6-Month Report 2018/2019

(1 April – 30 September 2018)

IKB Deutsche Industriebank

Contents

Interim Group Management Report

1. Basic information on the Group

Comprehensive information on the IKB Group can be found on pages 14 to 15 of the 2017/18 annual report. There were no changes to this information in the period under review.

2. Economic report

Macroeconomic and industry-specific conditions

Following a strong recovery in 2017, global economic growth paused for breath in the period under review. However, all the major economies continued to show a fundamentally positive economic outlook.

Most of the national economies proved to be resistant even in the face of risks such as the prospect of the United Kingdom leaving the EU without a deal, US trade policy and increased volatility in individual emerging economies. However, global economic indicators failed to send out clear signals of a renewed acceleration in growth. As in the previous years, China remained the main global economic driver, accounting for around one-third of the growth in the first half of 2018. However, growth prospects were curbed once again by China's high level of private debt.

The USA enjoyed robust growth. Gross domestic product (GDP) increased by 2.9% year-on-year in the second quarter of 2018 due to factors including the US government's fiscal stimulus policy. The unemployment rate was 3.9% in August 2018. In light of this, the US Federal Reserve (Fed) pressed ahead with its policy of gradually raising the key interest rate, which reached 2.25% by the end of the period under review.

As in 2017, growth momentum in the British economy lagged significantly behind its potential. This was not least due to the sustained uncertainty concerning the difficult EU withdrawal negotiations, the outcome of which remains unclear. Despite this, the Bank of England raised its key interest rate to 0.75% in August of this year.

The euro zone economy weakened during 2018 following the strong expansion in the previous year. While domestic demand and, in particular, private consumption remained key pillars of growth, the external economic environment lost momentum. However, growth in employment in the euro zone continued. Driven by factors including rising oil prices, inflation increased to just over 2% in the period under review.

The German economy remained on its growth path thanks to domestic demand in particular. Private consumption continued its dynamic growth on the back of a stable employment market and real wage increases in the first half of 2018. Capacity utilisation in the manufacturing industry remained at a historically high level, thereby supporting investments in equipment. However, incoming orders saw a downward trend on the whole. This was due to the slowdown in growth in key German export markets as well as the debates in the automotive industry concerning diesel engines, driving bans and registration problems.

The financial markets nervously observed the rise in US interest rates. In particular, some of the emerging economies saw substantial exchange rate corrections. Italy also proved to be a cause for concern, with doubts about the planned fiscal deficit and the risk of the country failing to comply with the EU's requirements. The Governing Council of the ECB also confirmed its intention to reduce the monthly purchase volume under its asset purchase programme to € 15 billion by December 2018 with a view to winding up the programme entirely by the end of 2018. Interest rates remained at 0% for the main refinancing operations and -0.4% for the deposit facility. In June 2018, the ECB signalled its intention to maintain this interest rate level until at least the end of summer 2019. Due to the reduction and winding-up of the purchase programme as well as the upward trend in US interest rates, yields for long-term German government bonds increased towards the end of the period under review in particular.

Despite the expansionary monetary policy, there was no notable upturn in credit growth in the euro zone. There were significant differences in terms of credit development in the member states in some cases: In Italy and Spain, the volume of bank loans to companies declined compared with the previous year, whereas the volume in Germany and France continued to rise. The pressure on bank profitability in Germany remained. Although the positive economic momentum helped to restrict loan defaults and provisions for possible loan losses, the sustained low-interest environment reduce 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

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, 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 sentence 2 KStG as amended by the German Business Tax Reform Act 2008 (now section 8c (1) sentence 2 KStG) is unconstitutional and the ruling by the European Court of Justice on 28 June 2018 concerning the so-called restructuring clause 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".

