKB AG: 271%) with an average level for the year of 242% (IKB AG: 211%). IKB therefore exceeded the minimum target of 100% stated in the annual report as at 31 March 2016 for the 2016/17 financial year at all times.

3. Risk report

Risk management organisation

The Bank operates a comprehensive risk management system covering all material Group companies and risk types in accordance with the Minimum Requirements for Risk Management (MaRisk) and other applicable pronouncements by regulatory authorities, which it develops on a continuous basis. The risk management system, including its tasks and areas of responsibility, are documented in the Bank's written rules.

The business and risk strategy outlook and the measures derived from this are set out in the business and risk strategy.

The Board of Managing Directors of IKB AG is responsible for risk management. Based on the strategic business focus and risk-bearing capacity, it determines principles for risk management policy which, together with the limit structure, are established in business and risk strategy and in the limit book. When establishing these principles, the Board of Managing Directors also takes into account the quality of risk management processes, particularly monitoring. Special committees assist the Board of Managing Directors in risk management and decision-making. The Board of Managing Directors regularly discusses the risk situation, business and risk strategy and the risk management of the Bank in detail at meetings with the Supervisory Board.

Risk management at IKB is based on the principle of “three lines of defence”, whereby each individual unit (segments and functions) forms the “first line of defence” in the context of its operational responsibility.

Responsibility for the “second line of defence” in terms of the back office function, which performs transaction-related risk monitoring, intensive support and problem exposure management, and departmental responsibility for the compliance function are held by Mr Momburg. Mr Volz is responsible for independent, portfolio-based monitoring by risk controlling and the monitoring of earnings management and capital resources. Independent business settlement and control by Credit & Treasury Operations is assigned to Dr Oliveri del Castillo-Schulz.

The responsibility of the “second line of defence” for other risks (e.g. IT or legal risks), depending on the type of risk, also lies outside the above risk functions.

The Board of Managing Directors as a whole is responsible for managing risks associated with the strategic business focus and reputation risks.

The key tasks of back office include the credit approval process to be carried out independently of front office, developing and monitoring Group-wide standards for the lending business and ongoing risk monitoring of counterparty default risks on an individual transaction basis by Credit Risk Management.

Exposures with increased risk and restructuring and settlement cases are managed in special management units within Credit Risk Management. The aim of this special management is to take action in good time in order to maintain the company's capacity for redevelopment, in the event that these endeavours fail, to reduce the economic losses.

Independent, portfolio-based risk monitoring by risk controlling comprises the prompt and ongoing monitoring, analysis and reporting of the Bank's total risk and monitoring adherence to risk-bearing capacity. In this context, all counterparty, market price and liquidity risks in the banking book are calculated on an ongoing basis, analysed and reported at Group level. This also includes monitoring compliance with the limits prescribed by the Board of Managing Directors at all times. Group-wide monitoring of operational risk is also located centrally in the Risk Controlling division. Central operational risk management is aided by local operational risk managers in the segments, subsidiaries and central divisions.

The Finance division prepares monthly performance analyses for existing and new business in the context of independent performance controlling and presents management reports to the Board of Managing Directors on a weekly basis, in which deviations from planning in income and assets are identified and analysed. This ensures the continuous monitoring and reporting of business risk. The Board of Managing Directors is therefore able to react to negative developments even at short notice.

In addition, the Finance division carries out capital controlling and integrated capital planning and monitoring within IKB in line with regulatory and economic aspects.

The "third line of defence" of risk management at IKB is Internal Audit.

Internal Audit is an independent, process-independent and neutral monitoring unit within the IKB Group. As part of the risk management system and internal control processes, it operates on behalf of the entire Board of Managing Directors, with no duty to follow instructions, and reports directly to the Board of Managing Directors.

All relevant activities and processes throughout the Group are examined on the basis of risk-oriented process checks. The processes and activities outsourced by IKB to other service providers are monitored as part of continuous outsourcing controlling and the dedicated audit activities performed by Group Audit at the outsourcing companies.

The Board of Managing Directors if informed of audit findings on an ongoing basis through audit reports. In its quarterly and annual reports, Group Audit informs the Board of Managing Directors of the significant and serious audit findings and their processing status in summarised format. On this basis, the member of the Board of Managing Directors responsible for Group Audit in turn reports to the Supervisory Board on key findings.

Independently of this, it is ensured that the Chairman of the Supervisory Board or the Finance and Audit Committee can obtain information directly from the head of Group Audit with the involvement of the Board of Managing Directors.

Regulatory capital resources and risk-bearing capacity

Regulatory capital resources

The Bank calculates its regulatory capital resources in accordance with the provisions of the CRR. It applies the standardised approach for credit risk for counterparty default risk, the standard method for the calculation of the credit valuation adjustment charge, the base indicator approach for operational risk and the prescribed standard regulatory method for market price risk. The Bank continues to use the regulatory netting approach to determine the net basis of measurement for derivatives, taking existing netting agreements into account. The following tables provide an overview of the regulatory risk items, equity base and ratios as applicable on approval of the accounts.

Table: Regulatory capital situation of the IKB Group in accordance with CRR/CRD IV[1)]

Figures in € million	**31 Mar. 2017[2)]**	**31 Mar. 2016[2)3)]**
Counterparty default risk (including CVA charge € 164 million; previous year: € 153 million)	11,888	11,970
Market risk equivalent	323	182
Operational risk	722	611
Total risk-weighted assets (RWA)	**12,934**	**12,763**
Common equity tier 1 (CET 1)	1,510	1,479
Additional tier 1 (AT 1)	236	282
Total Tier 1 (T 1)	**1,746**	**1,761**
Tier 2 (T 2)	435	429
Own funds	**2,181**	**2,190**
CET 1 ratio	**11.7%**	**11.6%**
T 1 ratio	13.5%	13.8%
Own funds ratio	16.9%	17.2%

Some totals may be subject to discrepancies due to rounding differences.

1) Figures taking into consideration the phase-in and phase-out provisions of the CRR. The CET 1 ratios were calculated in accordance with the current legal status of the CRR as at 31 March 2017 and 31 March 2016 respectively, including transitional provisions and the interpretations published by the regulatory authorities. The possibility that future EBA/ECB standards and interpretations or other supervisory actions will lead to a retrospective change in the CET 1 ratio cannot be ruled out.
2) Figures after approval of the accounts
3) taking into consideration the addition to the fund for general banking risks in CET 1 at the reporting date

Table: Regulatory capital situation at individual Bank level in accordance with CRR/CRD IV[1)]

Figures in € million	**31 Mar. 2017[2)]**	**31 Mar. 2016[2)3)]**
Counterparty default risk (including CVA charge € 164 million; previous year: € 153 million)	10,815	11,027
Market risk equivalent	70	61
Operational risk	481	366
Total risk-weighted assets (RWA)	**11,366**	**11,454**
Common equity tier 1 (CET 1)	1,766	1,772
Additional tier 1 (AT 1)	0	0
Total Tier 1 (T 1)	**1,766**	**1,772**
Tier 2 (T 2)	197	239
Own funds	**1,964**	**2,011**
CET 1 ratio	**15.5%**	**15.5%**
T 1 ratio	15.5%	15.5%
Own funds ratio	17.3%	17.6%

Some totals may be subject to discrepancies due to rounding differences.

1) Figures taking into consideration the phase-in and phase-out provisions of the CRR. The CET 1 ratios were calculated in accordance with the current legal status of the CRR as at 31 March 2017 and 31 March 2016 respectively, including transitional provisions and the interpretations published by the regulatory authorities. The possibility that future EBA/ECB standards and interpretations or other supervisory actions will lead to a retrospective change in the CET 1 ratio cannot be ruled out.
2) Figures after approval of the accounts
3) taking into consideration the addition to the fund for general banking risks in CET 1 at the reporting date

At 11.7% at Group level and 15.5% at individual Bank level, IKB's CET 1 ratios are significantly above the minimum legal requirements, including the capital conservation buffer and countercyclical capital buffer, and the SREP capital requirements set by BaFin in the banking supervisory review and evaluation process (SREP).

The Board of Managing Directors expects it to be possible to meet the statutory minimum requirements in future (see also section 5. "Outlook").

Although the CRR has been binding since 1 January 2014, there remains uncertainty with regard to the interpretation of the new regulation. This is also reflected in the large number of interpretation issues raised with the EBA, which are extremely important when it comes to interpreting the regulation. Furthermore, many technical regulatory standards to be announced by the EBA are not yet available in their final version or their publication has been delayed compared to the EBA's original timetable. There is therefore considerable uncertainty in assessing future capital requirements due to the fact that the results of the international banking regulation process and the European project for uniform bank supervision are not always foreseeable. Among other things, this relates to the implementation of the regulations arising from the Banking Recovery and Resolution Directive (BRRD) with national implementation in the form of the German Recovery and Resolution Act. The European Commission published the consultation documents on the revision of the CRD IV/CRR on 23 November 2016, which have yet to be approved by the European Parliament and the Council and adopted as a regulation and directive. This process, and the compromise process it usually entails (trilogue procedure), will take several years.

In addition, the Basel Committee (BCBS) has issued for consultation or already adopted a number of working papers that are consolidated under the working title of Basel IV. In particular, this includes the papers on the revision of the standardised approach for credit risk (BCBS 347), counterparty default risk (BCBS 279), revisions to the securitisation framework (BCBS 303), the trading book framework (BCBS 305), operational risk (BCBS 355), interest rate risk in the banking book (BCBS 368), capital floors for the advanced measurement approach (BCBS 306) and identification and management of step-in risk (BCBS 398). The precise effect of these papers on future capital requirements cannot be conclusively quantified at present. The binding date on which harmonised EU-wide banking supervisory legislation will come into force has also still yet to be defined.

Risk-bearing capacity

The maintenance of risk-bearing capacity is fundamental to risk-related bank management. Lawmakers have laid the foundation for keeping risk-bearing capacity as a key target value in section 25a KWG. Banks must ensure on the basis of their overall risk profile that all risks classified as significant are covered by the available economic risk coverage capital.

For the monitoring and controlling of its risk-bearing capacity, IKB adopts an accounting-based going-concern perspective as well as a value-based liquidation or gone-concern perspective.

The economic capital requirements in order to cover unexpected bank-wide risk (counterparty default risk, market price risk, liquidity risk [only in the going-concern perspective] and general business and operational risk) are determined using the Bank's own quantitative models. As reputation risks are ultimately reflected in business and liquidity risk, they are not explicitly included again in the calculations of bank-wide risk. Economic capital is not explicitly calculated for investment risks as these risks are taken into account in equity investments using a look-through approach and are also subject to ongoing monitoring. Legal risks are part of operational risk.

In the going-concern view, the risk coverage potential is determined on the basis of the regulatory equity items (common equity tier 1 capital, additional tier 1 capital and tier 2 capital) in such a way that all minimum capital requirements, including the additional SREP requirement, would be met in the analysis period even if the risk coverage funds were completely exhausted.

Like the accounting-based derivation of risk coverage potential, all risks considered in the going-concern perspective are also calculated on the basis of accounting in order to determine the necessary economic capital requirements.

The following table compares the economic capital requirements in the going-concern perspective that could arise mathematically in a year to cover unexpected losses at a confidence level of 95% (value at risk) with the risk coverage potential that will be available in the next twelve months.

Table: Economic capital requirements – going-concern perspective

	31 Mar. 2017 in € million	31 Mar. 2017 in %	31 Mar. 2016 in € million	31 Mar. 2016 in %
Counterparty default risk	156	56%	189	56%
Market price risk	22	8%	43	13%
Operational risk	19	7%	15	4%
Business risk	62	22%	67	20%
Liquidity risk	19	7%	26	8%
Total	**278**	**100%**	**340**	**100%**
less diversification effects	-33		-64	
Overall risk position	**246**		**276**	
Risk coverage potential	**528**		**786**	

Some totals may be subject to discrepancies due to rounding differences.

The overall risk position declined by € 30 million since the start of the financial year to € 246 million. This was primarily due to the reduction in counterparty default risk. On the basis of current Bank planning and taking into account the additional SREP capital requirement, risk coverage potential declined by € 258 million as against 31 March 2016 to € 528 million.

As at 31 March 2017, the overall risk position amounted to 47% of the risk coverage potential taking diversification effects into account (31 March 2016: 35%). All regulatory minimum capital requirements under Basel III will continue to be met – even excluding diversification effects – should these unexpected risks occur.

In addition to the above going-concern perspective, the Bank observes and analyses the overall risk position and risk coverage potential from a liquidation perspective. By contrast to the going-concern perspective, this involves calculating the risk coverage potential and the corresponding risks using a value-based approach.

Risk coverage potential in the liquidation perspective is calculated as the sum of all the equity components available to the Bank, including profit participation capital and subordinated capital. At the same time, all hidden liabilities/reserves from loans, securities, derivatives and pension obligations are included in full.

The following table compares the economic capital requirements in the liquidation perspective that could arise mathematically in a year to cover unexpected losses at a confidence level of 99.76% (value at risk) with the risk coverage potential that will be available in the next twelve months.

Table: Economic capital requirements – liquidation perspective

	31 Mar. 2017 in € million	31 Mar. 2017 in %	31 Mar. 2016 in € million	31 Mar. 2016 in %
Counterparty default risk	604	46%	667	47%
Market price risk	547	42%	591	41%
Operational risk	52	4%	52	4%
Business risk	106	8%	115	8%
Total	**1,309**	**100%**	**1,425**	**100%**
less diversification effects	-389		-306	
Overall risk position	**920**		**1,119**	
Risk coverage potential	**1,657**		**1,734**	

Some totals may be subject to discrepancies due to rounding differences.

Risk coverage potential in the liquidation view decreased by € 77 million compared to the start of the financial year. This is essentially due to a change in the hidden result. At the same time, the overall risk position for all risks classified as significant declined by € 199 million to € 920 million. Thus, taking diversification effects into account, risk coverage potential significantly exceeds the total risk position, with utilisation amounting to 56% (31 March 2016: 65%). Even excluding diversification effects, the risk coverage potential still clearly exceeds the overall risk position with utilisation of 79% (31 March 2016: 82%).

Forecast calculations and stress tests

In light of overall economic developments, the Bank prepares different forecast calculations for the next two financial years. These forecast calculations are based on the Bank's business plan. The Bank also performs various stress tests on a regular basis and as required. The outcome is that, assuming the business plan occurs in reality, the risk coverage will exceed the economic capital requirements for unexpected risks in both the going-concern perspective and the liquidity perspective in the next two financial years.

An analysis of the stress tests shows that certain assumptions, such as the collapse of the euro zone with wider economic consequences for the entire European Economic Area, would mean that risk coverage would no longer be sufficient to fully cover the resulting overall risk position.

Risk strategy

The individual risk strategies are a component of the integrated business and risk strategy. They set out the framework towards which IKB's business activities are geared. All risk strategies were revised in the 2016/17 financial year to reflect the current business focus and the economic situation.

Credit risk strategy

In its lending business, the Bank intends to limit its overall risk in relation to its credit portfolio and thereby to further lower allowances for losses on loans and advances in the coming financial years to a low level. In addition to restricting new business to good credit standings to improve or stabilise the average credit rating over time, this also includes limiting concentration risks at individual borrower and borrower group levels. Despite the high credit rating and risk requirements, the earnings contributions from lending business have also developed positively over recent years.

Given its core business, the regional focus of IKB's corporate financing business will remain on Germany in future. With regard to its target customers in the high-end midmarket segment, industry diversification is also highly significant. In assessing its limits, the Bank looks at both the significance of the industry to the German economy and an analysis of the industry in terms of its forecast development. The portion of the credit portfolio relating to foreign obligors is predominantly bonds and receivables from finance and public sector obligors that the Bank holds in its investment portfolio for diversification purposes and as a cash investment.

Market price risk strategy

The market price risk strategy describes the risk profile IKB is prepared to accept when entering into market price risk and what measures are taken to prevent undesirable risks. At present, market price risks primarily result from the investment portfolio and Treasury. Above all, the main risk drivers are credit spread risks and interest rate risks, which the Bank will continue to focus on with a view to its forecast net interest income in light of the continued expected low level of interest rates in the financial year 2017/18.

Liquidity strategy

The current liquidity protection is based on the acceptance of customer deposits guaranteed by the Deposit Protection Fund, the issuance of promissory note loans, secured borrowing on the interbank market and participation in the ECB tender procedure. In addition to ensuring that the Bank is able to meet its payment commitments at all times, the aim of liquidity management is to ensure permanent access to affordable, diversified refinancing options. A diversified portfolio of ECB-eligible liquid securities serves as a liquidity reserve.

Operational risk strategy

The primary objective of operational risk management at IKB is to reduce the losses resulting from operational loss events. The goal is to achieve the optimum balance between risk acceptance and the costs entailed by risk reduction or avoidance. Based on data from the business impact analysis, which tracks and assesses the operational risks that are inherent to IKB's business, processes and systems, contingency plans are prepared for all risks classified as "critical".

Counterparty default risk

In counterparty default risk, IKB distinguishes between credit risk and counterparty risk.

Credit approval process and individual exposure monitoring

Key tasks within the scope of the credit approval process (front office-independent credit analysis, loan approval) and exposure monitoring (intensive support, problem exposure processing) are carried out by the front office-independent Credit Risk Management central division and are thereby separated from front office functions (acquisition and business initiation) in accordance with regulatory requirements.

Loan and collateral agreements and subsequent adjustments are prepared by employees of Credit & Treasury Operations working independently of front office, with the involvement of specialist lawyers in more complex individual cases.

The basis for every credit decision is a detailed credit analysis which shows and evaluates the information relevant to the decision and documents this clearly in a decision paper. In addition to the analysis of the economic circumstances of borrowers based on annual financial statements, forecasts and liquidity planning, credit analysis places a considerable focus on the sales and procurement markets of the respective borrowers, their positioning in the relevant markets and their prospects for the future. At the same time, a great deal of importance is attached to the mobility of loans, i.e. their eligibility for transfer or syndication.

Existing credit exposures are reviewed by Credit Risk Management every twelve months using the appropriate processes and approval procedures. Furthermore, individual sub-portfolios and key individual exposures are analysed with regard to their risk situation and exposure strategies derived on an annual basis.

Rating process and systems

IKB uses rating systems tailored to the respective customer segment or the specific finance type to carry out credit assessments. The development, maintenance and operation of some of these rating systems have been outsourced to external service providers. The individual rating classes are assigned probabilities of default based on historical defaults.

The rating processes were comprehensively reviewed and optimised in the financial year. The method of calculating the credit rating of classic corporate financing was also developed further. The development, maintenance and operation of the rating system for commercial property financing were outsourced to an external service provider in the financial year.

Quantifying credit risk

The quantification of the counterparty default risk is based on a portfolio model. This model takes into account individual aspects of each loan or investment (amount, collateralisation, term, sector, group affiliation, rating) plus a large number of other variables, for example default probability, spreads in statistical default probability, collateral realisation quotas, sector/asset correlations based on the Bank's experience or on external reference sources.

Systems for preparing internal credit assessments and those for approval, monitoring and management processes in the lending business are regularly tested in the context of validation and benchmarking processes.

Portfolio monitoring and management

When monitoring portfolios, the central focus is on examining the entire credit portfolio. Industry and market changes are jointly and promptly monitored by back office units specialising in industry risks. Their extensive industry expertise is an important component of risk management. The aim here is to recognise and limit sector risks in the lending business as early as possible, taking expected developments into account.

Structure of counterparty default risk

The credit volume as at 31 March 2017 was composed as follows:

Table: Credit volume

	Group			IKB AG		
in € million	**31 Mar. 2017**	**31 Mar. 2016**	**Change**	**31 Mar. 2017**	**31 Mar. 2016**	**Change**
Receivables from banks	1,670	2,122	-452	1,505	2,013	-508
Receivables from customers	9,925	9,888	37	11,349	11,467	-118
Bonds and other fixed-income securities not including own bonds	5,309	5,036	273	4,694	4,689	5
Equities and other non-fixed-income securities	473	470	3	2	2	-
Investments[1)]	4	11	-7	-	-	-
Lease assets	928	941	-13	-	-	-
Subtotal: Balance sheet assets	**18,309**	**18,468**	**-159**	**17,550**	**18,171**	**-621**
Contingent liabilities[2)]	2,566	2,257	309	3,512	3,190	322
Asset derivatives in the non-trading book[3)]	1,191	1,792	-601	1,201	1,803	-602
Write-downs[4)]	233	355	-122	213	332	-119
Leasing: Deferred income and advance payments for intangible assets	-97	-63	-34	-	-	-
Provisions for expected losses for embedded derivatives	-53	-50	-3	-53	-50	-3
Securities lending	190	-	190	190	-	190
Gross credit volume	**22,339**	**22,759**	**-420**	**22,613**	**23,446**	**-833**
For information purposes: other significant counterparty default risks outside the gross credit volume						
Irrevocable loan commitments	1,550	1,559	-9	1,357	1,434	-77
Investments in associated and affiliated companies[5)]	17	17	-	262	149	113

1) In the Group, investments after consolidation are part of the gross credit volume, at IKB AG they are outside the gross credit volume.
2) Before deducting risk provisions. This item contains the nominal value of all protection seller credit default swaps (CDS), including a nominal amount of € 1,324 million (31 March 2016: € 1,243 million) that, as executory contracts, are treated as derivatives for accounting purposes in accordance with the provisions of IDW RS BFA 1 (new version).
3) Including € 21 million (31 March 2016: € 7 million) in positive fair values for protection seller CDSs whose nominal values are treated as contingent liabilities for accounting purposes in accordance with the provisions of IDW RS BFA 1.
4) not including provisions for expected losses for embedded derivatives in structured products; credit volume after deduction of write-downs on bonds and other fixed-income securities; IKB AG: without general country risk provisioning
5) IKB AG: including equity investments

While receivables from banks and asset derivatives in the non-trading book declined by a total of around € 1.1 billion, receivables from customers remained virtually stable. In receivables from customers, the net growth in the strategic credit portfolio offset the continued reduction in the non-strategic portfolio.

The Bank engaged in securities lending as at 31 March 2017. The resulting additional counterparty default risk, i.e. the risk of default of the securities borrower, is recognised in the “Securities lending” item in the amount of € 190 million.

The gross credit volume decreased by € 0.4 billion as against 31 March 2016 in the Group and by € 0.8 billion at IKB AG.

Table: Credit volume by size – Group

	31 Mar. 2017 in € million	31 Mar. 2017 in %	31 Mar. 2017 Number[1]	31 Mar. 2016 in € million	31 Mar. 2016 in %
Under € 5 million	2,484	11%	24,831	2,527	11%
Between € 5 million and € 10 million	1,299	6%	181	1,452	6%
Between € 10 million and € 20 million	2,840	13%	206	2,545	11%
Between € 20 million and € 50 million	3,516	16%	114	3,323	15%
Over € 50 million	11,550	52%	56	12,114	53%
Subtotal	**21,689**	**97%**	**25,388**	**21,961**	**96%**
Risk transferred to third parties[2]	650	3%	-	798	4%
Total	**22,339**	**100%**	**25,388**	**22,759**	**100%**

1) Borrower groups in accordance with section 19 KWG
2) Hermes guarantees, indemnifications, risks transferred

As a result of the reduction in derivatives and in receivables from banks, the decline in the credit volume focuses on the "Over € 50 million" category. 92% of the credit volume in this size category is attributable to banks and the financial sector respectively the public sector. The rise in the middle size categories relates to the corporate sector.

The "Under € 5 million" category primarily consists of fragmented lease finance. The credit volume of this size category at IKB AG is therefore only € 0.8 billion (previous year: € 1.0 billion). Other than this, there are no particular discrepancies between IKB AG and the Group regarding the structure of size categories.

Collateral, risk transfer and securitisation

Table: Credit volume by type of collateral – Group

	31 Mar. 2017 in € million	31 Mar. 2017 in %	31 Mar. 2016 in € million	31 Mar. 2016 in %
Property liens and charges[1]	2,664	12%	2,827	12%
Transfers of ownership and leased assets[1]	2,415	11%	2,282	10%
Other collateral[1][2]	3,197	14%	2,814	12%
Collateralised[1]	1,069	5%	1,589	7%
Secured credit volume	**9,345**	**42%**	**9,512**	**42%**
Without collateral[3]	12,344	55%	12,449	55%
Subtotal	**21,689**	**97%**	**21,961**	**96%**
Risk transferred to third parties[4]	650	3%	798	4%
Total	**22,339**	**100%**	**22,759**	**100%**

1) including credit portions beyond collateral value
2) e.g. assignment of receivables, participation rights, assignment of shares, ownership rights, subordinations, positive/negative pledges
3) including collateral provided by the Bank on the interbank market in the form of term money and call money for derivatives
4) Hermes guarantees, indemnifications, risks transferred

The provision of cover by means of traditional collateral (property liens, transfers of ownership and guarantees) is still of considerable importance for the traditional lending business at IKB. "Without collateral" mostly relates to "banks and the financial sector" (around € 5.3 billion; 31 March 2016: € 5.9 billion) and the public sector (€ 4.7 billion; 31 March 2016: € 4.0 billion). Where the Bank provides collateral in the form of cash and term deposits for derivatives on the interbank market, these are also reported under "Without collateral". € 2.3 billion of "Without collateral" relates to corporate financing (31 March 2016: € 2.5 billion).

The share of exposures secured by means of mortgage loans, transfers of ownership and other collateral remained stable.

The decline in derivatives business therefore means that the volume in the "Collateralised" category also decreased. The "Collateralised" column shows the derivative volume for which asset derivatives are netted against liability derivatives on the basis of offsetting agreements.

