

# Annual Report 2017/2018

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## **Letter from the Chairman of the Board of Managing Directors**

Ladies and Gentlemen,

In the 2017/18 financial year, we increased our focus on the German Mittelstand. The disposal of the IKB Leasing and ikb Data subsidiaries allowed us to focus our activities entirely on the German Mittelstand. IKB is the only mid-cap corporate bank to operate across Germany.

We have continued to expand our business with our core target group. With a new business volume of € 3.6 billion (excluding Leasing), we again increased our new business. We are maintaining our risk-adequate pricing policy. We increased our operating result, excluding net other income, from € 63 million in the previous year to € 90 million.

We also made considerable progress in reducing the complexity of our liability structure. Nominally, we reduced claims from debtor warrants, silent participations and funding trusts by over € 1.7 billion. The simplification of our liabilities generated significant expenses, therefore net other income and the consolidated net income were significantly negative.

In order to further support the simplification of the liability structure and to be prepared for further growth in our lending business, we issued subordinated capital in the amount of € 545 million. The successful placement of a subordinated bond of € 300 million to institutional investors was an important step towards regaining access to the capital markets.

We slightly improved our capital ratios. We are well capitalized with a CET 1 ratio (fully loaded) of 11.6%. We aim to keep this ratio at around 11% in the future. We are working on the introduction of the internal ratings-based approach (IRB) which will allow us to reduce our risk-weighted assets in the loan book. Our leverage ratio (fully loaded) was 7.0%; the liquidity coverage ratio amounted to 750%.

We have reduced our NPL ratio, according to the EBA definition, for several years in a row. It is currently at 1.0%, a historically low figure for the Bank. In our risk provisioning, low additions were offset by high reversals, therefore the balance made a positive earnings contribution.

Our customers, the high-end German Mittelstand, have achieved a very strong position on the national and international markets. Nevertheless, we do not expect our risk situation in the loan book to remain as supportive as it is now. For this reason, we have to keep working on our cost structure in order to increase our competitiveness. We have initiated the necessary steps.

The sustained low-interest environment and constantly increasing regulatory requirements present additional challenges. Moreover, competition for our target clients is increasing. In order to maintain our market position and to keep growing profitably, we will have to be disciplined on pricing and highly cost-efficient. IKB has supported the German Mittelstand for more than 90 years and is now in an even stronger position to fulfill the requirements of these companies.

We have long-standing relationships with clients that are driven by our lending expertise and our comprehensive experience with public programme loans. Based on our strengths in structuring loans, we see ourselves as a sparring partner for companies in their investment decisions. With our tailored financing solutions, we give the German Mittelstand the scope to continue its success story.

Düsseldorf, June 2018

A handwritten signature in black ink, appearing to read 'M. Wiedmann', written in a cursive style.

Dr Michael H. Wiedmann

## **Report of the Supervisory Board**

In the financial year 2017/18, 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 management by the Board of Managing Directors and advised it 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 2017/18.

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 2017/18. Regular meetings were held in June, September, November and March. The Supervisory Board also convened in November, following the Annual General Meeting for the financial year 2016/17, for a constitutive meeting. The Supervisory Board addressed Group planning as well as the sale of the leasing sub-group in two extraordinary meetings in May and June 2017. At another extraordinary meeting of the Supervisory Board, the Supervisory Board was conclusively informed about a transaction for the restructuring of the liability side and took note of Group planning. The Chairmen of the Supervisory Board and the Board of Managing Directors also consulted regularly on key developments and decisions. If members of the Supervisory Board were unable to attend meetings of the Supervisory Board, they were absent with valid excuse.

### **Topics of the Supervisory Board plenary meeting**

At all regular Supervisory Board meetings in the financial year 2017/18, 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 2017, 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 the 2016/17 financial year. PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, 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 2017 with the combined management report and dependent company report for the financial year 2016/17. 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 2016/17 was also approved. Further topics were the explanation in written and oral form of Group planning and the remuneration systems for the company. Furthermore, the Supervisory Board determined the variable remuneration for the individual members of the Board of Managing Directors for the financial year 2016/17 and verified the determination of the pro-rata variable remuneration for the members of the Board of Managing Directors for the past three financial years 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 supervisory requirements. 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 and questions in connection with the implementation of the new German Remuneration Regulation for Institutions. The Supervisory Board also dealt with quantitative and qualitative medium-term HR planning and development. The Supervisory Board also set new targets for the proportion of women on the Board of Managing Directors and Supervisory Board.

In addition, the Supervisory Board dealt with the agenda for the Annual General Meeting of IKB in November 2017 and for two extraordinary General Meetings in May and June 2017 and adopted the respective resolution proposals of the Supervisory Board to the Annual General Meeting. In preparation for the Company's Annual General Meeting, the Supervisory Board addressed the proposed resolutions for the upcoming elections to the Supervisory Board. In preparation for the Extraordinary General Meeting in May 2017, the Supervisory Board resolved on the proposed resolution concerning the election of the auditor of the annual and consolidated financial statements and the auditor for a review of interim financial statements and reports. In addition, the Supervisory Board dealt with the sale of the company's interests in IKB Leasing GmbH and IKB Leasing Beteiligungsgesellschaft mbH in the 2016/17 financial year, in the run-up to the Extraordinary General Meeting in June 2017, which was approved by the Extraordinary General Meeting on 27 June 2017 pursuant to Section 119 (2) German Stock Corporation Act.

Finally, the Supervisory Board addressed the non-financial Group report prepared by the Board of Managing Directors for the first time in this financial year and decided to have a voluntary external audit of the report carried out based on the auditing standard to obtain limited assurance.



### **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. In this financial year, the focus was on various measures to restructure the bank's liabilities side, each of which the Supervisory Board Executive Committee intensively addressed before passing its resolution. The Supervisory Board Executive Committee approved further 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 held in the financial year.

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 intensively monitored the tender procedure for selection of a new auditor for IKB AG and the Group for the financial year 2017/18 which was conducted under its responsibility. As a result of the selection procedure, the Risk and Audit Committee proposed the two shortlisted candidates and recommended proposing Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft ("E&Y"), Stuttgart, to the Annual General Meeting as new auditor. The Supervisory Board followed this recommendation. Following the election of the new auditor by the Annual General Meeting on 9 May 2017, the auditor was appointed by the Risk and Audit Committee to audit the financial statements and a fee agreement was concluded.

In further application of the requirements newly created by the EU Auditor Regulation (Regulation (EU) No. 537/2014) as well as the Audit Reform Act and the Audit Supervision Reform Act regarding non-audit services of the auditor, the Risk and Audit Committee intensively addressed the new requirements and developed a procedure for the approval of non-audit services. It defined a catalogue of non-audit services (pre-approval catalogue) to be adopted annually, which shall be permissible without further involvement of the Risk and Audit Committee, provided that the independence of the auditor is not jeopardised by this. Appropriate measures were also taken regarding the auditor's fee, including monitoring compliance with the fee cap.

The meetings of the Risk and Audit Committee also addressed the non-financial reporting for the first time for the 2017/18 financial year and the Supervisory Board's auditing duty. It was responsible for selecting and commissioning the external audit of the non-financial report, which the Supervisory Board had decided upon. As a result of the selection procedure, E&Y was also appointed as auditor of the combined non-financial report of IKB AG and the Group for the 2017/18 financial year.

The Remuneration Control Committee addressed the bank's remuneration systems, especially that of the Board of Managing Directors as well. In the second half of the year, the requirements of the new Remuneration Regulation for Institutions were a focal point of the meetings of the Remuneration Control Committee. The Remuneration Control Committee also prepares the resolutions of the Supervisory Board relating to remuneration, had the Remuneration Officer explain the Remuneration Control Report, 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 23 November 2017. 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 regularly provided with accounts of the activities of the Committees.

### **Audit of the annual financial statements and consolidated financial statements**

As mentioned above, the Annual General Meeting appointed E&Y 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 2017/18 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 2018. E&Y 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 E&Y for the financial year 2017/18 by the Risk and Audit Committee and the plenary meeting of the Supervisory Board took place on 13/14 June 2018. The auditors participated in these deliberations. At the meeting of the Supervisory Board on 14 June 2018, 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 14 June 2017. According to the 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 29 May 2018, prepared by the Board of Managing Directors, at its meeting on 14 June 2018. 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 2017/18 (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 13/14 June 2018, 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 in good time before the respective meeting, enabling them to address the respective contents in-

tensively. 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 14 June 2018, they reported on the result of their audit and were available to answer questions. The Supervisory Board approved the result of the dependent company report at its meeting on 14 June 2018.

In accordance with the 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.

### **Review of the combined non-financial report**

At the meetings on 13/14 June 2018, the Risk and Audit Committee and the Supervisory Board also discussed the combined non-financial report for the 2017/18 financial year, which was prepared by the Board of Managing Directors for the first time. E&Y was commissioned to review the combined non-financial report to obtain limited assurance in accordance with ISAE 3000 (Revised) and prepared a corresponding report on the audit, which was submitted to the Risk and Audit Committee and the Supervisory Board. The committee members received both the non-financial report and the audit report in good time before the respective meeting. The auditors also participated in the deliberations of the Supervisory Board and the Risk and Audit Committee on the combined non-financial report, reported on the result of their audit to obtain limited assurance and were available to answer questions. Based on the result of the Supervisory Board's own examination of the combined non-financial report for the 2017/18 financial year, no objections were raised.

### **Personalia – Supervisory Board**

Messrs Mark Coker and Arndt G. Kirchhoff, whose terms of office each ended at the close of the Annual General Meeting on 23 November 2017 were re-elected to the Supervisory Board by resolutions of the Annual General Meeting on 23 November 2017.

On the side of the employees, Mrs Nicole Riggers, whose term of office as employee representative on the Supervisory Board also expired at the close of the Annual General Meeting on 23 November 2017, was re-elected during the re-election of employee representatives. At the Constitutive Meeting of the Supervisory Board after the Annual General Meeting on 23 November 2017, Mrs Riggers was re-elected as member of the Supervisory Board Executive Committee and the Remuneration Control Committee.

### **Personalia – Board of Managing Directors**

In conclusion, there were no changes in the members of the Board of Managing Directors of the bank during the reporting period. By resolution of the Supervisory Board of 8 June 2017, Dr Michael Wiedmann was re-appointed as member and Chairman of the Board of Managing Directors until the end of 31 January 2019 and Claus Momburg as member of the Board of Managing Directors until the end of 10 November 2019. Dr Michael H. Wiedmann (Chairman), Claus Momburg, Dr Jörg Oliveri del Castillo-Schulz and Mr Dirk Volz therefore continue to be members of the Board of Managing Directors.

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, 14 June 2018

The Supervisory Board

A handwritten signature in black ink, appearing to be 'K. Eick', written in a cursive style.

Dr Karl-Gerhard Eick

Chairman

# **Combined Management Report for the Financial Year 2017/18**

## **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, and providing instruments for managing market risk. 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. 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.

IKB is an institution with a solid tier 1 capital base. IKB has a stable and diversified deposit base for refinancing. It also makes use of public programme loan schemes for medium-sized companies. IKB is largely independent of the capital markets.

In its customer business, IKB concentrates on credit and structuring advisory services (including capital market products). 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 predominantly come from the German upper midmarket and are 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 neighbouring areas of Western Europe. Acquisition financing business for Western Europe is operated from Germany. Germany is currently the most important market for IKB by some distance.

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 2017. The market share for commercial public subsidy loans was around 11.1% at the same date. IKB AG's strongest competitors are the major universal banks and selected larger institutions from the public 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 or bonds.

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.
- The German Federal Financial Supervisory Authority (BaFin) does not currently classify IKB as potentially posing a risk to the banking system.

As part of the supervisory review and evaluation process (SREP), banks' business models and governance are being assessed and an economic review of the level of required capital and liquidity is being conducted on an individual basis. Based on an individual assessment of the respective bank, the supervisory authorities can then impose specific requirements in terms of capital resources in particular. The guiding principle behind the SREP is to ensure that the supervisory authorities are always comprehensively informed and hence can intervene at an early stage in the event of a deterioration in a bank's situation. Banks' restructuring and settlement ability is also being continuously monitored and new asset-side and liability-side structuring requirements are being imposed, e.g. in the form of a "bail-in" ratio. The significantly heightened notifica-

tion 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 giving rise to a considerable burden that can also affect banks' business models. 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 phase of expansion in the global economy continued in the period under review. Global economic output was stronger than in the previous years, with all the major economies contributing to this development.

The economies proved to be highly resistant in the face of geopolitical uncertainties (North Korea conflict, political tension between the USA and Russia, protectionism). The extremely good sentiment deteriorated only slightly towards the end of the period under review, with economic growth slowing in some industrialised nations.

Despite repeated concerns of potential turbulence in its financial system, China, the most important driver of the world economy, remained on its growth path in 2017 with gross domestic product (GDP) rising by 6.9%.

In the USA, the economic upturn and the accompanying growth in employment continued. GDP increased by 2.3% in 2017, while consumer price inflation amounted to just over 2%. In light of this, the US Federal Reserve (Fed) pressed ahead with its policy of gradually raising the key interest rate.

Unlike many other industrialised nations, year-on-year GDP growth in the United Kingdom slowed in 2017. This was not least due to the sustained uncertainty concerning the difficult EU withdrawal negotiations, the outcome of which remains unclear.

The euro zone economy expanded by a further 2.3% in 2017, the highest growth rate since the pre-crisis year of 2007. In addition to the extremely positive export environment, domestic demand was a key driver of economic development in the euro zone. Sustained growth in employment increased the level of available household income, while companies clearly had more confidence in the strength of the upturn and expanded their investment activity accordingly.

The German economy also recorded strong growth of 2.5% in 2017. The economic upturn was broad-based, with private consumption continuing to rise thanks to the sustained positive consumer environment. Individual areas of the German economy are increasingly reaching capacity, meaning that investments in equipment have picked up again. Investments by companies had long been one of the weak points of the German economy. Exports are also benefiting from the strength of the global economy.

The monetary policy measures implemented by the central banks and speculation concerning further interest rate hikes by the Fed were observed with heightened nervousness on the financial markets. Unlike the Fed, the European Central Bank (ECB) stuck to its highly expansionary monetary policy as inflation in the euro zone remained muted in 2017 despite the improvement in the economic situation. Nevertheless, the strength of the upturn meant that the monthly bond purchase programme was scaled back. In October 2017, the Governing Council of the ECB resolved to reduce the monthly Eurosystem bond purchase volume from € 60 billion to € 30 billion from January 2018. Purchases will continue until September 2018 or beyond if required. Interest rates were held at 0% for the main refinancing operations and -0.4% for the deposit facility.

The ECB's highly expansionary monetary policy is likely to have contributed to the fact that credit growth in the euro zone has gradually picked up again. However, there remain significant differences in terms of credit development between the member states. In Italy and Spain, the total volume of bank loans to companies declined compared with the previous year, whereas the volume in Germany and France increased. At the same time, however, credit growth in Germany remains below the nominal GDP growth rate.

For the German banking sector, the pressure on profitability remained. Although the positive economic momentum helped to restrict loan defaults and provisions for possible loan losses, the sustained low-interest environment ate into the profitability of traditional deposit and lending business. In addition, restructuring



measures, regulatory requirements and intense competition continued to weigh on banks' results of operations.

### **Significant events in the period under review**

#### ***Changes in the Group***

In the period under review, IKB pressed ahead with its strategy of simplifying its structure, not least through the sale of equity investments and the restructuring of its liabilities.

#### **Sale of the IKB Leasing Group**

On 28 and 29 June 2017, IKB entered into an agreement on the sale of the IKB Leasing Group to PEAC Holdings (Germany) GmbH, a subsidiary of the investment fund administered by HPS Investment Partners, LLC ("HPS"). It was agreed that the purchase price would not be disclosed. The transaction was completed on 28 February 2018. Despite the sale, some lease receivables and leasing companies continue to be held by IKB. With the sale of the IKB Leasing Group, IKB is pressing ahead with its strategy of focusing on its core business with high-end midmarket companies.

#### **Sale of ikb Data**

On 15 August 2017, IKB sold its subsidiary ikb Data GmbH to the IT service provider DATAGROUP SE. The transaction was completed on 31 August 2017. In future, ikb Data will bundle and advance DATAGROUP's activities in the banking and financial industry as an internal competence centre.

#### **Sale of the Rio junior and mezzanine loans**

The special-purpose entity Rio Debt Holdings (Ireland) holds a portfolio of RMBS securities. The purchase of the securities was financed using structured loans. The junior loan and a mezzanine loan formerly held by IKB AG subsidiaries were still outstanding. Both the loans were sold at their fair value in November 2017, meaning that IKB no longer holds any portfolio investments. The proceeds from the disposal were used for the partial repurchase of the debtor warrants. In addition to the deconsolidation of the special-purpose entity Rio Debt Holdings (Ireland), this measure involves the recognition of an expense of € 63 million by IKB AG and in the Group.

#### **Transfer of non-performing loans against debtor warrant**

A portfolio of loans previously written off was transferred to LSF6 Rio (Ireland) DAC at fair value in December 2017 by way of cash sub-participations. The fair value of the cash sub-participations was established using external expert opinions. The payment from the cash sub-participations was offset against the partial waiver of the KfW debtor warrant dated 19 February 2008 between IKB AG and LSF6 Europe Financial Holdings, L.P.

#### **Streamlining of the investment portfolio**

IKB continued to streamline its investment portfolio in the financial year 2017/18:

- IKB Equity Capital Fund GmbH was merged into IKB Invest GmbH by way of a merger agreement effective 1 April 2017 (merger date) and hence ceased to exist.
- Matrona GmbH was merged into IKB Invest GmbH by way of a merger agreement effective 1 January 2018 (merger date) and hence ceased to exist.
- Projektbeteiligung TH GmbH & Co. KG was dissolved without liquidation and accrued into IKB Projektentwicklung GmbH & Co. KG i.L. effective 1 January 2018.

- Fundis Projektentwicklungsholding GmbH & Co. KG was dissolved without liquidation and accrued into Fundis Verwaltungsgesellschaft mbH effective 1 January 2018.
- IMAS Grundstücksvermietungs-Gesellschaft mbH was dissolved without liquidation and accrued into IKB effective 1 February 2018.
- IKB Funding Trust II was terminated and dissolved effective 14 March 2018.

### **Tender offer to the holders of Capital Raising notes and Hybrid Raising notes**

On 20 April 2017, IKB Lux Beteiligungen S.à r.l. announced its offer to the holders of notes issued by Capital Raising GmbH (ISIN DE0007490724, "Capital notes") and notes issued by Hybrid Raising GmbH (ISIN DE000A0AMCG6, "Hybrid notes") – referred to collectively as the "notes" – to acquire all of the notes at a purchase price of 20% of the nominal amount in accordance with the provisions and subject to the conditions of the tender offer memorandum dated 20 April 2017. This offer expired at 4:00 p.m. (CEST) on 10 May 2017 and was not extended.

On 12 May 2017, IKB Lux Beteiligungen S.à r.l. announced that it had been notified of the acceptance of its offer for a total of 87.9% of the notes (taken as an average across all of the notes) as at the end of the offer period at 4:00 p.m. (CEST) on 10 May 2017. All valid declarations of acceptance received before the end of the offer were processed on 15 May 2017. This means that IKB currently holds € 352 million of the € 400 million total nominal value of the notes.

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

### **Strategic repurchase of debtor warrants**

IKB repurchased debtor warrants with claims in the amount of € 971 million in the year under review, meaning that claims from debtor warrants decreased from € 1,151 million to € 180 million as at 31 March 2018.

### **IKB Funding Trust II merger**

The solicitation of consent to an amendment to the trust agreement of IKB Funding Trust II (IKB FT II) issued to the holders of the securities of IKB FT II expired on 26 June 2017. After the proposed amendment was approved by the required majority of the holders of the securities, the trustees of IKB FT II decided to accept the offer of IKB Funding Merger Trust II and to implement the merger of IKB Funding Merger Trust II and IKB FT II. In the course of the merger, the holders of the securities of IKB FT II received an IKB subordinated bond with a nominal value of € 400 and a cash payment of € 150 in exchange for each € 1,000 held (nominal value). This meant that the securities of IKB FT II, which had a nominal volume of € 400 million, were annulled in full.

### **Issue of subordinated bonds**

On 31 January 2018, IKB issued a ten-year tier 2 subordinated bond in the amount of € 300 million. The fixed-interest subordinated bond with interest adjustment and an issuer call option after five years is intended to strengthen the Bank's own funds, has an annual coupon of 4.00% in the first five years and was placed exclusively with institutional investors. The subordinated bond enjoyed strong demand among institutional investors and was more than four times oversubscribed. The bond has been traded OTC on the Luxembourg, Frankfurt and Düsseldorf stock exchanges since 31 January 2018. In the preceding months, a further € 85 million in subordinated bonds had been placed across three issues.

### ***Legally relevant events***

#### **Profit participation certificates**

Three suits with a preliminary value in dispute of € 117 million were filed against IKB by profit participation certificate bearers. Further profit participation certificate bearers have made claims out of court, some of which have been quantified and some not. IKB considers the allegations to be unfounded and expects any such claims to be unsuccessful. However, it anticipates increased legal risks and legal defence costs as a result.

#### **Dissenting view of the tax authorities**

In the financial year 2016/17, 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. The decision by the German Federal Constitutional Court on 29 March 2017 on the incompatibility of part of section 8c of the German Corporate Income Tax Act (KStG) relating to detrimental acquisitions of between 25% and 50% with the German Basic Law, and the further submission to the German Federal Constitutional Court by the Hamburg Fiscal Court on 29 August 2017 on the question of whether section 8c section 2 KStG as amended by the German Business Tax Reform Act 2008 (now section 8c (1) sentence 2 KStG) is unconstitutional, have further improved the risk assessment (see “section 3. Risk report”) from IKB AG’s perspective.

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

#### **Debt issuance programme**

The debt issuance programme was updated on 28 August 2017. This programme has been used continuously for various new issues of bearer bonds and subordinated securities.

### ***Personnel changes***

#### **Supervisory Board**

Mr Arndt G. Kirchhoff and Mr Mark Coker were re-elected to the Supervisory Board as shareholder representatives by resolution of the Annual General Meeting on 23 November 2017. Ms Nicole Riggers was also re-elected to the Supervisory Board as an employee representative with effect from the end of the Annual General Meeting on 23 November 2017. At the constituent meeting of the Supervisory Board following this Annual General Meeting, Ms Riggers was re-elected as a member of the Supervisory Board Executive Committee and the Remuneration Control Committee.

#### **Board of Managing Directors**

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

### ***Reconciliation of interests and redundancy scheme***

IKB AG is currently in negotiations with the employee representatives on an additional reconciliation of interests and redundancy scheme.

### ***Election of the auditor***

Following the public tender for the statutory audit of the single-entity and consolidated financial statements conducted under the responsibility of the Risk and Audit Committee, the Annual General Meeting of IKB followed the recommendation of the Supervisory Board and elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as the new auditor of the single-entity and consolidated financial statements for the financial year 2017/18 on 9 May 2017. The change of auditor required by law from Price-

waterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, which has been IKB's auditor for ten years, was thus implemented.

### **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***

In a scenario of positive economic development combined with sustained muted demand for credit, substantial pressure on margins and a policy of selective lending on the part of IKB, the new business volume increased by € 0.2 billion year-on-year to € 4.4 billion in the financial year 2017/18 (IKB AG: by € 0.2 billion to € 3.6 billion). In the period under review, loans from own funds again accounted for 55% of the new business volume (IKB AG: 68%), while public programme loans accounted for 25% (IKB AG: 32%) after 23% in the previous year (IKB AG: 30%) and equipment leasing in the Group accounted for 19% after 21% in the previous year.