Changes in the Group

Sale of leasing companies

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 an investment fund administered by HPS Investment Partners, LLC ("HPS"). It was agreed that the purchase price would not be disclosed. The transaction was closed on 28 February 2018. Prior to closing, IKB Leasing Finance IFA S.A., Bucharest, Romania, and IKB Leasing S.A., Bucharest, Romania, as well as IKB Leasing SR, s.r.o., Bratislava, Slovakia, were spun off from the IKB Leasing Group and transferred to IKB companies. All the shares in IKB Leasing Finance IFA S.A., Bucharest, Romania, and IKB Leasing S.A., Bucharest, Romania, were sold to companies of the BNP PARIBAS LEASING Group on 8 June 2018. The responsible antitrust and banking supervisory authorities have approved the closing of this transaction, which is now expected in late November 2018. The business operations of IKB Leasing SR, s.r.o., Bratislava, Slovakia, were also sold and transferred to SG Equipment Finance Czech Republic s.r.o., Bratislava branch, Slovakia, on 1 October 2018. Despite the aforementioned transactions, 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.

Legally relevant events

Profit participation certificates

IKB is aware of 50 suits by profit participation certificate bearers with a preliminary value in dispute of € 117 million. 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.

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 purchase price was paid in late May 2018. The sale resulted in a low double-digit Euro million disposal gain at Group level and at IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG. The transfer of ownership took place on 29 June 2018.

Personnel changes

Supervisory Board

Benjamin F. Dickgießer and Dr Claus Nolting were re-elected to the Supervisory Board as shareholder representatives by resolution of the Annual General Meeting on 5 September 2018.

There were the following changes to the employee representatives with effect from the end of the Annual General Meeting on 5 September 2018: Sven Boysen was re-elected to the Supervisory Board and Jörn Walde was elected to the Supervisory Board for the first time. Bernd Klein stepped down from the Supervisory Board at this date.

At the constituent meeting of the Supervisory Board following this Annual General Meeting, Dr Nolting was re-elected as the Deputy Chairman of the Supervisory Board and the Chairman of the Risk and Audit Committee. Elections were also held to fill the vacant positions on the Supervisory Board committees: the Supervisory Board Executive Committee (Mr Dickgießer), the Risk and Audit Committee (Mr Dickgießer, Dr Nolting and Mr Walde), the Remuneration Control Committee (Mr Boysen and Mr Dickgießer) and the Nomination Committee (Ms Riggers and Mr Dickgießer).

Board of Managing Directors

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

Net assets, financial position and results of operations

Business development

In the first half of the financial year 2018/19, the Group's new business volume remained stable at € 1.8 billion compared with the prior-year figure adjusted for new equipment leasing business despite the intense competitive situation. The proportion of the business with public programme loans increased.

Results of operations

To improve comparability, the year-on-year comparisons in the discussion of the results of operations are based on the prior-year figures as restated to reflect significant changes in the consolidated group.

IKB generated consolidated net income of € 18 million in the first half of the financial year 2018/19. In the same period of the previous year, consolidated net income amounted to € 71 million due to positive effects from liability-side restructuring in particular.

Net interest and lease income

Net interest and lease 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, as well as lease income, expenses, depreciation and write-downs.

Net interest and lease income in the Group amounted to € 106 million in the period under review (previous year: € 114 million). The positive development in net interest income from derivatives was more than offset by the reduction in interest from securities and lower income from the reversal of interest neutralisation.

Net fee and commission income

The Group recorded net fee and commission income of € 19 million, down on the prior-year figure of € 21 million. This was due in particular to lower commission from lending business.

Administrative expenses

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

Administrative expenses in the Group amounted to € 94 million in the period under review compared with € 105 million in the same period of the previous year. The reduction in administrative expenses is due in particular to the continuation of cost-cutting and optimisation measures, which primarily resulted in personnel expenses declining by € 11 million year-on-year to € 52 million.

Other administrative expenses and depreciation, amortisation and impairment losses were unchanged year-on-year at € 42 million. The sale of the subsidiary ikb Data led to a reduction in personnel expenses and an increase in IT costs in non-personnel administrative expenses.

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 declined from a positive € 43 million in the previous year to a positive € 1 million in the period under review, are presented below.

The measurement and sale of long-term investments resulted in net income of € 110 million after net income of € 69 million in the previous year.

Close-out payments in connection with the strategic early dissolution of derivative transactions in the banking book resulted in net expenses of € 122 million after net expenses of € 137 million in the previous year. In addition, net income of € 3 million was generated from additional derivative transactions in the banking book (previous year: € 0 million).