Most of the risks transferred relate to liability sub-participations by banks (primarily KfW Bankengruppe – KfW). Around 26% relate to public guarantees (including Hermes cover) and synthetic securitisation transactions in which KfW hedges the credit risk. The Bank is secured against counterparty default risks by means of synthetic securitisations, although the loans are still reported in the balance sheet. Borrowers continue to be managed by IKB AG, even for transferred loans. The decline in risk transfers mainly results from repayments of loans transferred or secured by way of securitisation transactions.

The structure and development of collateral at IKB AG is comparable to that of the Group except for a lower share of the collateral class "Transfers of ownership and leased assets".

Geographical structure

The credit volume can be broken down by region as follows:

Table: Credit volume by region – Group

	31 Mar. 2017 in € million	31 Mar. 2017 in %	31 Mar. 2016 in € million	31 Mar. 2016 in %
Germany	10,259	46%	9,869	43%
Outside Germany	11,430	51%	12,092	53%
Western Europe	8,457	38%	9,552	42%
Eastern Europe	1,430	6%	1,179	5%
North America	1,129	5%	990	4%
Other	414	2%	371	2%
Subtotal	**21,689**	**97%**	**21,961**	**96%**
Risk transferred to third parties[1)]	650	3%	798	4%
Total	**22,339**	**100%**	**22,759**	**100%**

1) Hermes guarantees, indemnifications, risks transferred

The credit volume in Germany increased mainly as a result of higher corporate lending. The decrease in Western Europe related primarily to banks and the financial sector, and also to the corporate sector as a result of the reduction of non-strategic assets.

The volume accounted for by Eastern Europe is approximately half due to leasing business and one third to bonds of the Republic of Poland and protection seller CDS referencing the Republic of Poland. The volume in other countries mainly comprises protection seller CDS and bonds with obligors/referencing the public sector (including the People's Republic of China).

The development at IKB AG was the same, again with a lower Eastern Europe share than the Group and a declining North America share.

Sector structure

Table: Credit volume by sector – Group

	31 Mar. 2017 in € million	31 Mar. 2017 in %	31 Mar. 2016 in € million	31 Mar. 2016 in %
Industrial sectors	10,155	45%	10,037	44%
Mechanical engineering	918	4%	947	4%
Energy supply	750	3%	729	3%
Chemical industry	661	3%	687	3%
Wholesale (not including motor vehicles)	642	3%	556	2%
Metal products	616	3%	663	3%
Other industrial sectors	6,568	29%	6,455	28%
Real estate	371	2%	434	2%
Financial sector	1,259	6%	1,361	6%
Banks	5,104	23%	6,041	27%
Public sector	4,800	21%	4,088	18%
Subtotal	**21,689**	**97%**	**21,961**	**96%**
Risk transferred to third parties[1)]	650	3%	798	4%
Total	**22,339**	**100%**	**22,759**	**100%**

1) Hermes guarantees, indemnifications, risks transferred

Growth in corporate lending led to a slight increase in both the absolute credit volume and the share of industrial sectors. The degree of diversification in the industrial sectors is still high, with no single sector accounting for more than 5% of the portfolio. The reduction in derivatives and the decline in receivables from banks can also be seen in the lower volume for “Banks”. The “public sector” volume was increased by the bond acquisition.

Developments were the same at IKB AG.

Credit rating structure

The credit volume is assigned to the internal rating classes as follows:

Table: Credit volume by credit rating structure[1)] – Group

	31 Mar. 2017 in € million	31 Mar. 2017 in %	31 Mar. 2016 in € million	31 Mar. 2016 in %
1-4	7,247	32%	7,659	34%
5-7	6,746	30%	7,512	33%
8-10	4,935	22%	4,288	19%
11-13	2,211	10%	1,565	7%
14-15	301	1%	378	2%
Non-performing assets[2)]	249	1%	559	2%
Subtotal	**21,689**	**97%**	**21,961**	**96%**
Risk transferred to third parties[3)]	650	3%	798	4%
Total	**22,339**	**100%**	**22,759**	**100%**

1) higher rating classes reflect lower creditworthiness
2) before specific risk provisions and loan loss provisions, after write-downs of securities to the lower of cost or market
3) Hermes guarantees, indemnifications, risks transferred

The volume in the best credit rating groups (1-4 and 5-7) has decreased mainly due to scaling back business activities with credit institutions, and also to rating migrations to the weaker levels of 8-10 and 11-13.

Approximately half of the 14-15 credit rating group is accounted for by lease finance for which the leased assets serve as collateral.

Developments were the same at IKB AG.

Non-performing assets

Non-performing assets are credit volumes with debtors that show a debtor default in accordance with Article 178 of the Capital Requirements Regulation (CRR). Debtor default exists if insolvency proceedings have been initiated, interest or redemption payments have been in default for more than 90 consecutive days, specific risk provisions were recognised or there are other clear indications that the debtor cannot fulfil its contractual obligations. Securities are classified as non-performing assets if the Bank considers permanent impairment to be probable.

Exposures without default, which are managed by the Bank’s units specialising in restructuring, are not considered non-performing assets. Together with the non-performing assets, these exposures are subject to intensive monitoring.

In the IKB Group, non-performing assets and other exposures managed by the units specialising in restructuring amounted to € 0.4 billion in total as at 31 March 2017 (31 March 2016: € 0.7 billion).

If the Bank’s individual reviews establish that the respective contractual obligations are highly unlikely to be fulfilled by way of later payment or the liquidation of collateral, the receivable is classified as permanently impaired and a specific risk provision is recognised. In determining the amount of the specific risk provisions, IKB takes the liquidation value of the collateral available into account in addition to future debt service payments by borrowers still possible.

Table: Non-performing assets[1] – Group

	31 Mar. 2017 in € million	31 Mar. 2016 in € million	Change in € million	Change in %
Assets with specific risk provisions	194	447	-253	-57%
of which: German loans	104	214	-110	-51%
International loans	90	184	-94	-51%
Securities written down	-	49	-49	-100%
Non-impaired	55	139	-84	-60%
Total	**249**	**586**	**-337**	**-58%**
as % of credit volume	1.1%	2.6%		

1) before specific risk provisions and loan loss provisions, before write-downs of securities to the lower of cost or market

Non-performing assets again declined significantly by € 337 million or 58% as against 31 March 2016. The majority of this development was attributable to the reduction including loan derecognition in assets with specific risk provisions. The Bank again reversed the specific risk provisions it had previously recognised. The securities written down were reduced to zero by way of sale or the end of the securitisation positions from own securitisation transactions.

The decrease in non-impaired non-performing assets is primarily due to the finalised implementation of an adjustment of the definition of NPA to reflect the current statutory provisions of the CRR under which certain restructuring loans are not considered to have defaulted, meaning that they are not classified as non-performing assets.

The ratio of non-performing assets is 1.1% as at 31 March 2017 (31 March 2016: 2.6%).

Developments were the same at IKB AG. Non-performing assets declined from € 522 million to € 214 million, and the NPA ratio was down from 2.2% to 0.9%.

Non-performing assets do not include:

- Risks transferred to third parties for non-performing assets (€ 52 million; 31 March 2016: € 99 million), as these credit risks have been assumed by other banks, public sector entities or via collateralised loan obligations (CLOs) and are assigned to the party assuming liability (change in credit rating).
- Unutilised commitments for debtors whose residual exposure is classified as a non-performing asset (€ 6 million; 31 March 2016: € 30 million) and
- Securities transferred to Rio Debt Holdings – see “Structured credit products” under “Counterparty default risk” in section 3. “Risk report”.

Provisions for possible loan losses

In the event of acute risk of default, risk provisions are recognised for possible loan losses in the form of a specific risk provisions. For contingent liabilities, a provision is recognised in the event of threatened utilisation. Risk provisions are also recognised in the form of a provision for the permanent impairment of CDSs and for CDSs embedded in credit-linked notes (CLNs). See also the disclosures in the notes under (6) “Provisions for possible loan losses”.

Table: Provisions for possible loan losses – Group

	31 Mar. 2017 in € million	31 Mar. 2016 in € million	Change in %
Additions to specific risk provisions/provisions[1)]	37.7	67.1	-44%
Direct write-downs	37.8	14.4	>100%
Recoveries on loans previously written off	-11.5	-8.7	32%
Reversal and unwinding of specific risk provisions/provisions[1)]	-68.3	-62.5	9%
Additions to/reversals of general allowances[2)]	-10.5	7.0	
Provisions for possible loan losses	**-14.8**	**17.3**	
Embedded derivatives/expenses for credit insurance/income from lending transactions restructured as equity investments	-1.3	0.5	
Net addition to risk provisioning	**-16.1**	**17.8**	
Net income from securities and derivatives in the liquidity reserve	-0.5	-8.5	-94%
Net risk provisioning	**-16.6**	**9.3**	
Development of specific risk provisions/provisions[3)]			
Opening balance	206.9	330.7	-37%
Utilisation	-99.9	-130.0	-23%
Reversal	-63.2	-56.0	13%
Reclassification and net interest expense and discounting	12.2	0.2	>100%
Unwinding	-5.1	-6.5	-22%
Additions to specific risk provisions/provisions	37.7	67.1	-44%
Effect of changes in exchange rates	0.4	1.4	-71%
Total specific risk provisions/provisions	**89.0**	**206.9**	**-57%**
General allowances[2)]			
Opening balance	166.2	159.2	4%
Addition/reversal	-10.5	7.0	
Reclassification	0.6	-	
Total general allowances	**156.3**	**166.2**	**-6%**
Total provisions for possible loan losses (including provisions)	**245.3**	**373.1**	**-34%**

1) not including general allowance for contingent liabilities recognised as provisions
2) including general allowance for contingent liabilities recognised as provisions
3) not including provisions for embedded derivatives, excluding general allowance for contingent liabilities recognised as provisions

With income of € 15 million, provisions for possible loan losses were historically low. The sharp decline compared to the already low level of the previous year is due to declining additions, further high reversals of specific risk provisions, recoveries on loans previously written off and lower general allowances as a result of lower historical loss rates. The development in general allowances is explained in more detail in note (6) “Provisions for possible loan losses”.

Not including general allowances, net risk provisioning was again down year-on-year with a reversal of € 4 million (expense of € 10 million).

The increase in direct write-downs to € 38 million relates entirely to the disposal of non-strategic assets with a focus on medium-term to long-term project finance.

Risk reporting

All relevant information from lending transactions is prepared in detail by the Risk Controlling division in quarterly Group credit risk reports and presented and explained to the Board of Managing Directors. In addition, the Supervisory Board and the regulatory authorities receive an extensive risk report (dashboard) every quarter containing all key information on the overall risk position in the Group.

Structured credit products

The exposure in structured credit products was scaled back further in the 2016/17 financial year. Securitisation positions primarily deriving from the securitisation of own loans were reduced to zero (31 March 2016: nominal volume of € 57 million/carrying amount of € 30 million).

The remaining investments in structured credit products are securities with a nominal volume of € 122 million (31 March 2016: € 135 million) and a carrying amount of € 54 million (31 March 2016: € 69 million) that were transferred to the special purpose entity Rio Debt Holdings in the wake of the financial crisis. The subprime risks included in this have a carrying amount of € 41 million (31 March 2016: € 46 million).

In terms of asset classes, the risk of investments with corporate underlyings (CLOs) was reduced to zero (31 March 2016: € 22 million). The risk of assets with ABS underlyings (ABS and CDO of ABS) amounted to € 54 million (31 March 2016: € 77 million).

Liquidity risk

The identification and analysis of liquidity risk in terms of the insolvency risk are based on the expected cash flows for transactions that have already been contracted, supplemented by modelling, the planning of liquidity measures and new business and the liquidity reserve (options for borrowing with the ECB and cash on hand). In a 90-day analysis period, the future liquidity balances calculated thus are reduced further via additional stress components of around € 1.9 billion (market disruptions, credit disruptions, changes in conditions, etc.) and limited over a one-year horizon. The most negative consequences of the combined stress scenarios are applied in limit monitoring. Ad hoc stress tests are also conducted as required. The insolvency risk beyond the one-year horizon is countered by the reporting of long-term liquidity balances, with the result that suitable controlling measures can be taken early on. Liquidity risk monitoring at IKB is also supplemented by an early warning system.

In addition to the funding matrix, risk from the cost of liquidity is also determined and incorporated by the Bank in its calculation of risk-bearing capacity. This is the risk that it will only be possible to close future liquidity gaps at a higher cost. It amounts to € 19 million as at 31 March 2017.

Treasury is responsible for the operational controlling of liquidity risks. The liquidity situation is also presented to the Asset Liability Committee of the Bank on a weekly basis.

Refinancing situation

In addition to secured financing on the interbank market (including Eurex Repo transactions) and refinancing via the ECB, business involving deposits and promissory note loans with corporate clients, retail customers and institutional investors secured via the Deposit Protection Fund forms a key element of IKB's refinancing.

The secured refinancing volume on the interbank market including refinancing via the ECB amounted to around € 2.2 billion as at 31 March 2017 (31 March 2016: € 2.3 billion).

The volume of refinancing secured by the Deposit Protection Fund amounts to just under € 7.4 billion as at 31 March 2017 (31 March 2016: € 7.3 billion).

The volume of unsecured bearer bonds in the retail customer segment was around € 0.7 billion as at 31 March 2017 (31 March 2016: € 0.6 billion).

In the context of its refinancing mix, the Bank will also continue to actively utilise programme loans and global loans from government development banks in its customer lending business.

Liquidity situation

Depending on the development of its new business and taking into account credit facilities and liquidity commitments not yet utilised by customers, the Bank expects its liquidity requirements to amount to around € 4.7 billion over the next twelve months.

Liquidity planning is based on a range of assumptions as to the above and other factors which can determine liquidity, both on the assets side and the liabilities side. In the event that a number of these assumptions do not come to fruition, this may result in liquidity bottlenecks. For example, this may include market developments that prevent the Bank from extending liabilities guaranteed by the Deposit Protection Fund or selling balance sheet assets to a sufficient extent or at all. IKB has a liquidity contingency plan for this eventuality that describes a package of measures and a defined procedure for responding to a liquidity bottleneck.

In accordance with the German Liquidity Regulation (LiqV), the Bank will ensure that its liquidity ratio remains within a corridor of between 1.25 and 2.00. In the period under review, the average liquidity ratio was 1.66, thereby comfortably exceeding the regulatory minimum of 1.00.

The minimum liquidity coverage ratio was 70% in 2016 and has been 80% since 1 January 2017. The Bank’s aim is to maintain a significantly higher ratio in excess of 100%. These minimum requirements were complied with at all times in the 2016/17 financial year.

Market price risk

IKB’s market price risk comprises the risk factors of interest rates, credit spreads, FX (foreign exchange) rates, stock market and inflation indexes and their volatilities.

IKB enters into interest rate risk in the form of refinancing and structural risk.

The relevant credit spread risk for IKB results in particular from securities and promissory note loans, the credit derivatives in its investment portfolio and credit treasury and the remaining portfolio investments. The specific management/hedging of credit spread risk on securities is performed selectively depending on the respective market environment.

IKB largely holds currency positions only in USD and JPY.

Quantification and evaluation of market price risk

To measure market price risk, the Bank applies a value at risk (VaR) approach using a historical simulation based on the last 250 trading days, taking into account all relevant risk factors, i.e. interest rates, credit spreads, FX rates, stock market and inflation indexes and their volatilities. All portfolios are valued on a daily basis. Stress tests and scenario analyses are conducted to supplement this.

For the purposes of daily operational risk monitoring, economic VaR is calculated at a 99% confidence level assuming a holding period of one day. In order to determine the Bank’s risk-bearing capacity, VaR is also calculated at a confidence level of 99.76% (economic liquidation perspective) and 95% (accounting-based going-concern perspective) assuming a holding period of one year.

To support market risk management, risk factor sensitivities are calculated and reported regularly at the level of the individual transactions and on an aggregated portfolio basis.

Regular backtesting is carried out in order to test the ability of the models used to make predictions. The Board of Managing Directors is informed of the results of backtesting as part of regular risk reporting.

Market price risk management and hedging

The main task of market price risk management is the management of the market price-sensitive positions entered into by the individual segments.

IKB uses a combination of risk indicators, earnings indicators and other indicators to manage market price risk.

Daily risk reporting to the Board of Managing Directors and Treasury comprises the evaluation of all positions, market price risk, net interest income and limit utilisation.

Moreover, the Board of Managing Directors is regularly provided with detailed information on relevant market developments, changes in the portfolio, measurement of the portfolio, earnings development and the market risk profile. The Supervisory Board is informed of market price risks every quarter in the context of overall risk reporting.

Year-on-year comparison of the market price risk profile

The following table shows the year-on-year development of the market risk profile at the level of the risk consolidation group in terms of the interest rate and credit spread basis point value and value at risk at a 99% confidence level and applying a holding period of one day.

Table: Market price risk profile

in € million	Value at 31 Mar. 2017	Value at 31 Mar. 2016
Interest rate basis point value (BPV)	**-1.4**	**-2.0**
Credit spread BPV	**-7.0**	**-6.3**
VaR – interest rate and volatility	-15.0	-20.7
VaR – credit spread	-29.3	-53.5
VaR – FX and volatility	-3.8	-3.5
VaR – Other[1)]	-0.8	-0.1
Correlation effect	10.4	19.7
VaR (total)	**-38.5**	**-58.0**

Some totals may be subject to discrepancies due to rounding differences.

1) figure for the previous year restated

Operational risk

Operational risk describes the risk of a loss resulting from a lack of or failed internal processes, people or systems, or as a result of external events outside the sphere of influence of the Bank.

In addition to the regular analysis and identification of weaknesses and potential areas for optimisation in all business processes, activities therefore also focus on expanding the security organisation and adapting the underlying processes on the basis of annual business impact analyses that look at the specific risk profiles for the individual segments and divisions and derive signals for risk management from this.

All significant loss events that occur or almost occur are compiled in a central loss database and examined for how they were caused and the impact they had (e.g. impact on the Bank's reputation). The Board of Managing Directors is informed about operational risks in addition to individual losses and how they are distributed among the individual business units on a quarterly basis. In the event of significant risks or losses which have occurred, an immediate report is submitted to the Chief Risk Officer and, if necessary, to the members of the Board of Managing Directors responsible for the departments which were also affected.

The gross loss volume identified in the financial year amounted to a total of € 3.2 million at Group level (previous year: € 29.7 million[1]). € 0.6 million of this figure related to IKB AG (previous year: € 26.6 million).

Legal risk

Legal risk is also included in operational risk. This constitutes the risk of losses incurred by breaching general statutory conditions, new statutory conditions or changes to or interpretations of existing statutory regulations (e.g. high court decisions) which are unfavourable for the Bank. Liability risk resulting from contractual agreements also forms part of legal risk.

The management of legal risk is the responsibility of the Legal division. The management of tax legal risk is the responsibility of the Taxes department.

Legal situations and legal developments that are relevant to the Bank are identified and communicated within the organisation in the form of information, advice, standard texts and direct support for individual transactions.

This task is performed by internal employees. If necessary, external law firms are brought in for support.

A sample contract system based on text modules is used in the lending business and related business. Standard texts exist for other transactions in some cases. As part of the current reorientation, deviations from these standard/sample texts and individually worded agreements and transactions are examined and approved by the Legal central division or fall within its sphere of responsibility. All sample contracts are reviewed constantly to determine whether adjustments are required as a result of legislative changes or adjudications. When commencing new business, the legal design and assessment of the new products is overseen by the Legal department itself or under its responsibility as part of the new business process.

Legal developments which are of direct significance to the business of the Bank are monitored, in particular, by means of collaboration in the internal and external executive bodies and committees of the regulatory authorities and the Association of German Banks. At the same time, the numerous legislative proposals to change regulatory law are particularly monitored in the same manner.

As an additional measure, the Legal division heads the Legal Development working group to identify current regulatory and banking supervisory developments in good time to synchronise their impact and the resulting implementation requirements for the Bank. In addition to other technical support systems, Bank-Verlag’s BV Compliance Cockpit MaRisk is used for this.

In legal proceedings, the Legal division ensures that the legal positions of the company and the Group are maintained and that general legal conditions are observed by deploying specialised employees with particular access to the information available in the company and the Group.

With regard to tax law issues, the Taxes department also ensures legally compliant declaration and the defence of the Group’s tax positions in respect of the tax authorities by deploying specialised employees with particular access to the information available in the company and at the Group companies. External tax advisors are brought in as required. At the level of IKB AG or its subsidiaries, additional tax expenses could arise from assessment periods that have not yet been audited. The last tax audit for the domestic consolidated group relates to the assessment periods up to and including 2006 (VAT up to and including 2005) and was completed in the previous financial year. The audit of the assessment periods 2007 to 2011 inclusively (VAT 2006 to 2010 inclusively) began in the current financial year. IKB is subject to permanent and consecutive external tax audits.

[1] Compared to the information provided in the previous year, losses have now been finally determined for two instances of loan fraud.

In managing its legal positions, IKB enters into agreements on the suspension of the statute of limitations and composition agreements with potential claimants and defendants. Corresponding provisions are recognised for identified risks.

IKB and Group companies are involved in legal proceedings. The following section contains a summary of the pending proceedings against IKB or Group companies that have a value in dispute of more than € 15 million or that are material for IKB for other reasons:

Legal disputes

There is a possibility that claims for damages could be brought against IKB as a result of its activities or the activities of IKB Credit Asset Management GmbH in relation to Rhineland Funding Capital Corporation LLC (RFCC), Delaware, and/or Rhinebridge by parties involved in these transactions. In an agreement dated 10/16 September 2008, KfW provided a degree of indemnification to IKB for claims from legal disputes against IKB (including the relevant court costs) in connection with the RFCC, Rhinebridge or Havenrock entities for events that occurred before 29 October 2008.

Although the indemnification amount is limited, IKB assumes that the identifiable legal risks from the transactions covered by the declaration of indemnity are covered by the indemnification. In this connection, IKB has extensive duties to KfW in respect of information, disclosure, participation and action. Claims from IKB shareholders of investors in financial instruments linked to the development of IKB shares are not covered by the indemnification.

If IKB culpably violates a specific obligation in the indemnification agreement in connection with a specific claim covered by the indemnification agreement, under certain circumstances, the indemnification claim to this specific claim may be extinguished. The Board of Managing Directors regards the risk of a dereliction of duty as slight. This is because, to assure the contractual obligations of IKB, the necessary implementation steps for securing behaviour in line with the agreement were specified in detail and documented in writing following in close coordination and cooperation with KfW. The indemnification claims of IKB are also extinguished retroactively if the share sale and transfer agreement or the share transfer in rem between KfW and LSF6 Europe Financial Holdings, L.P., Delaware, Dallas, USA, are zero and void or one of the parties exercises a right to terminate a legal relationship by unilateral declaration which results in the reversal of the performance rendered in the transaction covering the obligation. Furthermore, the claims from the indemnification agreement are extinguished if, also taking into account the claims for the indemnification agreement, there is reason for insolvency at IKB or insolvency proceedings have been instituted against the assets of IKB.

It also cannot be ruled out that IKB will be sued by investors in securities issued by IKB on account of the losses caused by the transactions in particular. IKB expects any such claims to be unsuccessful.

Third-party lawsuit against IKB

In February 2016, Wells Fargo Securities LLC, Wells Fargo Bank, N. A. and others (“Wells Fargo”) filed a third-party lawsuit against IKB with the United States District Court, Southern District of New York. The third-party lawsuit relates to a complaint by various special-purpose entities from the Rhineland Funding Program since liquidated (“Loreleys”) against Wells Fargo in New York from 2011. The Loreleys are demanding compensation from Wells Fargo for failed investments in various structured credit portfolios arranged by Wells Fargo. Wells Fargo is accusing IKB of having violated its duties in consulting on and preparing investment decisions by the Loreleys, and is demanding that IKB is liable for some of the claim to compensation in the event that it is sentenced.

The motion submitted by IKB on 6 June 2016 to have the third-party lawsuit dismissed was rejected on 10 March 2017.

On the basis of the indemnification agreement between KfW and IKB of September 2008 and the agreement between the two of September 2011, IKB assumes that KfW will pay all court costs and any successfully claimed contributions by IKB to the claims for damages from the defendant, plus interest.

Derivatives trading

In individual cases, customers criticised the advisory services provided by the Bank in connection with certain swap products. Three cases are currently pending. The values in dispute total just under € 4.3 million. An amount of around € 10.4 million is currently in dispute in pre-litigation.

Dissenting view of the tax authorities

In August 2015 IKB AG had received tax assessment notices in which the dissenting view of the tax authorities on the application of section 8c of the German Corporate Income Tax Act (KStG)/section 10a of the German Trade Tax Act (GewStG) in connection with the capital increase implemented by IKB AG during the course of the year and the subsequent sale of KfW's shares in IKB to Lone Star in the financial year 2008/09 was implemented. IKB had appealed against the tax assessments. The corporation tax and the solidarity surcharge for 2009 were paid (€ 141 million in total including interest). A total of € 8 million (including interest) was reimbursed by the tax authorities as a result of the assessment of corrected tax returns for 2009 in the 2016/17 financial year. At its application, IKB was granted a suspension of execution for trade tax. The trade tax and the associated interest were therefore not yet payable.

IKB has since received decisions on its appeal proceedings and brought actions before the Düsseldorf Fiscal Court.