#### ***Results of operations***

IKB generated a consolidated net loss after taxes of € 215 million in the financial year 2017/18 (previous year: consolidated net income of € 26 million).

IKB AG reported a net loss after taxes of € 296 million compared with net income of € 0 million in the previous year.

As discussed in the earnings forecast issued during the year, the substantial net loss is due to strategic liability-side restructuring (early repurchase of debtor warrants, repurchase of the Capital Raising and Hybrid Raising bonds and termination of the Funding Trust II structure); see also "section 2. Economic report/ Significant events in the period after review". The net impact of these transactions on the income statement amounted to € 204 million in the Group and is reported in net other income.

In terms of banking operations, the Group's results of operations were significantly influenced by net interest and lease income of € 289 million (previous year: € 291 million), net fee and commission income of € 39 million (previous year: € 39 million), income from net risk provisioning in the amount of € 33 million (previous year: € 17 million) thanks to the Bank's active risk management and the overall improvement in the economic situation, and the further reduction in administrative expenses to € 271 million (previous year: € 284 million). All in all, the operating result calculated on the basis of these items excluding net other income therefore improved from € 63 million to € 90 million.

#### **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.

In the period under review, the Group's net interest and lease income (IKB AG: net interest income) amounted to € 289 million in the Group, down slightly on the prior-year level of € 291 million as forecast, while the figure for IKB AG was lower than forecast at € 212 million after € 258 million in the previous year due to lower investment income following the strategic restructuring of the investment portfolio.

### **Net fee and commission income**

Net fee and commission income amounted to € 39 million (IKB AG: € 39 million), thereby remaining unchanged as against the previous year in the Group and declining slightly at IKB AG (previous year: € 41 million). As demand on the market remained muted in the financial year 2017/18, the forecast significant increase in net fee and commission income did not occur in the period under review.

### **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 a further € 13 million in the Group to € 271 million (IKB AG: by € 16 million to € 209 million).

Personnel expenses for the Group declined by € 19 million to € 153 million (IKB AG: by € 15 million to € 112 million). This was primarily due to the successful continuation of cost-cutting and optimisation measures.

Other administrative expenses and depreciation and write-downs of intangible and tangible assets increased by € 6 million to € 118 million at Group level (IKB AG: reduction of € 1 million to € 98 million). Most of the cost items decreased. The overall increase at Group level is primarily attributable to the higher level of consulting and legal costs in connection with restructuring at IKB Leasing and the issue of a subordinated bond.

### **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 € 214 million to € 232 million (IKB AG: by € 241 million to € 318 million), are presented below.

The strategic early repurchase of debtor warrants resulted in an expense of € 311 million.

The termination of the Funding Trust II structure led to net extraordinary income of € 179 million (IKB AG: € 181 million).

The repurchase of the Capital Raising and Hybrid Raising bonds resulted in expenses of € 70 million at Group level.

Close-out payments in connection with the strategic early dissolution and closing-out of interest rate swaps in the banking book resulted in expenses of € 101 million (IKB AG: € 100 million) after expenses of € 261 million in the previous year (IKB AG: € 247 million).

The measurement and sale of long-term investments resulted in net income of € 128 million (IKB AG: € 104 million) after net income of € 254 million (IKB AG: € 184 million) in the previous year.

The Bank generated income of € 32 million from the transfer of a portfolio of non-performing assets previously written off by way of cash sub-participations.

Further planned restructuring measures led to an expense of € 32 million (IKB AG: € 30 million) as against € 11 million in the previous year (IKB AG: € 11 million).

Interest on pension obligations resulted in expenses of € 32 million (IKB AG: € 28 million) in the reporting period after € 29 million in the previous year (IKB AG: € 25 million).

The performance of the assets outsourced under contractual trust arrangements (CTA) resulted in net expenses of € 3 million (IKB AG: € 3 million) in the reporting period after net income of € 18 million in the previous year (IKB AG: € 16 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 € 16 million compared to the financial year 2016/17 to income of € 33 million (IKB AG: by € 22 million to € 42 million).

This was primarily attributable to the positive development of provisions for possible loan losses, which made an earnings contribution of € 34 million in the Group (IKB AG: € 44 million) after € 15 million (IKB AG: € 17 million) in the previous year.

### Taxes

Tax expenses amounted to € 73 million (IKB AG: € 62 million) in the reporting period after € 20 million (IKB AG: € 18 million) in the previous year.

### Net income

The early strategic repurchase of debtor warrants in the year under review meant that net income did not increase significantly as had been forecast in IKB’s 2016/17 annual report. A consolidated net loss of € 215 million was reported in the financial year 2017/18 (IKB AG: € 296 million) compared with consolidated net income of € 26 million in the previous year (IKB AG: € 0 million).

### Net assets

The Group’s total assets declined by € 2.0 billion in the period under review, largely as a result of the sale of the IKB Leasing Group, amounting to € 17.2 billion at the reporting date (IKB AG: reduction of € 0.5 billion to € 17.9 billion).

The Group’s gross credit volume, which also includes off-balance sheet business (see also section 3. “Risk report”), fell from € 22.1 billion to € 19.8 billion (IKB AG: from € 22.4 billion to € 20.5 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 increased by € 0.9 billion to € 2.5 billion at the reporting date (IKB AG: from € 1.5 billion to € 2.3 billion), largely as a result of higher overnight deposits with the central bank.

Contrary to forecasts, receivables from customers declined by € 0.2 billion year-on-year to € 9.7 billion in the Group (IKB AG: by € 0.4 billion to € 11.0 billion). The slight reduction is primarily due to the sale of IKB Leasing (IKB AG: elimination of intragroup refinancing for IKB Leasing).

Reflecting the reduction in receivables from customers, bonds and other fixed-income securities declined by € 1.4 billion to € 3.9 billion (IKB AG: by € 0.8 billion to € 3.9 billion).

### Liabilities

Liabilities to banks decreased by € 0.2 billion to € 7.4 billion at Group level (IKB AG: by € 0.2 billion to € 7.4 billion), particularly due to repayments of public programme loans.

Liabilities to customers fell by € 1.1 billion to € 6.4 billion (IKB AG: by € 1.1 billion to € 6.5 billion), largely as a result of promissory note loan repayments and the lower volume of customer deposits.

Securitised liabilities in the Group declined by € 0.1 billion year-on-year to € 0.7 billion. The figure for IKB AG increased by € 0.8 billion to € 1.1 billion.

Subordinated liabilities in the Group increased from € 0.7 billion to € 0.8 billion (IKB AG: from € 0.2 billion to € 0.8 billion), primarily as a result of new issues.

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 loss and the change in foreign exchange differences recognised in equity in the period under review in particular, equity decreased by € 217 million, from € 1,039 million to € 822 million (IKB AG: from € 1,207 million to € 911 million). The capital ratios were maintained at the high prior-year level; see “Regulatory tier 1 ratio”.

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

The Group generated net gains on the value of derivatives and securities in the non-trading book of € 26 million in the 2017/18 reporting period as a result of sales or strategic changes in derivative positions. Further details on the calculation of unrealised gains and losses can be found in the notes under (63) “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 also issued subordinated bonds and bearer bonds in the retail customer segment and is 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. Regarding the liquidity and financing situation, please refer to “section 3. Risk report”.

### **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 2018, the CET 1 ratio amounted to 11.8% for the IKB Group and 13.2% for IKB AG (for details see section 3. "Risk report"). As anticipated in the annual report as at 31 March 2017, 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 2.5% and the additional SREP capital requirement.

### **Leverage ratio**

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 CRR2 (Revised Capital Requirements Regulation) published on 23 November 2016 includes a minimum ratio of 3.0%.

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 7.3% (IKB AG: 8.0%) as at 31 March 2018, thereby comfortably exceeding the future minimum ratio of 3.0%. The slight decrease in the leverage ratio of IKB AG and the IKB Group compared with the forecast contained in the annual report for the year ended 31 March 2017 is primarily attributable to the strategic repurchase of debtor warrants.

### **Net income after taxes**

As forecast in the 2016/17 annual report, IKB generated positive operating results in the financial year 2017/18 including disposals of financial instruments. However, this was offset by extraordinary expenses for improving the capital structure – particularly for the strategic repurchase of debtor warrants – and the structural streamlining of the banking group in the period under review. This resulted in a significant consolidated net loss of € 215 million (IKB AG: € 296 million) for the financial year 2017/18.

### **Cost income ratio**

The cost income ratio describes the ratio of administrative expenses to the sum of net interest income, net fee and commission income and net income from the trading portfolio. As forecast in the 2016/17 annual report, it improved slightly to 82.7% at Group level as at 31 March 2018 compared with 85.8% 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 € 327 million at Group level as at 31 March 2018 compared to € 331 million in the previous year.

Net banking income is calculated as banking income less provisions for possible loan losses and amounted to € 361 million at Group level as at 31 March 2018 compared to € 347 million in the previous year.

### **Liquidity coverage ratio**

The liquidity coverage ratio (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 force on 1 October 2015, increased to 70% as at 1 January 2016, increased to 80% as at 1 January 2017 and reached its final level of 100% as at 1 January 2018.

IKB performs regulatory liquidity management using the LCR. The LCR amounted to 750% at IKB Group level as at 31 March 2018 (IKB AG: 402%), thereby comfortably exceeding the minimum of 100% for the full financial year 2017/18 as set out in the annual report for the year ended 31 March 2017 at all times.



***Combined non-financial report 2017/18***

IKB is publishing a non-financial Group statement in accordance with section 340i (5) in conjunction with section 315b of the German Commercial Code (HGB) for the first time for the financial year 2017/18. This statement has been combined with the non-financial statement of the parent company in accordance with section 340a (1a) in conjunction with section 289 HGB. IKB's combined non-financial report for 2017/18 is published on the Bank's website at <https://www.ikb.de/en/investor-relations/financial-reports>.

### **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 (front office, back office, central functions and staff departments) forms the "first line of defence" in the context of its operational responsibility.

Departmental responsibility for transaction-related risk monitoring, intensive support and problem exposure management lies with Mr Momburg. Independent business settlement and control by Credit & Treasury Operations is assigned to Dr Oliveri del Castillo-Schulz.

The "second line of defence" controls and monitors the risk management functions of the "first line of defence". This includes defining the methods and procedures of risk management as well as risk monitoring and reporting to the Board of Managing Directors. Mr Volz is responsible for independent, portfolio-based monitoring by risk controlling and the monitoring of earnings management and capital resources. Departmental responsibility for the compliance functions lies with Mr Momburg. The Board of Managing Directors as a whole is responsible for managing risks associated with the strategic business focus and reputation risks.

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. It operates on behalf of the entire Board of Managing Directors with no duty to comply with 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 is 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 account of existing netting agreements. 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<sup>1)</sup>

Figures in € million	31 Mar. 2018 <sup>2)</sup>	31 Mar. 2017 <sup>2)</sup>
Counterparty default risk (including CVA charge € 129 million; previous year: € 164 million)	10,824	11,888
Market risk equivalent	199	323
Operational risk	703	722
<b>Total risk-weighted assets (RWA)</b>	<b>11,725</b>	<b>12,934</b>
<b>Common equity tier 1 (CET 1)</b>	<b>1,382</b>	<b>1,510</b>
Additional tier 1 (AT 1)	30	236
<b>Total Tier 1 (T 1)</b>	<b>1,412</b>	<b>1,746</b>
Tier 2 (T 2)	738	435
<b>Own funds</b>	<b>2,151</b>	<b>2,181</b>
<b>CET 1 ratio</b>	<b>11.8%</b>	<b>11.7%</b>
T 1 ratio	12.0%	13.5%
Own funds ratio	18.3%	16.9%
<b>Capital ratios (fully phased)</b>		
<b>CET 1 ratio</b>	<b>11.6%</b>	<b>11.1%</b>
T 1 ratio	11.6%	11.1%
Own funds ratio	18.0%	16.2%

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 2018 and 31 March 2017 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

Table: Regulatory capital situation at individual Bank level in accordance with CRR/CRD IV<sup>1)</sup>

Figures in € million	31 Mar. 2018 <sup>2)</sup>	31 Mar. 2017 <sup>2)</sup>
Counterparty default risk (including CVA charge € 129 million; previous year: € 164 million)	10,616	10,815
Market risk equivalent	99	70
Operational risk	512	481
<b>Total risk-weighted assets (RWA)</b>	<b>11,227</b>	<b>11,366</b>
<b>Common equity tier 1 (CET 1)</b>	<b>1,477</b>	<b>1,766</b>
Additional tier 1 (AT 1)	0	0
<b>Total Tier 1 (T 1)</b>	<b>1,477</b>	<b>1,766</b>
Tier 2 (T 2)	693	197
<b>Own funds</b>	<b>2,171</b>	<b>1,964</b>
<b>CET 1 ratio</b>	<b>13.2%</b>	<b>15.5%</b>
T 1 ratio	13.2%	15.5%
Own funds ratio	19.3%	17.3%
<b>Capital ratios (fully phased)</b>		
<b>CET 1 ratio</b>	<b>13.0%</b>	<b>15.1%</b>
T 1 ratio	13.0%	15.1%
Own funds ratio	19.1%	16.7%

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 2018 and 31 March 2017 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

At 11.8% at Group level and 13.2% at individual Bank level, IKB's CET 1 ratios (transitional) 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 the future (see also "section 5. Outlook").

### **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. 2018 in € million	31 Mar. 2018 in %	31 Mar. 2017 in € million	31 Mar. 2017 in %
Counterparty default risk	134	32%	156	56%
Market price risk	39	9%	22	8%
Operational risk	175	42%	19	7%
Business risk	51	12%	62	22%
Liquidity risk	16	4%	19	7%
<b>Total</b>	<b>416</b>	<b>100%</b>	<b>278</b>	<b>100%</b>
less diversification effects	-38		-33	
<b>Overall risk position</b>	<b>377</b>		<b>246</b>	
<b>Risk coverage potential</b>	<b>533</b>		<b>528</b>	

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

In the going-concern perspective, the overall risk position increased by € 131 million compared with the start of the financial year to € 377 million. This was primarily due to increased operational risk as a result of the reassessment of legal risks in connection with the liability-side restructuring. Based on the Bank's current planning and taking into account the SREP additional capital requirement, risk coverage potential remained almost unchanged compared with 31 March 2017 at € 533 million.

As at 31 March 2018, the overall risk position amounted to 71% of the risk coverage potential taking diversification effects into account (31 March 2017: 47%). 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. In 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. 2018 in € million	31 Mar. 2018 in %	31 Mar. 2017 in € million	31 Mar. 2017 in %
Counterparty default risk	476	33%	604	46%
Market price risk	461	32%	547	42%
Operational risk	415	29%	52	4%
Business risk	87	6%	106	8%
<b>Total</b>	<b>1,439</b>	<b>100%</b>	<b>1,309</b>	<b>100%</b>
less diversification effects	-260		-389	
<b>Overall risk position</b>	<b>1,179</b>		<b>920</b>	
<b>Risk coverage potential</b>	<b>1,958</b>		<b>1,657</b>	

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

Risk coverage potential in the liquidation perspective increased by € 301 million compared with the start of the financial year. This was largely due to the liability-side restructuring combined with the simultaneous issue of additional subordinated capital. The overall risk position for all risks classified as significant rose by € 259 million to € 1,179 million. This was due to the significant increase in operational risk accompanied by a reduction in counterparty default and market price risk.

Taking diversification effects into account, risk coverage potential therefore continues to significantly exceeds the total risk position, with utilisation amounting to 60% (31 March 2017: 56%). Even excluding diversification effects, the risk coverage potential still clearly exceeds the overall risk position with utilisation of 73% (31 March 2017: 79%).

#### 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 cover 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 cover 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 reviewed in the financial year 2017/18 and revised to reflect the current business focus and the economic situation as required.

#### 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. 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 2018/19.

### ***Liquidity strategy***

The current liquidity protection is primarily based on the acceptance of customer deposits guaranteed by the Deposit Protection Fund, 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**

Within 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, cash flow analysis, loan approval) and exposure monitoring (including intensive support and 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, their prospects for the future and an exit scenario. 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. An additional external procedure for assessing the credit risk of property financing was licensed in the financial year 2017/18.

The definition of default in accordance with the CRR was also adjusted to reflect the current view of the supervisory authorities. This change did not have any impact in terms of IKB's current portfolio.

### ***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 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 2018 was composed as follows:



Table: Credit volume

in € million	Group			IKB AG		
	31 Mar. 2018	31 Mar. 2017	Change	31 Mar. 2018	31 Mar. 2017	Change
Receivables from banks	2,521	1,670	851	2,309	1,505	804
Receivables from customers	9,709	9,925	-216	10,969	11,349	-380
Bonds and other fixed-income securities not including own bonds	3,884	5,309	-1,425	3,905	4,694	-789
Equities and other non-fixed-income securities	396	473	-77	2	2	-
Investments <sup>1)</sup>	1	4	-3	-	-	-
Lease assets	8	928	-920	-	-	-
<b>Subtotal: Balance sheet assets</b>	<b>16,519</b>	<b>18,309</b>	<b>-1,790</b>	<b>17,185</b>	<b>17,550</b>	<b>-365</b>
Contingent liabilities <sup>2)</sup>	1,946	2,566	-620	2,008	3,512	-1,504
Asset derivatives in the non-trading book <sup>3)</sup>	882	1,191	-309	882	1,201	-319
Write-downs <sup>4)</sup>	171	233	-62	159	213	-54
Leasing: Deferred income and advance payments for intangible assets	-	-97	97	-	-	-
Provisions for expected losses for embedded derivatives	-	-53	53	-	-53	53
Securities lending	289	190	99	289	190	99
<b>Gross credit volume</b>	<b>19,807</b>	<b>22,339</b>	<b>-2,532</b>	<b>20,523</b>	<b>22,613</b>	<b>-2,090</b>
For information purposes: other significant counterparty default risks outside the gross credit volume						
Irrevocable loan commitments	1,527	1,550	-23	1,532	1,357	175
Investments in associated and affiliated companies <sup>5)</sup>	1	17	-16	272	262	10

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

3) Including € 40 million (31 March 2017: € 21 million) in positive fair values for protection seller CDSs whose nominal values are treated as contingent liabilities for accounting purposes.

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: excluding general allowances for country risk

5) IKB AG: including equity investments

All in all, the IKB Group's gross credit volume decreased by € 2.5 billion between 31 March 2017 and 31 March 2018. This was primarily due to the sale of bonds from public-sector debtors and financial sector issuers that are held by the Bank for liquidity management purposes and a reduction in the protection seller credit default swaps (CDS) positions with sovereign reference debtors reported in contingent liabilities.

The sale of IKB Leasing is reflected in the reduction in leased assets and customer receivables, which would have otherwise increased slightly due to new business. As at 31 March 2018, a credit volume of € 0.8 billion primarily reported in customer receivables related to the unsold leasing companies and leased assets and existing refinancing loans to the leasing companies no longer forming part of the IKB Group. As leasing no longer forms part of IKB's strategic focus, this volume is held as a disposal portfolio but is also still included in the following structural tables.

The increase in receivables from banks is attributable to short-term investments of excess liquidity. Asset and liability derivatives in the non-trading book continued to decline.

The Bank engaged in securities lending as at 31 March 2018. 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 nominal amount of € 289 million (31 March 2017: € 190 million).

Developments at IKB AG were largely identical. The more pronounced decrease in contingent liabilities at IKB AG is attributable to the reduction in assumptions of liability for Group companies. Customer receivables remain higher than the corresponding Group figures due to intragroup loans.

**Size category structure**

*Table: Credit volume by size – Group*

	<b>31 Mar. 2018</b> <b>in € million</b>	<b>31 Mar. 2018</b> <b>in %</b>	<b>31 Mar. 2018</b> <b>Number<sup>1)</sup></b>	<b>31 Mar. 2017</b> <b>in € million</b>	<b>31 Mar. 2017</b> <b>in %</b>
Under € 5 million	1,104	6%	6,771	2,484	11%
Between € 5 million and € 10 million	1,249	6%	168	1,299	6%
Between € 10 million and € 20 million	2,447	12%	177	2,840	13%
Between € 20 million and € 50 million	3,585	18%	121	3,516	16%
Over € 50 million	10,894	55%	70	11,550	52%
<b>Subtotal</b>	<b>19,279</b>	<b>97%</b>	<b>7,307</b>	<b>21,689</b>	<b>97%</b>
Risk transferred to third parties <sup>2)</sup>	528	3%	-	650	3%
<b>Total</b>	<b>19,807</b>	<b>100%</b>	<b>7,307</b>	<b>22,339</b>	<b>100%</b>

1) Borrower groups in accordance with section 19 KWG

2) Hermes guarantees, indemnifications, risks transferred

The sale of IKB Leasing is primarily reflected in the reduction in the “Under € 5 million” category. The credit volume of this size category at IKB AG is € 0.7 billion (31 March 2017: € 0.8 billion) or 3%. Other than this, there are no particular discrepancies between IKB AG and the Group regarding the structure of size categories.

The volume in the “Over € 50 million” category mainly declined as a result of the reduction in bonds and the fair value of derivatives. 84% of the credit volume in this size category is attributable to banks and the financial sector and the public sector (31 March 2017: 92%). The increased proportion of the credit volume attributable to the “Between € 20 million and € 50 million” and “Over € 50 million” risk categories is consistent with the Bank’s strategic business focus.

**Collateral, risk transfer and securitisation**

*Table: Credit volume by type of collateral – Group*

	<b>31 Mar. 2018</b> <b>in € million</b>	<b>31 Mar. 2018</b> <b>in %</b>	<b>31 Mar. 2017</b> <b>in € million</b>	<b>31 Mar. 2017</b> <b>in %</b>
Property liens and charges <sup>1)</sup>	2,571	13%	2,664	12%
Transfers of ownership and leased assets <sup>1)</sup>	1,041	5%	2,415	11%
Other collateral <sup>1) 2)</sup>	3,608	18%	3,197	14%
Collateralised <sup>1)</sup>	786	4%	1,069	5%
<b>Secured credit volume</b>	<b>8,006</b>	<b>40%</b>	<b>9,345</b>	<b>42%</b>
Without collateral <sup>3)</sup>	11,273	57%	12,344	55%
<b>Subtotal</b>	<b>19,279</b>	<b>97%</b>	<b>21,689</b>	<b>97%</b>
Risk transferred to third parties <sup>4)</sup>	528	3%	650	3%
<b>Total</b>	<b>19,807</b>	<b>100%</b>	<b>22,339</b>	<b>100%</b>

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 and bonds (including Pfandbriefe)

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 € 5.8 billion; 31 March 2017: € 5.3 billion) and the public sector (€ 3.1 billion; 31 March 2017: € 4.7 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”. € 2.4 billion of “Without collateral” relates to corporate financing (31 March 2017: € 2.3 billion).

The sale of IKB Leasing is reflected in the reduction in the “Transfers of ownership and leased assets” category.

Most of the risks transferred relate to liability sub-participations by banks (primarily KfW Bankengruppe – KfW). Around 34% relate to public guarantees (including Hermes cover) and synthetic securitisation transactions in which KfW hedges the credit risk. The decrease in risk transferred to third parties is primarily due to liability sub-participations.

The structure and development of collateral at IKB AG is comparable to that of the Group other than the fact that the “Transfers of ownership” category accounts for a lower share of 3%.