Expenses for retirement benefits impacted net other income in the amount of € 7 million in the period under review (previous year: € 12 million). Of this figure, an expense of € 16 million related to the discounting of pension provisions in line with the German Ordinance on the Discounting of Provisions (Rückstellungsabzinsungsverordnung – RückAbzinsV) issued by Deutsche Bundesbank (previous year: expense of € 14 million), while income of € 9 million related to the measurement of the assets transferred in contractual trust arrangements (previous year: income of € 2 million). Information on the adoption of the new Heubeck mortality tables (RT 2018 G) can be found in note (2) “Applied accounting principles” in the condensed notes to the (consolidated) financial statements.

The sale of an office building in Frankfurt/Main resulted in net income of € 15 million in the Group.

In the previous year, net income of € 95 million was generated at Group level from measures to simplify the capital structure.

Net risk provisioning

Net risk provisioning, which includes amortisation/depreciation and write-downs of receivables and specific securities as well as additions to loan loss provisions, changed by € 20 million compared with the first half of the financial year 2017/18, from a positive € 10 million to a negative € 10 million.

The change in net risk provisioning was mainly attributable to the net additions to specific valuation allowances in response to the growing risks associated with economic development as well as net reversals of general allowances for certain latent default risks.

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

Taxes

Net tax expenses amounted to € 3 million in the period under review after € 12 million in the same period of the previous year.

Net income

Consolidated net income for the first half of the financial year 2018/19 amounted to € 18 million compared with € 71 million in the previous year.

Net assets

The Group's total assets declined by € 1.2 billion as against 31 March 2018, amounting to € 16.1 billion at the end of the period under review.

The gross credit volume, which also includes off-balance sheet business (see also "section 3. Risk report"), decreased by € 1.1 billion as against 31 March 2018 to € 18.7 billion. This item primarily comprises medium-term and long-term loans to banks, loans to customers, asset derivatives in the non-trading book and guarantees.

Assets

Receivables from banks in the Group decreased by € 0.9 billion to € 1.7 billion, largely as a result of a reduction in call accounts.

Receivables from customers increased slightly by € 0.2 billion to € 9.9 billion.

Bonds and other fixed-income securities in the Group decreased by € 0.4 billion to € 3.5 billion, largely as a result of strategic disposals.

Liabilities

Liabilities to banks declined by € 0.4 billion to € 7.1 billion, particularly as a result of repayments under a long-term ECB refinancing programme.

Liabilities to customers fell by € 0.7 billion to € 5.8 billion primarily as a result of a reduction in the volume of customer deposits and promissory note loans.

Equity

Equity increased by € 18 million, from € 822 million to € 840 million, largely as a result of the consolidated net income for the period under review.

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.

Unrealised gains and losses have arisen in the period under review and in recent financial years from financial instruments in the banking book in the form of securities, from derivatives and from the refinancing of the credit book without matching maturities as a result of changes in market interest rates, exchange rates and credit ratings. Unrealised losses could lead to a lower level of net interest income or losses on disposal in future financial years. The fair value measurement of the banking book in accordance with IDW RS BFA 3 did not result in any provisioning requirements as at 30 September 2018.

Financial position

The funding mix means that IKB's liquidity position is stable and 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 and being selective when it comes to 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 results of operations for the first half of the financial year 2018/19 are characterised by a satisfactory earnings situation for the Group. Net assets and the financial position are in order.

From the Group's perspective, the course of business in the first half of the financial year 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 30 September 2018, the CET 1 ratio amounted to 11.4% for the IKB Group and 12.7% for IKB AG (for details see "section 3. Risk report"). 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 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 7.5% (IKB AG: 8.1%) as at 30 September 2018. This means the IKB Group comfortably exceeds the future minimum ratio of 3.0% and has maintained its leverage ratio at the level of 31 March 2018 as forecast in its 2017/18 annual report.

Net income after taxes

The positive consolidated net income for the first half of the financial year 2018/19 is in line with the forecast contained in the 2017/18 annual report.

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. It amounted to 75.2% at Group level in the first half of the financial year 2018/19 compared with 77.8% in the adjusted prior-year period.

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 € 125 million in the period under review compared with € 135 million in the previous year.