The relevant gains/income for the offsetting of taxable losses relate in particular to IVG Kavernen GmbH, which was acquired in 2008. The acquired company was merged into IKB Beteiligungen GmbH in the financial year 2008/09. IKB had supported IVG Kavernen GmbH in structuring a sales transaction and reorganising its Caverns division. In addition to this acquisition in the 2008/09 financial year, there were similar transactions in the 2007/08 and 2010/11 financial years, in which there was no so-called detrimental acquisition and sections 8c KStG/10a GewStG therefore did not apply. In the financial years in which IKB AG suffered heavy losses, the associated profits resulted in an urgently needed strengthening to the own funds of IKB AG and the regulatory IKB Group. Nonetheless, it must be assumed that the tax authorities will make an issue of these transactions in ongoing audits as well.

By way of ruling of 29 March 2017, the Federal Constitutional Court ruled that the provision of section 8c KStG for detrimental acquisitions of between 25% and 50% is incompatible with German Basic Law. In the opinion of IKB, the principles of this ruling should also be pertinent to the above case, though this was an acquisition of more than 50%, and the decision can therefore not be applied directly. Lawmakers also have the option of implementing a new constitutional regulation retroactively by the end of 2018, hence the matter is still unresolved.

The decision corroborates IKB's previously held legal opinion. IKB continues to believe that it would have a good chance of success with regard to corporation tax and the solidarity surcharge and a very good chance of success with regard to trade tax when it comes to enforcing its legal position in the court of last instance.

As previously no provision was recognised for trade tax or the corresponding interest on account of IKB's extremely good chance of success in the court of last instance, and hence the extremely positive assessment of the corresponding risk. At the same time, there is a possibility that this risk will need to be reassessed as proceedings continue. The risk for trade tax currently amounts to around € 112 million plus interest of 0.5% per month and cost allocations for Chamber of Commerce and Industry membership fees in the amount of € 1.2 million. The potential interest rate risk amounted to € 39.2 million as at 31 March 2017 and around € 0.6 million for each additional month. If this risk were to occur, this would have the following impact on the key financial performance indicators as at 31 March 2017:

- The regulatory tier 1 ratio or common equity tier 1 ratio calculated as at 31 March 2017 would deteriorate by 1.2 percentage points at the level of the IKB Group and by 1.3 percentage points at the level of IKB AG.
- The leverage ratio calculated as at 31 March 2017 would decline by 0.7 percentage points for the regulatory Group and by 0.8 percentage points for IKB AG.
- Net income after taxes and before additions to/reversals of the fund for general banking risks (section 340g HGB) as at 31 March 2017 would decline by € 152 million.

There would be no impact on the liquidity coverage ratio or the liquidity ratio in accordance with section 2 (1) of the German Liquidity Regulation.

In late April 2016 Aleanta GmbH (a wholly owned subsidiary of IKB AG with which no profit and loss transfer agreement has been agreed, meaning it is not included in the income tax group) had received initial written notification that, as part of the tax audit of a company of which it is the universal successor (Olessa GmbH), the tax authorities are intending to treat the retrospective merger of Olessa GmbH into Aleanta GmbH in the financial year 2010/11 as a case covered by section 42 of the German Tax Code (AO). The tax audit is still in progress. Aleanta GmbH has commented on the matter and the current assessment of the tax audit. The maximum risk amounts to around € 27 million in taxes plus interest (notionally around € 8 million by 31 March 2017) and the reallocation of Chamber of Commerce and Industry contributions of € 0.2 million. An appeal will be lodged if necessary. This concerns the transaction referred to above from the 2010/11 financial year.

Information security risk

IKB's information security is based on the international standard ISO 27001. Protection requirements for all processes at IKB are regularly determined on this basis.

The Information Security Management System (ISMS) in place is operated under the responsibility of the Chief Information Security Officer. The risk management performed in the ISMS addresses all relevant information security risks.

IT risk

Activities in the area of IT risk are focused on IT security management. This includes the continuous improvement of the IT security management system as part of IKB's ISO 27001-based ISMS (see also "Information security risk").

System and network security are updated on an ongoing basis to reflect changing external threats. Infrastructure availability risks are minimised by dividing the data centres between two separate locations. The ISMS also takes account of the risk involved in outsourcing key IT services. Measures for addressing this risk are verified through regular checks and emergency drills.

Compliance risk

As a bank, IKB is subject to a wide range of statutory and regulatory requirements. Compliance with these requirements is ensured by way of the measures conducted by the compliance functions established for this purpose.

Regulatory requirements are complied with in the form of a three-level organisational structure. In the first line of defence, the employees in the front office, back office, some central divisions and staff departments observe documentation requirements and rules of conduct. The Minimum Requirements for the Compliance Function (MaComp) and the MaRisk compliance functions form the second line of defence, preventively providing technical consulting and support for first line of defence areas based on certain processes. The independent monitoring of the Group's business activities with respect to money laundering provisions and fraud prevention is also ensured on the second line by the anti-money laundering officers/central office of IKB AG in Germany, by the respective local anti-money laundering officers at the foreign branches prior to their closure and the officers appointed by the subsidiaries. The tasks of the compliance officer in accordance with WpHG/MaComp and MaRisk are performed by the Chief Compliance Officer of IKB AG. The compliance officer and money laundering officer report to the Board of Managing Directors and, for the MaComp and MaRisk compliance functions, to the Supervisory Board on an annual basis and as required. Group Audit then performs a subsequent process-independent audit of the propriety and economic efficiency of the principles, tools and procedures as the third line of defence.

The regulatory regime for compliance, including conduct requirements and process instructions, is documented in binding written targets for the Bank and its employees, and guides the associated operational processes. The values of the Bank are also described in a Code of Conduct. The principles set out in the IKB Code of Conduct include requirements for the conduct of all employees at all locations of the Group.

The MaComp and MaRisk compliance functions perform a regular, Group-wide risk analysis (at least once a year) to identify the risks in terms of compliance with the relevant regulatory provisions and to determine the focal points for its ongoing advisory and monitoring activities.

IKB's business activities give rise to legal obligations for trading with financial instruments, rendering investment services and ancillary investment services and providing investment advice to customers. To ensure that first-line employees are fully aware of the relevant requirements and regulatory developments, regular training is provided and the necessary individual measures and workflows are documented in the written rules.

IKB has taken and implemented appropriate protective measures overall based on its business activities. Deposit and custody business with retail customers is monitored on a daily basis. Overall, on account of its specific operations, IKB is exposed to less risk of money laundering than banks that perform over-the-counter business and payment transactions on behalf of customers.

The risks arising other illegal acts to the detriment of the Bank are also analysed and evaluated in the threat analysis by the central office in accordance with section 25h KWG. IKB is therefore not facing any non-standard or excessive risk of fraud or other illegal acts.

As part of the annual risk inventory and the update of the threat analysis for money laundering, the financing of terrorism and other illegal acts and sanctions, the business activities of IKB indicate no increase in the risks compared to previous years.

Personnel risk

The management of personnel risks is the responsibility of the individual central and back office divisions and front office units in collaboration with the Human Resources division. This includes not only the need for an adequate workforce to implement operating and strategic requirements, but also maintaining the level of knowledge and experience employees need to carry out their duties and responsibilities. IKB applies extensive and ongoing training and further training management for this purpose in order to maintain the high qualification level of its employees.

Please see the disclosure report for the 2016/17 financial year for information on the remuneration system of IKB.

Strategic risk and reputation risk

Strategic risks refer to the threat to the long-term successful position of the Bank. These can arise as a result of changes in the legal or social environment and as a result of changes in market, competition and refinancing conditions.

As there are no regularities as regards strategic risks, it is difficult to capture these quantitatively as special risks in an integrated system and they are therefore assessed qualitatively. They are therefore under the special and continuous observation of the Board of Managing Directors. This includes the regular examination of the business strategy by the Board of Managing Directors, taking into account the implications for the strategic and operational planning process. Business policy objectives, measures and risks are also continuously reviewed by the Strategy and Risk Committee and at the Board of Managing Directors conferences and meetings. This gives rise to strategic initiatives and optimisation measures.

Reputation risk is the risk of negative perception by IKB's stakeholders (e.g. customers, counterparties, shareholders, investors, depositors, market analysts, rating agencies, employees, other relevant stakeholders or regulatory authorities) that could result in losses, falling income, rising costs, reduced equity or falling liquidity by, for example, adversely affecting the Bank's ability to conduct existing or new business, maintain customer relationships or make use of sources of refinancing (e.g. the interbank or securitisation market), either now or in future.

Reputation risks frequently result from other types of risk and compound these as a result of their public impact.

It is generally not possible to quantify the probability and the consequences of the occurrence of a reputation risk.

Reputation risks at IKB are managed by the Board of Managing Directors. The methodology is largely the same as for operational risk management. In particular, responsible communications with all stakeholders is a high priority when it comes to managing reputation risks.

Business risk

The Bank defines business risk as unexpected negative deviations from planning for interest and fee/commission income and for operating expenses as a consequence of worsened market conditions, changes in the competitive position or customer behaviour, or as a result of changes in economic or statutory conditions.

Business risk is quantified by means of a model based on statistically calculated cost and proceeds volatilities, which calculates historical deviations in actual fee/commission and interest income and operating expenses based on the projected figures. The associated economic capital is incorporated in the regular calculation of the Bank's risk-bearing capacity.

The operating management of business risk – i.e. reducing the risk of a negative change in earnings performance within the business strategy agreed with the Board of Managing Directors – is the responsibility of each individual segment, central division and subsidiary. The Finance division prepares monthly performance analyses for existing and new business in the context of performance controlling and presents management reports to the Board of Managing Directors on a weekly basis, in which deviations from planning in income and assets are identified and analysed. The Board of Managing Directors is therefore able to react to negative developments even at short notice.

Participation risk

As the material individual counterparty default, market price, liquidity, business and operational risks in the investment portfolio are already taken into account for the individual risk types, participation risk (in the sense of dividend suspension, write-downs of carrying amounts, losses on disposal and reductions in hidden reserves) is not classified as a material risk type in its own right.

Overall assessment of the risk situation

In terms of the regulatory capital and liquidity ratios, IKB's position was satisfactory as at the end of the 2016/17 financial year. The CET 1 ratio at Group level is 11.7%, thereby also covering the capital requirements resulting from the banking supervisory review and evaluation process (SREP). The leverage ratio is just above 8% and the liquidity ratio in accordance with the Liquidity Regulation, at an average of 1.66 in the 2016/17 financial year, comfortably exceeds the statutory minimum requirements. This means that IKB has sufficient scope to expand its business volume as planned.

However, there remains not inconsiderable uncertainty due to a number of current banking supervisory projects (e.g. the Basel IV package) that are expected to be realised cumulatively over the coming months and in the medium term. What all these projects have in common is that they will tend to further increase existing capital requirements. The development of earnings and the business model as planned will ensure that the necessary strengthening of the capital base can take place successively.

Capital adequacy is still assured without qualification for the next twelve months and a further two years after that on the basis of the Bank's planning.

Counterparty default risk is at an extremely moderate level thanks to the positive macroeconomic development, particularly in Germany, in conjunction with the Bank's systematic risk management. In particular, this is reflected in the limited need for risk provisioning and the significant reduction in non-performing assets.

The sustained environment of low interest rates is placing an additional burden on all market participants, IKB included. In order to generate adequate net interest income in these circumstances, banks find themselves having to enter into corresponding market price risks in the form of interest rate and credit spread risks, depending on their risk appetite, without endangering their risk-bearing capacity. Despite the challenging environment, IKB succeeded in actually reducing its market price risk over the course of the financial year as a result of market and disposition effects.

Liquidity is ensured with a buffer both currently and for the period considered in current management of one year and beyond. The level of operational risk is considered to be moderate.

The stability of the Bank remains crucial, not just with regard to regulation, but also in terms of protection against the current geopolitical tensions (continuing political and financial difficulties in the EU, Brexit implementation, renaissance of protectionist tendencies in the US in particular, North Korea, unstable situation in the Middle East) and their impact on German SMEs, the uncertainty of the development of the world economy, the monetary policy of central banks and the impact of low interest rate policy.

The planned and potential regulatory projects for banks will also present IKB with considerable challenges. The cost of fulfilling the regulatory requirements, including the bank levy, will be a major cost driver. The various regulatory projects are becoming a risk and competitive factor that should not be underestimated, as they have a considerable impact on the alignment of business models and pose an above-average burden for small and medium-sized banks in particular.

4. Report on opportunities

IKB has focussed its business model on services for medium-sized companies and private equity investors with extensive advisory and financing requirements, and has established the corresponding personnel capacity in recent years. Since the start of this expansion, there was a basic assumption that the reorientation would take some time to generate the expected additional income, particularly in the area of the advisory services that were not offered in the past. With a possible economic recovery in Europe and Germany, increased new business opportunities will become available to the Bank on this basis. This was already seen in the 2015/16 financial year by several cases and in terms of the customers newly acquired, and continued in the 2016/17 financial year.

The Bank will enjoy particular opportunities if

- as anticipated, German companies seek to increase their investment volume or generate external growth once again. This heightened demand on the market could also reduce the intensity of competition between providers, which currently often also involves inappropriate conditions; this could improve the earnings prospects for IKB in its lending business with larger companies and in its leasing activities with SMEs;
- demand for credit picks up again in the neighbouring euro countries;
- access to the capital markets and the use of credit fund solutions continue to become more important for companies, as the regulation of bank financing is becoming increasingly oppressive and this is becoming particularly evident from the growth in demand for credit;
- companies are increasingly offered services such as asset-based finance, export finance, commodity trade finance, etc., as is already being implemented at IKB.

With regard to the “dissenting view of the tax authorities” (see the “Legal risk” part of section 3. “Risk report”), IKB still believes that it has a good chance of success if the ongoing judicial proceedings were to reach the court of last instance based on the risk assessment by internal and external experts , and given the decision since made by the Federal Constitutional Court on another case, even after having since received the tax assessment notices and decisions on appeal proceedings. In this case, the reimbursement of the taxes and interest paid and the reversal of the write-down of the tax receivable could have a positive effect on earnings.

Further information on the tax provision can be found in the “Legal risk” subsection of section 3. “Risk report” and in the disclosures on “Income taxes” in the notes.

With regard to the banking supervisory requirements for capital and liquidity, IKB believes that its current ratios provide scope for growth in new “on-balance sheet” business in the next year and in subsequent periods. It also provides various capital market and fund solutions for its customers, and has launched an SME fund for mezzanine loans and an additional fund for senior debt loans.

The cost situation can improve significantly after the implementation of the current cost-cutting and optimisation measures.

Overall, IKB believes that it has the opportunity to generate increases in net income thanks to the growth in its profitable new business, reduced refinancing costs and lower administrative costs. An improved external impression of the Bank’s credit standing as a result could lead to further positive repercussions for business activities as a whole.

The burden posed by extensive regulation offers little in the way of opportunity. Unlike at the major systemically important banks, implementation does not involve the potential for leveraging significant economies of scale at IKB. In recent years, however, IKB has developed an efficient approach to dealing with rising regulatory requirements. In addition to handling new developments efficiently, foresight will remain important in future. This approach will also be vital when it comes to limiting the substantial costs that will also arise as a result.

The potential sale of IKB by Lone Star could have a positive impact on the Bank's future economic development. IKB's Board of Managing Directors remains open to supporting these plans.

5. Outlook

Future general economic conditions

The global economy has been in robust condition since the beginning of 2017. The uncertainty over the economy – triggered by the Brexit vote and the outcome of the presidential election in the US – does not appear to have had any significant negative impact on financial markets or the real economy to date. In its latest spring report, the Council of Economic Experts is forecasting a continuation of the moderate global growth phase.

The rates of growth on the US economy are expected to accelerate to 2.5% and 2.6% for 2017 and 2018 respectively. The newly elected US President Trump has also announced his intention to further boost this momentum with huge investments in infrastructure and tax cuts.

The UK's Brexit vote in June 2016 did not lead to a slowdown in growth. The consistently elevated uncertainty and the feared decline in the appeal of the UK as a location could squeeze investment. The Council of Economic Experts is therefore forecasting only a slight expansion in British GDP of 1.3% for 2018 after 1.8% for 2017.

The economic recovery in the euro area is set to continue. GDP growth of 1.7% and 1.6% is projected here for 2017 and 2018 respectively. The Council of Economic Experts expects growth in France to amount to 1.3% in 2017 and 1.2% in 2018, and to 0.8% in Italy. Economic momentum in Spain could ease slightly. The Council of Economic Experts is forecasting GDP growth of 2.6% and 2.1% here for 2017 and 2018 respectively.

For Germany, the Council of Economic Experts expects that the recovery will continue in 2017. The key driving factor will still be private consumer spending, though this will be slowed somewhat by the rising rate of inflation. Government spending is also not expected to rise by as much in 2016 on account of the declining refugee figures. Equipment investment will continue to be a weak point in 2017. The persistently high economic and political uncertainty in particular will likely keep developments below average. By contrast, exports could rise more rapidly again. The Council of Economic Experts is forecasting GDP growth of 1.4% for 2017 and 1.6% for 2018. It should be noted that this forecast does not constitute an economic slowdown compared to the performance in 2016. Rather, the drop in the growth rate from 1.9% in 2016 to 1.4% in 2017 reflects the different number of working days in each year.

The monetary policy of the ECB remains expansive. The financing conditions on the German economy have been improving since autumn 2016. The ECB had resolved in December 2016 to continue its loan purchases until the end of 2017. In light of this, interest rates for loans to non-financial corporations continued their downward trend. Financing conditions should remain favourable for the entire forecast period.

Banks are still facing considerable challenges. Extensive regulatory requirements and the sustained low-interest environment are limiting earnings opportunities. Low interest rates for an indefinite period could intensify the pressure on earnings. This situation is exacerbated by the fact that banks are unable to absorb a reduction in interest rates for loans, as negative deposit rates can only be passed on to a limited extent.

The outlook for further development is subject to risk. This includes the possible effect of political uncertainty in the US and Europe, for instance, a stronger slowdown of growth on the Chinese economy and possible disruptions on the international financial markets. The protectionist measures being called for by President Trump are a threat to the global trading system and a risk to the world economy. There are also political risks for the euro area. The popularity of Eurosceptic parties remains high in many Member States.

Net assets

IKB will maintain its common equity tier 1 ratio at a high level. Methods for achieving this include the further reduction of risk-weighted assets in the form of the remaining non-strategic loans.

For the 2017/18 financial year, the Bank expects to see a slight increase in receivables from customers, as the growth in new lending business is likely to more than offset the repayments in lending business and reductions of assets. The Bank will continue to be selective when it comes to new lending business in the financial year 2017/18 in order to generate appropriate income for the risks entered into and to take into account the growing requirements imposed by the banking authorities at an early stage. If the economic performance in Germany proves lastingly stable, this could lead to a catch-up effect in terms of demand for credit, and thus to an improvement in the lending opportunities available to IKB. Moreover, a further reduction of non-performing assets appears possible given the ongoing positive development of the economy.

The development of the securities portfolio will depend to a large extent on the liquidity requirements, while investment opportunities are also an important factor. The equity and liabilities side of the balance sheet will continue to be characterised by a diverse funding mix for asset refinancing in the forecast period, with deposit-taking business remaining an important component. The funding mix will take into account any new requirements arising from the European Single Resolution Mechanism (SRM).

The Bank's business planning and all of the associated measures depend on the market environment. IKB's situation could be affected by significant unexpected losses, market disruptions with the characteristics of a stress scenario, additional regulatory requirements or other forms of state intervention.

Liquidity situation

Business involving deposits and promissory note loans with retail customers, corporate clients and institutional investors and secured refinancing are key elements of IKB's refinancing. IKB will also continue to actively utilise programme loans and global loans from government development banks for its customers. The Bank also issues bearer bonds.

The funds generated will be used to repay refinancing as it matures and for new business. The future liquidity situation is also dependent on the development of new business, the extent to which customers draw on existing loan commitments, the investment behaviour of deposit customers, further developments in European deposit protection, agreements with the Deposit Protection Fund of the Association of German Banks, the options for secured refinancing on the interbank market and with the ECB and the market value development of collateral and derivatives. IKB has sufficient liquidity even applying the defined stress scenarios. According to planning, liquidity is ensured with a sufficient buffer.

IKB performs its regulatory liquidity management using the liquidity coverage ratio (LCR). In the supervisory monitoring period, the value to be complied with was at least 60% from 1 October 2015, and increased to 70% as at 1 January 2016 and to 80% as at 1 January 2017. From 1 January 2018 it will rise to the final requirement level of 100%. The LCR was 328% in the IKB Group as at 31 March 2017 (IKB AG: 271%) with an average level for the IKB Group of 242% (IKB AG: 211%), and therefore significantly higher than the statutory minimum requirement. For the 2017/18 financial year, the Bank is projecting an LCR of at least 100%, which is the minimum standard after transitional provisions.

Leverage ratio

The basis of calculation for the leverage ratio was amended by Delegated Regulation (EU) 2015/62 of the European Commission dated 17 January 2015. Following its publication in the Official Journal of the European Commission on 31 March 2016, this was applied for the first time after six months as at 30 September 2016.

IKB expects that its leverage ratio, which was 8.05% at Group level as at 31 March 2017 (IKB AG: 9.22%), can be kept at this level in the 2017/18 financial year.

Results of operations

In the past financial year, new lending business increased as against the previous year thanks to the growth in demand for credit in Germany. IKB maintained its standards with regard to risk and margins and entered into lending business on this basis. IKB expects that, despite the economic recovery to date, the level of demand for credit in Germany will still be modest and that competitive intensity will remain high while interest levels remain low. Overall, IKB is forecasting a slight decrease in net interest income in the 2017/18 financial year.

If there is a sustainable increase in demand for credit in Germany, the Bank's net interest income could develop better than anticipated.

The Bank is forecasting a significant overall increase in net commission income in the coming financial year on account of its positioning. This development could increasingly be driven by the expected upturn in financing activity, planned growth measures among companies and the improvement in IKB's market position.

Further reductions in administrative costs in the Group are to be achieved through ongoing cost-cutting and optimisation measures. Accordingly, IKB expects its total administrative expenses to decline slightly in the financial year 2017/18.

IKB expects a slight improvement in its cost/income ratio as the ratio of administrative expenses to total net interest and commission income.

IKB is forecasting a significant increase in its positive results in the Group for the 2017/18 financial year.

Overall assessment

IKB is forecasting positive net income after taxes for the forthcoming 2017/18 financial year (IKB AG: break-even income after taxes). Consolidated net income is expected to be significantly higher than in the 2016/17 financial year.

Servicing the compensation agreements of a total amount of € 1,151.5 million and the value recovery rights of the hybrid investors means that IKB AG will probably not report any, or only minimal, profit for a long time to come, even if its results are positive. In addition, to the extent that net income can be reported in future, the reduction of net accumulated losses means that it will not be possible to distribute a dividend to the shareholders of IKB AG.

6. Disclosures in accordance with section 312 AktG

IKB has prepared a dependent company report in accordance with section 312 AktG. The dependent company report will not be made public. The closing statement of the Board of Managing Directors of the Bank in the dependent companies report is as follows: "With respect to the transactions and measures listed in the report on relationships with affiliated companies, according to the circumstances known to use at the time in which the transactions were carried out or measures performed or omitted, our company received appropriate compensation for every transaction and has therefore not been disadvantaged by any measures performed or omitted."

7. Corporate Governance Declaration

In the declaration below, the Board of Managing Directors reports – at the same time also for the Supervisory Board – in accordance with section 289a of the German Commercial Code (*Handelsgesetzbuch* – HGB) on the determination of target figures for the proportion of women and deadlines for their attainment in the Supervisory Board, the Board of Managing Directors and the first two management levels below the Board of Managing Directors.

In its meeting on 27 August 2015 the Supervisory Board of IKB determined the target figure for the proportion of woman in the Supervisory Board of 8.33% (rounded) and in the Board of Managing Directors of 0% as at 30 June 2017.

The Board of Managing Directors determined in its meeting on 18 August 2015 target figures for the proportion of women in the next two management levels below the Board of Managing Directors. The target figure for the proportion of women in the first management level was fixed at ≥ 0% and in the second management level at ≥ 12%, each by 30 June 2017.