### **Geographical structure**

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

*Table: Credit volume by region – Group*

	<b>31 Mar. 2018</b>	<b>31 Mar. 2018</b>	<b>31 Mar. 2017</b>	<b>31 Mar. 2017</b>
	<b>in € million</b>	<b>in %</b>	<b>in € million</b>	<b>in %</b>
Germany	10,938	55%	10,259	46%
Outside Germany	8,341	42%	11,430	51%
Western Europe	5,924	30%	8,457	38%
Eastern Europe	1,144	6%	1,430	6%
North America	876	4%	1,129	5%
Other	397	2%	414	2%
<b>Subtotal</b>	<b>19,279</b>	<b>97%</b>	<b>21,689</b>	<b>97%</b>
Risk transferred to third parties <sup>1)</sup>	528	3%	650	3%
<b>Total</b>	<b>19,807</b>	<b>100%</b>	<b>22,339</b>	<b>100%</b>

1) Hermes guarantees, indemnifications, risks transferred

The increase in the credit volume in Germany is primarily due to short-term liquidity investments with banks. The reduction outside Germany mainly relates to the reduction in bonds and CDS in Western Europe. At 73%, the vast majority of the credit volume outside Germany relates to banks and the financial sector and the public sector (31 March 2017: 75%).

The public-sector credit volume for the GIIPS nations (Greece, Ireland, Italy, Portugal and Spain) totals € 1,677 million (31 March 2017: € 1,283 million). Of this figure, € 989 million relates to Spain (31 March 2017: € 720 million), € 449 million to Italy (31 March 2017: € 311 million), € 139 million to Portugal (31 March 2017: € 0 million) and € 100 million to Ireland (31 March 2017: € 252 million).

Russia accounts for a credit volume of € 97 million (31 March 2017: € 116 million). This primarily relates to refinancing loans extended to IKB Leasing Russia, which was sold in the year under review, as well as commodity trade finance. The latter is under observation following the imposition of US sanctions in April 2018 and the possibility of further sanctions.

Developments were the same at IKB AG.

## Sector structure

Table: Credit volume by sector – Group

	31 Mar. 2018 in € million	31 Mar. 2018 in %	31 Mar. 2017 in € million	31 Mar. 2017 in %
Industrial sectors	9,138	46%	10,155	45%
Mechanical engineering	715	4%	918	4%
Chemical industry	703	4%	661	3%
Energy supply	636	3%	750	3%
Wholesale (not including motor vehicles)	539	3%	642	3%
Food industry	538	3%	543	2%
Other industrial sectors	6,007	30%	6,641	30%
Real estate	440	2%	371	2%
Financial sector	1,207	6%	1,259	6%
Banks	5,340	27%	5,104	23%
Public sector	3,154	16%	4,800	21%
<b>Subtotal</b>	<b>19,279</b>	<b>97%</b>	<b>21,689</b>	<b>97%</b>
Risk transferred to third parties <sup>1)</sup>	528	3%	650	3%
<b>Total</b>	<b>19,807</b>	<b>100%</b>	<b>22,339</b>	<b>100%</b>

1) Hermes guarantees, indemnifications, risks transferred

The decline in the industrial sectors is due to the sale of IKB Leasing, which was partially offset by new business at IKB AG. The credit volume in the industrial sectors at IKB AG increased from € 8.2 billion to € 8.7 billion. The degree of diversification in the industrial sectors remained high, with no single sector accounting for more than 4% of the portfolio. The decrease in the public-sector volume is attributable to the reduction in the volume of bonds and protection seller credit default swaps (CDS). Including risk transferred to third parties, corporates account for a credit volume of € 10.1 billion (31 March 2017: € 11.2 billion).

## Credit rating structure

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

Table: Credit volume by credit rating structure<sup>1)</sup> – Group

	31 Mar. 2018 in € million	31 Mar. 2018 in %	31 Mar. 2017 in € million	31 Mar. 2017 in %
1-4	7,353	37%	7,247	32%
5-7	5,418	27%	6,746	30%
8-10	4,428	22%	4,935	22%
11-13	1,822	9%	2,211	10%
14-15	162	1%	301	1%
Non-performing assets <sup>2)</sup>	96	0%	249	1%
<b>Subtotal</b>	<b>19,279</b>	<b>97%</b>	<b>21,689</b>	<b>97%</b>
Risk transferred to third parties <sup>3)</sup>	528	3%	650	3%
<b>Total</b>	<b>19,807</b>	<b>100%</b>	<b>22,339</b>	<b>100%</b>

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 rating category 1-4 increased slightly as a result of liquidity investments in the banking and financial sector. The reduction in bonds, derivatives and CDS is primarily reflected in rating classes 5-7. The decline in rating classes 8-15 is primarily due to the sale of IKB Leasing.

There are no significant discrepancies between the credit rating structure of IKB AG and the Group.

### 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). Accordingly, IKB is following the European Banking Authority (EBA) definition of non-performing exposure as set out in Annex V of Commission Implementing Regulation (EU) 680/2014. 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 € 0.3 billion in total as at 31 March 2018 (31 March 2017: € 0.4 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<sup>1)</sup> – Group

	31 Mar. 2018 in € million	31 Mar. 2017 in € million	Change in € million	Change in %
Assets with specific risk provisioning	80	194	-114	-59%
Non-impaired	16	55	-39	-71%
<b>Total</b>	<b>96</b>	<b>249</b>	<b>-153</b>	<b>-61%</b>
as % of credit volume	0.5%	1.1%		
as % of credit volume with respect to corporates	0.9%	2.2%		
For information purposes: NPL ratio in accordance with EBA definition <sup>2)</sup>	1.0%	2.5%		

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

Non-performing assets do not include:

- € 30 million (31 March 2017: € 52 million) in risks transferred to third parties for non-performing assets that have been assumed by other banks, public sector entities or via collateralised loan obligations (CLOs) and hence are assigned to the party assuming liability (change in credit rating).
- € 1 million (31 March 2017: € 6 million) in unutilised commitments for debtors whose residual exposure is classified as a non-performing asset.

2) Receivables classified as non-performing/total receivables in accordance with Annex V of Commission Implementing Regulation (EU) 680/2014

Non-performing assets again declined significantly by 61% as against 31 March 2017. This was mainly due to successful restructuring and exposure terminations. The Bank again reversed specific risk provisions it had previously recognised.

€ 29 million in non-performing assets as at 31 March 2018 related to risks retained following the sale of IKB Leasing.

The ratio of non-performing assets was 0.5% as at 31 March 2018 (31 March 2017: 1.1%).

Developments were the same at IKB AG. Non-performing assets declined from € 214 million to € 66 million, while the NPA ratio decreased from 0.9% to 0.3%.

### 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 provisioning is also recognised in the form of a provision for permanent impairment of CDSs. See also the disclosures in the notes under (6) "Provisions for possible loan losses".

Table: Provisions for possible loan losses – Group

	31 Mar. 2018 in € million	31 Mar. 2017 in € million	Change in %
<b>Development of specific impairment losses/provisions<sup>1)</sup></b>			
Opening balance	89.0	206.9	-57%
Utilisation	-8.9	-99.9	-91%
Reversal	-53.0	-63.2	-16%
Reclassification and net interest expense and discounting	-9.7	12.2	
Unwinding	-1.4	-5.1	-73%
Additions to specific risk provisions/provisions <sup>2)</sup>	27.5	37.7	-27%
Effect of changes in exchange rates	-0.1	0.4	
<b>Total specific risk provisions/provisions</b>	<b>43.4</b>	<b>89.0</b>	<b>-51%</b>
<b>Global valuation allowances<sup>3)</sup></b>			
Opening balance	156.3	166.2	-6%
Addition/reversal	-17.0	-10.5	62%
Reclassification	-2.2	0.6	
<b>Total general allowances</b>	<b>137.1</b>	<b>156.3</b>	<b>-12%</b>
<b>Total provisions for possible loan losses (including provisions)</b>	<b>180.5</b>	<b>245.3</b>	<b>-26%</b>

1) Excluding general allowance for contingent liabilities recognised as provisions

2) Including general allowance for contingent liabilities recognised as provisions

3) Excluding provisions for embedded derivatives, excluding general allowance for contingent liabilities recognised as provisions

The volume of specific risk provisions and loan loss provisions again declined in the period under review. Additions decreased once again.

Total general allowances including country risk provisioning for customer receivables, receivables from banks, contingent liabilities and irrevocable loan commitments in the Group amounted to € 137.1 million (31 March 2017: € 156.3 million), while the figure for IKB AG amounted to € 133.5 million (31 March 2017: € 152.6 million). There were general allowances for securities of € 2.7 million (31 March 2017: € 3.3 million) in the Group and € 2.4 million (31 March 2017: € 2.6 million) at IKB AG.

The decrease in general allowances is primarily attributable to the reduced risk of loss in connection with the planned or realised sale 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 addi-

tion, the Supervisory Board and the regulatory authorities receive an extensive risk report every quarter containing all key information on the overall risk position in the Group.

### ***Structured credit products***

The exposure in structured credit products was terminated in November 2017 with the sale of the Rio junior and mezzanine loans at their fair value.

### **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). The future liquidity balances calculated in this manner are reduced further via additional stress components (market disruptions, credit disruptions, changes in conditions, etc.) and limited. 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. This amounted to € 13 million as at 31 March 2018 (31 March 2017: € 19 million).

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 regular basis.

### ***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 € 2.8 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 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.

IKB had secured its liquidity situation for the longer term as at 31 March 2018. The limited minimal liquidity balance is around € 1.3 billion higher than the liquidity limit. This adequate liquidity situation is also underlined by the fact that, taking into account the legal maturities of the Bank's asset and liability positions and its options for borrowing with the ECB and on the secured interbank market and excluding its planned new lending business ceteris paribus (i.e. in particular assuming unchanged market values), IKB is financed for an extended period.

The minimum liquidity coverage ratio has been 100% since 1 January 2018 (previously 80%). The Bank's aim is to maintain a ratio significantly in excess of 100%. The minimum requirements were complied with at all times in the financial year 2017/18. The LCR was 750% at Group level as at 31 March 2018 (IKB AG: 402%).

### ***Refinancing situation***

In addition to secured financing on the interbank market (especially Eurex Repo transactions) and refinancing via the ECB, business involving deposits and promissory note loans with corporate clients, retail cus-

tomers 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 2018 (31 March 2017: € 2.2 billion).

The volume of refinancing secured by the Deposit Protection Fund amounts to just under € 6.4 billion as at 31 March 2018 (31 March 2017: € 7.4 billion).

The volume of unsecured bearer bonds in the retail customer segment was around € 0.7 billion as at 31 March 2018 (31 March 2017: € 0.7 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.

In addition, five subordinated bonds with a total volume of € 545 million were issued in the year under review.

### **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. As IKB does not have a trading book, market price risk relates solely to non-trading book positions.

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, as well as credit derivatives. 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 back testing 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 back testing 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*

<b>in € million</b>	<b>Value at 31 Mar. 2018</b>	<b>Value at 31 Mar. 2017</b>
<b>Interest rate basis point value (BPV)</b>	<b>-1.1</b>	<b>-1.4</b>
<b>Credit spread BPV</b>	<b>-6.6</b>	<b>-7.0</b>
VaR – interest rate and volatility	-15.2	-15.0
VaR – credit spread	-17.2	-29.3
VaR – FX and volatility	-1.5	-3.8
VaR – other	0.0	-0.8
Correlation effect	13.4	10.4
<b>VaR (total)</b>	<b>-20.5</b>	<b>-38.5</b>

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

**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 € 2.5 million<sup>1</sup> at Group level (previous year: € 4.7 million<sup>2</sup>). Around € 1.3 million of this figure related to IKB AG (previous year: € 1.3 million<sup>2</sup>). In individual cases, the loss amounts are based on estimates for which it may not be possible to obtain accurate figures using updated information until later in some cases.

<sup>1</sup> Includes losses for the subsidiaries sold in the financial year 2017/18 in the amount of € 1.2 million.

<sup>2</sup> Prior-period amount restated to reflect updated information

### **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. 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. Deviations from these standard/sample texts and individually worded agreements and transactions are examined and approved by the central legal resources in the Legal division or the decentralised legal resources in the Credit & Treasury Operations division, which fall under the responsibility of the General Council. 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.

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 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 completed tax audit for the domestic consolidated group relates to the assessment periods up to and including 2006 (VAT up to and including 2005). The audit of the assessment periods 2007 to 2011 inclusively (VAT 2006 to 2010 inclusively) continued in the current financial year. IKB is subject to permanent and consecutive external tax audits.

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. The Bank generally also recognises provisions for identified risks in connection with legal disputes.

### **Legal disputes**

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 Rhineland Funding Capital Corporation (RFCC), Rhinebridge or the 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 or 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.

To the extent that claims for damages are still 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, 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. Two cases are still pending. One pre-trial dispute is currently also in progress.

### **Disputes relating to subordinated securities**

In order to create regulatory tier 2 capital, IKB AG issued a total of eight profit participation certificates with loss participation in the years from 1997 that had not yet expired at the time of the crisis in 2007.

Since July 2016, investors have threatened legal action and, in some cases, asserted claims for information that have been rejected by IKB. In some individual cases, agreements on the suspension of the statute of

limitations have been concluded without the acknowledgement of any legal obligation in order to prevent measures suspending the statute of limitations.

Three suits with a total value in dispute of € 117 million had been filed against IKB as at the end of March 2018. IKB considers the claims asserted to be unfounded and expects them to be unsuccessful. However, it anticipates increased legal risks and legal defence costs as a result.

### **Dissenting view of the tax authorities**

In August 2015, IKB AG 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 initially paid including interest. 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.

The relevant gains/income for the offsetting of taxable losses relate in particular to IVG Kavernen GmbH, which was acquired in 2008 and merged into IKB Beteiligungen GmbH. In addition to this acquisition in the financial year 2008/09, there were similar transactions in each of the financial years 2007/08 and 2010/11, in which there was no detrimental acquisition and sections 8c KStG/10a GewStG therefore did not apply. Nonetheless, the possibility that the tax authorities will also make an issue of these transactions in ongoing audits cannot be excluded.

By way of a decision dated 29 March 2017, the German Federal Constitutional Court had classified the provision of section 8c KStG relating to detrimental acquisitions of between 25% and 50% as incompatible with the German Basic Law. The decision cannot be applied directly to detrimental acquisitions of more than 50%, and the lawmakers also have the option of implementing a new constitutional regulation retroactively up until the end of 2018.

By way of a decision dated 29 August 2017, the Hamburg Fiscal Court made a further submission to the German Federal Constitutional Court on the question of whether section 8c KStG is also unconstitutional for detrimental acquisitions of more than 50%.

IKB had brought actions before the Düsseldorf Fiscal Court against its tax assessments. In light of the submission made by the Hamburg Fiscal Court on 29 August 2017, these proceedings have been stayed by the Düsseldorf Fiscal Court.

Rulings by the German Federal Constitutional Court and the Hamburg Fiscal Court in comparable cases serve to support the legal position IKB has held to date. 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 € 109.6 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 € 45.1 million as at 31 March 2018 and around € 0.5 million for each additional month. If this risk were to occur, this would have the following impact on the key financial performance indicators:

- The regulatory tier 1 ratio or common equity tier 1 ratio calculated as at 31 March 2018 would deteriorate by 1.3 percentage points at the level of the IKB Group and by 1.4 percentage points at the level of IKB AG.
- The leverage ratio calculated as at 31 March 2018 would decline by 0.8 percentage points for the regulatory Group and IKB AG alike.
- Net income after taxes and before additions to/reversals of the fund for general banking risks (section 340g HGB) as at 31 March 2018 would decline by € 156 million.

There would be no impact on the liquidity coverage ratio.

Aleanta GmbH (a wholly owned subsidiary of IKB AG with which no profit and loss transfer agreement has been agreed) 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). Aleanta GmbH had commented on the matter and the assessment at the time of the tax audit still pending. The maximum risk encompasses taxes of approximately € 27 million plus interest (calculated as approximately € 9.4 million up to and including 31 March 2018) and additional 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 financial year 2010/11.

### 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 handling IT risk are concentrated not only on IT services, products and projects, but also on measures in the area of 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").

The IT security management department is responsible for the Bank's operational IT security. It works with other affected areas to establish measures and support their implementation, continuous improvement and adaptation to reflect current and future IT security and compliance requirements. System and network security are continuously updated to reflect changing threats in cooperation with external service providers. Infrastructure availability risks are minimised by dividing the data centres between two separate locations. The ISMS 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.

As described in “section 3. Risk report/Risk management organisation”, regulatory requirements are complied with in the form of a three-level organisational structure. The Minimum Requirements for the Compliance Function (MaComp) and the MaRisk compliance functions form part of the second line of defence, preventively providing compliance-related 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 and the officers appointed by the subsidiaries. The tasks of the compliance officer in accordance with WpHG/MaComp and KWG/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.

The binding conduct requirements and process instructions for the Bank and its employees are documented in writing by Compliance. The principles and values 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 and rendering investment services and ancillary investment services. To ensure that employees in the first line of defence 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.

The money laundering officer/central office prepares a risk analysis on money laundering, other illegal acts, the financing of terrorism and compliance with financial sanctions at least once a year and additionally as required. 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 concerning the financing of terrorism and compliance with financial sanctions are also low.

The risks to the Bank identified in connection with other illegal acts are low compared with the industry as a whole. IKB does not offer any products with heightened risk potential (e.g. credit cards, current accounts, consumer loans).

As part of its annual risk inventory and the update of its risk analysis, the money laundering officer/central office has not identified any increase in the risks to the business activities of IKB compared with 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.

The capacity reductions to April 2018 as part of the most recent reconciliation of interests are progressing on schedule and as planned. The front office units have achieved the targets set out in the reconciliation of interests, and the same is true for almost all of the back office units and central divisions. IKB AG is currently in negotiations with the employee representatives on an additional reconciliation of interests and redundancy scheme.

The number of voluntary redundancies does not currently represent an additional personnel risk, as they are either compatible with the targets of the planned restructuring or can be offset internally or through new appointments.

Please see the disclosure report for the financial year 2017/18 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, regulatory 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 meetings of the Board of Managing Directors. 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

Based on the Bank's forecasts, overall risk-bearing capacity remains secure without restriction not only for the next twelve months, but also for a further period of at least two years thereafter.

In terms of the regulatory capital and liquidity ratios, IKB's overall position was satisfactory as at the end of the financial year 2017/18. All the capital ratios are in excess of the capital requirements resulting from the banking supervisory review and evaluation process (SREP), meaning IKB has sufficient scope to implement its business activities as planned. Assuming that earnings and the business model develop as forecast, IKB plans to successively strengthen its capital base.

The liquidity coverage ratio amounted to 750% and the leverage ratio was in excess of 7% as at 31 March 2018. Liquidity is ensured with a buffer both currently and going forward.

The market price risk position declined significantly in the financial year 2017/18 in response to the comparatively calm markets. IKB also selectively enters into market price risks in the form of interest rate and credit spread risks in order to strengthen its net interest income and safeguard its liquidity with a sufficient buffer both currently and going forward. The Bank does not anticipate any significant changes.

IKB is maintaining its high lending standards even in the sustained low-interest environment. Together with the ongoing positive macroeconomic development in Germany in particular, this means that counterparty default risk remains at an extremely moderate level. This is also reflected in particular in the reduction in non-performing assets and the extremely limited need for risk provisioning.



Operational risk increased in the course of the financial year 2017/18 as a result of the disputes relating to subordinated securities in particular.

The existing geopolitical tensions, such as the implementation of Brexit, emerging protectionism, the unstable situation in the Middle East and the as yet unforeseeable impact of anti-European tendencies in the euro zone, could have consequences for the Bank's risk situation and future development. With this in mind, the Bank is observing and analysing these factors extremely closely, including with regard to their consequences in terms of economic development and the monetary policy of central banks and the associated impact of low interest rate policy, while its risk management also involves the analysis of various stress scenarios based on these developments.

As well as the aforementioned economic factors, banks are facing additional challenges due to the planned regulatory projects, which are a substantial cost driver for smaller and medium-sized banks like IKB in particular, as well as having a significant impact on business models insofar as they tend to lead to an increase in the existing capital requirements.

## **4. Report on opportunities**

IKB has focused its business model on services for medium-sized companies and private equity investors with extensive advisory and financing requirements. With the sustained robust growth in the euro zone, increased new business opportunities are becoming available to the Bank on this basis.

Competition and pressure on margins in the midmarket are continuing to increase at present. A return to more appropriate pricing on the market could open up additional business opportunities for IKB. IKB will maintain its risk-adequate pricing policy.

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 German Federal Constitutional Court on another case and the additional submission to the German Federal Constitutional Court, 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 solutions for its customers.

The cost situation can improve significantly after the implementation of the current cost-cutting and optimisation measures and the completion of the current negotiations on a new reconciliation of interests and redundancy scheme.

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.

IKB has continued with its strategy of focusing on its core business with high-end midmarket companies with the sale of the IKB Leasing Group and ikb Data (see “section 2. Economic report/Significant events in the period under review”).

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**

In its spring report, the Council of Economic Experts forecasts continued strong economic development in 2018 followed by slightly more moderate development in 2019. The upturn is expected to be accompanied by substantial growth in global trade. Momentum is set to be driven by both the industrialised nations and the emerging economies.

The US economy is expected to grow by 2.6% in 2018 and 2.3% in 2019, thanks in part to the positive effects of the tax reform resolved in late 2017. By contrast, GDP growth in the United Kingdom is set to slow further to 1.6% in 2018 and 1.4% in 2019 due to the sustained uncertainty concerning the difficult EU withdrawal negotiations, the outcome of which remains unclear.

The upturn in the euro zone is likely to continue, with the Council of Economic Experts forecasting sustained robust growth of 2.3% for 2018. Momentum will then slow slightly in 2019 due to growing production capacity utilisation (GDP growth: 1.9%). The economic outlook for Germany in 2018 is also favourable. Most of the leading indicators are at an extremely high level, suggesting that the current economic momentum will continue more or less unabated. Accordingly, the German economy is forecast to expand by around 2.3% in 2018. Growing macroeconomic capacity utilisation is likely to slow the growth rate to 1.8% in 2019. Exports will benefit from the sustained solidity of the global economy. Private consumption will also remain an important pillar thanks to rising real wages and the high level of employment. In addition, the Council of Economic Experts expects government spending to increase slightly. By contrast, the high degree of capacity utilisation in the construction industry means that construction investment may struggle to maintain its current momentum.

Monetary policy in the USA and Europe remains fundamentally expansive. The Fed will raise its headline interest rate only in extremely moderate intervals. Although the ECB is likely to end its purchase programme, the volume of bonds it holds will remain unchanged for the time being. The ECB has also announced that it intends to keep its headline interest rate at the current level far beyond the horizon of its net bond purchases. The monetary policy situation means that financing conditions for companies in Germany remain extremely favourable. Together with the high level of capacity utilisation, this expansive monetary environment has already led to a gradual increase in lending, and this trend is set to continue in the forecast period.

Banks are still facing considerable challenges. Extensive regulatory requirements, the sustained low-interest environment and intense competition are limiting earnings opportunities. At the same time, conditions are changing due to factors including technological innovations in the area of finance and the fact that companies are increasingly seeking financing for intangible assets, which are harder to finance through borrowing.