Net banking income is calculated as banking income less provisions for possible loan losses and amounted to € 115 million at Group level in the period under review compared with € 171 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. The minimum LCR has been the statutory minimum requirement of 100% since 1 January 2018.

IKB performs regulatory liquidity management using the LCR. The LCR amounted to 331% at IKB Group level as at 30 September 2018 (IKB AG: 243%) and comfortably exceeded the minimum of 100% for the full financial year 2018/19 as set out in the annual report for the year ended 31 March 2018 at all times.

3. Risk report

Where methods and processes have not changed since 31 March 2018, no detailed presentation is provided in the following section and readers should refer to IKB's 2017/18 annual report (see pages 26 to 49).

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 Group Internal Audit.

Group 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 Board of Managing Directors is informed about the findings of the audits conducted on an ongoing basis. Group Internal Audit does not form part of the internal control system (ICS) but examines the functionality of the ICS. 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 Internal Audit at the outsourcing companies.

Using condensed quarterly reports and a comprehensive annual report, Group Internal Audit informs the Board of Managing Directors and the Supervisory Board about significant and serious audit findings, the agreed measures and their processing status, the audits conducted and compliance with the audit plan, among other things.

It is also ensured that the Chairman of the Supervisory Board or the Risk and Audit Committee can obtain information directly from the head of Group Internal 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.

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

Figures in € million	**30 Sep. 2018**	**31 Mar. 2018**[2)]
Counterparty default risk (including CVA charge € 132 million; 31 March 2018: € 129 million)	11,229	10,824
Market risk equivalent	257	199
Operational risk	686	703
Total risk-weighted assets (RWA)	**12,172**	**11,725**
Common equity tier 1 (CET 1)	1,382	1,382
Additional tier 1 (AT 1)	30	30
Total Tier 1 (T 1)	**1,412**	**1,412**
Tier 2 (T 2)	712	738
Own funds	**2,124**	**2,151**
CET 1 ratio	**11.4%**	**11.8%**
T 1 ratio	11.6%	12.0%
Own funds ratio	17.4%	18.3%

Capital ratios (fully phased)		
CET 1 ratio	**11.1%**	**11.6%**
T 1 ratio	11.1%	11.6%
Own funds ratio	17.2%	18.0%

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 30 September 2018 and 31 March 2018 respectively, including transitional provisions and the interpretations published by the supervisory 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[1)]

Figures in € million	30 Sep. 2018	31 Mar. 2018[2)]
Counterparty default risk (including CVA charge € 132 million; 31 March 2018: € 129 million)	11,038	10,616
Market risk equivalent	102	99
Operational risk	510	512
Total risk-weighted assets (RWA)	**11,649**	**11,227**
Common equity tier 1 (CET 1)	1,479	1,477
Additional tier 1 (AT 1)	0	0
Total Tier 1 (T 1)	**1,479**	**1,477**
Tier 2 (T 2)	667	693
Own funds	**2,146**	**2,171**
CET 1 ratio	**12.7%**	**13.2%**
T 1 ratio	12.7%	13.2%
Own funds ratio	18.4%	19.3%

Capital ratios (fully phased)		
CET 1 ratio	**12.5%**	**13.0%**
T 1 ratio	12.5%	13.0%
Own funds ratio	18.2%	19.1%

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 30 September 2018 and 31 March 2018 respectively, including transitional provisions and the interpretations published by the supervisory 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 11.4% at Group level and 12.7% at individual Bank level, IKB's CET 1 ratios are above the minimum legal requirements, including the capital conservation buffer and countercyclical capital buffer, and the SREP capital requirements set by the German Federal Financial Supervisory Authority (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 Article 73 of the EU Banking Directive 2013/36/EU and section 25a KWG and the concretisations thereof. Accordingly, banks are required to ensure that all risks classified as significant are covered by sufficient capital to ensure the continuation of business activities and the protection of creditors against losses.

Following the publication of the new BaFin guidelines on the supervisory assessment of internal risk-bearing capacity concepts at institutions directly subject to German banking supervision on 24 May 2018, IKB switched its risk-bearing capacity concept to the new guidelines with effect from 31 May 2018. To ensure its risk-bearing capacity, IKB applies two perspectives: A normative perspective to ensure the institution's ability to continue as a going concern and an economic perspective to protect creditors.