Combined Annual Financial Statements of the Group and IKB Deutsche Industriebank AG for the Financial Year 2016/17

Consolidated balance sheet of IKB Deutsche Industriebank AG as at 31 March 2017

in € million	31 Mar. 2017	31 Mar. 2016
Assets		
Cash reserve	**19.7**	**33.7**
a) Cash on hand	-	-
b) Balances with central banks	19.7	33.7
thereof: with Deutsche Bundesbank	19.7	33.7
c) Balances in postal giro accounts	-	-
Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks	**-**	**-**
Receivables from banks	**1,669.7**	**2,122.2**
a) Repayable on demand	1,597.4	1,918.6
b) Other receivables	72.3	203.6
Receivables from customers	**9,925.4**	**9,887.8**
thereof: mortgage loans	815.1	1,045.1
thereof: public sector loans	436.4	514.4
Bonds and other fixed-income securities	**5,329.7**	**5,051.6**
a) Money market securities	-	-
b) Bonds and notes	5,309.2	5,035.7
ba) Public sector issuers	3,430.9	2,887.6
thereof: eligible as collateral for Deutsche Bundesbank	3,380.4	2,835.5
bb) Other issuers	1,878.3	2,148.1
thereof: eligible as collateral for Deutsche Bundesbank	1,764.4	1,994.5
c) Own bonds	20.5	15.9
Nominal amount	20.0	22.8
Equities and other non-fixed-income securities	**472.5**	**470.1**
Assets held for trading	**-**	**-**
Equity investments	**3.6**	**11.1**
thereof: banks	0.2	0.2
thereof: financial services institutions	-	-
Investments in associates	**16.3**	**15.0**
thereof: banks	-	-
thereof: financial services institutions	16.3	15.0
Investments in affiliated companies	**0.9**	**2.1**
thereof: banks	-	-
thereof: financial services institutions	-	-
Assets held in trust	**-**	**-**
Compensation receivables on the public sector including debt securities arising from their exchange	**-**	**-**
Lease assets	**928.4**	**941.1**
Intangible assets	**11.0**	**11.8**
a) Internally generated industrial and similar rights and assets	-	-
b) Purchased concessions, industrial and similar rights and assets and licences in such rights and assets	6.7	7.3
c) Goodwill	3.6	4.0
d) Advance payments made	0.7	0.5
Tangible assets	**213.6**	**220.0**
Called unpaid capital	**-**	**-**
Other assets	**222.6**	**251.8**
Prepaid expenses	**113.1**	**275.3**
Deferred tax assets	**255.0**	**253.6**
Excess of plan assets over post-employment benefit liability	**7.3**	**12.0**
Total assets	**19,188.8**	**19,559.2**

in € million	31 Mar. 2017	31 Mar. 2016
Equity and liabilities		
Liabilities to banks	**7,642.5**	**7,897.0**
a) Repayable on demand	44.0	1,457.8
b) With agreed lifetime or notice period	7,598.5	6,439.2
Liabilities to customers	**7,550.9**	**7,498.4**
a) Savings deposits	-	-
b) Other liabilities	7,550.9	7,498.4
ba) Repayable on demand	1,359.2	1,318.6
bb) With agreed lifetime or notice period	6,191.7	6,179.8
Securitised liabilities	**822.9**	**773.8**
a) Bonds issued	822.9	773.8
b) Other securitised liabilities	-	-
Liabilities held for trading	**-**	**-**
Liabilities held in trust	**-**	**-**
Other liabilities	**485.1**	**345.2**
Deferred income	**126.5**	**147.1**
Deferred tax liabilities	**-**	**-**
Provisions	**241.2**	**348.1**
a) Provisions for pensions and similar obligations	31.4	8.7
b) Tax provisions	46.1	43.1
c) Other provisions	163.7	296.3
Subordinated liabilities	**695.8**	**921.7**
Profit participation capital	**-**	**32.2**
thereof: due within two years	-	32.2
Fund for general banking risks	**585.0**	**585.0**
thereof: trading-related special reserve according to section 340e (4) HGB	-	-
Equity	**1,038.9**	**1,010.7**
a) Called-up capital	1,621.5	1,621.5
Subscribed capital	1,621.5	1,621.5
Less uncalled unpaid contributions	-	-
Contingent capital	800.0	810.7
b) Capital reserves	1,750.7	1,750.7
c) Revenue reserves	5.2	5.3
ca) Legal reserve	2.4	2.4
cb) Reserve for shares in a parent or majority investor	-	-
cc) Statutory reserves	-	-
cd) Other revenue reserves	2.8	2.9
d) Difference in equity from currency translation	-4.3	-5.7
e) Net accumulated losses	-2,335.6	-2,361.1
f) Non-controlling interests	1.4	-
Total equity and liabilities	**19,188.8**	**19,559.2**
Contingent liabilities	**1,238.4**	**1,007.9**
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	1,238.4	1,007.9
c) Liability arising from the provision of collateral for third-party liabilities	-	-
Other obligations	**1,550.3**	**1,560.2**
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	-	0.8
c) Irrevocable loan commitments	1,550.3	1,559.4

Balance sheet of IKB Deutsche Industriebank AG as at 31 March 2017

in € million	31 Mar. 2017	31 Mar. 2016
Assets		
Cash reserve	**19.7**	**33.7**
a) Cash on hand	-	-
b) Balances with central banks	19.7	33.7
thereof: with Deutsche Bundesbank	19.7	33.7
c) Balances in postal giro accounts	-	-
Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks	**-**	**-**
Receivables from banks	**1,505.1**	**2,013.3**
a) Repayable on demand	1,453.4	1,822.1
b) Other receivables	51.7	191.2
Receivables from customers	**11,348.8**	**11,467.0**
thereof: mortgage loans	815.1	1,045.1
thereof: public sector loans	436.4	514.4
Bonds and other fixed-income securities	**4,714.5**	**4,704.6**
a) Money market securities	-	-
b) Bonds and notes	4,694.0	4,688.7
ba) Public sector issuers	3,158.8	2,502.9
thereof: eligible as collateral for Deutsche Bundesbank	3,108.3	2,450.7
bb) Other issuers	1,535.2	2,185.8
thereof: eligible as collateral for Deutsche Bundesbank	1,474.3	1,879.1
c) Own bonds	20.5	15.9
Nominal amount	20.0	16.1
Equities and other non-fixed-income securities	**2.2**	**1.7**
Assets held for trading	**-**	**-**
Equity investments	**0.6**	**0.7**
thereof: banks	0.2	0.2
thereof: financial services institutions	-	-
Investments in affiliated companies	**260.9**	**148.4**
thereof: banks	-	-
thereof: financial services institutions	-	-
Assets held in trust	**-**	**-**
Compensation receivables on the public sector including debt securities arising from their exchange	**-**	**-**
Intangible assets	**3.9**	**4.6**
a) Internally generated industrial and similar rights and assets	-	-
b) Purchased concessions, industrial and similar rights and assets and licences in such rights and assets	3.9	4.6
c) Goodwill	-	-
d) Advance payments made	-	-
Tangible assets	**4.0**	**199.8**
Called unpaid capital	**-**	**-**
Other assets	**166.4**	**217.7**
Prepaid expenses	**136.9**	**314.5**
Deferred tax assets	**249.0**	**249.7**
Excess of plan assets over post-employment benefit liability	**7.2**	**11.9**
Total assets	**18,419.2**	**19,367.6**

in € million	31 Mar. 2017	31 Mar. 2016
Equity and liabilities		
Liabilities to banks	**7,593.6**	**7,872.5**
a) Repayable on demand	40.5	1,456.8
b) With agreed lifetime or notice period	7,553.1	6,415.7
Liabilities to customers	**7,605.3**	**7,506.2**
a) Savings deposits	-	-
b) Other liabilities	7,605.3	7,506.2
ba) Repayable on demand	1,407.2	1,318.9
bb) With agreed lifetime or notice period	6,198.1	6,187.3
Securitised liabilities	**751.9**	**870.7**
a) Bonds issued	751.9	870.7
b) Other securitised liabilities	-	-
Liabilities held for trading	**-**	**-**
Liabilities held in trust	**-**	**-**
Other liabilities	**165.6**	**379.0**
Deferred income	**84.3**	**153.8**
Deferred tax liabilities	**-**	**-**
Provisions	**205.5**	**314.3**
a) Provisions for pensions and similar obligations	18.7	-
b) Tax provisions	44.7	42.3
c) Other provisions	142.1	272.0
Subordinated liabilities	**220.7**	**446.6**
Profit participation capital	**-**	**32.2**
thereof: due within two years	-	32.2
Fund for general banking risks	**585.0**	**585.0**
thereof: trading-related special reserve according to section 340e (4) HGB	-	-
Equity	**1,207.3**	**1,207.3**
a) Called-up capital	1,621.5	1,621.5
Subscribed capital	1,621.5	1,621.5
Less uncalled unpaid contributions	-	-
Contingent capital	800.0	810.7
b) Capital reserves	1,750.7	1,750.7
c) Revenue reserves	2.4	2.4
ca) Legal reserve	2.4	2.4
cb) Reserve for shares in a parent or majority investor	-	-
cc) Statutory reserves	-	-
cd) Other revenue reserves	-	-
d) Difference in equity from currency translation	-	-
e) Net accumulated losses	-2,167.3	-2,167.3
Total equity and liabilities	**18,419.2**	**19,367.6**
Contingent liabilities	**2,184.4**	**1,941.5**
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	2,184.4	1,941.5
c) Liability arising from the provision of collateral for third-party liabilities	-	-
Other obligations	**1,357.3**	**1,435.0**
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	-	0.8
c) Irrevocable loan commitments	1,357.3	1,434.2

Consolidated income statement of IKB Deutsche Industriebank AG for the period from 1 April 2016 to 31 March 2017

in € million	2016/17	2015/16
Expenses		
Lease expenses	**-191.9**	**-210.8**
Interest expenses	**-512.3**	**-646.9**
thereof: positive interest	19.3	6.1
Commission expenses	**-13.9**	**-13.5**
Net trading results	**-**	**-**
General administrative expenses	**-271.0**	**-288.1**
a) Personnel expenses	-172.4	-183.3
aa) Wages and salaries	-148.7	-159.6
bb) Social security, post-employment and other employee benefit costs	-23.7	-23.7
thereof: for pensions	-4.9	-4.8
b) Other administrative expenses	-98.6	-104.8
Amortisation and write-downs on intangible fixed assets and depreciation and write-downs on tangible fixed assets	**-304.0**	**-322.0**
a) On lease assets	-291.2	-310.8
b) On intangible and tangible assets	-12.8	-11.2
Other operating expenses	**-675.0**	**-985.2**
Expenses for the addition to the fund for general banking risks	**-**	**-7.2**
Depreciation and write-downs of receivables, specific securities and additions to loan loss provisions	**-**	**-9.2**
Depreciation and write-downs of equity investments, investments in affiliated companies and long-term investments	**-8.2**	**-14.1**
Costs of loss absorption	**-**	**-0.1**
Extraordinary expenses	**-42.4**	**-33.5**
Income taxes	**-17.8**	**1.2**
Other taxes not reported under "Other operating expenses"	**-1.8**	**-2.4**
Profit transfer on the basis of profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**
Net income for the financial year	**-25.6**	**-10.4**
Total expenses	**-2,063.9**	**-2,542.2**

in € million		2016/17	2015/16
Income			
Lease income		**541.3**	**585.8**
Interest income from		**740.8**	**862.3**
a)	Lending and money market transactions	649.8	738.2
	thereof: negative interest	10.5	2.8
b)	Fixed-income securities and government-inscribed debts	91.0	124.1
	thereof: negative interest	-	-
Current income from		**4.7**	**4.1**
a)	Equities and other non-fixed-income securities	0.4	0.2
b)	Equity investments	2.5	1.9
c)	Investments in associates	1.8	2.0
d)	Investments in affiliated companies	-	-
Income from profit-pooling, profit transfer and partial profit transfer agreements		**-**	**-**
Commission income		**53.4**	**43.3**
Net trading results		**-**	**6.0**
	thereof: addition to (-)/reversal of (+) trading-related special reserve according to section 340e (4) HGB	-	**1.8**
Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions		**16.6**	**-**
Income from reversals of write-downs on equity investments, investments in affiliated companies and long-term investment securities		**266.6**	**281.4**
Other operating income		**440.5**	**758.5**
Income from the reversal of the fund for general banking risks		**-**	**-**
Extraordinary income		**-**	**0.8**
Income from assumption of losses		**-**	**-**
Net loss for the financial year		**-**	**-**
Total income		**2,063.9**	**2,542.2**
Net income for the financial year		**25.5**	**10.4**
Non-controlling interests		**0.1**	**-**
Loss carryforward from the previous year		**-2,361.1**	**-2,371.5**
Withdrawals from capital reserves		**-**	**-**
Withdrawals from revenue reserves		**-**	**-**
Withdrawals from profit participation capital		**-**	**-**
Withdrawals from silent partnership contributions		**-**	**-**
Allocations to revenue reserves		**-**	**-**
Replenishment of profit participation capital		**-**	**-**
Net accumulated losses		**-2,335.6**	**-2,361.1**

Income statement of IKB Deutsche Industriebank AG for the period from 1 April 2016 to 31 March 2017

in € million	2016/17	2015/16
Expenses		
Interest expenses	**-530.4**	**-666.3**
thereof: positive interest	19.1	6.1
Commission expenses	**-4.5**	**-5.6**
Net trading results	**-**	**-**
General administrative expenses	**-219.9**	**-237.6**
a) Personnel expenses	-126.5	-141.2
aa) Wages and salaries	-109.5	-124.6
bb) Social security, post-employment and other employee benefit costs	-17.0	-16.6
thereof: for pensions	-4.3	-3.1
b) Other administrative expenses	-93.4	-96.4
Amortisation and write-downs on intangible fixed assets and depreciation and write-downs on tangible fixed assets	**-5.0**	**-6.9**
Other operating expenses	**-614.7**	**-924.6**
Expenses for the addition to the fund for general banking risks	**-**	**-7.2**
Depreciation and write-downs of receivables, specific securities and additions to loan losses provisions	**-**	**-7.8**
Depreciation and write-downs of equity investments, investments in affiliated companies and long-term investments	**-11.8**	**-15.1**
Costs of loss absorption	**-**	**-0.1**
Extraordinary expenses	**-38.3**	**-27.9**
Income taxes	**-17.4**	**3.4**
Other taxes not reported under "Other operating expenses"	**-0.2**	**-0.8**
Profit transfer on the basis of profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**
Net income for the financial year	**-**	**-**
Total expenses	**-1,442.2**	**-1,896.5**

in € million	2016/17	2015/16
Income		
Interest income from	**769.3**	**875.4**
a) Lending and money market transactions	693.4	770.9
thereof: negative interest	10.2	2.8
b) Fixed-income securities and government-inscribed debts	75.9	104.5
thereof: negative interest	-	-
Current income from	**3.6**	**1.8**
a) Equities and other non-fixed-income securities	0.1	-
b) Equity investments	0.3	1.8
c) Investments in affiliated companies	3.2	-
Income from profit-pooling, profit transfer and partial profit transfer agreements	**15.4**	**18.9**
Commission income	**45.9**	**38.7**
Net trading results	**-**	**6.0**
thereof: addition to (-)/reversal of (+) trading-related special reserve according to section 340e (4) HGB	-	1.8
Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions	**19.7**	**-**
Income from reversals of write-downs on equity investments, investments in affiliated companies and long-term investment securities	**202.5**	**258.5**
Other operating income	**385.8**	**694.8**
Income from the reversal of the fund for general banking risks	**-**	**-**
Extraordinary income	**-**	**2.4**
Income from assumption of losses	**-**	**-**
Net loss for the financial year	**-**	**-**
Total income	**1,442.2**	**1,896.5**
Net income for the financial year	**-**	**-**
Loss carryforward from the previous year	**-2,167.3**	**-2,167.3**
Withdrawals from capital reserves	**-**	**-**
Withdrawals from revenue reserves	**-**	**-**
Withdrawals from profit participation capital	**-**	**-**
Withdrawals from silent partnership contributions	**-**	**-**
Allocations to revenue reserves	**-**	**-**
Replenishment of profit participation capital	**-**	**-**
Net accumulated losses	**-2,167.3**	**-2,167.3**

Consolidated cash flow statement

in € million		2016/17
Net income for the period (consolidated net income/loss for the year including minority interest)		**25.6**
+/-	Amortisation/depreciation, write-downs and reversals thereof on receivables and fixed assets	303.7
+/-	Increase/decrease in provisions	-129.9
+/-	Other non-cash expenses/income	8.8
-/+	Gain/loss on the disposal of fixed assets	-254.7
+/-	Other adjustments (net)	-11.2
+/-	Increase/decrease in receivables from banks	451.8
+/-	Increase/decrease in receivables from customers	-35.3
+/-	Increase/decrease in securities (if not long-term investments)	-4.1
+/-	Increase/decrease in lease assets	-
+	Receipts from disposal	74.0
-	Payments for acquisition	-345.8
+/-	Increase/decrease in other assets from operating activities	158.9
+/-	Increase/decrease in liabilities to banks	-249.0
+/-	Increase/decrease in liabilities to customers	80.1
+/-	Increase/decrease in securitised liabilities	48.5
+/-	Increase/decrease in other liabilities from operating activities	143.0
+/-	Interest expenses/interest income	-233.2
+/-	Lease expenses/lease income	-349.4
+/-	Expenses/income from extraordinary items	42.4
+/-	Income tax expenses/income	17.8
+	Interest and dividends received	761.5
-	Interest paid	-584.1
+/-	Cash flows received/paid in leasing activities	343.2
+	Extraordinary receipts	-
-	Extraordinary payments	-0.1
+/-	Income tax payments	-11.9
Cash flow from operating activities		**250.6**
+	Receipts from the disposal of long-term investments	3,163.6
-	Payments for the acquisition of long-term investments	-3,184.1
+	Receipts from the disposal of tangible assets	3.6
-	Payments for the acquisition of tangible assets	-3.3
+	Receipts from the disposal of intangible assets	-
-	Payments for the acquisition of intangible assets	-3.6
+	Receipts from disposals from consolidated group	-
-	Payments for additions to consolidated group	-
+/-	Change in cash funds from other investing activities (net)	-9.0
+	Receipts from extraordinary items	-
-	Payment for extraordinary items	-
Cash flow from investing activities		**-32.8**

in € million		2016/17
+	Receipts from equity contributions by shareholders of the parent company	-
+	Receipts from equity contributions by other shareholders	-
-	Payments for equity reductions to shareholders of the parent company	1.4
-	Payments for equity reductions to other shareholders	-
+	Receipt from extraordinary items	-
-	Payment for extraordinary items	-
-	Dividends paid to shareholders of the parent company	-
-	Dividends paid to other shareholders	-
+/-	Change in cash funds from other capital (net)	-233.2
Cash flow from financing activities		**-231.8**
	Net change in cash funds	-14.0
+/-	Effect on cash funds of changes in exchange rates and remeasurement	-
+/-	Changes in cash funds due to consolidated group	-
+	Cash funds at beginning of period	33.7
Cash funds at end of period		**19.7**

Notes on the consolidated cash flow statement

The consolidated cash flow statement was prepared in accordance with the legal requirements of German Accounting Standard no. 21 (DRS 21) on cash flow statements promulgated by the Federal Ministry of Justice and Consumer Protection on 8 April 2014. IKB is exercising the option provided under DRS 21.22 to dispense with the disclosure of prior-year figures in the cash flow statement.

The cash funds of the IKB Group match the reported balance sheet item “Cash reserve” and “Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks”. In the cash flow statement, this item changes from the figure at the start of the year by showing the cash flows from

- operating activities,
- investing activities and
- financing activities

to cash funds at the end of the financial year.

In accordance with DRS 21.A2.14, the cash flow from operating activities is defined by a bank’s operating activities. It is determined using the indirect method by adjusting net income for all non-cash income and expenses.

The consolidated cash flow statement has been supplemented by items specific to the leasing industry. These are the reported lease expenses/income and the cash and non-cash expenses or income from leases. The “Increase/decrease in lease assets” item includes cash receipts from the disposal and cash payments for the acquisition of lease assets. The “Cash flows received/paid in leasing activities” item then includes only the cash lease and rental income and other cash expenses and income relating to leases (e.g. from maintenance agreements).

The cash flow from investing activities shows incoming and outgoing payments from positions whose general purpose is a long-term investment or use. For banks, this includes payments from the disposal and acquisition of financial and tangible assets in particular.

The cash flow from financing activities shows cash flows from transactions with owners and other shareholders of consolidated subsidiaries in addition to other capital.

Notes to the combined annual financial statements of the Group and IKB Deutsche Industriebank AG

Applied accounting principles

(1) Preparation of the annual financial statements and consolidated financial statements

IKB Deutsche Industriebank AG, Düsseldorf, entered in the commercial register of the Düsseldorf Local Court under HRB 1130, is required to prepare annual financial statements and a management report in accordance with sections 340a, 242 HGB in conjunction with section 264 HGB and consolidated financial statements and a Group management report in accordance with section 340i (1) HGB in conjunction with section 290 et seq. HGB.

The consolidated financial statements (Group) and the annual financial statements (IKB AG) of IKB Deutsche Industriebank AG for the 2016/17 financial year are prepared in line with the provisions of the German Commercial Code (HGB) in conjunction with the *Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* (RechKredV – German Bank Accounting Directive) and in line with the relevant regulations of the *Aktiengesetz* (AktG – German Stock Corporation Act). The consolidated financial statements also take into account the standards promulgated by the German Standardisation Council (DSR) and endorsed by the Federal Ministry of Justice in accordance with section 342 (2) HGB.

The comparative figures for the previous year were determined in line with German Commercial Code and disclosed in accordance with section 298 (1) in conjunction with section 265 (2) HGB.

The balance sheet and the income statement are structured in line with the formats for banks in accordance with section 2 RechKredV. The consolidated balance sheet and the consolidated income statement have been supplemented by items specific to the leasing industry. The income statement is structured in account format (format 2 RechKredV).

Disclosures that can be provided either in the balance sheet/income statement or the notes have largely been provided in the notes in the order of the items concerned. Amounts are disclosed in millions of euro. Minor deviations can occur in the figures in the notes due to the rounding of totals. Amounts under € 50 thousand and zero values are shown in the consolidated and annual financial statements of IKB AG as "-".

The notes to the consolidated financial statements and the notes to the annual financial statements of IKB AG have been compiled in accordance with section 298 (2) HGB. Unless noted otherwise, comments apply to both the Group and IKB AG. The management report and the Group management report have also been combined in accordance with section 315 (5) HGB in conjunction with section 298 (2) HGB.

The financial year of IKB begins on 1 April and ends on 31 March.

(2) Changes in presentation and measurement

As part of the first-time application of the *Bilanzrechtsmodernisierungsgesetz* (BilMoG – German Act to Modernise Accounting Law), IKB exercised the option provided by Article 67 of the *Einführungsgesetz zum Handelsgesetzbuch* (EGHGB – Introductory Act to the German Commercial Code) to distribute the additional expenses from the remeasurement of pension provisions over a period of 15 years. Additional amounts of € 27 million (Group) and € 23 million (IKB AG) were transferred to pension provisions as an extraordinary expense as at 31 March 2017.

Section 284 (1) HGB as amended by the *Bilanzrichtlinien-Umsetzungsgesetz* (German Accounting Directive Implementation Act) requires that disclosures on the individual items of the balance sheet or income statement in the notes are presented in the same order as the individual balance sheet items. This means there has been a slight change in the order of presentation of the balance sheet and the income statement disclosures compared with the previous year. In accordance with section 285 no. 33 HGB, the report on events after the end of the financial year (supplementary report) is now required to be presented in the notes and not in the management report as in the previous year.

IKB AG recognized a receivable of € 0.4 million which was not capitalized in the 2015/2016 financial year in current account and received it as commission income.

(3) Consolidated group

In addition to IKB AG, 48 (31 March 2016: 46) subsidiaries have been included in consolidation in the consolidated financial statements as at 31 March 2017.

The two Polish subsidiaries, IKBL Asset spólka z ograniczona odpowiedzialnoscia & Co. spólka komandytowa and IKBL ASSET Spolka z ograniczona odpowiedzialnoscia, were included in the consolidated financial statements for the first time effective 30 June 2016. The purpose of the companies is the performance of other financing services.

The subsidiary IKB Grundstücksgesellschaft Düsseldorf GmbH was included in the consolidated financial statements for the first time effective 30 September 2016. The company previously traded as IKB NewCo 4 GmbH. The purpose of the company is the administration of its own assets.

The newly formed companies IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG and IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG were also included in the consolidated financial statements as consolidated subsidiaries for the first time effective 30 September 2016. The purpose of the companies is real estate acquisition, disposal, management and letting. The companies own the IKB headquarter in Düsseldorf, which is partially used for banking operations and the administrative building in Frankfurt/Main.

The assets of Equity Fund GmbH were transferred to IKB Invest GmbH by way of a merger by absorption effective 1 January 2016.

The assets of Istop 5 GmbH were transferred to IKB Struktur GmbH by way of a merger by absorption effective 1 April 2016.

The special purpose entity Bacchus 2008-2 Plc was included in the consolidated financial statements as a consolidated special purpose entity for the first time for the 2008/09 financial year. After full repayment of the securities issued, the special purpose entity was deconsolidated as at 31 March 2017. The deconsolidation has not had any material effects.

One associated company is included in the consolidated financial statements using the equity method (31 March 2016: one).

For further information please see note (55).

(4) Consolidation methods

The consolidated financial statements were prepared in accordance with the uniform accounting policies of IKB AG. The annual financial statements of the subsidiaries included that are neither credit nor financial services institutions have been reconciled to the structure of the RechKredV formats. If a Group company has a reporting date other than 31 March, the material transactions that occur between the balance sheet date and 31 March 2017 are taken into account. Selected companies are included using financial statements updated to the reporting date of the Group.

Since the entry into effect of the *Bilanzrechtsmodernisierungsgesetz* (BilMoG – German Act to Modernise Accounting Law), capital consolidation for companies included in consolidation for the first time has been in line with the revaluation method in accordance with section 301 HGB.

Before the BilMoG came into effect, the book value method was used for companies included in consolidation for the first time.

Assets, liabilities, deferred income and prepaid expenses and revenue and expenses between the Group companies included are consolidated, provided that there are no industry-specific accounting regulations preventing this. Intercompany profits from internal transactions are eliminated if not immaterial.

Investments in associated companies are measured using the equity method in accordance with section 312 HGB (book value method). Uniform accounting policies are disregarded when using the equity method in the Group, as their impact in terms of the presentation of a true and fair view of the net assets, financial position and results of operations is immaterial.

Accounting policies

(5) Receivables

Receivables from customers and banks are recognised at nominal value less specific and global valuation allowances. Differences between the nominal and payment amount (premiums/discounts) are taken to deferred income and prepaid expenses and allocated if the difference is of an interest nature. Purchased receivables are recognised at acquisition cost less specific and global valuation allowances.

The hire-purchase agreements of the leasing companies in the Group are reported in the consolidated balance sheet item “Receivables from customers” at the present value of future hire-purchase instalments. Interest income is recognised on an annuity basis and reported in the item “Interest income”.

(6) Provisions for possible loan losses

Provisions for possible loan losses comprise valuation allowances and provisions for all discernible credit and sovereign risks and for latent default risks.