As previously, the outlook for future development is subject to risk. In addition to geopolitical conflicts, there are particular concerns with regard to the protectionist trade policy in the USA and the consequences this may have. An escalation in the trade conflict would have an especially pronounced impact on the growth prospects for extremely open, globally interconnected economies like Germany's. A potential slowdown in economic growth in China also poses a risk to the world economy. The outcome of the Brexit negotiations could have an impact on the external economic environment, while the possibility of renewed problems in the euro zone still cannot be excluded. Expansionary monetary policy could also lead to a build-up of systemic risk; on the other hand, a rapid withdrawal from this policy approach could lead to disruption on the financial markets and have an adverse impact on banks.

### Net assets

IKB plans to determine the adequacy of its capital backing for credit risk using an internal ratings-based approach (IRBA) by the end of the financial year 2018/19. The German Federal Financial Supervisory Authority decides on permission to use the IRBA approach in accordance with Article 143 (2) of Regulation (EU) No. 575/2013 on the basis of an IRBA suitability examination in accordance with section 44 (1) sentence 2 of the German Banking Act. This examination is conducted by Deutsche Bundesbank. Applying the foundation IRB approach, the Bank anticipates a reduction in risk-weighted assets and hence a moderate increase in its regulatory capital ratios.

For the financial year 2018/19, the Bank expects to see a moderate increase in the credit volume accompanied by a sharp rise in customer receivables as a result of substantial growth in lending and a lower level of unscheduled credit restructuring. The Bank will continue to be selective when it comes to new lending business in the financial year 2018/19 in order to generate appropriate income for the risks assumed and to take into account the growing requirements imposed by the banking authorities at an early stage. The development of the securities portfolio will depend to a large extent on liquidity requirements and the available investment opportunities.

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) where necessary.

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

Deposit-taking business with retail customers, corporate clients and institutional investors and secured financing 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 has the option of issuing bearer bonds and subordinated capital.

The funds thus generated are used to repay refinancing as it matures and to refinance 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). A statutory minimum requirement of 100% has been in force since 1 January 2018. The LCR was 750% in the IKB Group as at 31 March 2018 (IKB AG: 402%) with an average level for the IKB Group of 384% (IKB AG: 230%), therefore significantly exceeding the statutory minimum requirements. For the financial year 2018/19, the Bank expects to comply with the statutory minimum requirement with an LCR comfortably in excess of 100%.

### **Leverage ratio**

IKB expects its leverage ratio, which was 7.27% at Group level as at 31 March 2018 (IKB AG: 7.95%), to be maintained at this level in the financial year 2018/19.

### **Results of operations**

The strong economic development in Germany meant that new lending business adjusted for leasing in the past financial year was higher than in the previous year. IKB maintained its standards with regard to risk and margins and entered into lending business on this basis. IKB is forecasting increased demand for credit in the financial year 2018/19 on the back of the economic upturn, resulting in substantial growth in the volume of new lending business. The Bank expects its net interest income for the financial year 2018/19 to be slightly lower than the comparative prior-year figure adjusted for leasing. Among other things, this is due to the additional interest cost of the subordinated securities issued in the financial year 2017/18 and repositioning in its treasury business. 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 moderate overall increase in net commission income in the coming financial year. 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. In addition, no further material liability-side restructuring is planned for the financial year 2018/19. Accordingly, IKB expects its total administrative expenses to decline slightly in the financial year 2018/19.

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

Consolidated net income for the financial year 2017/18 was characterised by numerous non-recurring effects. In particular, extraordinary measures aimed at improving the capital structure and the structural streamlining of the banking group resulted in a substantial consolidated net loss for the past financial year. For the financial year 2018/19, the Bank is forecasting moderately positive consolidated net income and a balanced result for IKB AG.

### **Overall assessment**

IKB is forecasting moderately positive net income after taxes for the Group and a balanced result for IKB AG in the financial year 2018/19.

## **6. Disclosures in accordance with section 312 AktG**

IKB has prepared a dependent company report in accordance with section 312 of the German Stock Corporation Act (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 at least appropriate and hence in no case disadvantageous 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 – including on behalf of the Supervisory Board – 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 accordance with section 289f (4) of the German Commercial Code (HGB).

At its meeting on 8 June 2017, the Supervisory Board of IKB determined a target figure of 11.1% (rounded) for the proportion of women in the Supervisory Board and 0% for the Board of Managing Directors as at 31 March 2022. The previous target figures of 8.33% for the Supervisory Board and 0% for the Managing Board were achieved at the end of the previous target attainment period to 30 June 2017.

At its meeting on 27 June 2017, the Board of Managing Directors determined 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  $\geq 5\%$  and in the second management level at  $\geq 7\%$ , in each case as at 31 March 2022. The previous target figure of 0% for the first management level was exceeded at the end of the previous target attainment period to 30 June 2017, with the actual proportion of women amounting to 4.5%. At 6.3%, the previous target figure of 12% for the second management level was not achieved as at 30 June 2017; this was due to restructuring and the significant structural and workforce changes as a result. The proportion of women in the second management level was 8.3% as at 31 March 2018. The Bank intends to implement the targets by 31 March 2022.





# **Combined Annual Financial Statements of the Group and IKB Deutsche Industriebank AG for the Financial Year 2017/18**

Consolidated balance sheet of IKB Deutsche Industriebank AG as at 31 March 2018

in € million	31 Mar. 2018	31 Mar. 2017
<b>Assets</b>		
<b>Cash reserve</b>	<b>30.9</b>	<b>19.7</b>
a) Cash on hand	-	-
b) Balances with central banks	30.9	19.7
thereof: with Deutsche Bundesbank	30.9	19.7
c) Balances in postal giro accounts	-	-
<b>Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks</b>	<b>-</b>	<b>-</b>
<b>Receivables from banks</b>	<b>2,520.5</b>	<b>1,669.7</b>
a) Repayable on demand	2,487.3	1,597.4
b) Other receivables	33.2	72.3
<b>Receivables from customers</b>	<b>9,708.8</b>	<b>9,925.4</b>
thereof: mortgage loans	757.4	815.1
thereof: public sector loans	351.7	436.4
<b>Bonds and other fixed-income securities</b>	<b>3,904.7</b>	<b>5,329.7</b>
a) Money market securities	-	-
b) Bonds and notes	3,884.3	5,309.2
ba) Public sector issuers	2,455.2	3,430.9
thereof: eligible as collateral for Deutsche Bundesbank	2,404.7	3,380.4
bb) Other issuers	1,429.1	1,878.3
thereof: eligible as collateral for Deutsche Bundesbank	1,419.2	1,764.4
c) Own bonds	20.4	20.5
Nominal amount	19.9	20.0
<b>Equities and other non-fixed-income securities</b>	<b>395.5</b>	<b>472.5</b>
<b>Assets held for trading</b>	<b>-</b>	<b>-</b>
<b>Equity investments</b>	<b>0.7</b>	<b>3.6</b>
thereof: banks	0.2	0.2
thereof: financial services institutions	-	-
<b>Investments in associates</b>	<b>-</b>	<b>16.3</b>
thereof: banks	-	-
thereof: financial services institutions	-	16.3
<b>Investments in affiliated companies</b>	<b>0.3</b>	<b>0.9</b>
thereof: banks	-	-
thereof: financial services institutions	-	-
<b>Assets held in trust</b>	<b>-</b>	<b>-</b>
<b>Compensation receivables on the public sector including debt securities arising from their exchange</b>	<b>-</b>	<b>-</b>
<b>Lease assets</b>	<b>8.1</b>	<b>928.4</b>
<b>Intangible assets</b>	<b>3.1</b>	<b>11.0</b>
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	3.1	6.7
c) Goodwill	-	3.6
d) Advance payments made	-	0.7
<b>Tangible assets</b>	<b>218.7</b>	<b>213.6</b>
<b>Called unpaid capital</b>	<b>-</b>	<b>-</b>
<b>Other assets</b>	<b>162.1</b>	<b>222.6</b>
<b>Prepaid expenses</b>	<b>76.6</b>	<b>113.1</b>
<b>Deferred tax assets</b>	<b>180.2</b>	<b>255.0</b>
<b>Excess of plan assets over post-employment benefit liability</b>	<b>7.6</b>	<b>7.3</b>
<b>Total assets</b>	<b>17,217.8</b>	<b>19,188.8</b>

<b>in € million</b>	<b>31 Mar. 2018</b>	<b>31 Mar. 2017</b>
<b>Equity and liabilities</b>		
<b>Liabilities to banks</b>	<b>7,432.1</b>	<b>7,642.5</b>
a) Repayable on demand	80.9	44.0
b) With agreed lifetime or notice period	7,351.2	7,598.5
<b>Liabilities to customers</b>	<b>6,447.5</b>	<b>7,550.9</b>
a) Savings deposits	-	-
b) Other liabilities	6,447.5	7,550.9
ba) Repayable on demand	1,202.6	1,359.2
bb) With agreed lifetime or notice period	5,244.9	6,191.7
<b>Securitised liabilities</b>	<b>720.6</b>	<b>822.9</b>
a) Bonds issued	720.6	822.9
b) Other securitised liabilities	-	-
<b>Liabilities held for trading</b>	<b>-</b>	<b>-</b>
<b>Liabilities held in trust</b>	<b>-</b>	<b>-</b>
<b>Other liabilities</b>	<b>123.1</b>	<b>485.1</b>
<b>Deferred income</b>	<b>50.5</b>	<b>126.5</b>
<b>Deferred tax liabilities</b>	<b>-</b>	<b>-</b>
<b>Provisions</b>	<b>206.2</b>	<b>241.2</b>
a) Provisions for pensions and similar obligations	45.5	31.4
b) Tax provisions	41.9	46.1
c) Other provisions	118.8	163.7
<b>Subordinated liabilities</b>	<b>831.0</b>	<b>695.8</b>
<b>Profit participation capital</b>	<b>-</b>	<b>-</b>
thereof: due within two years	-	-
<b>Fund for general banking risks</b>	<b>585.0</b>	<b>585.0</b>
thereof: trading-related special reserve according to section 340e (4) HGB	-	-
<b>Equity</b>	<b>821.8</b>	<b>1,038.9</b>
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	800.0
b) Capital reserves	1,750.7	1,750.7
c) Revenue reserves	-0.9	5.2
ca) Legal reserve	2.4	2.4
cb) Reserve for shares in a parent or majority investor	-	-
cc) Statutory reserves	-	-
cd) Other revenue reserves	-3.3	2.8
d) Difference in equity from currency translation	-0.2	-4.3
e) Net accumulated losses	-2,551.1	-2,335.6
f) Non-controlling interests	1.8	1.4
<b>Total equity and liabilities</b>	<b>17,217.8</b>	<b>19,188.8</b>
<b>Contingent liabilities</b>	<b>1,944.0</b>	<b>1,238.4</b>
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	1,944.0	1,238.4
c) Liability arising from the provision of collateral for third-party liabilities	-	-
<b>Other obligations</b>	<b>1,527.4</b>	<b>1,550.3</b>
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	-	-
c) Irrevocable loan commitments	1,527.4	1,550.3

Balance sheet of IKB Deutsche Industriebank AG as at 31 March 2018

in € million	31 Mar. 2018	31 Mar. 2017
<b>Assets</b>		
<b>Cash reserve</b>	<b>30.9</b>	<b>19.7</b>
a) Cash on hand	-	-
b) Balances with central banks	30.9	19.7
thereof: with Deutsche Bundesbank	30.9	19.7
c) Balances in postal giro accounts	-	-
<b>Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks</b>	<b>-</b>	<b>-</b>
<b>Receivables from banks</b>	<b>2,308.7</b>	<b>1,505.1</b>
a) Repayable on demand	2,275.5	1,453.4
b) Other receivables	33.2	51.7
<b>Receivables from customers</b>	<b>10,968.8</b>	<b>11,348.8</b>
thereof: mortgage loans	757.4	815.1
thereof: public sector loans	351.7	436.4
<b>Bonds and other fixed-income securities</b>	<b>3,925.3</b>	<b>4,714.5</b>
a) Money market securities	-	-
b) Bonds and notes	3,904.9	4,694.0
ba) Public sector issuers	2,455.2	3,158.8
thereof: eligible as collateral for Deutsche Bundesbank	2,404.7	3,108.3
bb) Other issuers	1,449.7	1,535.2
thereof: eligible as collateral for Deutsche Bundesbank	1,439.9	1,474.3
c) Own bonds	20.4	20.5
Nominal amount	19.9	20.0
<b>Equities and other non-fixed-income securities</b>	<b>1.9</b>	<b>2.2</b>
<b>Assets held for trading</b>	<b>-</b>	<b>-</b>
<b>Equity investments</b>	<b>0.2</b>	<b>0.6</b>
thereof: banks	0.2	0.2
thereof: financial services institutions	-	-
<b>Investments in affiliated companies</b>	<b>271.5</b>	<b>260.9</b>
thereof: banks	-	-
<b>Assets held in trust</b>	<b>-</b>	<b>-</b>
<b>Compensation receivables on the public sector including debt securities arising from their exchange</b>	<b>-</b>	<b>-</b>
<b>Intangible assets</b>	<b>3.1</b>	<b>3.9</b>
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	3.1	3.9
c) Goodwill	-	-
d) Advance payments made	-	-
<b>Tangible assets</b>	<b>4.2</b>	<b>4.0</b>
<b>Called unpaid capital</b>	<b>-</b>	<b>-</b>
<b>Other assets</b>	<b>155.8</b>	<b>166.4</b>
<b>Prepaid expenses</b>	<b>88.4</b>	<b>136.9</b>
<b>Deferred tax assets</b>	<b>181.0</b>	<b>249.0</b>
<b>Excess of plan assets over post-employment benefit liability</b>	<b>7.4</b>	<b>7.2</b>
<b>Total assets</b>	<b>17,947.2</b>	<b>18,419.2</b>

in € million	31 Mar. 2018	31 Mar. 2017
<b>Equity and liabilities</b>		
<b>Liabilities to banks</b>	<b>7,429.9</b>	<b>7,593.6</b>
a) Repayable on demand	80.9	40.5
b) With agreed lifetime or notice period	7,349.0	7,553.1
<b>Liabilities to customers</b>	<b>6,521.6</b>	<b>7,605.3</b>
a) Savings deposits	-	-
b) Other liabilities	6,521.6	7,605.3
ba) Repayable on demand	1,282.3	1,407.2
bb) With agreed lifetime or notice period	5,239.3	6,198.1
<b>Securitised liabilities</b>	<b>1,140.9</b>	<b>751.9</b>
a) Bonds issued	1,140.9	751.9
b) Other securitised liabilities	-	-
<b>Liabilities held for trading</b>	-	-
<b>Liabilities held in trust</b>	-	-
<b>Other liabilities</b>	<b>279.8</b>	<b>165.6</b>
<b>Deferred income</b>	<b>61.3</b>	<b>84.3</b>
<b>Deferred tax liabilities</b>	-	-
<b>Provisions</b>	<b>186.7</b>	<b>205.5</b>
a) Provisions for pensions and similar obligations	40.9	18.7
b) Tax provisions	40.9	44.7
c) Other provisions	104.9	142.1
<b>Subordinated liabilities</b>	<b>831.0</b>	<b>220.7</b>
<b>Profit participation capital</b>	-	-
<b>Fund for general banking risks</b>	<b>585.0</b>	<b>585.0</b>
thereof: trading-related special reserve according to section 340e (4) HGB	-	-
<b>Equity</b>	<b>911.0</b>	<b>1,207.3</b>
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	800.0
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	-	-
e) Net accumulated losses	-2,463.6	-2,167.3
<b>Total equity and liabilities</b>	<b>17,947.2</b>	<b>18,419.2</b>
<b>Contingent liabilities</b>	<b>2,006.5</b>	<b>2,184.4</b>
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	2,006.5	2,184.4
c) Liability arising from the provision of collateral for third-party liabilities	-	-
<b>Other obligations</b>	<b>1,531.7</b>	<b>1,357.3</b>
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	-	-
c) Irrevocable loan commitments	1,531.7	1,357.3

**Consolidated income statement of IKB Deutsche Industriebank AG for the period from 1 April 2017 to 31 March 2018**

<b>in € million</b>	<b>2017/18</b>	<b>2016/17</b>
<b>Expenses</b>		
<b>Lease expenses</b>	<b>-236.7</b>	<b>-191.9</b>
<b>Interest expenses</b>	<b>-411.5</b>	<b>-512.3</b>
thereof: positive interest	21.5	19.3
<b>Commission expenses</b>	<b>-15.7</b>	<b>-13.9</b>
<b>Net trading results</b>	<b>-</b>	<b>-</b>
<b>General administrative expenses</b>	<b>-260.5</b>	<b>-271.0</b>
a) Personnel expenses	-153.0	-172.4
aa) Wages and salaries	-131.0	-148.7
ab) Social security, post-employment and other employee benefit costs	-22.0	-23.7
thereof: for pensions	-5.1	-4.9
b) Other administrative expenses	-107.5	-98.6
<b>Amortisation and write-downs on intangible fixed assets and depreciation and write-downs on tangible fixed assets</b>	<b>-272.6</b>	<b>-304.0</b>
a) On lease assets	-262.4	-291.2
b) On intangible and tangible assets	-10.2	-12.8
<b>Other operating expenses</b>	<b>-381.4</b>	<b>-675.0</b>
<b>Expenses for the addition to the fund for general banking risks</b>	<b>-</b>	<b>-</b>
<b>Depreciation and write-downs of receivables, specific securities and additions to loan loss provisions</b>	<b>-</b>	<b>-</b>
<b>Depreciation and write-downs of equity investments, investments in affiliated companies and long-term investments</b>	<b>-8.0</b>	<b>-8.2</b>
<b>Costs of loss absorption</b>	<b>-</b>	<b>-</b>
<b>Extraordinary expenses</b>	<b>-476.2</b>	<b>-42.4</b>
<b>Income taxes</b>	<b>-70.6</b>	<b>-17.8</b>
<b>Other taxes not reported under "Other operating expenses"</b>	<b>-2.1</b>	<b>-1.8</b>
<b>Profit transfer on the basis of profit-pooling, profit transfer and partial profit transfer agreements</b>	<b>-</b>	<b>-</b>
<b>Net income for the financial year</b>	<b>-</b>	<b>-25.6</b>
<b>Total expenses</b>	<b>-2,135.3</b>	<b>-2,063.9</b>

in € million	2017/18	2016/17
<b>Income</b>		
<b>Lease income</b>	<b>549.1</b>	<b>541.3</b>
<b>Interest income from</b>	<b>648.0</b>	<b>740.8</b>
a) Lending and money market transactions	566.2	649.8
thereof: negative interest	23.0	10.5
b) Fixed-income securities and government-inscribed debts	81.8	91.0
thereof: negative interest	-	-
<b>Current income from</b>	<b>2.1</b>	<b>4.7</b>
a) Equities and other non-fixed-income securities	0.3	0.4
b) Equity investments	0.1	2.5
c) Investments in associates	1.7	1.8
d) Investments in affiliated companies	-	-
<b>Income from profit-pooling, profit transfer and partial profit transfer agreements</b>	<b>-</b>	<b>-</b>
<b>Commission income</b>	<b>54.5</b>	<b>53.4</b>
<b>Net trading results</b>	<b>-</b>	<b>-</b>
<b>Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions</b>	<b>32.7</b>	<b>16.6</b>
<b>Income from reversals of write-downs of equity investments, investments in affiliated companies and long-term investment securities</b>	<b>158.0</b>	<b>266.6</b>
<b>Other operating income</b>	<b>255.9</b>	<b>440.5</b>
<b>Income from the reversal of the fund for general banking risks</b>	<b>-</b>	<b>-</b>
<b>Extraordinary income</b>	<b>219.5</b>	<b>-</b>
<b>Income from assumption of losses</b>	<b>-</b>	<b>-</b>
<b>Net loss for the financial year</b>	<b>215.5</b>	<b>-</b>
<b>Total income</b>	<b>2,135.3</b>	<b>2,063.9</b>
<b>Net income/loss for the financial year</b>	<b>-215.5</b>	<b>25.5</b>
<b>Non-controlling interests</b>	<b>0.2</b>	<b>0.1</b>
<b>Loss carryforward from the previous year</b>	<b>-2,335.6</b>	<b>-2,361.1</b>
<b>Withdrawals from capital reserves</b>	<b>-</b>	<b>-</b>
<b>Withdrawals from revenue reserves</b>	<b>-</b>	<b>-</b>
<b>Withdrawals from profit participation capital</b>	<b>-</b>	<b>-</b>
<b>Withdrawals from silent partnership contributions</b>	<b>-</b>	<b>-</b>
<b>Allocations to revenue reserves</b>	<b>-</b>	<b>-</b>
<b>Replenishment of profit participation capital</b>	<b>-</b>	<b>-</b>
<b>Net accumulated losses</b>	<b>-2,551.1</b>	<b>-2,335.6</b>

**Income statement of IKB Deutsche Industriebank AG for the period  
from 1 April 2017 to 31 March 2018**

in € million	2017/18	2016/17
<b>Expenses</b>		
<b>Interest expenses</b>	<b>-413.8</b>	<b>-530.4</b>
thereof: positive interest	20.1	19.1
<b>Commission expenses</b>	<b>-5.8</b>	<b>-4.5</b>
<b>Net trading results</b>	<b>-</b>	<b>-</b>
<b>General administrative expenses</b>	<b>-206.5</b>	<b>-219.9</b>
a) Personnel expenses	-111.7	-126.5
aa) Wages and salaries	-96.6	-109.5
ab) Social security, post-employment and other employee benefit costs	-15.1	-17.0
thereof: for pensions	-3.7	-4.3
b) Other administrative expenses	-94.8	-93.4
<b>Amortisation and write-downs on intangible fixed assets and depreciation and write-downs on tangible fixed assets</b>	<b>-2.7</b>	<b>-5.0</b>
<b>Other operating expenses</b>	<b>-319.3</b>	<b>-614.7</b>
<b>Expenses for the addition to the fund for general banking risks</b>	<b>-</b>	<b>-</b>
<b>Depreciation and write-downs of receivables, specific securities and additions to loan loss provisions</b>	<b>-</b>	<b>-</b>
<b>Depreciation and write-downs of equity investments, investments in affiliated companies and long-term investments</b>	<b>-8.5</b>	<b>-11.8</b>
<b>Costs of loss absorption</b>	<b>-161.8</b>	<b>-</b>
<b>Extraordinary expenses</b>	<b>-357.2</b>	<b>-38.3</b>
<b>Income taxes</b>	<b>-62.3</b>	<b>-17.4</b>
<b>Other taxes not reported under "Other operating expenses"</b>	<b>-0.1</b>	<b>-0.2</b>
<b>Profit transfer on the basis of profit-pooling, profit transfer and partial profit transfer agreements</b>	<b>-</b>	<b>-</b>
<b>Net income for the financial year</b>	<b>-</b>	<b>-</b>
<b>Total expenses</b>	<b>-1,538.0</b>	<b>-1,442.2</b>



in € million	2017/18	2016/17
<b>Income</b>		
<b>Interest income from</b>	<b>620.6</b>	<b>769.3</b>
a) Lending and money market transactions	546.1	693.4
thereof: negative interest	22.7	10.2
b) Fixed-income securities and government-inscribed debts	74.5	75.9
thereof: negative interest	-	-
<b>Current income from</b>	<b>3.0</b>	<b>3.6</b>
a) Equities and other non-fixed-income securities	0.2	0.1
b) Equity investments	-	0.3
c) Investments in affiliated companies	2.8	3.2
<b>Income from profit-pooling, profit transfer and partial profit transfer agreements</b>	<b>1.9</b>	<b>15.4</b>
<b>Commission income</b>	<b>45.1</b>	<b>45.9</b>
<b>Net trading results</b>	<b>-</b>	<b>-</b>
<b>Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions</b>	<b>42.1</b>	<b>19.7</b>
<b>Income from reversals of write-downs of equity investments, investments in affiliated companies and long-term investment securities</b>	<b>125.5</b>	<b>202.5</b>
<b>Other operating income</b>	<b>186.2</b>	<b>385.8</b>
<b>Income from the reversal of the fund for general banking risks</b>	<b>-</b>	<b>-</b>
<b>Extraordinary income</b>	<b>217.3</b>	<b>-</b>
<b>Income from assumption of losses</b>	<b>-</b>	<b>-</b>
<b>Net loss for the financial year</b>	<b>296.3</b>	<b>-</b>
<b>Total income</b>	<b>1,538.0</b>	<b>1,442.2</b>
<b>Net income/loss for the financial year</b>	<b>-296.3</b>	<b>-</b>
<b>Loss carryforward from the previous year</b>	<b>-2,167.3</b>	<b>-2,167.3</b>
<b>Withdrawals from capital reserves</b>	<b>-</b>	<b>-</b>
<b>Withdrawals from revenue reserves</b>	<b>-</b>	<b>-</b>
<b>Withdrawals from profit participation capital</b>	<b>-</b>	<b>-</b>
<b>Withdrawals from silent partnership contributions</b>	<b>-</b>	<b>-</b>
<b>Allocations to revenue reserves</b>	<b>-</b>	<b>-</b>
<b>Replenishment of profit participation capital</b>	<b>-</b>	<b>-</b>
<b>Net accumulated losses</b>	<b>-2,463.6</b>	<b>-2,167.3</b>