The normative perspective ensures compliance with the regulatory and supervisory minimum requirements in the context of the annual multi-year bank planning process. In particular, this includes the increased capital requirements in accordance with section 10 (3) or (4) KWG, the own funds and the combined capital requirement in accordance with section 10 i (1) KWG. All structural requirements must also be met.

In addition to the business case, bank planning must include at least one adverse scenario in which compliance with the increased capital requirements in accordance with section 10 (3) or (4) KWG is ensured.

The IKB scenario of a “severe economic downturn” with its consequences for capital planning has been defined as an adverse scenario for the normative perspective.

All regulatory requirements in terms of the normative perspective are complied with in both the business case and this adverse scenario.

In addition to the normative perspective, the Bank analyses the overall risk position and risk coverage potential from an economic perspective.

Risk coverage potential in the economic perspective is calculated as the sum of all the equity components available to the Bank, including 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 capital requirements in the economic perspective that could arise mathematically in a year to cover unexpected losses at a confidence level of 99.9% (value at risk) with the risk coverage potential that will be available in the next twelve months.

Table: Capital requirements – economic perspective[1)]

	30 Sep. 2018 in € million	30 Sep. 2018 in %	31 Mar. 2018 in € million	31 Mar. 2018 in %
Counterparty default risk	543	36%	619	37%
Market price risk	455	30%	505	31%
Operational risk	426	28%	428	26%
Business risk	90	6%	96	6%
Total	**1,514**	**100%**	**1,648**	**100%**
less diversification effects	-198		-263	
Overall risk position	**1,316**		**1,385**	
Risk coverage potential	**1,956**		**1,958**	

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

1) Figures as at 31 March 2018 restated to reflect the new guidelines on the supervisory assessment of internal risk-bearing capacity concepts at institutions.

Risk coverage potential in the economic perspective declined slightly by € 2 million compared with the start of the financial year. At the same time, the overall risk position for all risks classified as significant fell by € 69 million to € 1,316 million. Taking diversification effects into account, risk coverage potential therefore significantly exceeds the overall risk position, with utilisation amounting to 67% (31 March 2018: 71%). Even excluding diversification effects, the risk coverage potential still clearly exceeds the overall risk position with utilisation of 77% (31 March 2018: 84%).

Risk-bearing capacity remains secure for the next twelve months.

Forecast calculations and stress tests

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

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 the reduced risk coverage potential in the economic perspective would no longer be sufficient to fully cover the resulting overall risk position.

Risk strategy

The individual risk strategies (credit risk strategy, market price risk strategy, liquidity risk strategy, operational risk strategy) are a component of the integrated business and risk strategy. They set out the framework towards which IKB's business activities are geared.

Adjustments to the credit risk strategy were required in the first half of the financial year 2018/19. This related to the more stringent credit risk strategy requirements in accordance with existing decision-making practice and the movement of more operational (and less strategic) requirements to subordinate documents. The risk policy was not adjusted. Please refer to IKB's 2017/18 annual report for further information on this and the other risk types (see pages 30 and 31).

Counterparty default risk

Details of the credit approval process and individual exposure monitoring, the rating processes and rating systems, the quantification of credit risk and portfolio monitoring and management can be found in IKB's 2017/18 annual report (see pages 31 and 32).

Structure of counterparty default risk

The credit volume as at 30 September 2018 was composed as follows:

Table: Credit volume – Group

in € million	30 Sep. 2018	31 Mar. 2018	Change	30 Sep. 2017	Change
Receivables from banks	1,659	2,521	-862	1,298	361
Receivables from customers	9,885	9,709	176	10,397	-512
Bonds and other fixed-income securities not including own bonds	3,459	3,884	-425	4,778	-1,319
Equities and other non-fixed-income securities	395	396	-1	472	-77
Equity investments	1	1	-	1	-
Lease assets	7	8	-1	947	-940
Subtotal: Balance sheet assets	**15,406**	**16,519**	**-1,113**	**17,893**	**-2,487**
Contingent liabilities[1)]	2,038	1,946	92	2,392	-354
Asset derivatives in the non-trading book[2)]	803	882	-79	1,038	-235
Write-downs[3)]	175	171	4	196	-21
Leasing: Deferred income and advance payments for intangible assets	-	-	-	-108	108
Provisions for expected losses for embedded derivatives	-	-	-	-48	48
Securities lending	315	289	26	474	-159
Gross credit volume	**18,737**	**19,807**	**-1,070**	**21,837**	**-3,100**
For information purposes: other significant counterparty default risks outside the gross credit volume					
Irrevocable loan commitments	1,682	1,527	155	1,895	-213
Investments in associated and affiliated companies	1	1	-	18	-17