General allowances and generally calculated provisions for customer receivables and contingent liabilities from guarantees are calculated in accordance with the letter from the Federal Ministry of Finance dated 10 January 1994. In so doing, historical credit losses are taken as a basis and multiplied by a cyclical factor in order to accommodate the general economic situation.

The economic factor used to calculate general allowances was unchanged in the reporting year. As a result of the decline in average historical credit losses, the general allowance decreased by around € 11 million as at the reporting date.

To reflect latent risks of default on long-term investments, receivables from banks, irrevocable loan commitments and contingent liabilities from protection seller credit default swaps, the Bank also calculated general allowances and generally calculated loan loss provisions for these risks on the basis of the estimated one-year expected loss.

In addition, there are general allowances totalling € 71 million (previous year: € 76 million) for latent counterparty default risk in connection with the following items:

- Above-average risks of loss in the area of acquisition financing in the amount of € 20 million (previous year: € 28 million);
- Losses in connection with planned sales medium- and long termed project financing of € 22 million (previous year: € 23 million), after € 37 million in total was recognised as a new allowance for further sales and € 38 million was reversed/reclassified after sales);
- Impact of EU sanctions against Russia on borrowers in the amount of € 12 million (unchanged year-on-year);
- Impact of more stringent legislation on borrowers in the renewable energies segment in Southern Europe in the amount of € 10 million (previous year: € 5 million);
- Above-average risks of loss on exposures relating to the European steel industry and commodity financing of € 7 million (previous year: € 8 million).

The additional, increased latent counterparty risks were quantified on the basis of expert estimates.

To cover country risk, a global valuation allowance was recognised for the credit volume in high-risk countries outside the European Union with internal ratings from class 8 for which the risk has not been placed with third parties. The general allowance for country risk is recognised in the amount of at least the one-year expected loss. The Bank considers whether additional country risk provisioning appears necessary on a case-by-case basis. Accordingly, as in the previous year, country risk provisioning within the tax ranges was recognised for risk classes 13-15 as at 31 March 2017. The general allowance resulting from country risk amounts to € 6 million (previous year: € 4.3 million).

Total general allowances including country risk provisioning for customer receivables, receivables from banks, contingent liabilities and irrevocable loan commitments in the Group amounted to € 156.3 million (previous year: € 166.2 million), while the figure for IKB AG amounted to € 152.6 million (previous year: € 165.8 million). There were general allowances for securities of € 3.3 million (previous year: € 3.3 million) in the Group and € 2.6 million (previous year: € 2.8 million) at IKB AG.

(7) Securities

Purchased securities are carried at acquisition cost in accordance with section 253 (1) sentence 1 HGB. The differences between the cost and repayment amount (premiums/discounts) are recognised as an adjustment in net interest income pro rata temporis over the remaining term.

Subsequent measurement of long-term investments is in line with the less strict principle of lower of cost or market value under section 340e (1) sentence 1 HGB in conjunction with section 253 (3) sentence 3 HGB. If impairment is expected to be permanent, assets are written down to the lower fair value as at the reporting date.

Securities classified as current assets are measured at the lower of quoted or market price in line with the strict principle of lower of cost or market value in accordance with section 340e (1) sentence 2 HGB in conjunction with 253 (4) HGB. If there are no market rates, the fair value is calculated on the basis of price information from market data providers and tested for plausibility using suitable methods. If there are no quoted prices or price information from contractual providers for securities, their value is determined on the basis of measurement models by discounting forecast cash flows. The discounting rate is calculated using the risk profile of similar securities. Parameters not exclusively observed on the market are used for this.

Impairment requirements for securities from securitisation transactions (here specifically: cash CLOs) are calculated on the basis of a fundamental value method. This method takes into account the expected cash flows (interest and repayments) from the underlying asset portfolio. On the basis on the rating-based default expectations in the asset portfolio, the expected cash flows are adjusted for the loss amounts. Finally, the net cash flows are discounted on the basis of the effective interest method to produce the fundamental value.

For CDO transactions the impairment requirement is calculated on the basis of a detailed loss allocation of the underlying loan portfolio. The default pattern for the reference portfolio is typically estimated in a standard Monte Carlo simulation including rating-based probabilities of default and correlation parameters specific to the asset class. On the basis of the default scenarios, the cash flows of the invested tranche are calculated taking into account the transaction structure ("cash flow waterfall"). The fundamental value is calculated by discounting these cash flows with the effective interest rate of the respective tranche.

Write-downs are reversed in accordance with section 253 (5) sentence 1 HGB if the reasons for the lower carrying amount no longer apply.

Structured financial instruments are recognised in accordance with the principles of IDW RS HFA 22. The principle of uniform accounting is only deviated from if the structured financial instrument has significantly elevated or additional risks or opportunities compared to the underlying on account of embedded derivatives.

(8) Securities repurchase and lending transactions

In securities repurchase business, the Bank sells securities – as a repo seller – and at the same time agrees a contingent (non-genuine) or non-contingent (genuine) repurchase agreement for these securities with the repo purchaser.

Securities repurchase transactions are recognised in line with the regulations of section 340b HGB. Thus, in genuine securities repurchase transactions, IKB – as the repo seller – still reports the assets sold in its balance sheet and at the same time recognises a corresponding liability to the repo purchaser. If IKB is the repo purchaser, a receivable from the repo seller is recognised.

In securities lending transactions the lender lends securities from its portfolio to the borrower for a set period. The borrower is required to return securities of the same type, amount and quality at the end of the lending period. The lender of the securities remains the beneficial owner of the securities it lends. Accordingly, the securities lent are not reported in the balance sheet of the borrower, rather they are still recognised by the lender on account of its beneficial ownership.

(9) Equity investments and investments in affiliated companies/tangible assets/intangible assets/ other assets

Investments in affiliated companies and investees and investors are carried at the lower of acquisition cost or fair value. They are measured in line with the less strict principle of lower of cost or market value under section 340e (1) sentence 1 HGB in conjunction with section 253 (3) sentence 3 HGB.

Finite-lived tangible and intangible assets are measured at acquisition/production cost less depreciation and amortisation respectively and impairment. Tangible assets are written down on a straight-line basis over their useful life. If the market values of individual fixed assets fall below their carrying amount, they are written down to market value if the impairment is expected to be permanent.

The option to capitalise internally generated intangible fixed assets in accordance with section 248 (2) sentence 1 HGB has not been exercised. Intangible fixed assets purchased from third parties are capitalised at cost and written down pro rata temporis on a straight-line basis over their standard useful life.

Other assets are carried at cost less any depreciation or amortisation.

(10) Lease assets

Assets of lease companies of the Group intended for leasing are reported in the consolidated balance sheet as lease assets if the IKB Group is the beneficial owner. The associated income is shown in the consolidated income statement under “Lease income”. The cost of disposals of lease assets and other associated expenses in the Group are contained in the item “Lease expenses”. The costs of refinancing lease assets are reported in interest expense.

Depreciation on lease assets in the Group is reported in “Amortisation and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets”.

(11) Deferred taxes

If there are differences between the accounting carrying amounts of assets, liabilities, prepaid expenses and deferred income and their tax carrying amounts that will reverse in subsequent financial years (temporary differences), any net tax expense resulting from this is recognised as a deferred tax liability. Any net tax relief resulting from this is recognised as a deferred tax asset. In calculating deferred tax assets, tax loss carryforwards that are expected to be available for offsetting in the next five years are taken into account in loss offsetting. The option to report deferred tax assets in line with section 274 (1) sentence 2 HGB is exercised. However, the option to report deferred tax assets and liabilities without netting in line with section 274 (1) sentence 3 HGB (gross reporting) is no longer exercised.

The deferred taxes were measured using individual tax rates for each tax entity that were in effect on the balance sheet date or that have already been approved by the legislator and are expected to apply at the time the deferred tax assets and liabilities are realised. In calculating German deferred taxes, a corporation tax rate of 15%, a solidarity surcharge of 5.5% on corporation tax and a trade tax rate in line with the applicable rates of assessment are assumed. Deferred taxes for foreign operations and subsidiaries are measured using the tax rates that apply there.

Owing to the tax entity structures, the deferred tax assets and liabilities resulting from temporary differences at companies within these entities are taken into account in the calculation of the deferred taxes of the parent entity. For tax group parents that are also participating tax entities, temporary differences are taken into account at the level of the top tax group parent.

If consolidation adjustments result in temporary differences in the consolidated financial statements, additional deferred tax assets and liabilities are reported for the future tax income or expenses resulting from these differences respectively. The deferred taxes resulting from consolidation adjustments in accordance with section 306 HGB are offset against the deferred taxes in accordance with section 274 HGB.

(12) Excess of plan assets over post-employment benefit liability

In accordance with section 246 (2) sentence 2 HGB, assets that are inaccessible to all other creditors and that are used solely to satisfy pension or similar long-term liabilities are offset against these liabilities. The procedure is the same for the associated expenses and income from discounting obligations and from the assets offset. The net amount is reported under other operating income.

Assets transferred in contractual trust arrangements (CTA) are measured at fair value. If the fair value of the assets exceeds the amount of the liabilities, this amount is reported under “Excess of plan assets over pension liability”.

Accounting for pension liabilities is shown in the accounting policies for provisions (note 14).

(13) Liabilities

Liabilities are reported at their settlement amount. Any negative difference between this and the amount paid in is deferred and allocated in profit or loss as planned.

For assets that are transferred but not derecognised, a liability is reported under other liabilities at the amount received for the asset.

(14) Provisions

Provisions for pensions and similar obligations

Pension liabilities are carried at the settlement amount necessary in line with prudent business judgement. The 2005 G Heubeck mortality tables are used to calculate the necessary settlement amount. The calculation is performed using the projected unit credit method with the following measurement assumptions:

Measurement factor	31 Mar. 2017 Assumption	31 Mar. 2016 Assumption
Interest rate (7 or 10-year average)	3.12% / 3.94%	3.71% / 4.24%
Wage and salary increase	2.0%/3.0%	2.0% / 3.0%
Pension trend	1.75%	2.0%
Fluctuation rate in line with grading by age and sex		
Age up to 35 m/f	6.0% / 6.0%	6.0% / 6.0%
Age from 36 to 45 m/f	4.0% / 4.0%	4.0% / 4.0%
Age over 45 m/f	1.5% / 1.5%	1.5% / 1.5%

In accordance with section 253 HGB, pension provisions are discounted with the average market interest rate of the past 10 years for a general remaining term of 15 years (see note (39)). The average market interest rate for the past seven years is still used for discounting similar obligations. The interest rate was announced by the Bundesbank in line with the German Regulation on the Discounting of Provisions (*Rückstellungsabzinsungsverordnung* – RückAbzinsV). For securities-linked commitments, provisions are carried in the amount of the fair value of the plan assets if a guaranteed minimum amount is exceeded.

In accordance with section 67 (1) sentence 1 EGHGB, the option is exercised to add at least one fifteenth of the additional provision required on account of the change in the measurement of pension obligations due to BilMoG each financial year (see note (39)). In a departure from this, an additional amount from the transition to BilMoG is recognised as an extraordinary expense. The Bank also exercises the option not to recognise indirect pension obligations (2015 pension fund plan) in its balance sheet.

To hedge the obligations from pension fund plans and similar regulations, in contractual trust arrangements, the assets necessary to meet pension claims were separated from other company assets and transferred to a trustee. If the fair value of the assets transferred is less than the associated obligations, a provision for pensions and similar obligations is reported in the corresponding amount.

Please see note (12) for information on the offsetting requirement for transferred assets against pension obligations and the recognition of assets.

Tax provisions and other provisions

Provisions for taxes and other provisions are recognised in the settlement amount necessary in line with prudent business judgement. The necessary settlement amount includes future increases in prices and costs. Provisions for expected losses from executory contracts are recognised in the amount of the obligation surplus. Provisions with a remaining term of more than twelve months are discounted in line with section 253 (2) HGB using the matched term interest rates of the RückAbzinsV. The effect of interest on non-banking items in subsequent periods is reported under other operating expenses. The interest effect on provisions in connection with banking items is reported in interest expenses.

Restructuring provisions are also reported under other provisions. These must be recognised when the management plans and controls a programme with the aim of significantly changing either the business area covered by the enterprise or the way it performs this business, thereby leading to an external obligation or expected losses from executory contracts.

(15) Contingent liabilities and other obligations

Contingent liabilities and other obligations are shown as off-balance sheet items at nominal amount less any recognised provisions.

(16) Extraordinary result

In accordance with section 340a (2) HGB, banks must report the expenses they incur and the income they generate outside ordinary business activities under “Extraordinary expenses” and “Extraordinary income”. Expenses relating to the restructuring of IKB or in connection with the transfer to pension provisions due to the BilMoG transition, for example, are therefore reported under this item (see note (2)).

(17) Derivatives

Derivative financial instruments are accounted for in line with the provisions for executory contracts. Premium payments made and received from contingent forwards are reported in other assets/liabilities respectively. For non-contingent forwards, interest and interest/currency derivatives, upfront fees paid or received are reported in prepaid expenses and deferred income respectively and amortised on a straight-line basis over their remaining term in net interest income. On the balance sheet date it is verified whether provisions for expected losses from executory contracts need to be recognised.

For derivative financial instruments included in a hedge in accordance with section 254 HGB, a provision for expected losses resulting from the hedged risk is not recognised if these losses are offset by an unrealised gain in the same amount (see notes (19) and (21)).

Interest derivatives are measured loss-free at present value together with all other interest-bearing financial instruments in accordance with the principles of IDW RS BFA 3. The present value of the interest-bearing transaction is offset against the corresponding carrying amounts, taking into account administrative and risk costs and anticipated refinancing costs. The specific situation at IKB means that distributions to shareholders are not possible for a long time. For this period, IKB takes into account the refinancing effect of equity by assuming zero interest on equity for the notional closing of excess assets. Loss-free measurement in accordance with IDW RS BFA 3 did not give rise to any provision requirements.

Credit derivatives are accounted for in accordance with IDW RS BFA 1. Accordingly, credit derivatives for which IKB is the protection buyer are treated as loan collateral if the respective credit derivative hedges default risks, IKB intends to hold the derivative on maturity, and the derivative is objectively suitable as a hedging instrument. These credit derivatives are taken into account in the valuation of the hedged transactions. All other credit derivatives for which IKB is the protection buyer are recognised as executory contracts. Provisions for expected losses are recognised in the amount of the respective negative fair values.

Credit derivatives for which IKB is the protection seller are treated as guarantees if the respective derivative only hedges default risk and IKB intends to hold the derivative until maturity or occurrence of the credit event. Provisions are recognised for credit derivatives recognised as guarantees in the amount of the expected utilisation. All other credit derivatives for which IKB is the protection seller are recognised as executory contracts. Provisions for expected losses are recognised in the amount of the respective negative fair values. Total return swaps are recognised as executory contracts in accordance with IDW RS BFA 1.

(18) Currency translation

The modified closing rate method in accordance with section 308a HGB is used to translate foreign-currency financial statements in the Group. The asset and liability items, not including equity, of a balance sheet in foreign currency are translated to euro at the middle spot exchange rate on the balance sheet date. Equity is translated into euro at the historic rate. Income statement items are translated into euro at the average rate. Any translation difference is reported in consolidated equity as the “Difference in equity from currency translation”.

At IKB AG and other credit and financial institutions in the Group, assets and liabilities from foreign-currency transactions are translated in line with the principles of section 340h HGB in conjunction with section 256a HGB in the separate financial statements if there is special cover. Thus, foreign currency assets and liabilities are translated at the middle spot exchange rate (ECB reference rate) as at the balance sheet date. If the requirements of special cover are not satisfied, currency translation is performed using the regulations that apply to all traders (section 256a HGB). For a remaining term of one year or less, the unrealised gains on currency translation are recognised in income. If the remaining term exceeds one year, the general measurement provisions apply.

This special cover in accordance with section 340h HGB is considered provided in line with IDW RS BFA 4 if the currency risk is controlled by a currency position and the individual items are aggregated in a currency position. IKB AG allocates foreign currency transactions to the currency position of the respective currency and manages them using approved limits.

In the income statement, income and expenses from currency translation (translation differences) are reported under “Other operating income” and “Other operating expenses”.

If IKB AG uses currency forwards to hedge interest-bearing assets and liabilities, the forward rate is divided and its two elements (spot rate and swap rate) are taken into account separately in the earnings calculation. The mark-ups and mark-downs on the spot rate are offset pro rata temporis in net interest income. For the above transactions, it is verified whether closing the positions with matched terms would result in losses and whether provisions should be recognised for these (measurement of remaining items).

(19) Valuation units

Under section 254 HGB, valuation units (hedge accounting) exist if assets, liabilities, executory contracts or highly likely transactions – hedged items – can be combined to offset opposing changes in value or cash flows from similar risks – hedged risks – with primary or derivative financial instruments – hedging instruments. At the first level, under IDW RS HFA 35, the enterprise must decide for itself whether a specific risk should be hedged by creating an economic hedge relationship with one or more hedged items. It is then decided at a second level whether a hedge entered into in risk management should also be shown in accounting as a hedge (option). If there is an economic hedge, the Bank decides on a case-by-case basis whether to apply hedge accounting.

In hedge accounting under section 254 HGB, unrealised losses resulting from hedged risks are not recognised for the individual transactions within the hedge if these losses are offset by unrealised gains from other hedged transactions of the same amount. This is done to the extent that and for the period in which opposing changes in value or cash flows from the hedged item and the hedging instrument offset each other in relation to the hedged risk.

The net hedge presentation method is used to present hedge accounting at IKB.

In the net hedge presentation method, the offsetting changes in value of the hedged risk (effective portion) are not recognised. Any net unrealised gain resulting within the hedge is not taken into account. However, if the ineffective portion of changes in the value of the hedged item and the hedge is a loss, a corresponding provision is recognised. By contrast, in the gross hedge presentation method, the offsetting positive and negative changes in value (effective amounts) of assets and liabilities due to the hedged risk are recognised in the balance sheet by adjusting the respective carrying amounts.

In cases in which the contract conditions of the hedged item and the hedge oppose each other exactly, the prospective effectiveness test is performed by way of a critical terms match. In other cases, effectiveness is ensured by regular monitoring of the opposing measurement effects of hedges and hedged items. Hedges are recognised for the remaining term of the hedged items.

There is no hedge accounting for highly probable transactions.

Please see the reporting in the management report for information on the risk management of financial risks.

Notes on the balance sheet

(20) Structure of maturities of selected balance sheet items by remaining term

	Group		IKB AG	
in € million	31 Mar. 2017	31 Mar. 2016	31 Mar. 2017	31 Mar. 2016
Receivables from banks[1)]	**72.3**	**203.6**	**51.7**	**191.2**
remaining term				
up to 3 months	22.0	123.8	2.4	111.4
between 3 months and 1 year	13.1	35.1	12.1	35.1
between 1 and 5 years	24.7	25.3	24.7	25.3
more than 5 years	12.5	19.4	12.5	19.4
Receivables from customers	**9,925.4**	**9,887.8**	**11,348.8**	**11,467.0**
remaining term				
up to 3 months	828.8	949.3	862.7	986.0
between 3 months and 1 year	1,066.6	1,495.0	1,262.4	1,618.3
between 1 and 5 years	5,922.6	5,177.2	6,550.0	6,292.3
more than 5 years	2,107.4	2,266.3	2,673.7	2,570.4
Liabilities to banks[1)]	**7,598.5**	**6,439.2**	**7,553.1**	**6,415.7**
remaining term				
up to 3 months	552.9	892.9	546.4	891.2
between 3 months and 1 year	881.7	1,121.9	872.9	1,115.6
between 1 and 5 years	4,949.1	3,247.8	4,919.6	3,232.6
more than 5 years	1,214.8	1,176.6	1,214.2	1,176.3
Liabilities to customers[1)]	**6,191.7**	**6,179.8**	**6,198.1**	**6,187.3**
remaining term				
up to 3 months	914.2	922.0	921.8	929.5
between 3 months and 1 year	1,800.4	2,141.1	1,799.2	2,141.1
between 1 and 5 years	2,998.0	2,442.1	2,998.0	2,442.1
more than 5 years	479.1	674.6	479.1	674.6

1) not including receivables or liabilities repayable on demand

€ 375.7 million (previous year: € 145.0 million) of bonds and other fixed-income securities are payable in the following year in the Group and € 369.6 million (previous year: € 135.6 million) are payable in the following year at IKB AG. € 285.7 million (previous year: € 161.9 million) of the bonds issued and reported under securitised liabilities are payable in the following year in the Group and € 233.3 million (previous year: € 85.9 million) are payable in the following year at IKB AG.

(21) Valuation units

Hedge accounting is essentially used at IKB to present hedges of interest and currency risks.

As at the reporting date, there were hedges with assets with a carrying amount of € 177.6 million (previous year: € 101.4 million) and liability derivatives of € 0.4 million (previous year: € 127.0 million) as hedged items in the Group. There was no hedge accounting at IKB AG as at the reporting date (previous year: derivatives with negative market value of € 125.6 million). The decline as against the previous year is essentially due to the reversal of hedge accounting for inflation risks at IKB AG.

As at the reporting date, hedged risks amounted to € 0.3 million (previous year: € 0.6 million) for assets and € 0.3 million (previous year: € 9.9 million) for derivatives in the Group. There were no hedged risks at IKB AG as at the reporting date (previous year: for derivatives of € 8.7 million). The hedged risk is equal to the value of the changes in the value or cash flows of the hedged item compensated by the hedging instrument.

(22) Foreign-currency assets

The currency volumes translated into euro are shown in the table below:

	Group		IKB AG	
in € million	**31 Mar. 2017**	**31 Mar. 2016**	**31 Mar. 2017**	**31 Mar. 2016**
Assets	959.6	1,237.5	755.6	1,036.2

The differences between the assets and the liabilities are largely hedged by currency hedges.

(23) Repurchase agreements

The carrying amount of assets reported in the balance sheet as at the reporting date and transferred in genuine agreements is € 369.7 million (previous year: € 2,162.3 million) in the Group and € 374.0 million (previous year: € 2,391.1 million) at IKB AG. The decline is due in particular to the use of other refinancing sources.

(24) Receivables from affiliated companies and other investees and investors

	Group			
	31 Mar. 2017		31 Mar. 2016	
in € million	**Affiliated companies**	**Investees and investors**	**Affiliated companies**	**Investees and investors**
Receivables from banks	-	-	-	-
Receivables from customers[1)]	5.5	49.7	8.6	38.8
Other assets	-	0.1	-	-

1) The prior-period figure as at 31 March 2016 for affiliated companies was adjusted for amounts for special purpose entities not included in consolidation.

	IKB AG			
	31 Mar. 2017		31 Mar. 2016	
in € million	**Affiliated companies**	**Investees and investors**	**Affiliated companies**	**Investees and investors**
Receivables from banks	-	-	-	-
Receivables from customers	2,524.2	49.5	2,535.7	38.6
Bonds and other fixed-income securities[1)]	-	-	221.7	-
Other assets	22.2	0.1	21.9	-

1) The prior-period figure as at 31 March 2016 for affiliated companies was adjusted for amounts for a special purpose entity included in consolidation.

(25) Fixed assets

Group:

in € million	Intangible assets	Tangible assets	Lease assets	Equity investments	Investments in associates	Investments in affiliated companies	Bonds and other fixed-income securities	Equities and other non-fixed-income securities	Total
Acquisition costs as at 31 Mar. 2016	**67.6**	**273.0**	**1,895.0**	**16.5**	**11.1**	**9.2**	**5,079.5**	**474.9**	**7,826.8**
Additions	3.6	3.3	345.7	-	-	-	3,219.7	3.7	3,576.0
Reclassifications	-	-	-	-	-	-0.1	-	-	-0.1
Effects of currency translation	-	-	1.1	-	-	-	4.3	-	5.4
Disposals	-0.2	-15.5	-455.6	-7.4	-	-4.3	-2,982.6	-1.3	-3,466.9
Acquisition costs as at 31 Mar. 2017	**71.0**	**260.8**	**1,786.2**	**9.1**	**11.1**	**4.8**	**5,320.9**	**477.3**	**7,941.2**
Cumulative depreciation/ amortisation, write-downs and reversals thereof as at 31 Mar. 2016	**-55.8**	**-53.0**	**-953.9**	**-5.4**	**3.9**	**-7.1**	**-43.8**	**-4.8**	**-1,119.9**
Reversals of write-downs	-	-	-	-	1.3	0.1	4.5	-	5.9
Depreciation/amortisation and write-downs	-4.4	-8.5	-291.2	-0.1	-	-	-1.1	-	-305.3
Reclassifications	-	-	-	-	-	-	-0.7	-	-0.7
Effects of currency translation	-	-	-0.5	-	-	-	-0.7	-	-1.2
Disposals	0.2	14.3	387.8	-	-	3.1	30.2	-	435.6
Cumulative depreciation/ amortisation, write-downs and reversals thereof as at 31 Mar. 2017	**-60.0**	**-47.2**	**-857.8**	**-5.5**	**5.2**	**-3.9**	**-11.6**	**-4.8**	**-985.6**
Residual book value as at 31 Mar. 2017	**11.0**	**213.6**	**928.4**	**3.6**	**16.3**	**0.9**	**5,309.3**	**472.5**	**6,955.6**
Residual book value as at 31 Mar. 2016	**11.8**	**220.0**	**941.1**	**11.1**	**15.0**	**2.1**	**5,035.7**	**470.1**	**6,706.9**

Deferred interest for the financial year and the previous year is shown in additions and disposals.