## Consolidated cash flow statement

in € million	2017/18
<b>Net income for the period (consolidated net income/loss for the year including minority interest)</b>	<b>-215.3</b>
+/- Amortisation/depreciation, write-downs and reversals thereof on receivables and fixed assets	249.6
+/- Increase/decrease in provisions	29.3
+/- Other non-cash expenses/income	-5.7
-/+ Gain/loss on the disposal of fixed assets	-149.7
+/- Other adjustments (net)	-83.5
+/- Increase/decrease in receivables from banks	-1,011.2
+/- Increase/decrease in receivables from customers	-313.8
+/- Increase/decrease in securities (if not long-term investments)	0.4
+/- Increase/decrease in lease assets	-
+ Receipts from disposal	64.2
- Payments for acquisition	-323.8
+/- Increase/decrease in other assets from operating activities	-13.5
+/- Increase/decrease in liabilities to banks	-162.4
+/- Increase/decrease in liabilities to customers	-1,133.9
+/- Increase/decrease in securitised liabilities	-102.2
+/- Increase/decrease in other liabilities from operating activities	1,068.9
+/- Interest expenses/interest income	-238.6
+/- Lease expenses/lease income	-312.4
+/- Expenses/income from extraordinary items	256.7
+/- Income tax expenses/income	70.6
+ Interest and dividends received	662.6
- Interest paid	-406.6
+/- Cash flows received/paid in leasing activities	307.4
+ Extraordinary receipts	-
- Extraordinary payments	-323.9
+/- Income tax payments	-11.0
<b>Cash flow from operating activities</b>	<b>-2,097.8</b>
+ Receipts from the disposal of long-term investments	3,614.6
- Payments for the acquisition of long-term investments	-2,098.0
+ Receipts from the disposal of tangible assets	0.9
- Payments for the acquisition of tangible assets	-3.4
+ Receipts from the disposal of intangible assets	-
- Payments for the acquisition of intangible assets	-2.1
+ Receipts from disposals from consolidated group	250.2
- Payments for additions to consolidated group	-
+/- Change in cash funds from other investing activities (net)	30.3
+ Receipts from extraordinary items	-
- Payment for extraordinary items	-
<b>Cash flow from investing activities</b>	<b>1,792.5</b>

in € million	2017/18
+ 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	-
- 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)	316.3
<b>Cash flow from financing activities</b>	<b>316.3</b>
Net change in cash funds	11.2
+/- 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	19.7
<b>Cash funds at end of period</b>	<b>30.9</b>

## **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. 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 financial year 2017/18 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 statements are structured in account format (format 2 RechKredV).

Disclosures that can be provided either in the (consolidated) balance sheet/(consolidated) income statement or the (consolidated) notes have largely been provided in the (consolidated) notes in the order of the items concerned. Amounts are disclosed in millions of euro. Minor deviations can occur in the total figures in the notes due to the rounding of figures. 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, statements made 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**

IKB has changed its definition of credit derivatives recognised as loan collateral since the previous year. This results in a change in the presentation of premiums received for credit derivatives under which IKB is the pledgor. Applying this new definition, other operating income would have been € 13.1 million lower as at 31 March 2017, while commission income would have increased by the same amount. In addition, contingent liabilities from credit derivatives would have been € 1,323.5 million higher as at 31 March 2017. If the new definition had been applied as at 31 March 2017, the unrealised gains and losses of derivative financial instruments not recognised at fair value in the table “Unrealised gains and losses” would have been

€ 13.2 million lower, while the unrealised gains and losses of credit default swaps recognised as loan collateral would have been € 13.2 million higher.

### (3) Consolidated group

In addition to IKB AG, 30 (31 March 2017: 48) subsidiaries have been included in consolidation in the consolidated financial statements as at 31 March 2018.

ikb Data GmbH, Düsseldorf, was sold to DATAGROUP SE on 15 August 2017.

The contracts concluded in June 2017 for the sale of the IKB Leasing Group became effective in February 2018. The following companies were deconsolidated as at 28 February 2018 in connection with the sale of the IKB Leasing Group:

- IKB Leasing Beteiligungsgesellschaft mbH, Hamburg
- IKB Leasing GmbH, Hamburg
- UTA Truck Lease GmbH, Neu-Isenburg
- AO IKB Leasing geschlossene Aktiengesellschaft, Moscow, Russia
- IKB Leasing Austria GmbH, Vienna, Austria
- IKB Leasing CR s.r.o., Prague, Czech Republic
- IKB Leasing France S.A.R.L., Marne La Vallée, France
- IKB Leasing Kft., Budapest, Hungary
- IKB Leasing Polska Sp.z.o.o, Poznan, Poland
- IKB Pénzügyi Lizing Zrt., Budapest, Hungary
- IKBL Asset spółka z ograniczona odpowiedzialnoscia & Co. spółka komandytowa, Poznan, Poland
- IKBL ASSET Spolka z ograniczona odpowiedzialnoscia, Poznan, Poland
- IKBL Renting and Service S.r.l., Lainate (MI), Italy
- STILL LOCATION S.à.r.l., Marne La Vallée, France
- German Mittelstand Equipment Finance S.A., Luxembourg, Luxembourg

The shares in IKB Leasing Finance IFN S.A., Bucharest, Romania, IKB Leasing S.A., Bucharest, Romania (formerly IKB Leasing S.R.L., Bucharest, Romania), and IKB Leasing SR, s.r.o., Bratislava, Slovakia, were not sold. The shares in the companies are now held by the IKB subsidiaries Ligera GmbH, Düsseldorf, and Rhodana GmbH, Düsseldorf, which have been included in consolidation since 31 January 2018.

The shares in Linde Leasing GmbH, Wiesbaden, which was previously accounted for using the equity method, were also sold. Following the sale of the IKB Leasing Group, no further associated companies are included in the consolidated financial statements using the equity method (31 March 2017: one).

IKB Equity Capital Fund GmbH, Düsseldorf, and MATRONA GmbH, Düsseldorf, were merged with the consolidated subsidiary IKB Invest GmbH, Düsseldorf, in the past financial year. This did not give rise to any consolidation effects.

Following the departure of the general partner in Projektbeteiligung TH GmbH & Co. KG, Düsseldorf, the company was merged with IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf. This did not give rise to any consolidation effects.

IKB Funding LLC II, Wilmington, United States of America, was liquidated and dissolved effective 14 March 2018.

Following the sale of the junior and mezzanine loans, IKB deconsolidated RIO DEBT HOLDINGS (IRELAND) LIMITED, Dublin 2, Ireland.

The special-purpose entity Himeria Grundstücks- Vermietungsgesellschaft mbH was included in the consolidated financial statements for the first time effective 31 March 2018. The object of the company is the letting and administration of its own property.

For further information, please refer to note (55). For further information on the effects of changes in the consolidated group on earnings, please refer to the information on extraordinary expenses and income in note (48).

#### **(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 2018 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.

In the previous year, investments in associated companies were 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. No associated companies are included in the consolidated financial statements using the equity method as at 31 March 2018 (31 March 2017: one).

## **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 with a purchase price discount due to the credit rating 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".

Lease receivables were acquired in the context of true forfaiting in connection with the sale of the IKB Leasing Group. The claims to payment under the leases were transferred to an IKB subsidiary and are reported in the consolidated financial statements as receivables from customers at the amount of the purchase price, taking provisions for possible loan losses into account. Incoming payments on the forfeited receivables are divided into payments of principal and interest with a constant effective interest rate. The incoming payments are not divided into payments of principal and interest if the forfeited receivable was already impaired when purchased. The incoming payments are initially treated as payments of principal. Excess incoming payments are only recognised in the income statement after the principal has been repaid in full.

### **(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.

If the criteria for the recognition of a valuation allowance or provision are met in the context of the specific risk provision process, their amount is calculated from the difference between the current book value and the present value of the cash flows still expected. The discount factor is equal to the original effective interest rate of the receivable.

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.

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 the absence of available historical loan loss data, latent counterparty risks are also estimated based on the one-year expected loss for assets purchased by IKB Leasing Group companies.

For non-recourse financing to IKB Leasing, there is also default risk for the lessee in addition to the default risk for IKB Leasing. This double default risk is taken into account when recognising general allowances by recognising general allowances for the default risk of lessees on the basis of estimated one-year losses in addition to calculating general allowances on the basis of past credit losses.



Furthermore, there are general allowances for latent counterparty default risk in connection with the following:

- above-average risks of loss in the area of acquisition financing;
- losses in connection with planned sales of medium to long-term project financing;
- impact of EU sanctions against Russia on borrowers;
- impact of more stringent legislation on borrowers in the renewable energies segment in Southern Europe;
- above-average risks of loss on exposures relating to the European steel industry and commodity financing;
- above-average risks of loss in connection with the restructuring of Spanish school financing.

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 rating classes 13-15 as at 31 March 2018.

Bad debts are written down directly. Recoveries on loans previously written off are recognised under “Provisions for possible loan losses” in the income statement.

## **(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.

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:

<b>Measurement factor</b>	<b>31 Mar. 2018 Assumption</b>	<b>31 Mar. 2017 Assumption</b>
Interest rate (7 or 10-year average)	2.68%/3.57%	3.12%/3.94%
Wage and salary increase	2.0%/3.0%	2.0%/3.0%
Pension trend	1.75%	1.75%
<b>Fluctuation rate in line with grading by age and sex</b>		
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, 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”. Among other things, expenses resulting from extraordinary measures to simplify the capital structure (in particular expenses in connection with the waiver of receivables by the future resumption of debtor warrants against cash payment) are reported in this item, as are expenses and income arising in connection with the sale of key equity investments in Group companies or business restructuring measures and expenses in connection with the transfer to pension provisions due to the BilMoG transition (see note (14)).

### **(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, 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. IKB takes into account the refinancing effect of equity for the period in which no distributions are currently expected 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 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 was no hedge accounting for highly probable transactions in the period under review.

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

in € million	Group		IKB AG	
	31 Mar. 2018	31 Mar. 2017	31 Mar. 2018	31 Mar. 2017
<b>Receivables from banks<sup>1)</sup></b>	<b>33.2</b>	<b>72.3</b>	<b>33.2</b>	<b>51.7</b>
remaining term				
up to 3 months	3.1	22.0	3.1	2.4
between 3 months and 1 year	3.6	13.1	3.6	12.1
between 1 and 5 years	26.5	24.7	26.5	24.7
more than 5 years	-	12.5	-	12.5
<b>Receivables from customers</b>	<b>9,708.8</b>	<b>9,925.4</b>	<b>10,968.8</b>	<b>11,348.8</b>
remaining term				
up to 3 months	834.4	828.8	833.6	862.7
between 3 months and 1 year	1,313.0	1,066.6	1,718.9	1,262.4
between 1 and 5 years	5,537.8	5,922.6	5,602.1	6,550.0
more than 5 years	2,023.6	2,107.4	2,814.2	2,673.7
<b>Liabilities to banks<sup>1)</sup></b>	<b>7,351.2</b>	<b>7,598.5</b>	<b>7,349.0</b>	<b>7,553.1</b>
remaining term				
up to 3 months	484.7	552.9	484.3	546.4
between 3 months and 1 year	720.7	881.7	720.6	872.9
between 1 and 5 years	4,876.1	4,949.1	4,874.4	4,919.6
more than 5 years	1,269.7	1,214.8	1,269.7	1,214.2
<b>Liabilities to customers<sup>1)</sup></b>	<b>5,244.9</b>	<b>6,191.7</b>	<b>5,239.3</b>	<b>6,198.1</b>
remaining term				
up to 3 months	525.3	914.2	521.4	921.8
between 3 months and 1 year	1,368.6	1,800.4	1,368.6	1,799.2
between 1 and 5 years	2,851.6	2,998.0	2,849.9	2,998.0
more than 5 years	499.4	479.1	499.4	479.1

1) not including receivables or liabilities repayable on demand

€ 81.3 million (previous year: € 375.7 million) of bonds and other fixed-income securities are payable in the following year in the Group and € 81.3 million (previous year: € 369.6 million) are payable in the following year at IKB AG. € 267.3 million (previous year: € 285.7 million) of the bonds issued and reported under securitised liabilities are payable in the following year in the Group and € 267.5 million (previous year: € 233.3 million) are payable in the following year at IKB AG.

### (21) Valuation units

Hedge accounting is essentially used in the Group to present hedges of interest and currency risks.

There was no hedge accounting either in the Group or at IKB AG as at the reporting date.

As at the previous year's reporting date, there were hedges with assets with a book value of € 177.6 million and liability derivatives of € 0.4 million as hedged items in the Group. As at the previous year's reporting date, hedged risks amounted to € 0.3 million for assets in the Group and to € 0.3 million for derivatives. The hedged risk was equal to the value of the changes in the value or cash flows of the hedged item compensated by the hedge. There was no hedge accounting at IKB AG as at the previous year's reporting date.



**(22) Foreign-currency assets**

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

in € million	Group		IKB AG	
	31 Mar. 2018	31 Mar. 2017	31 Mar. 2018	31 Mar. 2017
Assets	514.1	959.6	511.6	755.6

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 € 195.2 million (previous year: € 369.7 million) in the Group and € 195.4 million (previous year: € 374.0 million) at IKB AG.

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

in € million	Group			
	31 Mar. 2018		31 Mar. 2017	
	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Receivables from customers <sup>1</sup>	9.7	-	15.0	40.2
Other assets	-	-	-	-

in € million	IKB AG			
	31 Mar. 2018		31 Mar. 2017	
	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Receivables from customers <sup>1</sup>	1,712.6	-	2,533.7	40.0
Other assets	8.2	-	22.2	0.1

1) In the comparative figures for IKB AG and the Group as at 31 March 2017, receivables of € 9.5 million from a non-consolidated special purpose entity were reclassified from investees and investors to affiliated companies

(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
<b>Acquisition costs as at 31 Mar. 2017</b>	<b>71.0</b>	<b>260.8</b>	<b>1,786.2</b>	<b>9.1</b>	<b>11.1</b>	<b>4.8</b>	<b>5,320.8</b>	<b>477.3</b>	<b>7,941.1</b>
Additions to the consolidated group	-	16.6	-	-	-	-	-	-	16.6
Additions	2.1	3.4	323.8	-	-	-	2,129.7	-	2,459.0
Reclassifications	-	-	-0.3	-4.2	-	-0.1	-	-	-4.6
Effects of currency translation	-	-	-1.1	-	-	-	-5.2	-	-6.3
Disposals from the consolidated group	-26.4	-27.9	-1,730.7	-	-11.1	-0.1	-24.6	-	-1,820.8
Disposals	-8.6	-3.5	-365.8	-3.2	-	-3.1	-3,534.0	-76.9	-3,995.1
<b>Acquisition costs as at 31 Mar. 2018</b>	<b>38.1</b>	<b>249.4</b>	<b>12.1</b>	<b>1.7</b>	<b>-</b>	<b>1.5</b>	<b>3,886.7</b>	<b>400.4</b>	<b>4,589.9</b>
<b>Cumulative depreciation/amortisation, write-downs and reversals thereof by 31 Mar. 2017</b>	<b>-60.0</b>	<b>-47.2</b>	<b>-857.8</b>	<b>-5.5</b>	<b>5.2</b>	<b>-3.9</b>	<b>-11.6</b>	<b>-4.8</b>	<b>-985.6</b>
Reversals of write-downs	-	-	-	0.1	-	-	1.7	-	1.8
Depreciation/amortisation and write-downs	-3.2	-7.0	-262.3	-	-	-	-1.3	-0.1	-273.9
Reclassifications	-	-	2.1	4.2	-	-	-	-	6.3
Effects of currency translation	-	-	0.5	-	-	-	0.7	-	1.2
Disposals from the consolidated group	19.5	20.6	808.9	-	-5.2	-	-	-	843.8
Disposals	8.7	2.9	304.6	0.2	-	2.7	8.1	-	327.2
<b>Cumulative depreciation/amortisation, write-downs and reversals thereof by 31 Mar. 2018</b>	<b>-35.0</b>	<b>-30.7</b>	<b>-4.0</b>	<b>-1.0</b>	<b>-</b>	<b>-1.2</b>	<b>-2.4</b>	<b>-4.9</b>	<b>-79.2</b>
<b>Residual book value as at 31 Mar. 2018</b>	<b>3.1</b>	<b>218.7</b>	<b>8.1</b>	<b>0.7</b>	<b>-</b>	<b>0.3</b>	<b>3,884.3</b>	<b>395.5</b>	<b>4,510.7</b>
<b>Residual book value as at 31 Mar. 2017</b>	<b>11.0</b>	<b>213.6</b>	<b>928.4</b>	<b>3.6</b>	<b>16.3</b>	<b>0.9</b>	<b>5,309.2</b>	<b>472.5</b>	<b>6,955.5</b>

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
<b>Acquisition costs</b>							
<b>as at 31 Mar. 2017</b>	<b>88.7</b>	<b>12.8</b>	<b>1.2</b>	<b>1,261.5</b>	<b>4,696.6</b>	<b>2.2</b>	<b>6,063.0</b>
Additions	1.1	1.2	-	14.0	2,657.8	-	2,674.1
Reclassifications	-	-	-	-	-	-	-
Effects of currency translation	-	-	-	-	-5.0	-	-5.0
Disposals	-	-1.6	-0.6	-14.8	-3,442.1	-0.3	-3,459.4
<b>Acquisition costs</b>							
<b>as at 31 Mar. 2018</b>	<b>89.8</b>	<b>12.4</b>	<b>0.6</b>	<b>1,260.7</b>	<b>3,907.3</b>	<b>1.9</b>	<b>5,272.7</b>
<b>Cumulative depreciation/amortisation, write-downs and reversals thereof by 31 Mar. 2017</b>	<b>-84.8</b>	<b>-8.8</b>	<b>-0.6</b>	<b>-1,000.6</b>	<b>-2.6</b>	<b>-</b>	<b>-1,097.4</b>
Reversals of write-downs	-	-	0.2	11.6	1.5	-	13.3
Depreciation/amortisation and write-downs	-1.9	-0.8	-	-0.2	-1.3	-	-4.2
Reclassifications	-	-	-	-	-	-	-
Effects of currency translation	-	-	-	-	-	-	-
Disposals	-	1.4	-	-	-	-	1.4
<b>Cumulative depreciation/amortisation, write-downs and reversals thereof by 31 Mar. 2018</b>	<b>-86.7</b>	<b>-8.2</b>	<b>-0.4</b>	<b>-989.2</b>	<b>-2.4</b>	<b>-</b>	<b>-1,086.9</b>
<b>Residual book value</b>							
<b>as at 31 Mar. 2018</b>	<b>3.1</b>	<b>4.2</b>	<b>0.2</b>	<b>271.5</b>	<b>3,904.9</b>	<b>1.9</b>	<b>4,185.8</b>
<b>Residual book value</b>							
<b>as at 31 Mar. 2017</b>	<b>3.9</b>	<b>4.0</b>	<b>0.6</b>	<b>260.9</b>	<b>4,694.0</b>	<b>2.2</b>	<b>4,965.6</b>

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

As at the reporting date, the Group's portfolio includes two land and building items (previous year: two) partially used for banking operations with a book value of € 197.8 million (previous year: € 202.5 million) and a property used by a third party with a book value of € 16.8 million as a result of the first-time consolidation of the special purpose entity HIMERA Grundstücks-Vermietungsgesellschaft mbH, Pullach i. Isartal. As in the previous year, IKB AG holds no buildings used for banking operations.

Operating and office equipment was included in tangible assets at € 4.3 million (previous year: € 11.0 million) in the Group and € 4.2 million (previous year: € 4.0 million) at IKB AG.

The disposals from the consolidated group at Group level relate to the deconsolidation of ikb Data GmbH and IKB Leasing Group and its subsidiaries following their sales

The additions to the consolidated group under tangible assets at Group level result from the first-time consolidation of HIMERA Grundstücks-Vermietungsgesellschaft mbH, Pullach i. Isartal.

Disposals of equity investments at IKB AG and the Group in the amount of € 0.5 million relate to the capital reduction at AXA Immoselect Hauptverwaltungsgebäude GmbH & Co. Objekt Düsseldorf Uerdinger Straße KG, Düsseldorf, which was realised with effect from 28 June 2017. In the Group, disposals of equity investments also included the sale of the equity investment in Ring International Holding AG, Vienna, in the amount of € 2.5 million. The reclassifications between acquisition/production cost and cumulative depreciation/amortisation, write-downs and reversals of € 4.2 million under equity investments are due to the utilisation of a previously recognised write-down on the equity investment in ISOG Technologie Holding GmbH, Weilheim.

The disposals of investments in affiliated companies at IKB AG essentially relate to the sale of ikb Data GmbH to a non-Group buyer effective 31 August 2017. The additions to investments in affiliated companies result from payments into the free capital reserves of IKB Finance B.V., Amsterdam, in the amount of € 4.0 million and IKB Beteiligungsgesellschaft 5 mbH, Düsseldorf, in the amount of € 10 million. The write-ups under investments in affiliated companies essentially relate to the remeasurement of shares in IKB LUX Beteiligung S.a.r.l, Luxembourg, of € 11.3 million following the disposal of the Rio securities.

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 € 38.3 million (previous year: € 85.1 million) based on the carrying amounts of € 944.7 million (previous year: € 1,863.1 million) and the fair values of € 906.4 million (previous year: € 1,778.0 million). At IKB AG, unrealised losses for long-term investments amounted to a total of € 34.6 million (previous year: € 63.6 million) based on carrying amounts of € 1,032.0 million (previous year: € 1,310.4 million) and fair values of € 997.4 million (previous year: € 1,246.8 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 € 0.5 million (previous year: € 3.3 million) in the Group and € 0.2 million (previous year: € 1.8 million) at IKB AG.

The reported amounts do not include deferred interest.