1) before deducting risk provisions
2) Including € 40 million (31 March 2018: € 40 million) in positive fair values for protection seller CDSs whose nominal values are treated as contingent liabilities for accounting purposes.
3) 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

All in all, the IKB Group's gross credit volume decreased by € 1.1 billion between 31 March 2018 and 30 September 2018. This was primarily due to the reduction in receivables from banks and the sale of bonds, while receivables from customers increased by € 0.2 billion as a result of new business.

There were no significant changes in the size category and collateral structure compared with 31 March 2018 (see IKB's 2017/18 annual report, page 34 et seq.).

As was already the case at 31 March 2018, the sale of IKB Leasing is reflected in the reduction in leased assets and customer receivables compared with 30 September 2017. Receivables from customers as at 30 September 2018 included € 0.7 billion (31 March 2018: € 0.8 billion) relating to the unsold leasing companies and leased assets and existing refinancing loans to the leasing companies no longer forming part of the IKB Group. This meant that the liability relating to the assets remaining in IKB's balance sheet was reduced significantly in the period under review as planned. The sale of the remaining leasing companies presented in "section 2. Significant events in the period under review" will lead to a further reduction in this volume in the second half of the year.

Geographical structure

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

Table: Credit volume by region – Group

	30 Sep. 2018 in € million	30 Sep. 2018 in %	31 Mar. 2018 in € million	31 Mar. 2018 in %
Germany	9,945	53%	10,938	55%
Outside Germany	8,318	44%	8,341	42%
Western Europe	5,871	31%	5,924	30%
Eastern Europe	1,074	6%	1,144	6%
North America	963	5%	876	4%
Other	410	2%	397	2%
Subtotal	**18,263**	**97%**	**19,279**	**97%**
Risk transferred to third parties[1)]	474	3%	528	3%
Total	**18,737**	**100%**	**19,807**	**100%**

1) Hermes guarantees, indemnifications, risks transferred

The credit volume in Western Europe as at 30 September 2018 included a public-sector credit volume for the GIIPS nations (Greece, Ireland, Italy, Portugal and Spain) totalling € 754 million. Of this figure, € 521 million relates to Spain (31 March 2018: € 703 million), € 138 million to Portugal (31 March 2018: € 139 million) and € 96 million to Italy (31 March 2018: € 209 million). The credit volume in respect of banks and companies was also disclosed in the 2017/18 annual report; these figures have been corrected here.

The reduction in the domestic credit volume is attributable to banks and the public sector, while there was a slight increase in the corporate sector due to new business (see also table below).

Sector structure

Table: Credit volume by sector – Group

	30 Sep. 2018 in € million	30 Sep. 2018 in %	31 Mar. 2018 in € million	31 Mar. 2018 in %
Industrial sectors	9,417	50%	9,138	46%
Chemical industry	786	4%	703	4%
Mechanical engineering	702	4%	715	4%
Energy supply	651	3%	636	3%
Food industry	608	3%	538	3%
Wholesale (not including motor vehicles)	545	3%	539	3%
Other industrial sectors	6,125	33%	6,007	30%
Real estate	482	3%	440	2%
Financial sector	1,215	6%	1,207	6%
Banks	4,585	24%	5,340	27%
Public sector	2,564	14%	3,154	16%
Subtotal	**18,263**	**97%**	**19,279**	**97%**
Risk transferred to third parties[1)]	474	3%	528	3%
Total	**18,737**	**100%**	**19,807**	**100%**