IKB AG:

in € million	Intangible assets	Tangible assets	Equity investments	Investments in affiliated companies	Bonds and other fixed-income securities	Equities and other non-fixed-income securities	Total
Acquisition costs as at 31 Mar. 2016	**86.5**	**223.2**	**1.2**	**1,159.1**	**4,725.7**	**1.7**	**6,197.4**
Additions	2.2	0.8	-	106.5	3,216.8	0.5	3,326.8
Reclassifications	-	-	-	-	-	-	-
Effects of currency translation	-	-	-	-	2.8	-	2.8
Disposals	-	-211.2	-	-4.1	-3,248.7	-	-3,464.0
Acquisition costs as at 31 Mar. 2017	**88.7**	**12.8**	**1.2**	**1,261.5**	**4,696.6**	**2.2**	**6,063.0**
Cumulative depreciation/ amortisation, write-downs and reversals thereof as at 31 Mar. 2016	**-81.9**	**-23.4**	**-0.5**	**-1,010.7**	**-37.0**	**-**	**-1,153.5**
Reversals of write-downs	-	-	-	7.1	2.1	-	9.2
Depreciation/amortisation and write-downs	-2.9	-2.2	-0.1	-	-1.7	-	-6.9
Reclassifications	-	-	-	-	-0.7	-	-0.7
Effects of currency translation	-	-	-	-	-	-	-
Disposals	-	16.8	-	3.0	34.7	-	54.5
Cumulative depreciation/ amortisation, write-downs and reversals thereof as at 31 Mar. 2017	**-84.8**	**-8.8**	**-0.6**	**-1,000.6**	**-2.6**	**-**	**-1,097.4**
Residual book value as at 31 Mar. 2017	**3.9**	**4.0**	**0.6**	**260.9**	**4,694.0**	**2.2**	**4,965.6**
Residual book value as at 31 Mar. 2016	**4.6**	**199.8**	**0.7**	**148.4**	**4,688.7**	**1.7**	**5,043.9**

Deferred interest for the financial year and the previous year is shown in additions and disposals.

The acquired goodwill included in intangible assets is written down over a useful life of 10 years in accordance with section 253 (3) sentence 3 HGB.

The disposals of tangible fixed assets at IKB AG relate in particular to the intragroup sale of the administrative building at IKB's headquarter in Düsseldorf, which is partially used for banking operations, to IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG, Düsseldorf, in August 2016.

Two land and building items (previous year: two) partially used for banking operations were included in the portfolio at Group level at a carrying amount of € 202.5 million (previous year: € 204.4 million) as at the reporting date. IKB AG holds no buildings used for banking operations as at the reporting date. One land and building item partially used for banking operations was included in the IKB AG portfolio at a carrying amount of € 194.5 million in the previous year.

Operating and office equipment was included in tangible assets at € 11.0 million (previous year: € 13.6 million) in the Group and € 4.0 million (previous year: € 5.0 million) at IKB AG.

The disposals of equity investments at Group level in the amount of € 7.4 million are attributable primarily to the sale of the shares in AWEBA Werkzeugbau GmbH Aue, Aue, with effect from 30 June 2016. The disposals under investments in affiliated companies in the Group essentially result from mergers and accretions of unconsolidated affiliated companies.

The additions to investments in affiliated companies at IKB AG are essentially due to capital injections in connection with the intragroup sale of the administrative building at IKB's headquarter in Düsseldorf.

The item “Bonds and other fixed-income securities” predominantly includes European government bonds and bank bonds.

Shares in special funds are in particular assigned to fixed assets in the item “Equities and other non-fixed-income securities” in the Group.

In total, there were unrealised losses from long-term investments of € 85.1 million (previous year: € 31.5 million) based on the carrying amounts of € 1,863.1 million (previous year: € 705.3 million) and the fair values of € 1,778.0 million (previous year: € 673.8 million). At IKB AG, unrealised losses for long-term investments amounted to a total of € 63.6 million (previous year: € 53.0 million) based on carrying amounts of € 1,310.4 million (previous year: € 516.6 million) and fair values of € 1,246.8 million (previous year: € 463.6 million).

No write-downs have been recognised for these losses in the Group or at IKB AG as the differences are not expected to be permanent within the meaning of section 253 (3) HGB.

In the current financial year, write-downs on fixed assets for impairment that is expected to be permanent were recognised in the amount of € 3.3 million (previous year: € 2.8 million) in the Group and € 1.8 million (previous year: € 7.4 million) at IKB AG.

The reported amounts do not include deferred interest.

(26) Subordinated assets

	Group		IKB AG	
in € million	**31 Mar. 2017**	**31 Mar. 2016**	**31 Mar. 2017**	**31 Mar. 2016**
Receivables from customers	234.4	353.3	234.4	353.3
Bonds and other fixed-income securities	-	0.7	-	0.7
Total	**234.4**	**354.0**	**234.4**	**354.0**

(27) Negotiable securities

The negotiable securities included in the balance sheet items below break down as follows in terms of stock exchange listing:

	Group			IKB AG		
31 Mar. 2017 in € million	**Total negotiable**	**Listed**	**Not listed**	**Total negotiable**	**Listed**	**Not listed**
Bonds and other fixed-income securities	5,329.7	5,252.9	76.8	4,714.5	4,686.5	28.0
Equities and other non-fixed-income securities	466.2	-	466.2	2.2	-	2.2
Equity investments	2.5	-	2.5	-	-	-

	Group			IKB AG		
31 Mar. 2016 in € million	**Total negotiable**	**Listed**	**Not listed**	**Total negotiable**	**Listed**	**Not listed**
Bonds and other fixed-income securities	5,051.6	4,898.1	153.5	4,704.6	4,658.7	45.9
Equities and other non-fixed-income securities	465.8	-	465.8	1.7	-	1.7
Equity investments	2.5	-	2.5	-	-	-

The item “Bonds and other fixed-income securities” includes the negotiable securities assigned to fixed assets of € 5,309.2 million (previous year: € 5,035.7 million) in the Group and € 4,694.0 million (previous year: € 4,688.7 million) at IKB AG. The item “Equities and other non-fixed-income securities” includes the negotiable securities assigned to fixed assets of € 466.2 million (previous year: € 465.8 million) in the Group and € 2.2 million (previous year: € 1.7 million) at IKB AG.

(28) Disclosures on investment funds

Investment funds in which consolidated Group companies or IKB AG hold a share of more than 10% break down by investment goal as follows:

	Group				IKB AG			
in € million	Carrying amount 31 Mar. 2017	Fair value 31 Mar. 2017	Difference to carrying amount 31 Mar. 2017	Distribu-tion 2016/17	Carrying amount 31 Mar. 2017	Fair value 31 Mar. 2017	Difference to carrying amount 31 Mar. 2017	Distribu-tion 2016/17
Mixed funds	293.9	293.9	-	10.2	262.9	262.9	-	9.1
Other special funds	464.1	460.7	-3.4	-	-	-	-	-
Total	**758.0**	**754.6**	**-3.4**	**10.2**	**262.9**	**262.9**	**-**	**9.1**

	Group				IKB AG			
in € million	Carrying amount 31 Mar. 2016	Fair value 31 Mar. 2016	Difference to carrying amount 31 Mar. 2016	Distribu-tion 2015/16	Carrying amount 31 Mar. 2016	Fair value 31 Mar. 2016	Difference to carrying amount 31 Mar. 2016	Distribu-tion 2015/16
Mixed funds	277.6	277.6	-	5.3	248.3	248.3	-	4.8
Other special funds	464.0	467.2	3.2	-	-	-	-	-
Total	**741.6**	**744.8**	**3.2**	**5.3**	**248.3**	**248.3**	**-**	**4.8**

Other special funds in the Group include units in foreign special funds that predominantly invest in European and North American fixed-income securities.

Furthermore, CTA assets were invested in a German special fund. If the offsetting of CTA assets against pension obligations (depending on the pension plan and company) results in an excess of CTA assets, this is reported under “Excess of plan assets over post-employment benefit liability” (see note (34)). If the offsetting results in an excess pension obligation, this is recognised as a pension provision. The fund predominantly invests in fixed-income securities and investment funds.

All fund units can be returned on each trading day. The management company can suspend the redemption of units if there are extraordinary circumstances that make it appear necessary to do so in the interests of the investors. The management companies have not exercised this right to date.

(29) Investments accounted for using the equity method

The company shown in the table is accounted for in the Group using the equity method.

Carrying amount of investment accounted for using the equity method:

in € million	31 Mar. 2017	31 Mar. 2016
Linde Leasing GmbH, Wiesbaden	16,3	15,0
Total	**16,3-**	**15,0**

Key figures for companies accounted for using the equity method:

31 Mar. 2017 in € million	Assets	Liabilities	Net income/loss for the financial year	Income
Linde Leasing GmbH, Wiesbaden	491.4	437.1	6.1	194.9

(30) Leases

Assets intended for lease (equipment leasing) are reported in the consolidated balance sheet as lease assets. These are essentially partial-payout leases in which the leased assets are accounted for by the lessor.

(31) Other assets

Other assets include the following:

	Group		IKB AG	
in € million	**31 Mar. 2017**	**31 Mar. 2016**	**31 Mar. 2017**	**31 Mar. 2016**
Foreign currency adjustment item	27.9	35.6	27.9	34.8
Receivables from leasing business	42.0	27.3	-	-
Receivables from tax authorities	26.9	37.8	19.4	29.8
Hire-purchase properties not yet realised	10.5	9.3	-	-
Receivables from derivatives	7.1	2.1	7.1	2.1
Deferred interest on derivatives	80.1	104.7	80.2	105.2
Trade receivables	4.0	2.6	0.7	0.8
Receivables from affiliated companies	-	-	22.2	21.9
Miscellaneous assets	24.1	32.4	8.9	23.1
Total	**222.6**	**251.8**	**166.4**	**217.7**

The foreign currency adjustment item from spot exchange rate neutralisation represents the balance sheet contra account to the foreign exchange gains on currency derivatives in the non-trading book, which is applied in currency valuation in accordance with section 340h HGB.

Receivables from leasing business in the Group are essentially advance-payments on hire purchase agreements not yet invoiced.

(32) Prepaid expenses

Prepaid expenses essentially include discounts on liabilities recognised at nominal amount of € 3.5 million (previous year: € 5.0 million) in the Group and € 3.5 million (previous year: € 5.0 million) at IKB AG and prepaid expenses for derivatives business of € 91.8 million (previous year: € 259.0 million) in the Group and € 125.2 million (previous year: € 304.8 million) at IKB AG.

(33) Deferred tax assets

	Group		IKB AG	
in € million	**31 Mar. 2017**	**31 Mar. 2016**	**31 Mar. 2017**	**31 Mar. 2016**
Excess deferred tax assets	255.0	253.6	249.0	249.7

Loss carryforwards:

	Group		IKB AG	
in € million	**31 Mar. 2017**	**31 Mar. 2016**	**31 Mar. 2017**	**31 Mar. 2016**
Reported corporation tax loss carryforwards	22.8	38.6	-	9.1
Reported trade tax loss carryforwards	-	-	-	-

The carrying amount of deferred tax assets is essentially based on the differences between the financial accounts and the tax accounts that will reverse in subsequent years. In particular, the carrying amount relates to provisions for expected losses for embedded derivatives (CDS) recognised in the financial accounts but not in the tax accounts and investment funds of the German Group. Furthermore, deferred tax assets on tax loss carryforwards are taken into account if the losses are sufficiently likely to be offset within the next five financial years from the next balance sheet date. Local tax rates were used in each case. The resulting tax expenses and income have been reported net.

(34) Excess of plan assets over post-employment benefit liability

31 Mar. 2017 **in € million**	**Group**	**IKB AG**
Offset assets		
Acquisition costs	316.2	281.9
Fair value	337.7	301.0
Offset liabilities		
Settlement amount	-359.4	-312.5
Excess of plan assets over post-employment benefit liability	**7.3**	**7.2**
Expenses and income offset in the reporting year	**2016/17**	**2016/17**
Expenses and income from pension obligations		
Expenses for pension obligations	-28.6	-24.9
Expenses and income from plan assets		
Income from plan assets	18.3	16.5
Expenses of plan assets	-	-
Net income/expense	**-10.3**	**-8.4**

31 Mar. 2016 in € million	Group	IKB AG
Offset assets		
Acquisition costs	296.5	266.4
Fair value	311.6	278.7
Offset liabilities		
Settlement amount	-306.1	-266.8
Excess of plan assets over post-employment benefit liability	**12.0**	**11.9**
Expenses and income offset in the reporting year	**2015/16**	**2015/16**
Expenses and income from pension obligations		
Expenses for pension obligations	-20.6	-18.0
Expenses and income from plan assets		
Income from plan assets	5.9	5.3
Expenses of plan assets	-32.0	-28.7
Net income/expense	**-46.7**	**-41.4**

The fair value of assets transferred in CTAs results from their asset value, which was determined by the investment company as at the balance sheet date.

(35) Liabilities to affiliated companies and other investees and investors

	Group			
	31 Mar. 2017		31 Mar. 2016	
in € million	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Liabilities to banks	-	-	-	-
Liabilities to customers	2.2	0.5	3.7	0.8
Securitised liabilities	-	-	-	-
Other liabilities	329.5	-	165.2	-

	IKB AG			
	31 Mar. 2017		31 Mar. 2016	
in € million	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Liabilities to banks	-	-	-	-
Liabilities to customers	96.2	0.5	35.0	0.8
Securitised liabilities	-	-	250.1	-
Other liabilities[1)]	19.7	-	230.0	-

1) This item also includes liabilities to consolidated special-purpose entities for the first time. The comparative figure as at 31 March 2016 was adjusted by € 214.0 million.

(36) Foreign-currency liabilities

The currency volumes translated into euro are shown in the table below:

	Group		IKB AG	
in € million	**31 Mar. 2017**	**31 Mar. 2016**	**31 Mar. 2017**	**31 Mar. 2016**
Liabilities[1)]	429.0	316.2	364.8	439.3

1) The comparative figure as at 31 March 2016 was adjusted by € 175 million for foreign-currency liabilities to retail customers and a bond issue.

The differences between the assets and the liabilities are largely hedged by currency hedges.

(37) Other liabilities

Other liabilities break down as follows:

	Group		IKB AG	
in € million	**31 Mar. 2017**	**31 Mar. 2016**	**31 Mar. 2017**	**31 Mar. 2016**
True sale securitisations	-	-	-	213.4
Liabilities from the disposal of lease receivables	329.5	172.4	-	-
Synthetic securitisations	-	-	0.8	0.5
Obligations from derivatives	31.6	21.0	31.6	21.0
Deferred interest on derivatives	59.5	101.0	57.7	96.4
Liabilities to tax authorities	10.0	12.8	8.2	10.7
Deferred income for subordinated liabilities	2.2	2.4	2.2	2.4
Trade payables	11.2	12.2	9.5	11.4
Miscellaneous liabilities	41.1	23.4	55.6	23.2
Total	**485.1**	**345.2**	**165.6**	**379.0**

At Group level, lease receivables were sold to unconsolidated special-purpose entities. The transaction did not result in derecognition, hence corresponding other liabilities are reported for the leasing receivables sold. These liabilities have been reported separately as “Liabilities from the disposal of lease receivables” in the interests of a more transparent presentation.

In both the Group and at IKB AG, miscellaneous liabilities include € 32.2 million in liabilities from payable profit participation certificates as at 31 March 2017. The decline in liabilities from true sale securitisations at IKB AG was due to the end of the Bacchus 2008-2 transaction.

(38) Deferred income

Deferred income includes primarily discounts on receivables recognised at their nominal amount of € 21.1 million (previous year: € 22.8 million) in the Group and € 21.1 million (previous year: € 22.8 million) at IKB AG, deferred income for leasing business of € 66.9 million (previous year: € 48.4 million) at the Group, and deferred income for derivatives business of € 33.7 million (previous year: € 72.6 million) in the Group and € 61.2 million (previous year: € 129.7 million) at IKB AG.

(39) Pension provisions

The reported pension provisions amount to € 31.4 million (previous year: € 8.7 million) in the Group and € 18.7 million (previous year: € 0.0 million) at IKB AG. Please also see note (34).

In the context of the first-time adoption regulations of the BilMoG, the option was exercised to distribute the additional amount to the pension provisions evenly over a term of 15 years. The outstanding addition as at 31 March 2017 amounted to € 10.6 million (previous year: € 41.8 million) in the Group and € 9.7 million (previous year: € 36.8 million) at IKB AG. There was an extraordinary addition from profit or loss of € 26.6 million in the Group and € 23.0 million at IKB AG in the 2016/17 financial year.

The mandatory application of section 253 HGB results in the following difference for pension provisions measured using the ten-year average market interest rate:

31 Mar. 2017 **in € million**	**Group**	**IKB AG**
Measurement of obligation using the ten-year average market interest rate	353.5	307.6
Measurement of obligation using the seven-year average market interest rate	397.7	345.8
Difference in accordance with section 253 (6) HGB	**44.2**	**38.2**

(40) Subordinated liabilities

This item includes liabilities whose contractual conditions stipulate that they can only be repaid in the event of insolvency or liquidation after all non-subordinated creditors have been repaid. An early repayment obligation or participation in the losses of operating activities is not intended. Interest is usually owed and paid regardless of the Bank’s net profit or loss for the year. An exception to this is the preferred shares issued in the 2004/05 financial year. IKB Funding Trust pays interest on these preferred shares if distributable net income is reported by IKB AG. The deferred interest attributable to the subordinated liabilities is reported in other liabilities.

As at the reporting date, subordinated liabilities amounted to € 695.8 million (previous year: € 921.7 million) in the Group and € 220.7 million (previous year: € 446.6 million) at IKB AG. The interest expenses on these amounted to € 9.4 million in the financial year (previous year: € 10.4 million) in the Group and € 9.4 million (previous year: € 10.4 million) at IKB AG. Interest expenses were not incurred for the 2004/05 issue (Group) in the year under review as payment is dependent on IKB AG reporting distributable net income.

Individual items that exceed 10% of the total amount in the Group and at IKB AG:

Group Year of issue	Carrying amount in € million	Currency	Interest rate in %	Maturity
2002/2003 (Group)	75.1	EUR	1)	Perpetual
2005/2006	108.7	JPY	2.76	21 July 2035
2004/2005 (Group)	400.0	EUR	2)	Perpetual

IKB AG Year of issue	Carrying amount in € million	Currency	Interest rate in %	Maturity
2005/2006	108.7	JPY	2.76	21 July 2035

1) 3M EURIBOR + 1.5%

2) 10Y EUR mid-swap rate + 5bp, cap 9%

(41) Profit participation capital

After loss allocation, profit participation capital in the Group and at IKB AG amounted to € 0.0 million as at the balance sheet date (previous year: € 32.2 million) with a nominal value of € 0.0 million (previous year: € 120.0 million). Profit participation certificates that participate in net accumulated losses/net income for the last time as at 31 March 2017 and mature on 1 August 2017 have been reclassified to "Other liabilities" at a carrying amount of € 32.2 million (see note (37)).

For one profit participation certificate that already matured in 2015, the replenishment of the repayment amount after a loss participation and a repayment of suspended distributions are provided for in the issue conditions when certain conditions are met within a recovery period.

No interest was incurred on profit participation certificates for the 2016/17 financial year. Had the requirements for an interest payment been met, interest of € 6.3 million (previous year: € 6.3 million) would have been payable on profit participation certificates in the 2016/17 financial year.

(42) Fund for general banking risks

The fund for general banking risks in accordance with section 340g HGB, which is eligible as common equity tier 1 capital in accordance with the CRR, amounts to € 585.0 million (previous year: € 585.0 million) for both the Group and IKB AG as at the balance sheet date. Among other things, the fund, which takes into account IKB's general banking risks, is intended to protect the Bank against the risks described in this management report.

(43) Development of capital

Treasury stock

By way of resolution of the Annual General Meeting on 5 September 2013, the company was authorised to acquire and sell treasury shares for the purpose of securities trading until 4 September 2018. The amount of shares acquired for this purpose must not exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the company or assigned to it in accordance with sections 71a et seq. AktG, the treasury shares acquired on the basis of this authorisation may not exceed 10% of the share capital at any time. This authorisation was not utilised in the 2016/17 financial year.

The authorisation to acquire and utilise treasury shares for purposes other than securities trading also resolved by the Annual General Meeting on 5 September 2013 was revoked by way of resolution of the Annual General Meeting on 1 September 2016 and replaced by a new authorisation. This was because the authorisation resolved by the Annual General Meeting on 5 September 2013 was still based on the OTC share price on the Frankfurt stock exchange. As the shares of IKB Deutsche Industriebank AG were no longer traded OTC on the Frankfurt stock exchange at the time of the 2016 Annual General Meeting, the authorisation of 5 September 2013 was void. In light of this, the company way authorised by way of resolution of the Annual General Meeting held on 1 September 2016 to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading up to and including 31 August 2021. The shares must be purchased in line with the principle of equal treatment in accordance with section 53a AktG. If the number of shares offered exceeds the maximum number of shares the company is permitted to buy back, offers will be accepted proportionally. Preferential acceptance of smaller numbers of shares (up to 100 per shareholder) is permitted. The purchase price per share (not including incidental costs of acquisition) must be at least € 0.05 and not more than € 2.00. Together with the treasury shares acquired for other reasons held by the company or assigned to it in accordance with sections 71a et seq. AktG, the treasury shares acquired on the basis of this authorisation must not exceed 10% of the share capital of the company at any time. The acquired shares can be sold by way of an offer to all shareholders or – if stock market trading resumes – on the stock exchange or, in full or in part, called in. This authorisation was not utilised in the 2016/17 financial year.

No treasury shares were held in the 2016/17 financial year, nor were there any additions or disposals of the same.

Equity

By way of resolution of the Annual General Meeting on 5 September 2013, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the company by a total of up to € 560,000,000.00 against cash or non-cash contributions by issuing new no-par-value bearer shares until 4 September 2018. The number of shares must increase by the same proportion as the share capital. With the approval of the Supervisory Board, the statutory pre-emption rights of shareholders can be disapplied under this authorisation. The authorised capital was entered in the commercial register on 14 October 2013. This authorisation was not utilised in the 2016/17 financial year.

By way of resolution of the Annual General Meeting on 4 September 2014, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the company by a total of up to € 250,732,700.16 against cash or non-cash contributions by issuing up to 97,942,461 new no-par-value bearer shares until 3 September 2019. The number of shares must increase by the same proportion as the share capital. With the approval of the Supervisory Board, the statutory pre-emption rights of shareholders can be disapplied under this authorisation. The authorised capital was entered in the commercial register on 28 October 2014. This authorisation was not utilised in the 2016/17 financial year.

The authorisations resolved by the Annual General Meeting on 4 September 2014 and 27 August 2015 to issue convertible or option bonds by 3 September 2019 and 26 August 2020 respectively were both based on OTC share prices on the Frankfurt stock exchange. As the shares of IKB Deutsche Industriebank AG were no longer traded OTC on the Frankfurt stock exchange at the time of the 2016 Annual General Meeting, the authorisations of 4 September 2014 and 27 August 2015 were void. The Annual General Meeting therefore revoked these authorisations by way of resolution dated 1 September 2016. At the same time, the Annual General Meeting on 1 September 2016 authorised the Board of Managing Directors, with the approval of the Supervisory Board, to issue bearer option or convertible bonds or combinations of these instruments (referred to together as “bonds” hereafter) with a total nominal value of up to € 1,600,000,000.00 with or without a limited term on one or several occasions, including in various tranches, until 31 August 2021, and to grant the bearers of the bonds option or conversion rights for a total of up to 312,500,000 new no-par value shares with a proportionate interest in the share capital of up to € 800,000,000.00 in accordance with the terms of issue of the respective bonds. The resolution was entered in the commercial register on 21 October 2016. This authorisation was not utilised in the 2016/17 financial year.

The share capital consists of 633,384,923 shares with a notional value of € 2.56 per share as at the end of the reporting period. The share capital amounts to € 1,621,465,402.88.

Hybrid capital instruments

The term hybrid capital instruments includes preferred shares (trust preferred securities) or issues in the form of asset contributions by silent partners. Hybrid capital instruments are only repaid after all subordinated liability and profit participation certificate issues have been served.

In the Group, trust preferred securities were issued by two subsidiaries in the US created for this purpose. Unlike German preferred shares, these preferred shares grant no share to the liquidation result of the issuing companies. The asset contributions by silent partners, which are otherwise perpetual, can only be cancelled by the issuers, an option that has only been exercisable since 2013 or 2014 at the earliest. A further condition for cancellation is that the repayment value is replenished to the original nominal value of the contribution. Perpetual maturity is agreed for the investor for preferred shares.

As in the previous year, the carrying amounts of the preferred shares in the Group were equal to the nominal amounts of € 475.1 million as at 31 March 2017.

IKB AG has received silent contributions from partners. The loss ratio is calculated by the ratio of the silent partner contribution to balance sheet equity including profit participation certificates. As a result of loss participation in previous years, the repayment claims of the silent partners and therefore their carrying amounts were unchanged at € 0.0 million (previous year: € 0.0 million) in the Group and at IKB AG at a nominal value of € 400.0 million. The replenishment of the repayment amount after loss participation is expressly provided for when certain conditions are met. Please also see note (70).

As in the previous year, no payments were made on hybrid capital instruments.