## **(26) Subordinated assets**

in € million	Group		IKB AG	
	31 Mar. 2018	31 Mar. 2017	31 Mar. 2018	31 Mar. 2017
Receivables from customers	148.7	234.4	148.7	234.4
<b>Total</b>	<b>148.7</b>	<b>234.4</b>	<b>148.7</b>	<b>234.4</b>

## **(27) Negotiable securities**

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

31 Mar. 2018 in € million	Group			IKB AG		
	Total negotiable	Listed	Not listed	Total negotiable	Listed	Not listed
Bonds and other fixed-income securities	3,904.7	3,826.3	78.4	3,925.3	3,846.9	78.4
Equities and other non-fixed-income securities	390.2	1.9	388.3	1.9	-	1.9
Equity investments	-	-	-	-	-	-

31 Mar. 2017 in € million	Group			IKB AG		
	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	-	-	-

The item “Bonds and other fixed-income securities” includes the negotiable securities assigned to fixed assets of € 3,884.3 million (previous year: € 5,309.2 million) in the Group and € 3,904.9 million (previous year: € 4,694.0 million) at IKB AG. The item “Equities and other non-fixed-income securities” includes the negotiable securities assigned to fixed assets of € 390.2 million (previous year: € 466.2 million) in the Group and € 1.9 million (previous year: € 2.2 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:

in € million	Group				IKB AG			
	Carrying amount	Fair value	Difference to carrying amount	Distribution	Carrying amount	Fair value	Difference to carrying amount	Distribution
	Mixed funds	260.1	260.1	-	1.1	259.4	259.4	-
Other special funds	388.3	391.3	3.0	-	-	-	-	-
<b>Total</b>	<b>648.4</b>	<b>651.4</b>	<b>3.0</b>	<b>1.1</b>	<b>259.4</b>	<b>259.4</b>	<b>-</b>	<b>1.1</b>

in € million	Group				IKB AG			
	Carrying amount	Fair value	Difference to carrying amount	Distribution	Carrying amount	Fair value	Difference to carrying amount	Distribution
	Mixed funds	293.9	293.9	-	10.2	262.9	262.9	-
Other special funds	464.1	460.7	-3.4	-	-	-	-	-
<b>Total</b>	<b>758.0</b>	<b>754.6</b>	<b>-3.4</b>	<b>10.2</b>	<b>262.9</b>	<b>262.9</b>	<b>-</b>	<b>9.1</b>

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**

One company, Linde Leasing GmbH, Wiesbaden, was accounted for using the equity method in the Group in the previous year. The shares in the company accounted for using the equity method had a book value of € 16.3 million. Following the sale of the shares in Linde Leasing GmbH in connection with the sale of the IKB Leasing Group, there are no longer any shares in companies accounted for using the equity method as at the reporting date.

### **(30) Leases**

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

The decline in leased assets as against the previous year's reporting date results from the sale of the IKB Leasing Group. The leased assets still held relate to the companies not sold in the course of the disposal of the IKB Leasing Group.

### **(31) Other assets**

Other assets include the following:

in € million	Group		IKB AG	
	31 Mar. 2018	31 Mar. 2017	31 Mar. 2018	31 Mar. 2017
Foreign currency adjustment item	39.6	27.9	39.6	27.9
Receivables from leasing business	0.8	42.0	-	-
Receivables from tax authorities	27.5	26.9	26.2	19.4
Hire-purchase properties not yet realised	0.3	10.5	-	-
Receivables from derivatives	11.1	7.1	11.1	7.1
Deferred interest on derivatives	64.5	80.1	64.6	80.2
Trade receivables	0.4	4.0	0.2	0.7
Receivables from affiliated companies	-	-	8.2	22.2
Miscellaneous assets	17.9	24.1	5.9	8.9
<b>Total</b>	<b>162.1</b>	<b>222.6</b>	<b>155.8</b>	<b>166.4</b>

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 € 2.9 million (previous year: € 3.5 million) in the Group and € 2.9 million (previous year: € 3.5 million) at IKB AG and prepaid expenses for derivatives business of € 69.6 million (previous year: € 91.8 million) in the Group and € 81.8 million (previous year: € 125.2 million) at IKB AG.

### (33) Deferred tax assets

in € million	Group		IKB AG	
	31 Mar. 2018	31 Mar. 2017	31 Mar. 2018	31 Mar. 2017
Excess deferred tax assets	180.2	255.0	181.0	249.0

Loss carryforwards:

in € million	Group		IKB AG	
	31 Mar. 2018	31 Mar. 2017	31 Mar. 2018	31 Mar. 2017
Reported corporation tax loss carryforwards	7.2	22.8	-	-
Reported trade tax loss carryforwards	6.4	1.3	-	-

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 investment funds of the domestic tax group and the difference between pension provisions recognised in the financial accounts and the tax accounts. 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. 2018		
in € million	Group	IKB AG
<b>Offset assets</b>		
Acquisition costs	287.6	287.0
Fair value	302.6	301.7
<b>Offset liabilities</b>		
Settlement amount	-338.1	-335.4
<b>Excess of plan assets over post-employment benefit liability</b>	<b>7.6</b>	<b>7.4</b>
<b>Expenses and income offset in the reporting year</b>	<b>2017/18</b>	<b>2017/18</b>
<b>Expenses and income from pension obligations</b>		
Expenses for pension obligations	-32.0	-28.4
<b>Expenses and income from plan assets</b>		
Income from plan assets	1.7	1.6
Expenses of plan assets	-4.6	-4.2
<b>Net income/expense</b>	<b>-34.9</b>	<b>-31.0</b>

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

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

in € million	Group			
	31 Mar. 2018		31 Mar. 2017	
	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Liabilities to customers	0.3	0.5	2.2	0.5
Securitised liabilities	-	-	-	-
Other liabilities	-	-	329.5	-

in € million	IKB AG			
	31 Mar. 2018		31 Mar. 2017	
	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Liabilities to customers	82.0	0.5	96.2	0.5
Securitised liabilities	420.2	-	-	-
Other liabilities	163.0	-	19.7	-
Subordinated liabilities	75.4	-	-	-

### (36) Foreign-currency liabilities

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

in € million	Group		IKB AG	
	31 Mar. 2018	31 Mar. 2017	31 Mar. 2018	31 Mar. 2017
Liabilities	353.5	429.0	353.2	364.8

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



### (37) Other liabilities

Other liabilities break down as follows:

in € million	Group		IKB AG	
	31 Mar. 2018	31 Mar. 2017	31 Mar. 2018	31 Mar. 2017
Liabilities from the disposal of lease receivables	-	329.5	-	-
Synthetic securitisations	-	-	-	0.8
Obligations from derivatives	16.3	31.6	16.3	31.6
Deferred interest on derivatives	69.8	59.5	68.7	57.7
Liabilities to tax authorities	5.4	10.0	4.7	8.2
Deferred income for subordinated liabilities	11.8	2.2	11.8	2.2
Trade payables	8.5	11.2	8.0	9.5
Miscellaneous liabilities	11.3	41.1	170.3	55.6
<b>Total</b>	<b>123.1</b>	<b>485.1</b>	<b>279.8</b>	<b>165.6</b>

“Liabilities from the disposal of lease receivables” include a corresponding purchase price liability that must be recognised as the lease receivables sold have not been derecognised from the balance sheet.

### (38) Deferred income

Deferred income includes primarily discounts on receivables recognised at their nominal amount of € 18.3 million (previous year: € 21.1 million) in the Group and € 18.3 million (previous year: € 21.1 million) at IKB AG, deferred income for leasing business of € 0 million (previous year: € 66.9 million) at the Group, and deferred income for derivatives business of € 27.7 million (previous year: € 33.7 million) in the Group and € 40.7 million (previous year: € 61.2 million) at IKB AG.

### (39) Pension provisions

The reported pension provisions amount to € 45.5 million (previous year: € 31.4 million) in the Group and € 40.9 million (previous year: € 18.7 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 2018 amounted to € 5.7 million (previous year: € 10.6 million) in the Group and € 5.7 million (previous year: € 9.7 million) at IKB AG.

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. 2018		
in € million	Group	IKB AG
Measurement of obligation using the ten-year average market interest rate	331.0	325.9
Measurement of obligation using the seven-year average market interest rate	376.6	370.9
<b>Difference in accordance with section 253 (6) HGB</b>	<b>45.6</b>	<b>45.0</b>

#### (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.

The preferred shares (trust preferred securities) issued by the IKB Funding Trust and defined as hybrid capital instruments are also reported under subordinated liabilities. These are only repaid after all other subordinated liability and any profit participation certificate issues have been served.

In the Group, trust preferred securities were originally 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. Perpetual maturity is agreed for the investor for preferred shares.

In the context of simplifying the equity and liabilities side of the balance sheet, the Funding Trust II structure was terminated in the past financial year, with the result that the book and nominal values of the Group's outstanding preferred shares were reduced to € 75.1 million as at 31 March 2018 (previous year: € 475.1 million).

With the exception of the preferred shares issued by IKB Funding Trust I, interest is usually owed and paid regardless of the Bank's net profit or loss for the year. The deferred interest attributable to the subordinated liabilities is reported in other liabilities.

As at the reporting date, subordinated liabilities amounted to € 831.0 million (previous year: € 695.8 million) in the Group and € 831.0 million (previous year: € 220.7 million) at IKB AG. The interest expenses on these amounted to € 17.7 million in the financial year (previous year: € 9.4 million) in the Group and € 18.7 million (previous year: € 9.4 million) at IKB AG.

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

<b>Group</b>	<b>Carrying amount</b>		<b>Interest rate in</b>	
<b>Year of issue</b>	<b>in € million</b>	<b>Currency</b>	<b>%</b>	<b>Maturity</b>
2005/2006	99.1	JPY	2.76	21 Jul. 2035
2017/2018	160.0	EUR	4.50	23 Jul. 2022
2017/2018	300.0	EUR	4.00	31 Jan. 2028

<b>IKB AG</b>	<b>Carrying amount</b>		<b>Interest rate in</b>	
<b>Year of issue</b>	<b>in € million</b>	<b>Currency</b>	<b>%</b>	<b>Maturity</b>
2005/2006	99.1	JPY	2.76	21 Jul. 2035
2017/2018	160.0	EUR	4.50	23 Jul. 2022
2017/2018	300.0	EUR	4.00	31 Jan. 2028

#### (41) 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.

## **(42) 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 must not exceed 10% of the share capital at any time. This authorisation was not utilised in the financial year 2017/18.

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 was 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 financial year 2017/18.

No treasury shares were held in the financial year 2017/18, 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 financial year 2017/18.

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 financial year 2017/18.

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 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 financial year 2017/18.

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.

### ***Silent partnership contributions***

Like the preferred shares reported as subordinated liabilities, silent partnership contributions are hybrid capital instruments that are only serviced in the event of insolvency after the repayment of all subordinated liabilities and profit participation certificates.

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.

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. Following the partial repurchase in the past financial year, less than € 50 million of the original nominal value of the silent participations is held by third parties as at the balance sheet date. The replenishment of the repayment amount after loss participation is expressly provided for when certain conditions are met. Please also see note (69).

As in the previous year, no payments were made on silent partnership contributions.

Statement of changes in equity

Group:

in € million	1 Apr. 2017	Capital in-	Call on previously un-	Appropri-	Dis-	Cur-	Other	Chang-	Consol-	31 Mar.
		crease/ reduc- tion		ation to/with draw- als from re- serves						
<b>(Corrected) subscribed capital</b>	<b>1,621.5</b>	-	-	-	-	-	-	-	-	<b>1,621.5</b>
<b>Subscribed capital (ordinary shares)</b>	<b>1,621.5</b>	-	-	-	-	-	-	-	-	<b>1,621.5</b>
<b>Own shares (ordinary shares)</b>	-	-	-	-	-	-	-	-	-	-
<b>Uncalled unpaid contributions (ordinary shares)</b>	-	-	-	-	-	-	-	-	-	-
<b>Reserves</b>	<b>1,755.9</b>	-	-	-	-	-	-	-6.1	-	<b>1,749.8</b>
<b>Capital reserves</b>	<b>1,750.7</b>	-	-	-	-	-	-	-	-	<b>1,750.7</b>
in accordance with section 272(2) no. 1 to 3 HGB	<b>599.2</b>	-	-	-	-	-	-	-	-	<b>599.2</b>
in accordance with section 272(2) no. 4 HGB	<b>1,151.5</b>	-	-	-	-	-	-	-	-	<b>1,151.5</b>
<b>Revenue reserves</b>	<b>5.2</b>	-	-	-	-	-	-	-6.1	-	<b>-0.9</b>
Legal reserves	2.4	-	-	-	-	-	-	-	-	2.4
Other revenue reserves	2.8	-	-	-	-	-	-	-6.1	-	-3.3
<b>Difference in equity from currency translation</b>	<b>-4.3</b>	-	-	-	-	<b>4.1</b>	-	-	-	<b>-0.2</b>
<b>Retained profits/accumulated losses brought forward</b>	<b>-2,335.6</b>	-	-	-	-	-	-	-	<b>-215.5</b>	<b>-2,551.1</b>
<b>Equity of parent company</b>	<b>1,037.5</b>	-	-	-	-	<b>4.1</b>	-	<b>-6.1</b>	<b>-215.5</b>	<b>820.0</b>
<b>Non-controlling interests before currency translation and net profit/loss for the year</b>	<b>1.4</b>	-	-	-	-	-	-	<b>0.4</b>	-	<b>1.8</b>
<b>Currency translation attributable to non-controlling interests</b>	-	-	-	-	-	-	-	-	-	-
<b>Net profit/loss for the year attributable to non-controlling interests</b>	-	-	-	-	<b>-0.2</b>	-	-	-	<b>0.2</b>	-
<b>Non-controlling interests</b>	<b>1.4</b>	-	-	-	<b>-0.2</b>	-	-	<b>0.4</b>	<b>0.2</b>	<b>1.8</b>
<b>Consolidated equity</b>	<b>1,038.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.2</b>	<b>4.1</b>	<b>0.0</b>	<b>-5.7</b>	<b>-215.3</b>	<b>821.8</b>

Group:

in € million	Capital increase/reduction		Call on previously un-called contributions	Appropriation to/with draw-als from re-serves	Dis-tribution	Cur-rency trans-lation	Other changes	Chang-es in-consol-idated group	Consoli-dated net income/loss for the year	31 Mar. 2017
	1 Apr. 2016	Total								
<b>(Corrected) subscribed capital</b>	<b>1,621.5</b>	-	-	-	-	-	-	-	-	<b>1,621.5</b>
<b>Subscribed capital (ordinary shares)</b>	<b>1,621.5</b>	-	-	-	-	-	-	-	-	<b>1,621.5</b>
Ordinary shares	1,621.5	-	-	-	-	-	-	-	-	1,621.5
Preferred shares	-	-	-	-	-	-	-	-	-	-
<b>Own shares (ordinary shares)</b>	-	-	-	-	-	-	-	-	-	-
<b>Uncalled unpaid contribu-tions (ordinary shares)</b>	-	-	-	-	-	-	-	-	-	-
<b>Reserves</b>	<b>1,756.0</b>	-	-	<b>-0.1</b>	-	-	-	-	-	<b>1,755.9</b>
<b>Capital reserves</b>	<b>1,750.7</b>	-	-	-	-	-	-	-	-	<b>1,750.7</b>
in accordance with section 272(2) no. 1 to 3 HGB	<b>599.2</b>	-	-	-	-	-	-	-	-	<b>599.2</b>
in accordance with section 272(2) no. 4 HGB	<b>1,151.5</b>	-	-	-	-	-	-	-	-	<b>1,151.5</b>
<b>Revenue reserves</b>	<b>5.3</b>	-	-	<b>-0.1</b>	-	-	-	-	-	<b>5.2</b>
Legal reserves	2.4	-	-	-	-	-	-	-	-	2.4
Other revenue reserves	2.9	-	-	-0.1	-	-	-	-	-	2.8
<b>Difference in equity from currency translation</b>	<b>-5.7</b>	-	-	-	-	<b>1.4</b>	-	-	-	<b>-4.3</b>
<b>Retained profits/accumulated losses brought forward</b>	<b>-2,361.1</b>	-	-	-	-	-	-	-	<b>25.5</b>	<b>-2,335.6</b>
<b>Equity of parent company</b>	<b>1,010.7</b>	-	-	<b>-0.1</b>	-	<b>1.4</b>	-	-	<b>25.5</b>	<b>1,037.5</b>
<b>Non-controlling interests be-fore currency translation and net profit/loss for the year</b>	-	-	-	-	-	-	-	<b>1.4</b>	-	<b>1.4</b>
<b>Currency translation attributable to non-controlling interests</b>	-	-	-	-	-	-	-	-	-	-
<b>Net profit/loss for the year attributable to non-controlling interests</b>	-	-	-	-	<b>-0.1</b>	-	-	-	<b>0.1</b>	-
<b>Non-controlling interests</b>	-	-	-	-	<b>-0.1</b>	-	-	<b>1.4</b>	<b>0.1</b>	<b>1.4</b>
<b>Consolidated equity</b>	<b>1,010.7</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.1</b>	<b>-0.1</b>	<b>1.4</b>	<b>0.0</b>	<b>1.4</b>	<b>25.6</b>	<b>1,038.9</b>

IKB AG:

in € million	1 Apr. 2017	Capital increase/ reduction	Appropriation to/with- drawals from reserves	Distribu- tion	Other changes	Net in- come/ loss for the year	31 Mar. 2018
		Total					
<b>(Corrected) subscribed capital</b>	1,621.5	-	-	-	-	-	1,621.5
<b>Subscribed capital</b>							
(ordinary shares)	1,621.5	-	-	-	-	-	1,621.5
<b>Own shares</b>							
(ordinary shares)	-	-	-	-	-	-	-
<b>Uncalled unpaid contributions</b>							
(ordinary shares)	-	-	-	-	-	-	-
<b>Reserves</b>	1,753.1	-	-	-	-	-	1,753.1
<b>Capital reserves</b>	1,750.7	-	-	-	-	-	1,750.7
in accordance with section 272(2) no. 1 to 3 HGB	599.2	-	-	-	-	-	599.2
in accordance with section 272(2) no. 4 HGB	1,151.5	-	-	-	-	-	1,151.5
<b>Revenue reserves</b>	2.4	-	-	-	-	-	2.4
Legal reserves	2.4	-	-	-	-	-	2.4
Other revenue reserves	-	-	-	-	-	-	-
<b>Retained profits/accumulated losses brought forward</b>	-2,167.3	-	-	-	-	-296.3	-2,463.6
<b>Equity</b>	1,207.3	-	-	-	-	-296.3	911.0

IKB AG:

in € million	1 Apr. 2016	Capital increase/ reduction	Appropriation to/ with- drawals from reserves	Distribu- tion	Other changes	Net in- come/ loss for the year	31 Mar. 2017
		Total					
<b>(Corrected) subscribed capital</b>	1,621.5	-	-	-	-	-	1,621.5
<b>Subscribed capital</b>							
(ordinary shares)	1,621.5	-	-	-	-	-	1,621.5
<b>Own shares</b>							
(ordinary shares)	-	-	-	-	-	-	-
<b>Uncalled unpaid contributions</b>							
(ordinary shares)	-	-	-	-	-	-	-
<b>Reserves</b>	1,753.1	-	-	-	-	-	1,753.1
<b>Capital reserves</b>	1,750.7	-	-	-	-	-	1,750.7
in accordance with section 272(2) no. 1 to 3 HGB	599.2	-	-	-	-	-	599.2
in accordance with section 272(2) no. 4 HGB	1,151.5	-	-	-	-	-	1,151.5
<b>Revenue reserves</b>	2.4	-	-	-	-	-	2.4
Legal reserves	2.4	-	-	-	-	-	2.4
Other revenue reserves	-	-	-	-	-	-	-
<b>Retained profits/accumulated losses brought forward</b>	-2,167.3	-	-	-	-	-	-2,361.1
<b>Equity</b>	1,207.3	-	-	-	-	-	1,207.3

The consolidated statement of changes in equity, like the statement of changes in equity of IKB AG, was prepared in accordance with German Accounting Standard 22 (DRS 22) “Consolidated Equity” for the first time. The prior-year figures were calculated in accordance with DRS 22.

The non-controlling interests relate to minority shareholders in the subsidiaries IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG, Düsseldorf, and IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG, Frankfurt/Main, and to non-controlling interests in the special-purpose entity included in consolidation for the first time, HIMERA Grundstücks-Vermietungsgesellschaft mbH, Pullach i. Isartal.

Consolidation differences of € 5.8 million were offset against revenue reserves in previous years. This off-setting was retained on the basis of Article 66 (3) EGHGB in the context of BilMoG. These amounts had to be derecognised in the 2017/2018 financial year on account of the deconsolidation of IKB Leasing.

The restricted amounts of distributable profits break down as follows:

Group:

<b>31 Mar. 2018 in € million</b>	<b>Gross income</b>	<b>Deferred tax assets</b>	<b>Deferred tax liabilities</b>	<b>Restriction on distribution</b>
Unrealised gains on plan assets	15.0	-	-4.7	10.3
Recognition of deferred taxes	-	197.0	-12.2	184.8
Difference from the change in the market interest rate for the measurement of pension obligations	45.5	-	-	45.5
<b>Total</b>	<b>60.5</b>	<b>197.0</b>	<b>-16.9</b>	<b>240.6</b>

IKB AG:

<b>31 Mar. 2018 in € million</b>	<b>Gross income</b>	<b>Deferred tax assets</b>	<b>Deferred tax liabilities</b>	<b>Restriction on distribution</b>
Unrealised gains on plan assets	14.9	-	-4.7	10.2
Recognition of deferred taxes	-	185.8	-0.2	185.6
Difference from the change in the market interest rate for the measurement of pension obligations	45.0	-	-	45.0
<b>Total</b>	<b>59.9</b>	<b>185.8</b>	<b>-4.9</b>	<b>240.8</b>

#### **(43) Contingent liabilities and other obligations**

At the balance sheet date, the guarantees and warranties reported in the “Contingent liabilities” item primarily included CDSs (Bank as pledgor) of € 1,855.9 million (previous year: € 1,089.6 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. In preparation for simplifying the capital structure in connection with IKB Funding Trust I and II, the subordinated liabilities of € 475.1 million were transferred from MATRONA to IKB AG. The contingent liability was eliminated by the retransfer to IKB AG.

As part of the sale of the shares in IKB Leasing GmbH by IKB Beteiligungen GmbH, IKB AG jointly and severally assumed warranties and indemnification obligations. These include loan commitments in the context of IKB Leasing’s refinancing facilities, guarantees of quality for GmbH interests and assets in addition to the proper settlement of and compliance with past obligations (e.g. issuing tax returns).



The item “Other obligations” 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.

#### **(44) Other financial obligations**

As at the reporting date, “other financial obligations” totalled € 543.8 million (previous year: € 1,482.5 million) in the Group and € 609.1 million (previous year: € 1,579.8 million) at IKB AG.

The decline in “Other financial obligations” results in particular from the replacement of obligations from debt waivers by shareholders against debtor warrants. These have been reduced to € 180.1 million as at the reporting date (previous year: € 1,151.5 million).

In addition, there are payment obligations under long-term rental agreements for the term of the lease of € 10.1 million (previous year: € 15.8 million) in the Group and € 75.8 million (previous year: € 116.3 million) of IKB AG. 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.

€ 70.6 million (previous year: € 111.2 million) of the total financial obligations of IKB AG relates to affiliated companies.