1) Hermes guarantees, indemnifications, risks transferred

Credit rating structure

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

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

	30 Sep. 2018 in € million	30 Sep. 2018 in %	31 Mar. 2018 in € million	31 Mar. 2018 in %
1-4	5,841	31%	7,353	37%
5-7	5,994	32%	5,418	27%
8-10	4,432	24%	4,428	22%
11-13	1,718	9%	1,822	9%
14-15	145	1%	162	1%
Non-performing assets[2)]	133	1%	96	0%
Subtotal	**18,263**	**97%**	**19,279**	**97%**
Risk transferred to third parties[3)]	474	3%	528	3%
Total	**18,737**	**100%**	**19,807**	**100%**

1) higher rating classes reflect lower creditworthiness
2) before specific valuation allowances and loan loss provisions
3) Hermes guarantees, indemnifications, risks transferred

The decrease in rating classes 1-4 relates to disposals and slightly weaker bank and public-sector ratings resulting in reclassification to rating classes 5-7.

Non-performing assets

Table: Non-performing assets[1)] – Group

	30 Sep. 2018 in € million	31 Mar. 2018 in € million	Change in € million	Change in %
Assets with specific risk provisioning	111	80	31	39%
Non-impaired	22	16	6	38%
Total	**133**	**96**	**37**	**39%**
as % of credit volume	0.7%	0.5%		
as % of credit volume with respect to corporates	1.3%	0.9%		
For information purposes: NPL ratio in accordance with EBA definition[2)]	1.3%	1.0%		

1) before specific valuation allowances and loan loss provisions, before write-downs of securities to the lower of cost or market
Non-performing assets do not include:
- € 18 million (31 March 2018: € 30 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).
- € 2 million (31 March 2018: € 1 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

The ratio of non-performing assets was 0.7% as at 30 September 2018 (31 March 2018: 0.5%). This meant that non-performing assets remained at a historically low level despite increasing slightly compared with 31 March 2018.

€ 22 million in non-performing assets as at 30 September 2018 related to risks retained following the sale of IKB Leasing. As at 31 March 2018, € 29 million in non-performing asserts related to leased assets.

Provisions for possible loan losses

Table: Provisions for possible loan losses – Group

	30 Sep. 2018 in € million	30 Sep. 2017 in € million	Change in %	31 Mar. 2018 in € million
Development of impairment losses/provisions[1)]				
Opening balance	43.4	89.0	-51%	89.0
Utilisation	-7.0	-4.9	43%	-8.9
Reversal	-21.3	-35.2	-39%	-53.0
Reclassification and net interest expense and discounting	-	-0.5	-100%	-9.7
Unwinding	-0.4	-1.0	-60%	-1.4
Additions to specific risk provisions/provisions[2)]	39.6	16.9	>100%	27.5
Effect of changes in exchange rates	-	0.1	-100%	-0.1
Total specific risk provisions/provisions	**54.3**	**64.4**	**-16%**	**43.4**
General allowances[3)]				
Opening balance	137.1	156.3	-12%	156.3
Addition/reversal	-8.9	-14.1	-37%	-17.0
Reclassification	-	-		-2.2
Total general allowances	**128.2**	**142.2**	**-10%**	**137.1**
Total provisions for possible loan losses (including provisions)	**182.5**	**206.6**	**-12%**	**180.5**

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

In the same way as for non-performing assets, the volume of specific risk provisions and provisions increased slightly compared with the start of the financial year as a result of higher additions.

General allowances, including country risk provisioning for customer receivables, receivables from banks, contingent liabilities and irrevocable loan commitments, declined slightly on the back of the lower level of expected losses on receivables.

General allowances for securities were recognised in the amount of € 3.1 million in the Group (31 March 2018: € 2.7 million).

Liquidity risk

Refinancing situation

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.

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 € 3.3 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 30 September 2018. The limited minimal liquidity balance is around € 0.35 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 met at all times in the first half of the financial year 2018/19. The LCR was 331% at Group level as at 30 September 2018 (IKB AG: 243%).