Statement of changes in equity

Group:

in € million	1 Apr. 2016	Changes in con-solidated group	Change in reserves	Other changes	Net income	Distribution	31 Mar. 2017
Called-up capital	**1,621.5**	**-**	**-**	**-**	**-**	**-**	**1,621.5**
Subscribed capital	1,621.5	-	-	-	-	-	1,621.5
Capital reserves	**1,750.7**	**-**	**-**	**-**	**-**	**-**	**1,750.7**
Revenue reserves	**5.3**	**-**	**-0.1**	**-**	**-**	**-**	**5.2**
Legal reserve	2.4	-	-	-	-	-	2.4
Other revenue reserves	2.9	-	-0.1	-	-	-	2.8
Difference in equity from currency translation	-5.7	-	-	1.4	-	-	-4.3
Net accumulated losses	-2,361.1	-	-	-	25.5	-	-2,335.6
Non-controlling interests	-	1.4	-	-	0.1	-0.1	1.4
Equity	**1,010.7**	**1.4**	**-0.1**	**1.4**	**25.6**	**-0.1**	**1,038.9**

in € million	1 Apr. 2015	Changes in con-solidated group	Change in reserves	Other changes	Net income	Distribution	31 Mar. 2016
Called-up capital	**1,621.5**	**-**	**-**	**-**	**-**	**-**	**1,621.5**
Subscribed capital	1,621.5	-	-	-	-	-	1,621.5
Capital reserves	1,750.7	-	-	-	-	-	**1,750.7**
Revenue reserves	**5.1**	**-**	**0.2**	**-**	**-**	**-**	**5.3**
Legal reserve	2.4	-	-	-	-	-	2.4
Other revenue reserves	2.7	-	0.2	-	-	-	2.9
Difference in equity from currency translation	-5.5	-		-0.2	-	-	-5.7
Net accumulated losses	-2,371.5	-	-	-	10.4	-	-2,361.1
Non-controlling interests	-	-	-	-	-	-	-
Equity	**1,000.3**	**-**	**0.2**	**-0.2**	**10.4**	**-**	**1,010.7**

IKB AG:

in € million	1 Apr. 2016	Withdrawals	Additions	Distribution of loss for year	31 Mar. 2017
Called-up capital	**1,621.5**	**-**	**-**	**-**	**1,621.5**
Subscribed capital	1,621.5	-	-	-	1,621.5
Capital reserves	**1,750.7**	**-**	**-**	**-**	**1,750.7**
Revenue reserves	**2.4**	**-**	**-**	**-**	**2.4**
Legal reserve	2.4	-	-	-	2.4
Other revenue reserves	-	-	-	-	-
Net accumulated losses	**-2,167.3**	**-**	**-**	**-**	**-2,167.3**
Equity	**1,207.3**	**-**	**-**	**-**	**1,207.3**

in € million	1 Apr. 2015	Withdrawals	Additions	Distribution of loss for year	31 Mar. 2016
Called-up capital	**1,621.5**	**-**	**-**	**-**	**1,621.5**
Subscribed capital	1,621.5	-	-	-	1,621.5
Capital reserves	**1,750.7**	**-**	**-**	**-**	**1,750.7**
Revenue reserves	**2.4**	**-**	**-**	**-**	**2.4**
Legal reserve	2.4	-	-	-	2.4
Other revenue reserves	-	-	-	-	-
Net accumulated losses	**-2,167.3**	**-**	**-**	**-**	**-2,167.3**
Equity	**1,207.3**	**-**	**-**	**-**	**1,207.3**

The non-controlling interests relate to minority shareholders in the subsidiaries IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG and IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG.

The own funds of the Group in accordance with Article 72 CRR amount to a total of € 2.2 billion (previous year: € 2.2 billion). The common equity tier 1 capital in accordance with Article 50 CRR amounts to € 1.5 billion in the Group (previous year: € 1.5 billion).

The own funds of IKB AG in accordance with Article 72 CRR amount to a total of € 2.0 billion (previous year: € 2.0 billion). The common equity tier 1 capital in accordance with Article 50 CRR amounts to € 1.8 billion at IKB AG (previous year: € 1.8 billion).

The restricted amounts of distributable profits break down as follows:

Group:

31 Mar. 2017 in € million	Gross income	Deferred tax assets	Deferred tax liabilities	Restriction on distribution
Unrealised gains on plan assets	21.4	-	-6.0	15.4
Recognition of deferred taxes	-	319.8	-58.8	261.0
Difference from the change in the market interest rate for the measurement of pension obligations	44.3	-	-	44.3
Total	**65.7**	**319.8**	**-64.8**	**320.7**

IKB AG:

31 Mar. 2017 in € million	Gross income	Deferred tax assets	Deferred tax liabilities	Restriction on distribution
Unrealised gains on plan assets	19.2	-	-6.0	13.2
Recognition of deferred taxes	-	255.8	-0.7	255.1
Difference from the change in the market interest rate for the measurement of pension obligations	38.2	-	-	38.2
Total	**57.4**	**255.8**	**-6.7**	**306.5**

(44) Contingent liabilities and other obligations

On the balance sheet date, the “Contingent liabilities” item included CDSs (Bank as pledgor) under guarantees and warranties of € 1,089.6 million (previous year: € 824.4 million) both in the Group and at IKB AG. Here, IKB has assumed the default risk for a pre-defined credit event for specific credit portfolios.

By way of the liability transfer of the subordinated liabilities by MATRONA GmbH, Düsseldorf (MATRONA), in the 2011/12 financial year, IKB AG issued a warrant for MATRONA, whereby it assumes liability for MATRONA’s payment obligations in connection with the transfer of subordinated liabilities by MATRONA.

The item “Other obligations” essentially includes irrevocable loan commitments from unutilised loans and revolving credit facilities.

There are no contingent liabilities or other obligations to associates as at the reporting date.

The risk of the utilisation of contingent liabilities and other obligations is assessed on the basis of parameters from credit risk management. Provisions are recognised if utilisation is expected in full or in part due to the deterioration of the credit standing of a borrower. Details on the process within credit risk management are explained in the risk report of the management report.

(45) Other financial obligations

As at the reporting date, “other financial obligations” totalled € 1,482.5 million (previous year: € 1,497.2 million) in the Group and € 1,579.8 million (previous year: € 1,473.6 million) at IKB AG.

The majority of this relates to debt waivers by shareholders against debtor warrants of € 1,151.5 million (previous year: € 1,151.5 million).

In addition, there are payment obligations under long-term rental agreements for the term of the lease of € 15.8 million (previous year: € 26.8 million) in the Group and € 116.3 million (previous year: € 9.7 million) of IKB AG. The increase at IKB AG is mainly attributable to the intragroup sale of the administrative building at IKB’s headquarter in Düsseldorf, which is partially used for banking operations, to IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG, Düsseldorf, in August 2016, and the resulting payment obligations due to long-term leases. There are still leases for the Bank’s branches for properties used for banking purposes. Provisions for expected losses from executory contracts have been recognised for the event that the expenses exceed the benefit of the rental agreement. The risk or opportunity lies in the fact that after the end of a limited rent agreement, the contract can be extended or a follow-up agreement can be concluded at less advantageous or more advantageous conditions.

Given the loss allocation in previous years, there was no repayment on a profit participation certificate issue with a nominal amount of € 150 million that matured on 31 March 2015. If the bearers of the profit participation certificate are owed a replenishment of the profit participation capital within a four-year recovery period from the maturity date on the basis of the profit participation certificate conditions, the repayment amount will thus be revived. This is payable directly and does not bear interest.

Furthermore, there are payment obligations from future lease instalments in connection with leases for assets in the area of operating and office equipment. In leases, the right to use an asset is transferred from the lessor to the lessee against regular payments.

Further payment obligations result from purchase commitments in connection with service agreements. There is a risk with service agreements that the terms of the agreement are less favourable than at the time the agreement is fulfilled or that the costs of the agreement exceed the economic benefit.

As at the balance sheet date, the Group and IKB AG had no payment obligations from shares, GmbH shares and shares in non-consolidated subsidiaries not fully paid in, shareholdings held by IKB Invest GmbH or subordinated loans.

€ 111.2 million (previous year: € 0.7 million) of the total financial obligations of IKB AG relates to affiliated companies.

Dissenting view of the tax authorities

In August 2015 IKB AG had received tax assessment notices in which the dissenting view of the tax authorities on the application of section 8c of the German Corporate Income Tax Act (KStG)/section 10a of the German Trade Tax Act (GewStG) in connection with the capital increase implemented by IKB AG during the course of the year and the subsequent sale of KfW's shares in IKB to Lone Star in the financial year 2008/09 was implemented. IKB had appealed against the tax assessments. The corporation tax and the solidarity surcharge for 2009 were paid (€ 141 million in total including interest). A total of € 8 million (including interest) was reimbursed by the tax authorities as a result of the assessment of corrected tax returns for 2009 in the 2016/17 financial year. At its application, IKB was granted a suspension of execution for trade tax. The trade tax and the associated interest were therefore not yet payable. IKB has since received decisions on its appeal proceedings and brought actions before the Düsseldorf Fiscal Court.

By way of ruling of 29 March 2017, the Federal Constitutional Court ruled that the provision of section 8c KStG for detrimental acquisitions of between 25% and 50% is incompatible with German Basic Law. In the opinion of IKB, the principles of this ruling should also be pertinent to the above case, though this was an acquisition of 50%, and the decision can therefore not be applied directly. Lawmakers also have the option of implementing a new constitutional regulation retroactively by the end of 2018, hence the matter is still unresolved. The decision corroborates IKB's previously held legal opinion.

If, contrary to expectations, IKB is unsuccessful in the court of last instance in any judicial appeal proceedings against the application of section 8c of the German Corporate Income Tax Act (KStG)/section 10a of the German Trade Tax Act (GewStG) to the offsetting of trade tax losses within the tax group, this could result in a payment obligation of around € 152 million for trade tax, interest on this (with interest calculated until 31 March 2017) and CIC contributions. A further € 0.6 million would be added per month by the end of the proceedings.

In late April 2016 Aleanta GmbH (a wholly owned subsidiary of IKB AG with which no profit and loss transfer agreement has been agreed, meaning it is not included in the income tax group) had received initial written notification that, as part of the tax audit of a company of which it is the universal successor (Olessa GmbH), the tax authorities are intending to treat the retrospective merger of Olessa GmbH into Aleanta GmbH in the financial year 2010/11 as a case covered by section 42 of the German Tax Code (AO). The tax audit is still in progress. Aleanta GmbH has commented on the matter and the current assessment of the tax audit. The maximum risk amounts to around € 27 million in taxes plus interest (notionally around € 8 million by

31 March 2017) and the reallocation of CIC contributions of € 0.2 million. An appeal will be lodged if necessary.

(46) Off-balance sheet transactions

Section 285 no. 3 HGB and section 314 (1) no. 2 HGB stipulate the obligation to disclose the nature and purpose of risks and benefits of transactions not shown on the face of the balance sheet in the notes if this is essential in assessing the financial situation. In particular, disclosures on transactions that are expected to have significantly improving or worsening effects on the financial situation or that can be considered unusual with regard to their timing or business partner can be necessary for an assessment of the financial situation.

Special purpose entities in connection with securitisation transactions

The Bank has entered into various contractual positions in connection with the establishment of special purpose entities. The purpose of the SPEs was to synthetically transfer risks or to transfer assets to generate liquidity.

Off-balance sheet risks occur when legal ownership and credit risks are transferred to the acquirer but residual minor risks remain with IKB. These relate to liability for the legal validity of the receivables, the possibility of re-transfer for the event of the inefficiency of the transaction (clean-up call). These contractual obligations can lead to a future outflow of financial funds. If the transfer of assets has not resulted in derecognition as the credit risks remain with IKB, these risks must be taken into account in the measurement of the assets concerned.

In some transactions, IKB acts as a service provider with the obligation to receive capital and interest payments in connection with the assets transferred and to forward these to the special purpose entity. The opportunities here lie in the receipt of service charges for the period of the agreement. The costs of rendering service lead to an outflow of funds. Violations of contractual obligations can also lead to compensation obligations.

On assuming the function of investment manager, the Bank is required to make purchase and sale decisions for the special purpose entity. The opportunities lie in the receipt of management fees. The risks lie in any claims for damages owing to a violation of contractual obligations.

Valin Funds

IKB performs various services for the Valin Funds S.A., SICAV-SIF and Valin Mittelstands Senior Debt Funds S.A., SICAV-SIF (MSD) fund platforms and originates loans that are sold to the respective sub-funds. IKB also performs the role of investment manager for MSD. The Bank’s interest in each sub-fund is limited to a maximum of 5%. The opportunities lie in the receipt of management and service fees. The costs of rendering service lead to an outflow of funds. Violations of contractual obligations can also lead to compensation obligations. Given the lack of control, neither the fund platforms nor their sub-funds were included in consolidation.

Forward transactions

As at the balance sheet date there are obligations from contingent and non-contingent forwards. These are essentially for hedging interest and currency risks and lead to future inflows or outflows of cash. Please also see the information on forwards (see note (62)).

Notes on the income statement

(47) Income by geographical market

The total amount of interest income, lease income, current income from equities and other non-fixed-income securities, equity investments and investments in affiliated companies, commission income, net trading results and other operating income breaks down among the different geographical markets as follows:

	Group		IKB AG	
in € million	**2016/17**	**2015/16**	**2016/17**	**2015/16**
Germany	1,540.1	1,977.4	1,174.1	1,571.1
Europe not including Germany	240.6	282.7	30.5	45.6
Total	**1,780.7**	**2,260.1**	**1,204.6**	**1,616.7**

Income is allocated to geographical regions on the basis of the domicile of the company in the Group and the domiciles of the operation facilities at IKB AG.

(48) Income and expenses from leases

	Group	
in € million	**2016/17**	**2015/16**
Depreciation and impairment losses on lease assets	-291.2	-310.8
Other operating income from leases	46.3	57.1

(49) Extraordinary income and expenses

The “Extraordinary expenses” item includes restructuring expenses of € 11.2 million (previous year: € 28.8 million) for the Group and € 11.2 million (previous year: € 23.8 million) for IKB AG.

Other extraordinary expenses of € 27.0 million at IKB AG (previous year: € 4.1 million) and € 31.2 million in the Group (previous year: € 4.6 million) relate to the distribution of the additional expenses from the remeasurement of pension provisions in accordance with BilMoG (see note (2)).

(50) Other operating expenses

Other operating expenses include essentially:

	Group		IKB AG	
in € million	**2016/17**	**2015/16**	**2016/17**	**2015/16**
Expenses from the reversal of swap agreements	-541.5	-676.1	-541.8	-676.1
Expenses from derivatives in the non-trading book	-51.0	-68.7	-51.0	-70.7
Expenses from currency translation	-49.5	-47.3	-	-
Expenses from additions to provisions	-4.5	-130.0	-4.3	-128.8
Pension scheme expense (CTA-funded)	-10.3	-46.7	-8.4	-41.4
Rent/upkeep (not for operational purposes)	-1.9	-2.5	-2.2	-3.3
Expenses for interest on provisions	-3.1	-0.9	-3.1	-0.9

The expenses from the reversal of swap agreements relate to strategic close-outs of derivative transactions in the banking book. These expenses are offset by income in the item “Other operating income”.

(51) Income taxes

The item “Income taxes” includes current taxes of € -19.2 million (previous year: € -9.2 million) in the Group and € -16.7 million (previous year: € -8.2 million) at IKB AG. Of this amount, current taxes of € -12.3 million relate to international branches of IKB AG in the current 2016/17 financial year, essentially in connection with their closure.

Furthermore the change in the “Income taxes” item includes the change in the recognition of deferred tax assets of € 1.4 million (previous year: € 10.4 million) in the Group and € -0.7 million (previous year: € 11.6 million) at IKB AG.

(52) Income from profit transfer agreements

The income from profit transfers at IKB AG of € 15.4 million (previous year: € 18.9 million) essentially relates to the profit transfer from IKB Beteiligungen GmbH of € 11.4 million (previous year: € 16.9 million) and the profit transfer by IKB Data GmbH of € 2.8 million (previous year: € 1.9 million).

(53) Administrative and brokerage services for third parties

IKB essentially performs administrative and brokerage services for credit and fund business. The income from these activities is included in net commission income.

(54) Other operating income

Other operating income is composed primarily as follows:

	Group		IKB AG	
in € million	**2016/17**	**2015/16**	**2016/17**	**2015/16**
Income from the reversal of swap agreements	282.6	601.6	296.8	601.6
Income from derivatives in the non-trading book	54.1	50.0	54.2	52.0
Income from currency translation	53.1	56.2	3.9	5.7
Income from the reversal of provisions	12.8	21.3	10.7	20.9
Rental income	3.8	3.3	1.4	3.2
Income from compensation payments[1)]	5.5	8.7	0.3	2.1
Income from the discounting of provisions	0.2	2.3	0.2	2.3

1) from out-of-court settlements

The income from the reversal of swap agreements relates to strategic close-outs of derivative transactions in the banking book. This income is offset by expenses in the item “Other operating expenses”.

Other disclosures

(55) Scope of consolidation as at 31 March 2017

			Equity interest in %
A.	**Consolidated subsidiaries**		
1.	**Other domestic companies**		
	Aleanta GmbH, Düsseldorf		100
	IKB Beteiligungen GmbH, Düsseldorf		100
	IKB Beteiligungsgesellschaft 1 mbH, Düsseldorf		100
	IKB Beteiligungsgesellschaft 2 mbH, Düsseldorf		100
	IKB Beteiligungsgesellschaft 3 mbH, Düsseldorf		100
	IKB Beteiligungsgesellschaft 5 mbH, Düsseldorf		100
	IKB Data GmbH, Düsseldorf		100
	IKB Equity Capital Fund GmbH, Düsseldorf	1)	100
	IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG, Düsseldorf		94.9
	IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG, Düsseldorf	1)	94.9
	IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf		100
	IKB Grundstücks GmbH, Düsseldorf		100
	IKB Grundstücksgesellschaft Düsseldorf GmbH, Düsseldorf		100
	IKB Invest GmbH, Düsseldorf	1)	100
	IKB Leasing Beteiligungsgesellschaft mbH, Hamburg	1)	100
	IKB Leasing GmbH, Hamburg	1)	100
	IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf	3)	100
	IKB Real Estate Holding GmbH, Düsseldorf		100
	IKB Struktur GmbH, Düsseldorf	1)	100
	Istop 1 GmbH, Düsseldorf	1)	100
	Istop 2 GmbH, Düsseldorf	1)	100
	Istop 4 GmbH, Düsseldorf	1)	100
	Istop 6 GmbH, Düsseldorf	1)	100
	MATRONA GmbH, Düsseldorf	1)	100
	Projektbeteiligung TH GmbH & Co. KG, Düsseldorf	1)	89.8
	Tempelhofer Hafen GmbH & Co. KG, Düsseldorf	1)	94.9
	UTA Truck Lease GmbH, Neu-Isenburg	1)	100
2.	**Other foreign companies**		
	AO IKB Leasing geschlossene Aktiengesellschaft, Moscow, Russia	1)	100
	IKB Finance B.V., Amsterdam, Netherlands		100
	IKB Funding LLC I, Wilmington, United States of America	1)	100
	IKB Funding LLC II, Wilmington, United States of America	1)	100
	IKB International S.A. i.L., Munsbach, Luxembourg	2)3)	100
	IKB Leasing Austria GmbH, Vienna, Austria	1)	100
	IKB Leasing CR s.r.o., Prague, Czech Republic	1)	100
	IKB Leasing Finance IFN SA, Bucharest, Romania	1)	100
	IKB Leasing France S.A.R.L., Marne La Vallée, France	1)	100
	IKB Leasing Kft., Budapest, Hungary	1)	100
	IKB Leasing Polska Sp.z.o.o, Poznan (Posen), Poland	1)	100
	IKB Leasing S.R.L., Bucharest, Romania	1)	100
	IKB Leasing SR, s.r.o., Bratislava, Slovakia	1)	100
	IKB Lux Beteiligungen S.à.r.l, Munsbach, Luxembourg		100
	IKB Pénzügyi Lízing Zrt., Budapest, Hungary	1)	100
	IKBL Asset spólka z ograniczona odpowiedzialnoscia & Co. spólka komandytowa, Poznan, Poland	1)	100
	IKBL ASSET Spolka z ograniczona odpowiedzialnoscia, Poznan, Poland	1)	100
	IKBL Renting and Service S.r.l., Lainate (MI), Italy	1)	100
	STILL LOCATION S.à.r.l., Marne La Vallée, France	1)	100
3.	**Special-purpose entities in accordance with section 290 (2) no. 4 HGB**		
	German Mittelstand Equipment Finance S.A., Luxembourg, Luxembourg		
	RIO DEBT HOLDINGS (IRELAND) LIMITED, Dublin, Ireland		
B.	**Associates**		
	Linde Leasing GmbH, Wiesbaden	1)	30.0

1) Indirect investment 2) in liquidation (banking licence returned) 3) in liquidation

(56) List of shareholdings as at 31 March 2017

31 Mar. 2017	Financial year	Letter of comfort	Equity interest in %	Equity in € thousand	Result in € thousand
1. German subsidiaries (consolidated)					
Aleanta GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00	1,336	-215
IKB Beteiligungen GmbH, Düsseldorf [3]	1 Apr. - 31 Mar.		100.00	79,742	0
IKB Beteiligungsgesellschaft 1 mbH, Düsseldorf [3]	1 Jan. - 31 Dec.		100.00	55	0
IKB Beteiligungsgesellschaft 2 mbH, Düsseldorf [3]	1 Jan. - 31 Dec.		100.00	80	0
IKB Beteiligungsgesellschaft 3 mbH, Düsseldorf [3]	1 Jan. - 31 Dec.		100.00	55	0
IKB Beteiligungsgesellschaft 5 mbH, Düsseldorf [3]	1 Apr. - 31 Mar.		100.00	54	0
IKB Data GmbH, Düsseldorf [3]	1 Apr. - 31 Mar.		100.00	13,000	0
IKB Equity Capital Fund GmbH, Düsseldorf	1 Apr. - 31 Mar.	X	100.00	8,304	1,572
IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG, Düsseldorf [5]	1 Apr. - 31 Mar.		94.90	20,000	1,893
IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG, Düsseldorf [5]	1 Apr. - 31 Mar.		94.90	7,200	502
IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf [5]	1 Jan. - 31 Dec.	X	100.00	8,847	976
IKB Grundstücks GmbH, Düsseldorf	1 Jan. - 31 Dec.	X	100.00	98	0
IKB Grundstücksgesellschaft Düsseldorf GmbH, Düsseldorf	1 Apr. - 31 Mar.		100.00	20	-1
IKB Invest GmbH, Düsseldorf [3]	1 Apr. - 31 Mar.		100.00	263,408	0
IKB Leasing Beteiligungsgesellschaft mbH, Hamburg [3]	1 Apr. - 31 Mar.		100.00	5,825	0
IKB Leasing GmbH, Hamburg [3]	1 Apr. - 31 Mar.		100.00	178,223	0
IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf [4]	1 Jan. - 31 Dec.	X	100.00	5,787	1,172
IKB Real Estate Holding GmbH, Düsseldorf [3]	1 Apr. - 31 Mar.		100.00	54	0
IKB Struktur GmbH, Düsseldorf [3]	1 Apr. - 31 Mar.		100.00	103,750	0
Istop 1 GmbH, Düsseldorf [3]	1 Jan. - 31 Dec.		100.00	115,975	0
Istop 2 GmbH, Düsseldorf [3]	1 Jan. - 31 Dec.		100.00	155,025	0
Istop 4 GmbH, Düsseldorf [3]	1 Jan. - 31 Dec.		100.00	93,525	0
Istop 6 GmbH, Düsseldorf [3]	1 Jan. - 31 Dec.		100.00	114,445	0
MATRONA GmbH, Düsseldorf [3]	1 Apr. - 31 Mar.		100.00	45,025	0
Projektbeteiligung TH GmbH & Co. KG, Düsseldorf [5]	1 Jan. - 31 Dec.		89.80	0	-4
Tempelhofer Hafen GmbH & Co. KG, Düsseldorf [5]	1 Jan. - 31 Dec.		94.90	0	-825
UTA Truck Lease GmbH, Neu-Isenburg [3]	1. Apr. - 31 Mar.		100.00	9,028	0
2. Foreign subsidiaries (consolidated)					
AO IKB Leasing geschlossene Aktiengesellschaft, Moscow, Russia	1 Jan. - 31 Dec.		100.00	11,521	9,987
IKB Finance B.V., Amsterdam, Netherlands	1 Apr. - 31 Mar.	X	100.00	6,383	270
IKB Funding LLC I, Wilmington, United States of America [2]	1 Apr. - 31 Mar.	X	100.00	280	-46
IKB Funding LLC II, Wilmington, United States of America [2]	1 Apr. - 31 Mar.	X	100.00	677	81
IKB International S.A. i.L., Munsbach, Luxembourg [4]	1 Apr. - 31 Mar.	X	100.00	39,655	-127
IKB Leasing Austria GmbH, Vienna, Austria	1 Jan. - 31 Dec.		100.00	714	-56
IKB Leasing CR s.r.o., Prague, Czech Republic	1 Jan. - 31 Dec.		100.00	31,703	515
IKB Leasing Finance IFN S.A., Bucharest, Romania	1 Jan. - 31 Dec.		100.00	5,946	1,341
IKB Leasing France S.A.R.L., Marne La Vallée, France	1 Jan. - 31 Dec.		100.00	3,525	1,294
IKB Leasing Kft., Budapest, Hungary	1 Jan. - 31 Dec.		100.00	6,383	1,144
IKB Leasing Polska Sp.z.o.o, Poznan (Posen), Poland	1 Jan. - 31 Dec.		100.00	11,209	48
IKB Leasing S.R.L., Bucharest, Romania	1 Jan. - 31 Dec.		100.00	1,915	329
IKB Leasing SR, s.r.o., Bratislava, Slovakia	1 Jan. - 31 Dec.		100.00	2,731	-201
IKB Lux Beteiligungen S.à.r.l., Munsbach, Luxembourg	1 Apr. - 31 Mar.	X	100.00	10,212	-105
IKB Pénzügyi Lizing Zrt., Budapest, Hungary	1 Jan. - 31 Dec.		100.00	4,044	903
IKBL Asset spólka z ograniczona odpowiedzialnoscia & Co. spólka komandytowa, Poznan, Poland [5]	1 Jan. - 31 Dec.		100.00	97	40