#### ***Dissenting view of the tax authorities***

In August 2015, IKB AG 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 has appealed against the tax assessments. The corporation tax and the solidarity surcharge for 2009 were initially paid including interest. 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.

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 € 155.9 million for trade tax, interest on this (with interest calculated until 31 March 2018) and CIC contributions. A further € 0.5 million would be added per month by the end of the proceedings. IKB has appealed against the corresponding assessments.

Aleanta GmbH (a wholly owned subsidiary of IKB AG with which no profit and loss transfer agreement has been agreed) 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). Aleanta GmbH had commented on the matter and the assessment at the time of the tax audit still pending. The maximum risk encompasses taxes of approximately € 36.6 million including interest (up to and including 31 March 2018) and additional CCI contributions. An appeal will be lodged if necessary.

### **(45) 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.

#### ***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 (61)).

## Notes on the income statement

### (46) 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:

in € million	Group		IKB AG	
	2017/18	2016/17	2017/18	2016/17
Germany	1,237.6	1,540.1	854.5	1,174.1
Europe not including Germany	272.0	240.6	0.3	30.5
<b>Total</b>	<b>1,509.6</b>	<b>1,780.7</b>	<b>854.8</b>	<b>1,204.6</b>

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.

### (47) Income and expenses from leases

in € million	Group	
	2017/18	2016/17
Depreciation and impairment losses on lease assets	-262.4	-291.2
Other operating income from leases	46.3	46.3

### (48) Extraordinary income and expenses

As at the reporting date, the "Extraordinary expenses" item includes expenses resulting from extraordinary measures to simplify the capital structure (in particular expenses in connection with the waiver of receivables from a future resumption of the debtor warrants against cash payment) and expenses in connection with business restructuring measures of € 472.1 million (previous year: € 11.2 million) for the Group and € 353.2 million (previous year: € 11.2 million) for IKB AG. The expenses in the Group relate in particular to the replacement of debtor warrant obligations (€ 311.4 million), repurchases of the bonds issued by Capital Raising and Hybrid Raising (€ 70.4 million) and to the sale of the IKB Leasing Group (€ 53.2 million). At IKB AG, the expenses result in particular from the replacement of debtor warrant obligations (€ 311.4 million) and the sale of the IKB Leasing Group (€ 7.5 million). Among other things, liquidity from sales of non-performing loans (Group and IKB AG: € 32.5 million) and the Rio securities (Group and IKB AG: € 63.3 million) was used to replace debtor warrant obligations. The expenses for business restructuring measures amounted to € 32.4 million in the Group and € 29.8 million at IKB AG.

In connection with the transfer to pension provisions due to the BilMoG transition, the Group incurred expenses of € 4.1 million (previous year: € 31.2 million) while IKB AG incurred expenses of € 4.0 million (previous year: € 27.0 million).

Extraordinary expenses are offset by extraordinary income of € 219.5 million in the Group (previous year: € 0 million) and € 217.3 million at IKB AG (previous year: € 0 million). The income relates to the termination of the Funding Trust II structure in the amount of € 180.0 million in the Group and € 182.1 million at IKB AG. The Group and IKB AG also generated extraordinary income of € 32.5 million from sales of non-performing loans and the Group generated extraordinary income of € 4.3 million from the sale of the Rio securities. The disposal of ikb Data resulted in income of € 2.7 million at both IKB AG and in the Group.

**(49) Other operating expenses**

Other operating expenses essentially include:

in € million	Group		IKB AG	
	2017/18	2016/17	2017/18	2016/17
Expenses from the reversal of swap agreements	-218.2	-541.5	-226.7	-541.8
Expenses from derivatives in the non-trading book	-48.2	-51.0	-48.2	-51.0
Expenses from currency translation	-62.1	-49.5	-1.0	-
Expenses from additions to provisions	-5.9	-4.5	-5.2	-4.3
Pension scheme expense (CTA-funded)	-34.9	-10.3	-31.0	-8.4

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".

**(50) Costs of loss absorption**

Costs of loss absorption at IKB AG of € 161.8 million (previous year: € 0 million) essentially relate to loss absorption obligations from profit transfer agreements with the subsidiaries IKB Beteiligungen GmbH (€ 155.4 million) and IKB Beteiligungsgesellschaft 5 mbH (€ 6.4 million). IKB Beteiligungen GmbH's losses essentially result from indirect expenses in connection with the write-down of the book value of the investment in MATRONA GmbH (€ 114.5 million) and from direct and indirect expenses from the sale of the IKB Leasing Group (approx. € 45 million) in the context of the measures to simplify the capital structure.

The losses of € 6.4 million at IKB Beteiligungsgesellschaft 5 mbH essentially relate to the addition to specific and general allowances for lease receivables assumed as part of the sale of the IKB Leasing Group.

**(51) Income taxes**

The item "Income taxes" includes current taxes of € 2.6 million (previous year: € -19.2 million) in the Group and € 5.7 million (previous year: € -16.7 million) at IKB AG.

Income under current taxes essentially relates to the capitalisation of claims for tax refunds for foreign branches for previous years.

The item also includes the change in the recognition of deferred tax assets of € -73.2 million (previous year: € 1.4 million) in the Group and € -68.0 million (previous year: € -0.7 million) at IKB AG.

The change in the recognition of deferred tax assets is due to the tax relief realised in the financial year from the reduction of temporary differences and the sale of the companies of the IKB Leasing Group.

**(52) Income from profit transfer agreements**

The income from profit transfers at IKB AG of € 1.9 million (previous year: € 15.4 million) essentially relates to the profit transfer from IKB Real Estate Holding GmbH of € 1.6 million (previous year: € 1.1 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 essentially breaks down as follows:

in € million	Group		IKB AG	
	2017/18	2016/17	2017/18	2016/17
Income from the reversal of swap agreements	116.8	282.6	126.3	296.8
Income from derivatives in the non-trading book	45.0	54.1	45.0	54.2
Income from currency translation	59.2	53.1	0.1	3.9
Income from the reversal of provisions	7.1	12.8	5.6	10.7
Income from compensation payments <sup>1)</sup>	8.7	5.5	1.3	0.3

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) Consolidated group as at 31 March 2018

	Equity interest in %
<b>A. Consolidated subsidiaries</b>	
<b>1. Other domestic companies</b>	
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 Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG, Düsseldorf	94.9
IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG, Düsseldorf	1) <sup>1)</sup> 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) <sup>1)</sup> 100
IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf	3) <sup>3)</sup> 100
IKB Real Estate Holding GmbH, Düsseldorf	100
IKB Struktur GmbH, Düsseldorf	1) <sup>1)</sup> 100
Istop 1 GmbH, Düsseldorf	1) <sup>1)</sup> 100
Istop 2 GmbH, Düsseldorf	1) <sup>1)</sup> 100
Istop 4 GmbH, Düsseldorf	1) <sup>1)</sup> 100
Istop 6 GmbH, Düsseldorf	1) <sup>1)</sup> 100
Ligera GmbH, Düsseldorf	1) <sup>1)</sup> 100
Rhodana GmbH, Düsseldorf	1) <sup>1)</sup> 100
Tempelhofer Hafen GmbH & Co. KG, Düsseldorf	1) <sup>1)</sup> 100
<b>2. Other foreign companies</b>	
IKB Finance B.V., Amsterdam, Netherlands	100
IKB Funding LLC II, Wilmington, United States of America	100
IKB International S.A. i.L., Munsbach, Luxembourg	2),3) <sup>2),3)</sup> 100
IKB Leasing Finance IFN S.A., Bucharest, Romania	1) <sup>1)</sup> 100
IKB Leasing S.A., Bucharest, Romania	1) <sup>1)</sup> 100
IKB Leasing SR, s.r.o., Bratislava, Slovakia	1) <sup>1)</sup> 100
IKB Lux Beteiligungen S.à.r.l., Munsbach, Luxembourg	100
<b>3. Special-purpose entities in accordance with section 290 (2) no. 4 HGB</b>	
HIMERA Grundstücks-Vermietungsgesellschaft mbH, Pullach i. Isartal	

1) Indirect investment

2) in liquidation (banking licence returned)

3) in liquidation

(56) List of shareholdings as at 31 March 2018

31 Mar. 2018	Financial year	Equity interest in %	Equity in € thousand	Result in € thousand
<b>1. German subsidiaries (consolidated)</b>				
Aleanta GmbH, Düsseldorf	1 Apr. - 31 Mar.	100.00	1,456	121
IKB Beteiligungen GmbH, Düsseldorf	<sup>2)</sup> 1 Apr. - 31 Mar.	100.00	79,742	0
IKB Beteiligungsgesellschaft 1 mbH, Düsseldorf	<sup>2)</sup> 1 Jan. - 31 Dec.	100.00	55	0
IKB Beteiligungsgesellschaft 2 mbH, Düsseldorf	<sup>2)</sup> 1 Jan. - 31 Dec.	100.00	80	0
IKB Beteiligungsgesellschaft 3 mbH, Düsseldorf	<sup>2)</sup> 1 Jan. - 31 Dec.	100.00	55	0
IKB Beteiligungsgesellschaft 5 mbH, Düsseldorf	<sup>2)</sup> 1 Apr. - 31 Mar.	100.00	10,054	0
IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG, Düsseldorf	<sup>4)</sup> 1 Apr. - 31 Mar.	94.90	20,000	1,893
IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG, Düsseldorf	<sup>4)</sup> 1 Apr. - 31 Mar.	94.90	7,200	502
IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf	<sup>4), 6)</sup> 1 Jan. - 31 Dec.	100.00	9,500	461
IKB Grundstücks GmbH, Düsseldorf	<sup>6)</sup> 1 Jan. - 31 Dec.	100.00	102	5
IKB Grundstücksgesellschaft Düsseldorf GmbH, Düsseldorf	1 Apr. - 31 Mar.	100.00	31	3
IKB Invest GmbH, Düsseldorf	<sup>2)</sup> 1 Apr. - 31 Mar.	100.00	263,408	0
IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf	<sup>3), 5), 6)</sup> 1 Jan. - 31 Dec.	100.00	2,377	90
IKB Real Estate Holding GmbH, Düsseldorf	<sup>2)</sup> 1 Apr. - 31 Mar.	100.00	87,554	0
IKB Struktur GmbH, Düsseldorf	<sup>2)</sup> 1 Apr. - 31 Mar.	100.00	103,750	0
Istop 1 GmbH, Düsseldorf	<sup>2)</sup> 1 Jan. - 31 Dec.	100.00	115,975	0
Istop 2 GmbH, Düsseldorf	<sup>2)</sup> 1 Jan. - 31 Dec.	100.00	155,025	0
Istop 4 GmbH, Düsseldorf	<sup>2)</sup> 1 Jan. - 31 Dec.	100.00	93,525	0
Istop 6 GmbH, Düsseldorf	<sup>2)</sup> 1 Jan. - 31 Dec.	100.00	114,445	0
Ligera GmbH, Düsseldorf	<sup>2)</sup> 1 Jan. - 31 Dec.	100.00	30	0
Rhodana GmbH, Düsseldorf	<sup>2)</sup> 1 Jan. - 31 Dec.	100.00	30	0
Tempelhofer Hafen GmbH & Co. KG, Düsseldorf	<sup>4)</sup> 1 Jan. - 31 Dec.	100.00	168	-632
<b>2. Foreign subsidiaries (consolidated)</b>				
IKB Finance B.V., Amsterdam, Netherlands	<sup>6), 7)</sup> 1 Apr. - 31 Mar.	100.00	4,630	-5,752
IKB Funding LLC II, Wilmington, United States of America	<sup>6), 7)</sup> 1 Apr. - 31 Mar.	100.00	915	636
IKB International S.A. i.L., Munsbach, Luxembourg	<sup>3), 6)</sup> 1 Apr. - 31 Mar.	100.00	42,403	2,749
IKB Leasing Finance IFN S.A., Bucharest, Romania	1 Jan. - 31 Dec.	100.00	6,101	236
IKB Leasing S.A., Bucharest, Romania	1 Jan. - 31 Dec.	100.00	2,177	289
IKB Leasing SR, s.r.o., Bratislava, Slovakia	1 Jan. - 31 Dec.	100.00	3,357	126
IKB Lux Beteiligungen S.à.r.l., Munsbach, Luxembourg	<sup>6)</sup> 1 Apr. - 31 Mar.	100.00	13,207	2,995
<b>3. Special-purpose entities (special-purpose entities included in the consolidated financial statements in line with section 290 (2) no. 4 HGB)</b>				
HIMERA Grundstücks-Vermietungsgesellschaft mbH, Pullach i. Isartal				

<b>31 Mar. 2018</b>	<b>Financial year</b>	<b>Equity interest in %</b>
<b>4. German subsidiaries (not included in consolidation due to section 296 HGB)</b>	1)	
Brunnenstraße 105-109 Berlin Grundbesitz GmbH i.L., Düsseldorf	<sup>3)</sup> 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
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 Projektentwicklungsverwaltungsgesellschaft mbH i.L., Düsseldorf	<sup>3),6)</sup> 1 Oct. - 30 Sept.	100.00
IKB Real Estate GmbH, Düsseldorf	<sup>2)</sup> 1 Jan. - 31 Dec.	100.00
ISOG Technology Holding GmbH, Weilheim	1 Apr. - 31 Mar.	57.70
ISTOS Beteiligungsverwaltungs- und Grundstücks- Vermietungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.	100.00
MFRSI Beteiligungsholding Verwaltungsgesellschaft mbH, Düsseldorf	1 Jan. - 31 Dec.	100.00
Restruktur 2 GmbH i.L., Düsseldorf	<sup>3)</sup> 1 Apr. - 31 Mar.	100.00
Restruktur 3 GmbH, Düsseldorf	1 Apr. - 31 Mar.	100.00
<b>5. Foreign subsidiaries (not included in consolidation due to section 296 HGB)</b>	1)	
IKB Funding Trust I, Wilmington, United States of America	1 Apr. - 31 Mar.	100.00
Valin Asset Management S.à.r.l., Munsbach, Luxembourg	1 Apr. - 31 Mar.	100.00
<b>6. Special-purpose entities (not included in consolidation due to section 296 HGB)</b>	1)	
Capital Raising GmbH, Norderfriedrichskoog		
Hybrid Raising GmbH, Norderfriedrichskoog		
Rosaria Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Heimstetten KG, Grünwald		
<b>7. German associates/joint ventures (not accounted for using the equity method due to section 311(2) HGB)</b>	1)	
Argantis Beteiligungs-Holding GmbH i.L., Cologne	<sup>3)</sup> 1 Jan. - 31 Dec.	50.00
Argantis GmbH i.L., Cologne	<sup>3)</sup> 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 Verwaltungsgesellschaft mbH i.L., Düsseldorf	<sup>3)</sup> 1 Jan. - 31 Dec.	50.00
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-Schwenningen	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

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) Profit transfer agreement

3) in liquidation

4) IKB AG or a Group company is a shareholder with unlimited liability

5) Company exercised exemption under section 264b HGB and did not prepare notes

6) The letter of comfort expires on publication of this annual report

7) Provisional financial statements as at 31 March 2018



Since the last published financial statements as at 31 December 2017, the companies Rhodana GmbH and Liger GmbH have held the unsold leasing companies IKB Leasing Finance IFN S.A., Bucharest, Romania, IKB Leasing S.A., Bucharest, Romania (formerly: IKB Leasing S.R.L., Bucharest, Romania) and IKB Leasing SR, s.r.o., Bratislava, Slovakia. Capital increases were carried out at both companies in this context. As a result, the equity of Rhodana GmbH increased to € 3.2 million and that of Liger GmbH to € 0.2 million as at 31 March 2018.

#### **(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, holds 100% of IKB shares.

#### **(58) Disclosure of auditor's fees**

in € million	Group		IKB AG	
	2017/18	2016/17	2017/18	2016/17
Audit of financial statements	-2.2	-2.5	-1.7	-2.0
Other assurance or valuation services	-0.2	-0.3	-0.2	-0.3
Other services	-0.1	-0.4	-0.1	-0.4
<b>Total</b>	<b>-2.5</b>	<b>-3.2</b>	<b>-2.0</b>	<b>-2.7</b>

Auditor's fees include € 0.0 million (previous year: € 0.1 million) in expenses for previous financial years.

In addition to expenses for the statutory audit of the single-entity and consolidated financial statements, auditor's fees include expenses for the review of the interim financial statements (€ 0.2 million) and voluntary audits of the single-entity financial statements of controlled companies (€ 0.2 million). Other assurance or valuation services relate to the issue of a letter of comfort (€ 0.1 million) as well as expenses for the WpHG audit (€ 0.1 million). Other services relate to support for process digitalisation (€ 30.3 thousand) and tax advisory services (€ 32.6 thousand).

#### **(59) Related party transactions**

Transactions with related parties were conducted at standard market terms. With one exception, 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. In connection with Lone Star's waiver of receivables in March 2018 that would have arisen from a future resumption of the debtor warrants, IKB AG made a cash payment that was less than the value of the debtor warrants as calculated by an independent expert.

**(60) Transfer of collateral for own liabilities and contingent liabilities**

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

<b>31 Mar. 2018</b>		
<b>in € million</b>	<b>Group</b>	<b>IKB AG</b>
Liabilities to banks	8,804.8	8,822.8
Contingent liabilities	13.9	13.8
<b>Total</b>	<b>8,818.7</b>	<b>8,836.6</b>

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

**(61) 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 manage 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.

**(62) Derivative financial instruments not recognised at fair value**

Group:

	Nominal	Fair value		Carrying amount	
		positive	negative	Assets	Equity and liabilities
<b>31 Mar. 2018 in € million</b>					
Interest-related derivatives	22,757.2	710.8	1,424.6	104.5	69.9
Credit-related derivatives	202.9	-	4.3	-	4.4
Currency-related derivatives	1,561.4	28.5	22.2	21.9	18.9
Derivatives assigned to several categories	979.4	102.3	60.8	36.2	5.1
<b>Total</b>	<b>25,500.9</b>	<b>841.6</b>	<b>1,511.9</b>	<b>162.6</b>	<b>98.3</b>

	Carrying amount				
<b>31 Mar. 2018 in € million</b>	<b>Other assets</b>	<b>Prepaid expenses</b>	<b>Provisions</b>	<b>Other liabilities</b>	<b>Deferred income</b>
Interest-related derivatives	60.7	43.8	-	66.5	3.4
Credit-related derivatives	-	-	1.3	0.1	3.0
Currency-related derivatives	21.9	-	-	18.9	-
Derivatives assigned to several categories	31.9	4.3	-	0.7	4.4
<b>Total</b>	<b>114.5</b>	<b>48.1</b>	<b>1.3</b>	<b>86.2</b>	<b>10.8</b>

IKB AG:

	Nominal	Fair value		Carrying amount	
<b>31 Mar. 2018 in € million</b>		<b>positive</b>	<b>negative</b>	<b>Assets</b>	<b>Equity and liabilities</b>
Interest-related derivatives	22,757.2	710.8	1,424.6	116.6	81.5
Credit-related derivatives	202.9	-	4.3	-	4.4
Currency-related derivatives	1,561.4	28.5	22.2	21.9	18.9
Derivatives assigned to several categories	979.4	102.3	60.8	36.4	5.4
<b>Total</b>	<b>25,500.9</b>	<b>841.6</b>	<b>1,511.9</b>	<b>174.9</b>	<b>110.2</b>

	Carrying amount				
<b>31 Mar. 2018 in € million</b>	<b>Other assets</b>	<b>Prepaid expenses</b>	<b>Provisions</b>	<b>Other I liabilities</b>	<b>Deferred income</b>
Interest-related derivatives	60.8	55.8	-	65.4	16.1
Credit-related derivatives	-	-	1.3	0.1	3.0
Currency-related derivatives	21.9	-	-	18.9	-
Derivatives assigned to several categories	31.9	4.5	-	0.7	4.7
<b>Total</b>	<b>114.6</b>	<b>60.3</b>	<b>1.3</b>	<b>85.1</b>	<b>23.8</b>

### (63) Unrealised gains and losses

The table shows the unrealised gains and losses for the following material financial balance sheet items and off-balance sheet derivatives of the IKB Group. From this financial year, the unrealised gains and losses of credit default swaps recognised as loan collateral have been added to this presentation.

Group	31 Mar. 2018			31 Mar. 2017		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference <sup>1)</sup>
<b>in € million</b>						
Receivables from banks	2,520.5	2,520.9	0.4	1,669.7	1,671.4	1.7
Receivables from customers	9,708.8	10,066.8	358.0	9,925.4	10,390.1	464.7
Bonds and other fixed-income securities	3,904.7	4,127.0	222.3	5,329.7	5,485.5	155.8
Equities and other non-fixed-income securities	395.5	400.1	4.6	472.5	469.4	-3.1
Derivative financial instruments not recognised at fair value	162.6	841.6	679.0	193.0	1,169.4	976.4
Credit default swaps recognised as loan collateral	22.1	40.5	18.4	13.9	21.4	7.5
<b>Subtotal</b>	<b>16,714.2</b>	<b>17,996.9</b>	<b>1,282.7</b>	<b>17,604.2</b>	<b>19,207.2</b>	<b>1,603.0</b>
Liabilities to banks	7,432.1	7,441.8	-9.7	7,642.5	7,710.9	-68.4
Liabilities to customers	6,447.5	6,543.4	-95.9	7,550.9	7,625.3	-74.4
Securitised liabilities	720.6	724.4	-3.8	822.9	826.5	-3.6
Subordinated liabilities	831.0	748.2	82.8	695.8	327.0	368.8
Silent partnership contributions	0.0	27.1	-27.1	0.0	99.1	-99.1
Derivative financial instruments not recognised at fair value	98.2	1,511.9	-1,413.7	171.0	2,010.9	-1,839.9
Credit default swaps recognised as loan collateral	17.0	1.7	15.3	7.3	1.0	6.3
<b>Subtotal</b>	<b>15,546.4</b>	<b>16,998.5</b>	<b>-1,452.1</b>	<b>16,890.4</b>	<b>18,600.7</b>	<b>-1,710.3</b>
<b>Total</b>			<b>-169.4</b>			<b>-107.3</b>

1) IKB implemented changes in the calculation of the fair value of receivables from customers in the financial year. As a result of these new measurement methods in particular, unrealised gains and losses would have been € 28.3 million lower as at 31 March 2017.

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. The future cash flows of the loans are recognised taking into account value contributions from floor agreements. 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 expected 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.

IKB has added the modelling of unscheduled payments of principal to its measurement model for floating-rate loans. The change in measurement model reduced fair values by € 30.8 million as at 31 March 2018. The reported fair values would have been € 40.3 million lower as at 31 March 2017.

Since March 2018, the value contributions to the reference interest rate from floor agreements have been taken into account in determining the fair value of loans. The change in measurement model increased fair values by € 8.9 million as at 31 March 2018. The reported fair values would have been € 9.6 million higher as at 31 March 2017.

The receivables purchased and forfeited by IKB as part of the sale of the IKB Leasing Group and the receivables in connection with non-recourse financing to IKB Leasing are carried at fair value.

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.

### **(64) Remuneration of the Board of Managing Directors**

Total remuneration of € 5.5 million (previous year: € 4.5 million) was incurred for members of the Board of Managing Directors active in the financial year 2017/18. 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 dependents amounted to € 3.5 million (previous year: € 3.5 million). In the financial year 2017/18, € 47.3 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: € 46.4 million).