31 Mar. 2017	Financial year	Letter of comfort	Equity interest in %	Equity in € thousand	Result in € thousand
IKBL ASSET Spolka z ograniczona odpowiedzialnoscia, Poznan, Poland	1 Jan. - 31 Dec.		100.00	9	-9
IKBL Renting and Service S.r.l., Lainate (MI), Italy	1 Jan. - 31 Dec.		100.00	756	-398
STILL LOCATION S.à.r.l., Marne La Vallée, France	1 Jan. - 31 Dec.		100.00	26,969	3,645
3. Special-purpose entities (special-purpose entities included in the consolidated financial statements in line with section 290 (2) no. 4 HGB)					
German Mittelstand Equipment Finance S.A., Luxembourg, Luxembourg					
RIO DEBT HOLDINGS (IRELAND) LIMITED, Dublin 2, Ireland					

31 Mar. 2017		Financial year	Letter of comfort	Equity interest in %
4. German subsidiaries (not included in consolidation due to section 296 HGB)	[1]			
Brunnenstraße 105-109 Berlin Grundbesitz GmbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
Feldmühleplatz 1 Verwaltungsgesellschaft mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
FRANA Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
GAP 15 GmbH i.L., Düsseldorf	[4]	1 Jan. - 31 Dec.		92.80
GARUMNA GmbH, Düsseldorf	[3]	1 Apr. - 31 Mar.		100.00
HAUSTUS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Yachtzentrum Berlin KG i.L., Düsseldorf	[4]	1 Jan. - 31 Dec.		94.67
IKB Beteiligungsgesellschaft 7 mbH, Düsseldorf	[3]	1 Jan. - 31 Dec.		100.00
IKB Beteiligungsgesellschaft 8 mbH, Düsseldorf	[3]	1 Jan. - 31 Dec.		100.00
IKB Beteiligungsgesellschaft 9 mbH, Düsseldorf	[3]	1 Jan. - 31 Dec.		100.00
IKB Beteiligungsgesellschaft 10 mbH, Düsseldorf	[3]	1 Jan. - 31 Dec.		100.00
IKB Projektentwicklungsverwaltungsgesellschaft mbH i.L., Düsseldorf	[4]	1 Oct. - 30 Sep.	X	100.00
IKB NewCo 1 GmbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
IKB NewCo 3 GmbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
IKB NewCo 5 GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00
IKB Real Estate GmbH, Düsseldorf	[3]	1 Jan. - 31 Dec.		100.00
ILF Immobilien-Leasing-Fonds Verwaltung GmbH & Co. Objekt Boxdorf KG i.L., Düsseldorf	[4]	1 Jan. - 31 Dec.		94.26
IMAS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf		1 Apr. - 31 Mar.	X	100.00
ISOG Management GmbH, Weilheim		1 Apr. - 31 Mar.		57.70
ISOG Technology Holding GmbH, Weilheim		1 Apr. - 31 Mar.		57.70
ISTOS Beteiligungsverwaltungs- und Grundstücks- Vermietungsgesellschaft mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
Ligera GmbH, Düsseldorf	[3]	1 Jan. - 31 Dec.		100.00
MFRSI Beteiligungsholding Verwaltungsgesellschaft mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
Restruktur 2 GmbH i.L., Düsseldorf	[4]	1 Apr. - 31 Mar.		100.00
Restruktur 3 GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00
Rhodana GmbH, Düsseldorf	[3]	1 Jan. - 31 Dec.		100.00
SEQUANA GmbH, Düsseldorf	[3]	1 Apr. - 31 Mar.		100.00

31 Mar. 2017		Financial year	Letter of comfort	Equity interest in %
5. Foreign subsidiaries (not included in consolidation due to section 296 HGB)	1)			
IKB Funding Trust I, Wilmington, United States of America		1 Apr. - 31 Mar.		100.00
IKB Funding Trust II, Wilmington, United States of America		1 Apr. - 31 Mar.		100.00
ISOG Technology Co. Ltd., Shanghai, China		1 Apr. - 31 Mar.		57.70
ISOG Technology Italia S.r.l., Turate, Italy		1 Apr. - 31 Mar.		57.70
Valin Asset Management S.à.r.l., Luxembourg, Luxembourg		1 Apr. - 31 Mar.		100.00
6. Special-purpose entities (not included in consolidation due to section 296 HGB)	1)			
Corelux Purchaser No. 1 S. A., Luxembourg, Luxembourg				
HIMERA Grundstücks-Vermietungsgesellschaft mbH, Pullach i. Isartal				
Rosaria Grundstücks-Vermietungsgesellschaft mbH Objekt Heimstetten KG, Grünwald				
Weinberg Capital Ltd., Dublin, Ireland				
7. German associates	1)			
Linde Leasing GmbH, Wiesbaden		1 Jan. - 31 Dec.		30.00
8. German associates/joint ventures (not accounted for using the equity method due to section 311 (2) HGB)	1)			
Argantis Beteiligungs-Holding GmbH i.L., Cologne	4)	1 Jan. - 31 Dec.		50.00
Argantis GmbH i.L., Cologne	4)	1 Jan. - 31 Dec.		50.00
Chemtura Verwaltungs GmbH, Bergkamen		1 Jan. - 31 Dec.		50.00
Dritte Hubschraubertechnologiepark Donauwörth GmbH, Düsseldorf		1 Jan. - 31 Dec.		50.00
equiNotes Management GmbH, Düsseldorf		1 Jan. - 31 Dec.		50.00
FUNDIS Projektentwicklungsholding GmbH & Co. KG, Düsseldorf		1 Jan. - 31 Dec.		50.00
FUNDIS Verwaltungsgesellschaft mbH, Düsseldorf		1 Jan. - 31 Dec.		50.00
HABITO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt EINS KG, Pullach i. Isartal		1 Jan. - 31 Dec.		6.00
Hafenspitze Verwaltungsgesellschaft mbH, Hamburg		1 Jan. - 31 Dec.		25.00
LOUDA SYSTEMS GmbH, Triptis		1 Jan. - 31 Dec.		45.00
MFRSI Beteiligungsholding GmbH & Co. KG, Düsseldorf		1 Jan. - 31 Dec.		50.00
Mike's Sandwich GmbH, Hamburg		1 Jan. - 31 Dec.		35.59
MOTORRAD-ECKE GmbH, Villingen-Schwennigen		1 Jan. - 31 Dec.		38.86
ODS Business Services Group GmbH, Hamburg		1 Jan. - 31 Dec.		32.00
Vermögensverwaltungsgesellschaft DVD Dassow GmbH, Dassow		1 Jan. - 31 Dec.		30.00
9. Equity investments in corporations and partnerships in which the interest exceeds 5% of voting rights	1)			
AXA Immoselect Hauptverwaltungsgebäude GmbH & Co. Objekt Düsseldorf Uerdinger Straße KG, Cologne		1 Jan. - 31 Dec.		5.10
Könemann Verlagsgesellschaft mbH, Cologne		1 Jan. - 31 Dec.		12.50
pgam advanced technologies AG, Georgsmarienhütte		1 Jan. - 31 Dec.		5.16
Ring International Holding AG, Vienna, Austria		1 Jan. - 31 Dec.		9.37

1) The information in accordance with section 285 no. 11 HGB on equity and results is not shown for companies not included in the consolidated financial statements in accordance with section 286 (3) sentence 1 no. 1 HGB.
2) Subordinated letter of comfort
3) Profit transfer agreement
4) In liquidation
5) IKB AG or a subsidiary included in the Group is the general partner

The capital shares in the associates are the same as the voting shares. IKB has one deviating share of voting rights in HABITO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt EINS KG, Pullach im Isartal (capital share: 6.00%; share of voting rights: 16.00%).

(57) Significant shares in voting rights

The Bank did not receive any notifications under stock corporation law in accordance with section 20 (1) or (4) AktG in the reporting period. In accordance with 20 AktG, an enterprise must notify a company in writing as soon as it holds more than 25% (section 20 (1) AktG) or 50% (section 20 (4) AktG) of the shares in a non-listed company based in Germany.

With the entry of the resolution adopted at the extraordinary shareholder meeting of the IKB AG on 2 December 2016 to transfer all shares to the main shareholder against cash compensation (squeeze-out) in the commercial register, LSF6 Europe Financial Holdings, L.P., Dallas, USA, now holds 100% of IKB shares.

(58) Disclosure of auditor's fees

	Group		IKB AG	
in € million	**2016/17**	**2015/16**	**2016/17**	**2015/16**
Audit of financial statements	-2.5	-2.5	-2.0	-2.0
Other assurance or valuation services	-0.3	-	-0.3	-
Other services	-0.4	-0.1	-0.4	-0.1
Total	**-3.2**	**-2.6**	**-2.7**	**-2.1**

Auditor fees include € 0.1 million (previous year: € 0.2 million) in expenses for previous financial years.

(59) Related party transactions

Transactions with related parties were conducted at standard market terms. There were no significant transactions at non-standard market conditions that would have been reportable in line with section 314 (1) no. 13 HGB for the IKB Group or section 285 no. 21 HGB for IKB AG.

(60) Letters of comfort

IKB AG ensures that its subsidiaries indicated in the list of shareholdings of IKB AG in the most recent annual financial statements or interim report published as protected by the letter of comfort are able to meet their contractual obligations with the exception of the event of political risk. There have been no changes since the previous year.

IKB Invest GmbH, Düsseldorf, has issued a letter of comfort for IKB Equity Capital Fund GmbH, Düsseldorf, so that it can meet its obligations under loan and warranty agreements transferred to it under the spin-off and takeover agreement.

(61) Transfer of collateral for own liabilities and contingent liabilities

Assets were transferred in the amounts shown for the following liabilities:

31 Mar. 2017 in € million	Group	IKB AG
Liabilities to banks	8,735.8	8,395.9
Liabilities to customers	46.6	670.1
Securitised liabilities	71.0	-
Other liabilities	329.5	-
Contingent liabilities	-	-
Total	**9,182.9**	**9,066.0**

The assets serving as collateral are essentially receivables and securities transferred to third-party banks, special purpose entities or clearing houses in open market, securitisation transactions and as part of grant transactions.

(62) Forward transactions

The forwards concluded essentially serve to manage and limit interest rate risks and relate in particular to the credit refinancing portfolio and the investment portfolios. The amount of interest rate risk is restricted by a limit system approved by the Board of Managing Directors and monitored on a daily basis in risk management. In addition, the volume of forward and derivative transactions is restricted by counterparty limits.

The interest rate risks of securities, loans and the associated refinancing funds are managed uniformly in the investment portfolios and the credit refinancing portfolio. Derivatives are used to eliminate or reduce mismatched maturities and interest and exchange rate risks. The derivatives used are predominantly interest derivatives.

Please see note (63) for the fair values of interest-related derivatives in the Group and at IKB AG.

(63) Derivative financial instruments not recognised at fair value

Group:

	Nominal	Fair value		Carrying amount	
31 Mar. 2017 **in € million**		**positive**	**negative**	**Assets**	**Equity and liabilities**
Interest-related derivatives	20,130.8	957.1	1,791.0	143.5	83.8
Credit-related derivatives	1,423.7	10.1	58.1	2.6	63.8
Currency-related derivatives	1,869.0	22.6	32.9	2.9	14.8
Derivatives assigned to several categories	1,401.0	179.5	128.9	43.9	8.6
Total	**24,824.5**	**1,169.3**	**2,010.9**	**192.9**	**171.0**

	Carrying amount				
31 Mar. 2017 **in € million**	**Other assets**	**Prepaid expenses**	**Provisions**[1)]	**Other liabilities**	**Deferred income**
Interest-related derivatives	75.7	67.8	0.1	75.6	8.1
Credit-related derivatives	0.3	2.3	53.0	-	10.8
Currency-related derivatives	2.9	-	0.3	14.5	-
Derivatives assigned to several categories	35.8	8.1	-	1.0	7.6
Total	**114.7**	**78.2**	**53.4**	**91.1**	**26.5**

1) Relates to embedded derivatives

IKB AG:

	Nominal	Fair value		Carrying amount	
31 Mar. 2017 **in € million**		**positive**	**negative**	**Assets**	**Equity and liabilities**
Interest-related derivatives	20,357.3	967.0	1,790.6	176.8	109.1
Credit-related derivatives	1,477.1	10.1	58.9	2.6	64.6
Currency-related derivatives	1,869.0	22.6	32.9	2.9	14.8
Derivatives assigned to several categories	1,401.0	179.5	128.9	44.2	8.8
Total	**25,104.4**	**1,179.2**	**2,011.3**	**226.5**	**197.3**

	Carrying amount				
31 Mar. 2017 **in € million**	**Other assets**	**Prepaid expenses**	**Provisions**[1)]	**Other liabilities**	**Deferred income**
Interest-related derivatives	75.9	100.9	-	73.9	35.2
Credit-related derivatives	0.3	2.3	53.0	0.8	10.8
Currency-related derivatives	2.9	-	0.3	14.5	-
Derivatives assigned to several categories	35.8	8.4	-	0.8	8.0
Total	**114.9**	**111.6**	**53.3**	**90.0**	**54.0**

1) Relates to embedded derivatives

(64) Unrealised gains and losses

The table below shows the unrealised gains and losses for the following material financial balance sheet items and off-balance sheet derivatives of the IKB Group.

Group	31 Mar. 2017			31 Mar. 2016		
in € million	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Receivables from banks	1,669.7	1,671.4	1.7	2,122.2	2,123.7	1.5
Receivables from customers[1)]	9,925.4	10,390.1	464.7	9,887.8	10,372.5	484.7
Bonds and other fixed-income securities	5,329.7	5,485.5	155.8	5,051.6	5,522.4	470.8
Equities and other non-fixed-income securities	472.5	469.4	-3.1	470.1	473.3	3.2
Derivative financial instruments not recognised at fair value	193.0	1,169.4	976.4	395.3	1,785.3	1,390.0
Subtotal	**17,590.3**	**19,185.8**	**1,595.5**	**17,927.0**	**20,277.2**	**2,350.2**
Liabilities to banks	7,642.5	7,710.9	-68.4	7,897.0	8,045.1	-148.1
Liabilities to customers	7,550.9	7,625.3	-74.4	7,498.4	7,633.3	-134.9
Securitised liabilities	822.9	826.5	-3.6	773.8	779.2	-5.4
Subordinated liabilities	695.8	327.0	368.8	921.7	538.2	383.5
Profit participation capital	0.0	0.0	0.0	32.2	28.2	4.0
Silent partnership contributions	0.0	99.1	-99.1	0.0	72.5	-72.5
Derivative financial instruments not recognised at fair value	171.0	2,010.9	-1,839.9	357.2	2,968.9	-2,611.7
Subtotal	**16,883.1**	**18,599.7**	**-1,716.6**	**17,480.3**	**20,065.4**	**-2,585.1**
Total			**-121.1**			**-234.9**

1) IKB implemented changes in the calculation of the fair value of receivables from customers in the financial year. Applying the current measurement methods to the portfolio as at 31 March 2016, the unrealised result from receivables from customers would be around € 39.8 million higher.

The profit participation capital with a carrying amount of € 32.2 million matures in August 2017 and was therefore reclassified to other liabilities.

In addition to its net asset surplus included in the consolidated financial statements, the IKB Leasing Group also has a net asset value (unrealised gains from leasing business) of € 115.5 million (31 March 2016: € 131.4 million). The net asset value is calculated using the model of the Federal Association of German Leasing Companies (Bundesverband Deutscher Leasingunternehmen e.V.).

The unrealised profit or loss is calculated by comparing the net book value and the fair value. The recognition of specific valuation allowances has no influence on unrealised gains or losses, as recognised specific valuation allowances are also taken into account in the calculation of fair value. The carrying amount is taken as being equal to fair value for receivables and liabilities repayable on demand and prepaid expenses/deferred income.

The fair values of receivables as determined for reporting in the notes are calculated on the basis of the discounted cash flow method. Fair value is calculated using assumptions that would arise between independent business partners using similar parameters for their purchase price calculation. Discounting is carried out using term-differentiated swap rates on the balance sheet date plus a credit spread derived using IKB's internal risk measurement methods. The credit spread for the loan fluctuates according to changes in the measured standard risk costs, which are determined by the customer's internal rating, the collateral situation and the remaining term of the loan on the measurement date. In addition, the pre-tax returns of third parties derived from accounting equity, the administrative expenses of IKB and the funding costs observed on the market of banks with a rating of A or AA are also taken into account.

Receivables from promotional loans offset by individual financing loans under equity and liabilities are measured without taking into account funding costs. The present value of individual financing loans under equity and liabilities is calculated by discounting the interest and principal repayment cash flows using matched-term, risk-free swap rates.

Securities (including securitised subordinated liabilities and securitised silent partnership contributions) are measured at the quoted or market price on the reporting date if a liquid price is available. A quoted or market price is considered to be liquid if the number of available price quotations exceeds a minimum number defined in accordance with an analysis based on statistical methods. This applies to both traded and non-traded observable prices. If there are no closing rates, the market value is calculated on the basis of price information from market data providers and tested for plausibility using suitable methods. If there are no quoted prices or price information from contractual providers for securities, their value is determined on the basis of measurement models by discounting forecast cash flows. The discounting rate is calculated using the risk profile of similar securities. Parameters not observed on the market are used for this. The fair values for fund units recognised in the IKB Group are the total net asset value relating to the units held.

The fair value of derivatives in the non-trading book is calculated in line with the measurement hierarchy set out in section 255 (4) HGB. The fair values of derivatives not traded on stock exchanges are determined on the basis of mathematical measurement models and market data (including interest rates, interest rate volatilities, exchange rates). Future cash flows are derived using currency-specific and tenor-specific swap curves. The amount, timing and certainty of cash flows are dependent on the development of interest and exchange rates, contractual regulations on payment dates for the respective derivative and the credit quality of the respective counterparty. Secured derivatives are discounted using the currency-based overnight index curve.

To calculate the fair values for liabilities to customers and banks the contractual cash flows are discounted using a matched-term swap rate plus IKB's specific funding costs. The funding costs are derived from the costs of similar issues.

(65) Remuneration of the Board of Managing Directors

Total remuneration of € 4.5 million (previous year: € 4.6 million) was incurred for members of the Board of Managing Directors active in the 2016/17 financial year. This includes fixed salaries, variable performance-based remuneration, severance payments, pension compensation for a pension not agreed, reimbursed moving costs and non-cash remuneration. The Supervisory Board regularly reviews the appropriateness of the respective total remuneration.

Former and retired members of the Board of Managing Directors

The total remuneration for former members of the Board of Managing Directors and their surviving dependants amounted to € 3.5 million (previous year: € 3.2 million). In the 2016/17 financial year, € 46.4 million was recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependants based on an average interest rate of ten years (previous year: € 46.6 million).

(66) Remuneration of the Supervisory Board

The total remuneration of the members of the Supervisory Board for the 2016/17 financial year amounted to € 258 thousand (previous year: € 275 thousand). This contains reimbursed expenses of € 58 thousand including the VAT incurred on remuneration (previous year: € 60 thousand).

(67) Remuneration of the Advisory Board

The members of the Advisory Board received € 247 thousand (previous year: € 233 thousand), including VAT.

(68) Loans extended to members of executive bodies and the Advisory Board

No loans were granted to members of the Board of Managing Directors, the Supervisory Board or the Advisory Board. Loans totalling € 8.1 thousand were extended to the members of the Supervisory Board in the previous year.

(69) Average number of employees for the year (calculated on the basis of full-time employees)

	Group		IKB AG	
	31 Mar. 2017	31 Mar. 2016	31 Mar. 2017	31 Mar. 2016
Men	954	973	641	680
Women	553	570	298	319
Total	**1,507**	**1,543**	**939**	**999**

The number of employees at associates was 5 FTEs as at the reporting date.

(70) Significant events after 31 March 2017

The following major developments have arisen since 31 March 2017:

Purchase bid to the bearers of Capital Raising bonds and Hybrid Raising bonds

On 20 April 2017 IKB Lux Beteiligungen S.à r.l. informed the holders of the notes issued by Capital Raising GmbH (ISIN DE0007490724, “Capital Notes”) and of the notes issued by Hybrid Raising GmbH (ISIN DE000A0AMCG6, “Hybrid Notes”) – together the “Notes” – of its offer to purchase any and all of the Notes at the purchase price of 20% of the nominal value pursuant to the terms and subject to the conditions set out in the Tender Offer Memorandum dated 20 April 2017. The offer ended on 10 May 2017, 4:00 p.m. (CEST) and was not extended.

On 12 May 2017 IKB Lux Beteiligungen S.à r.l. announced that it had received total declarations of acceptance of its tender offer for 87.9% of the Notes (average for all Notes combined) by the deadline of 10 May 2017, 4:00 p.m. (CEST). All valid declarations of acceptance received before the end of the offer were processed on 15 May 2017.

The acquisition of the bonds led to an outflow of liquidity in the Group and expenses in the amount of the purchase price plus transaction costs.

Election of the auditor

Following the public tendered performed under the responsibility of the Risk and Audit Committee for the audit of the annual and consolidated financial statements, in line with the proposal by the Supervisory Board, the Annual General Meeting of IKB elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as the new auditor of the annual and consolidated financial statements for the 2017/18 financial year on 9 May 2017. The change of auditor required by law from PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, which has been IKB's auditor for ten years, was thus implemented.

(71) Executive bodies

Board of Managing Directors

Dr Michael H. Wiedmann (Chairman)

Claus Momburg

Dr Jörg Oliveri del Castillo-Schulz

Dirk Volz

Supervisory Board

Dr Karl-Gerhard Eick (Chairman)
Management consultant

Dr Claus Nolting (Deputy Chairman)
Lawyer

Stefan A. Baustert (until 1 September 2016)
Member of the Management Board, QSC AG

Sven Boysen*
Employee representative

Mark Coker
Managing Director and General Counsel – Europe at Hudson Advisors UK Ltd.

Benjamin Dickgießer
Director of Lone Star Europe Acquisitions LLP

Dr Lutz-Christian Funke
Head of Board of Managing Directors Support/Communications at KfW Bankengruppe

Arndt G. Kirchhoff
Managing Partner and CEO of KIRCHHOFF Holding GmbH & Co. KG

Bernd Klein*
Employee representative

Rainer Lenz* (until 1 September 2016)
Employee representative

Nicole Riggers*
Employee representative

*elected by the employees

Offices held by employees

As at 31 March 2017, the following employees were represented in the statutory supervisory boards of large corporations:

Dr. Reiner Dietrich
Tricor Packaging & Logistics AG

Düsseldorf, 22 May 2017

IKB Deutsche Industriebank AG

The Board of Managing Directors

Dr Michael H. Wiedmann	Claus Momburg
Dr Jörg Oliveri del Castillo-Schulz	Dirk Volz

Auditor's reports

Auditors Report of the auditor for the consolidated financial statements and the Group management report of IKB Deutsche Industriebank AG for the financial year from 1 April 2016 to 31 March 2017

We have audited the consolidated financial statements comprising the balance sheet, the income statement, cash flow statement, statement of changes in equity and the notes of the consolidated financial statements, which are combined with the notes of the annual financial statements of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, and the group management report, which is combined with the management report of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf for the business year from 1 April 2016 to 31 March 2017. The preparation of the consolidated financial statements and the combined management report in accordance with German commercial law is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statement in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with (German) principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on the test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimated made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based in the findings of our audit, the consolidated financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with (German) principles of proper accounting. The combined management report is consistent with the consolidated financial statements, complies with legal requirements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 24. May 2017

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Mark Maternus	ppa. Axel Menge
Wirtschaftsprüfer (German Public Auditor)	Wirtschaftsprüfer (German Public Auditor)

Auditors Report of the audit for the annual financial statements and the management report of IKB Deutsche Industriebank AG for the financial year from 1 April 2016 to 31 March 2017

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, which are combined with the notes of the consolidated financial statements – together with the bookkeeping system and the management report which is combined with the group management report of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, for the business year from 1 April 2016 to 31 March 2017. The maintenance of the books and records and the preparation of the annual financial statements and the combined management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors as well as evaluating the overall presentation of the annual financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The combined management report is consistent with the annual financial statements, complies with legal requirements, as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 24. May 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Mark Maternus	ppa. Axel Menge
Wirtschaftsprüfer (German Public Auditor)	Wirtschaftsprüfer (German Public Auditor)

Note on forward-looking statements

This report contains forward-looking statements. Forward-looking statements are statements that do not describe past events; they also include statements on IKB's assumptions and expectations. These statements are based on the planning, estimates and forecasts currently available to the management of IKB. Forward-looking statements therefore apply only on the day on which they are made. IKB accepts no obligation to update such statements in light of new information or future events.

Forward-looking statements naturally include risks and uncertainty factors. A large number of important factors can contribute towards actual results deviating considerably from forward-looking statements. Such factors include economic developments, the condition and development of the finance markets in Germany, Europe, the US and other places where IKB generates income from securities trading, the possible default of borrowers or counterparties in trades, the implementation of our management agenda, the reliability of risk management policies, procedures and methods and the liquidity situation.

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(Only the German version of this report is legally binding.)