**(65) Remuneration of the Supervisory Board**

The total remuneration of the members of the Supervisory Board for the financial year 2017/18 amounted to € 242 thousand (previous year: € 258 thousand). This contains reimbursed expenses of € 62 thousand including the VAT incurred on remuneration (previous year: € 58 thousand).

**(66) Remuneration of the Advisory Board**

The members of the Advisory Board received € 259 thousand (previous year: € 247 thousand), including VAT.

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

No loans were granted to members of the Board of Managing Directors. Loans totalling € 13.5 thousand were extended to the members of the Supervisory Board (previous year: € 8.1 thousand).

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

	Group		IKB AG	
	31 Mar. 2018	31 Mar. 2017	31 Mar. 2018	31 Mar. 2017
Men	779	954	565	641
Women	416	553	252	298
<b>Total</b>	<b>1,195</b>	<b>1,507</b>	<b>817</b>	<b>939</b>

**(69) Significant events after 31 March 2018**

The following major developments have arisen since 31 March 2018:

***Sale of office building in Frankfurt/Main***

IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG sold an office building in Frankfurt/Main by way of an agreement dated 24 April 2018. The transaction is expected to be closed in early June 2018. The sale is expected to result in a low double-digit disposal gain at Group level and at IKB AG.

**(70) 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

Sven Boysen\*

Employee representative

Mark Coker

Managing Director and General Counsel – Europe at Lone Star Europe Acquisitions Ltd.

Benjamin Dickgießer

Director of Hudson Advisors Portugal, LDA

Dr Lutz-Christian Funke

Director of KfW

Arndt G. Kirchhoff

Managing Partner and CEO of KIRCHHOFF Automotive Holding GmbH & Co. KG

Bernd Klein\*

Employee representative

Nicole Riggers\*

Employee representative

\*elected by the employees

**Offices held by employees**

As at 31 March 2018, the following employees were represented in the statutory supervisory boards of large corporations:

Dr Reiner Dietrich

Tricor Packaging & Logistics AG


Düsseldorf, 29 May 2018

IKB Deutsche Industriebank AG

The Board of Managing Directors



Dr Michael H. Wiedmann



Claus Momburg



Dr Jörg Oliveri del Castillo-Schulz



Dirk Volz



## **Independent auditor's report**

**Independent auditor's report**

**To IKB Deutsche Industriebank Aktiengesellschaft**

Report on the audit of the annual financial statements and of the management report

Opinions

We have audited the annual financial statements of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, which comprise the balance sheet as at 31 March 2018, and the income statement for the fiscal year from 1 April 2017 to 31 March 2018, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of IKG Deutsche Industriebank AG for the fiscal year from 1 April 2017 to 31 March 2018. In accordance with the German legal requirements we have not audited the following content of the management report: the Corporate Governance Declaration contained in chapter 7 of the management report and the non-financial statement referred to in chapter 2 of the management report. In addition, other information includes the following information outside the management report: Report of the Chairman of the Supervisory Board and the Letter from the Chairman of the Board of Managing Directors.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to credit institutions and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 March 2018 and of its financial performance for the fiscal year from 1 April 2017 to 31 March 2018 in compliance with German legally required accounting principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the above listed Corporate Governance Declaration, the non-financial statement, the report of the Chairman of the Supervisory Board, the Letter from the Chairman of the Board of Managing Directors,

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and

principles are further described in the “Auditor’s responsibilities for the audit of the annual financial statements and of the management report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 April 2017 to 31 March 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

#### **1. Recoverability of deferred tax assets**

Reasons why the matter was determined to be a key audit matter

If there are differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income in the statutory accounts and their tax carrying amounts, which are expected to reverse in subsequent fiscal years, the resulting tax relief may be recognized in the balance sheet as a (net) deferred tax asset, measured at the entity’s individual tax rate at the time the differences are due to reverse. IKB AG exercised this option and recognized deferred tax assets in the amount of EUR 181m. The recognized items must be reversed as soon as the tax relief arises or ceases to be expected.

As of 31 March 2018, IKB AG’s deferred tax assets from temporary differences mainly relate to financial assets, provisions and general bad debt allowances. The temporary differences in financial assets primarily relate to subsidiaries’ investments in investment fund shares.

The amount of the recognized net deferred tax asset derives chiefly from the reversal of temporary differences, as well as from the offsetting of tax loss carryforwards as per the tax forecasts, which indicate that a tax relief is probable in subsequent fiscal years.

IKB AG estimates whether differences are likely to reverse in future fiscal years on the basis of a forecast of the taxable results for the next five fiscal years based on internal planning and business plans as of 31 March 2018 which, forming a basis for the recoverability of deferred taxes, are highly dependent on estimates and assumptions made by the managing directors.

In light of use of judgment in relation to the assumptions used in the forecast and in light of the uncertainty inherent in any planning, the assessment of the recoverability of deferred tax assets was a key audit matter.

**Auditor's response and any key observations**

We assessed the design of the Bank's process for recognizing deferred tax assets and assessing the recoverability of deferred tax assets.

We obtained an understanding of the underlying transactions and effects of reversals. We reconciled the Bank's tax forecasts for subsequent years with internal planning documents in accordance with German commercial law and obtained an understanding of both, the amount and the cause of differences in taxable profit. We assessed the budgets and forecasts prepared in accordance with German commercial law in terms of the underlying planning parameters, in particular by reference to the planning quality of past budgets and forecasts, and tested their plausibility in light of our knowledge of the Bank's business activities and the development of the industry. For this purpose, we consulted our own tax, business valuation and mathematical finance specialists.

We examined whether the tax group relationships were properly taken into consideration. In addition, we analyzed whether the underlying tax rates reflect the effective tax burden of the tax group.

We also assessed whether the Bank's calculation is consistent with the pertinent tax legislation.

Our audit procedures did not lead to any reservations relating to the assessment of the recoverability of deferred tax assets.

**Reference to related disclosures**

The Bank provides information on deferred taxes in the notes to the combined annual financial statements of the Group and IKB AG as of 31 March 2018 in Notes "(11) Deferred taxes" and "(33) Deferred tax assets."

2. Presentation of legal and tax risks in the annual and consolidated financial statements

**Reasons why the matter was determined to be a key audit matter:**

In its annual financial statements as of 31 March 2018 IKB mentions substantial litigation risks and tax risks in connection with differences of opinion with the fiscal authorities.

Accounting for provisions for litigation, regulatory proceedings, official investigations and tax matters entails uncertainty as they often involve complex legal issues and thus require substantial use of judgment by the managing directors. Judgment is used in particular in assessing whether, and if so, in what amount, a provision is required to cover the risk.

Accounting for provisions for litigation, regulatory proceedings, official investigations and tax matters was therefore, in our opinion, a key audit matter.

**Auditor's response and any key observations**

During our audit of the accounting for litigation, we examined the processes and internal controls established by IKB AG to identify, assess and account for litigation, regulatory proceedings and official investigations and tax matters.

In order to identify which potentially significant pending litigation or asserted claims are known and whether the managing directors' estimates of the expected outflows of funds are appropriate, our audit procedures included making inquiries of the managing directors and other persons charged with these matters within the Bank, obtaining written representations from the in-house legal counsel to assess the estimated outflows of funds and the probability of occurrence, obtaining confirmations from external legal advisors and assessing internal statements and external legal opinions on the accounting in the annual financial statements.

With regard to alleged or identified non-compliance with legal requirements, we also appraised the performance and results of internal investigations by inspecting internal reports and the action taken to remedy identified weaknesses and assessed whether any risks have to be accounted for in the annual financial statements.

In addition, in order to assess tax risks, we obtained an understanding of the expert opinions from external law firms available to the Bank and assessed whether the statements therein sufficiently consider the arguments put forth by fiscal authorities as well as expressed in literature. We also analyzed previous court decisions and decisions on similar cases for findings to the contrary.

Furthermore, we examined expense accounts for legal and tax advice for indications of any matters that have not yet been accounted for.

Our procedures did not give rise to any reservations regarding the accounting for provisions for litigation, regulatory proceedings, official investigations and tax matters.

**Reference to related disclosures**

The Bank provides information on ongoing litigation, official investigations and tax risks, especially those arising from additional payment obligations or on opportunities arising from refund claims in connection with the provisions of Sec. 10a GewStG ["Gewerbsteuergesetz": German Trade Tax Act] and Sec. 8c KStG ["Körperschaftsteuergesetz": German Corporate Income Tax Act], in the combined management report of IKB AG and the IKB Group as of 31 March 2018 in chapters "3. Risk report" and "4. Report on opportunities" and in the notes to the combined financial statements in Note "(44) Other financial obligations."

3. Early repurchase of debtor warrants

Reasons why the matter was determined to be a key audit matter:

Between August 2017 and March 2018, IKB AG concluded four so-called debt waivers in return of a payment for nominal amounts of a total of EUR 869.9m with the holders of indefinite term debtor warrants. In addition, a final waiver of claims under a limited debtor warrant for EUR 101.48m was agreed upon. These debtor warrants were agreed upon in connection with debt waivers by creditors in 2008/2009 and require repayment when the financial situation improves as contractually defined.

Such improvement has not occurred since the debt waiver with a debtor warrant was agreed. According to IKB AG, the early redemption of the debtor warrants in fiscal year 2017/2018 was designed to reduce the forecast future burdens on IKB AG due to contingent liabilities and led to expenses (including consulting fees) of EUR 311.4m in the annual financial statements of IKB AG as of 31 March 2018.

The redemptions thus have a significant impact on the annual financial statements of IKB AG as of 31 March 2018 and are therefore of special importance to the financial statement users. In view of this, the early redemptions of the debtor warrants were a key audit matter within the framework of our audit.

**Auditor's response and any key observations:**

We tested the controls implemented in the process for handling the redemptions with regard to their effectiveness in terms of complete and correct capture, together with the relevant business organization and IT systems.

In addition, we consulted our Professional Practice Group to examine the commercial accounting for the transactions in the annual financial statements of IKB AG as of 31 March 2018 in order to ascertain whether it conforms to the provisions of the HGB ["Handelsgesetzbuch": German Commercial Code] and the relevant literature.

Furthermore, with regard to the market conformity of the redemptions, we used relevant valuation reports of an external appraiser according to IDW S1 "Standards for the Valuation of Business Enterprises" prepared in accordance with IDW Auditing Standard IDW AuS 322 (revised) "Using the Work of an Auditor's Expert" and analyzed whether the transactions were consistent with the objective values determined by the external appraiser and whether the notes pursuant to Sec. 285 No. 21 HGB were provided.

Our procedures did not give rise to any reservations regarding the accounting for and presentation of the matter in the annual financial statements of IKB AG as of 31 March 2018.

Reference to related disclosures:

The Bank provides information on the early repurchase of debtor warrants in chapter "2. Economic report, Significant events in the period under review" of the combined management report of IKB AG and the IKB Group and in the notes to

the combined annual financial statements of IKB AG and the Group as of 31 March 2018 in Notes “(48) Extraordinary income and expenses” and “(59) Related party transactions.”

Other information

The Supervisory Board is responsible for the “Report of the Supervisory Board.” In all other respects, the managing directors are responsible for the other information.

**Other information includes the following sections of the Annual Report 2017/2018 obtained by us before the date of this auditor’s report: the Corporate Governance Declaration contained in chapter 7 of the management report and the non-financial statement referred to in chapter 2 of the management report. In addition, other information includes the following information outside the management report which was provided to us before the date of this auditor’s report: Letter from the Chairman of the Board of Managing Directors,. Furthermore, other information includes the following disclosures outside of the management report provided to us after the date of this auditor’s report: Report of the Chairman of the Supervisory Board.**

Our opinions on the annual financial statements and on the management report do not cover other information and consequently, we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read other information and, in doing so, to consider whether other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the managing directors for the annual financial statements and the management report

The managing directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, the managing directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the managing directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the managing directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the managing directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit proce-

dures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.

- Evaluate the appropriateness of accounting policies used by the managing directors and the reasonableness of estimates made by the managing directors and related disclosures.
- Conclude on the appropriateness of the managing directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the managing directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the managing directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.



Other legal and regulatory requirements

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

**We were elected as auditor by the annual general meeting on 9 May 2017. We were engaged by the supervisory board on 22 June 2017. We have been the auditor of IKB Deutsche Aktiengesellschaft AG] for the first time since the fiscal year 2017/2018.**

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

German Public Auditor responsible for the engagement

**The German Public Auditor responsible for the engagement is Martin Werthmann.**

Düsseldorf, 30 May 2018

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Werthmann  
Certified Public Accountant

Gundelach  
Certified Public Accountant

Independent auditor's report

To IKB Deutsche Industriebank Aktiengesellschaft

Report on the audit of the consolidated financial statements and of the consolidated management report

Opinions

We have audited the consolidated financial statements of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf and its subsidiaries (of the Group), which comprise the consolidated balance sheet as at 31 March 2018, and the consolidated income statement for the fiscal year from 1 April 2017 to 31 March 2018, the consolidated statement of changes in equity and consolidated cash flow statement for the fiscal year from 1 April 2017 to 31 March 2018 and notes to the consolidated financial statements, including a summary of accounting policies. In addition, we have audited the consolidated management report of IKB Deutsche Industriebank AG for the fiscal year from 1 April 2017 to 31 March 2018. In accordance with the German legal requirements we have not audited the following content of the consolidated management report: the Corporate Governance Declaration contained in chapter 7 of the consolidated management report and the non-financial statement referred to in chapter 2 of the consolidated management report. In addition, other information includes the following information outside the consolidated management report: Report of the Chairman of the Supervisory Board and the Letter from the Chairman of the Board of Managing Directors,

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the requirements of German commercial law applicable to credit institutions and give a true and fair view of the assets, liabilities and financial position of the Group as at 31 March 2018 and of its financial performance for the fiscal year from 1 April 2017 to 31 March 2018, and
- the accompanying consolidated management report as a whole provides an appropriate view of the Group's position. In all material respects, this consolidated management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the consolidated management report does not cover the content of the above listed Corporate Governance Declaration, the non-financial statement, the report of the Chairman of the Supervisory Board, the Letter from the Chairman of the Board of Managing Directors,

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the consolidated management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the consolidated management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by

the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements and of the consolidated management report” section of our auditor’s report. We are independent of the Group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 April 2017 to 31 March 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

## **2. Recoverability of deferred tax assets**

### **Reasons why the matter was determined to be a key audit matter**

If there are differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income in the statutory accounts and their tax base, which are expected to reverse in subsequent fiscal years, the resulting tax relief may be recognized in the balance sheet as a (net) deferred tax asset, measured at the entity’s individual tax rate at the time the differences are due to reverse. The IKB Group exercised this option and recognized deferred tax assets in the amount of EUR 180,2m. The recognized items must be reversed as soon as the tax relief arises or ceases to be expected.

As of 31 March 2018, IKB Group’s deferred tax assets from temporary differences mainly relate to financial assets, provisions and general bad debt allowances. The temporary differences in financial assets primarily relate to subsidiaries’ investments in investment fund shares.

The amount of the recognized net deferred tax asset derives chiefly from the reversal of temporary differences, as well as from the offsetting of tax loss carryforwards based on tax forecasts, which indicate that a tax relief is probable in subsequent fiscal years.

IKB Group estimates whether differences are likely to reverse in future fiscal years on the basis of a forecast of the taxable results for the next five fiscal years based on internal planning and business plans as of 31 March 2018 which, forming a basis for the recoverability of deferred taxes, are highly dependent on estimates and assumptions made by the managing directors.

In light of use of judgment in relation to the assumptions used in the forecast and in light of the uncertainty inherent in any planning, the assessment of the recoverability of deferred tax assets was a key audit matter.

**Auditor's response and any key observations**

We assessed the design of the Group's process for recognizing deferred tax assets and assessing the recoverability of deferred tax assets.

We obtained an understanding of the underlying transactions and effects of reversals. We reconciled the Group's tax forecasts for subsequent years with internal planning documents in accordance with German commercial law and obtained an understanding of both, the amount and the cause of differences in taxable profit. We assessed the budgets and forecasts prepared in accordance with German commercial law in terms of the underlying planning parameters, in particular by reference to the planning quality of past budgets and forecasts, and tested their plausibility in light of our knowledge of the Bank's business activities and the development of the industry. For this purpose, we consulted our own tax, business valuation and mathematical finance specialists.

We examined whether the tax group relationships were properly taken into consideration. In addition, we analyzed whether the underlying tax rates reflect the effective tax burden of the tax group.

We also assessed whether the Group's calculation is consistent with the pertinent tax legislation.

Our audit procedures did not lead to any reservations relating to the assessment of the recoverability of deferred tax assets.

**Reference to related disclosures**

The Group provides information on deferred taxes in the group notes to the combined annual financial statements of the Group and IKB AG as of 31 March 2018 in Notes "(11) Deferred taxes" and "(33) Deferred tax assets."

2. Presentation of legal and tax risks in the consolidated financial statements

**Reasons why the matter was determined to be a key audit matter:**

In its consolidated financial statements as of 31 March 2018 IKB Group mentions substantial litigation risks and tax risks in connection with differences of opinion with the fiscal authorities.

Accounting for provisions for litigation, regulatory proceedings, official investigations and tax matters entails uncertainty as they often involve complex legal issues and thus require substantial use of judgment by the managing directors. Judgment is used in particular in assessing whether, and if so, in what amount, a provision is required to cover the risk.

Accounting for provisions for litigation, regulatory proceedings, official investigations and tax matters was therefore, in our opinion, a key audit matter.

**Auditor's response and any key observations**

During our audit of the accounting for litigation, we examined the processes and internal controls established by IKB Group to identify, assess and account for litigation, regulatory proceedings and official investigations and tax matters.

In order to identify which potentially significant pending litigation or asserted claims are known and whether the managing directors' estimates of the expected outflows of funds are appropriate, our audit procedures included making inquiries of the managing directors and other persons charged with these matters within the Group, obtaining written representations from the in-house legal counsel to assess the estimated outflows of funds and the probability of occurrence, obtaining confirmations from external legal advisors and assessing internal statements and external legal opinions on the accounting in the consolidated financial statements.

With regard to alleged or identified non-compliance with legal requirements, we also appraised the performance and results of internal investigations by inspecting internal reports and the action taken to remedy identified weaknesses and assessed whether any risks have to be accounted for in the consolidated financial statements.

In addition, in order to assess tax risks, we obtained an understanding of the expert opinions from external law firms available to the Bank and assessed whether the statements therein sufficiently consider the arguments put forth by fiscal authorities as well as expressed in literature. We also analyzed previous court decisions and decisions on similar cases for findings to the contrary.

Furthermore, we examined expense accounts for legal and tax advice for indications of any matters that have not yet been accounted for.

Our procedures did not give rise to any reservations regarding the accounting for provisions for litigation, regulatory proceedings, official investigations and tax matters.

**Reference to related disclosures**

The Group provides information on ongoing litigation, official investigations and tax risks, especially those arising from additional payment obligations or on opportunities arising from refund claims in connection with the provisions of Sec. 10a GewStG ["Gewerbsteuergesetz": German Trade Tax Act] and Sec. 8c KStG ["Körperschaftsteuergesetz": German Corporate Income Tax Act], in the combined management report of IKB AG and the IKB Group as of 31 March 2018 in chapters "3. Risk report" and "4. Report on opportunities" and in the group notes to the combined financial statements in Note "(44) Other financial obligations."

3. Early repurchase of debtor warrants

Reasons why the matter was determined to be a key audit matter:

Between August 2017 and March 2018, IKB Group concluded four so-called debt waivers in return of a payment for nominal amounts of a total of EUR 869.9m with the holders of indefinite term debtor warrants. In addition, a final waiver of claims under a limited debtor warrant for EUR 101.48m was agreed upon. These debtor warrants were agreed upon in connection with debt waivers by creditors in 2008/2009 and require repayment when the financial situation improves as contractually defined.

Such improvement has not occurred since the debt waiver with a debtor warrant was agreed. According to IKB, the early redemption of the debtor warrants in fiscal year 2017/2018 was designed to reduce the forecasted future burdens on IKB Group due to contingent liabilities and led to expenses (including consulting fees) of EUR 311.4m in the consolidated financial statements of IKB Group as of 31 March 2018.

The redemptions thus have a significant impact on the consolidated financial statements of IKB Group as of 31 March 2018 and are therefore of special importance to the financial statement users. In view of this, the early redemptions of the debtor warrants were a key audit matter within the framework of our audit.

**Auditor's response and any key observations:**

We tested the controls implemented in the process for handling the redemptions with regard to their effectiveness in terms of complete and correct capture, together with the relevant business organization and IT systems.

In addition, we consulted our Professional Practice Group to examine the commercial accounting for the transactions in the consolidated financial statements of IKB Group as of 31 March 2018 in order to ascertain whether it conforms to the provisions of the HGB ["Handelsgesetzbuch": German Commercial Code] and the relevant literature.

Furthermore, with regard to the market conformity of the redemptions, we used relevant valuation reports of an external appraiser according to IDW S1 "Standards for the Valuation of Business Enterprises" prepared in accordance with IDW Auditing Standard IDW AuS 322 (revised) "Using the Work of an Auditor's Expert" and analyzed whether the transactions were consistent with the objective values determined by the external appraiser and whether the notes pursuant to Sec. 285 No. 21 HGB were provided.

Our procedures did not give rise to any reservations regarding the accounting for and presentation of the matter in the consolidated financial statements of IKB Group as of 31 March 2018.

Reference to related disclosures:

The Bank provides information on the early repurchase of debtor warrants in chapter "2. Economic report, Significant events in the period under review" of the combined management report of IKB AG and the IKB Group and in the notes to

the combined annual financial statements of IKB AG and the Group as of 31 March 2018 in group Notes “(48) Extraordinary income and expenses” and “(59) Related party transactions.”

Other information

The Supervisory Board is responsible for the “Report of the Supervisory Board.” In all other respects, the managing directors are responsible for the other information.

The other information comprises the following sections of the Group Management Report 2017/2018 obtained by us before the date of this auditor’s report: the Corporate Governance Declaration contained in chapter 7 of the group management report and the non-financial statement referred to in chapter 2 of the group management report. In addition, other information includes the following information outside the group management report which was provided to us before the date of this auditor’s report: Letter from the Chairman of the Board of Managing Directors. Furthermore, other information includes the following disclosures outside of the group management report provided to us after the date of this auditor’s report: Report of the Chairman of the Supervisory Board.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information and consequently, we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read other information and, in doing so, to consider whether other information

- is materially inconsistent with the consolidated financial statements, with the consolidated management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the managing directors for the consolidated financial statements and the group management report

The managing directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations and that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the managing directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the managing directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the managing directors are responsible for the preparation of the consolidated management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the managing directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a consolidated management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the consolidated management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the consolidated management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the consolidated management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the consolidated management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this consolidated management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the consolidated management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the consolidated management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the managing directors and the reasonableness of estimates made by the managing directors and related disclosures.
- Conclude on the appropriateness of the managing directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the consolidated management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German legally required accounting principles.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities of business activities within the Group to express opinions on the consolidated financial statements and on the consolidated management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the consolidated management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the managing directors in the consolidated management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the managing directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

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

We were elected as group auditor by the annual general meeting on 9 May 2017. We were engaged by the supervisory board on 22 June 2017. We have been the group auditor of IKB Deutsche Aktiengesellschaft Group for the first time since the fiscal year 2017/2018.

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

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Martin Werthmann.

Düsseldorf, 30 May 2018

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Werthmann  
Certified Public Accountant

Gundelach  
Certified Public Accountant

## **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.)