Market price risk

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

Table: Market price risk profile

in € million	Value at 30 Sep. 2018	Value at 31 Mar. 2018
Interest rate basis point value (BPV)	**-1.0**	**-1.1**
Credit spread BPV	**-6.2**	**-6.6**
VaR – interest rate and volatility	-13.5	-15.2
VaR – credit spread	-25.0	-17.2
VaR – FX and volatility	-1.7	-1.5
Correlation effect	11.3	13.4
VaR (total)	**-28.9**	**-20.5**

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

IKB also selectively enters into market price risks in the form of interest rate and credit spread risks in order to secure its liquidity and additionally strengthen its net interest income. Market turbulence and rising volatility led to an increase in the market price risk position in the first half of the financial year 2018/19.

Operational risk

The gross loss volume in the first half of the financial year 2018/19 totalled € 1.8 million at Group level (full prior-year total: € 2.7 million[1,2]). In individual cases, the loss amounts are still based on estimates for which it may not be possible to obtain accurate figures using updated information until later in some cases.

1 Prior-period amount restated to reflect updated information
2 The figure for the financial year 2017/18 included losses at IKB Leasing GmbH and ikb Data GmbH.

Legal risk

The changes since the report as at 31 March 2018 are as follows:

Derivatives trading

In individual cases, customers criticised the advisory services provided by the Bank in connection with certain swap products. Three cases were pending as at 30 September 2018, of which IKB won one case in late October 2018 (see also the report on post-balance sheet date events). 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.

IKB is currently aware of 50 suits with a total value in dispute of € 117 million. 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. In light of pending appeal proceedings with the German Federal Court of Justice in a similar case in which the respective appeal was lodged by the tax authorities, these transactions have not yet been addressed further in the ongoing audits.

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 € 48.3 million as at 30 September 2018 and around € 0.5 million for each additional month.

In light of the recent ruling by the European Court of Justice on 28 June 2018 establishing the invalidity of the decision by the European Commission on 26 January 2011 stating that the so-called restructuring clause in section 8c (1a) KStG constituted prohibited state aid, section 34 (4) sentence 2 KStG will now be applied in determining the retrospective reapplication of the restructuring clause. As originally intended on its introduction, the provision will apply to acquisitions taking place after 31 December 2007. The prospects for IKB being reimbursed for the corporation tax plus interest paid (until 30 September 2018) in the amount of around € 160 million and the unnecessary payment of trade tax plus interest have therefore improved further. However, the nature of final implementation remains to be seen.

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 30 September 2018 would deteriorate by 1.2 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 30 September 2018 would decline by 0.8 percentage points for the regulatory Group and by 0.9 percentage points for IKB AG.
- Net income after taxes and before additions to/reversals of the fund for general banking risks (section 340g HGB) as at 30 September 2018 would decline by € 159 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 € 10.2 million up to and including 30 September 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.

Personnel risk

In light of the need to sustainably safeguard its profitability in a market environment that remains challenging, the Bank believes it is necessary to continue to optimise its organisational structure and operational workflows in a targeted manner and, in particular, to reduce complexity within the Group. Additional organisational adjustments to improve efficiency and in response to lower volumes in credit and capital market business are important factors in making the Bank fit for the future. To implement these measures, a new reconciliation of interests was concluded in June 2018 with a term until 31 March 2020.

The capacity reductions as part of the new reconciliation of interests and redundancy scheme are progressing on schedule and as planned.

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. Despite the planned capacity reduction, IKB is therefore pursuing extensive and ongoing training and further training management in order to maintain a high qualification level among its employees.

The number of voluntary redundancies does not currently represent an additional personnel risk, as they are either compatible with the targets of the current 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.

Compliance risk

Contrary to the report as at 31 March 2018, money laundering and fraud risks are classified as low to medium on account of the expanded regulatory requirements, while the risk of sanctions is classified as medium due to geopolitical developments.

Other risks

Information on risks relating to information security and IT, business, strategic, reputational and participation risks can be found in IKB's Group management report for the year ended 31 March 2018. There have been no significant changes since this date.

4. Report on opportunities

IKB reports on its opportunities in detail on page 50 of its 2017/18 annual report. There have been the following changes to this information since its publication.

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.

In addition, the European Court of Justice recently issued a ruling on 28 June 2018 establishing the invalidity of the decision by the European Commission on 26 January 2011 stating that the restructuring clause in section 8c (1a) KStG constituted prohibited state aid. Section 34 (4) sentence 2 KStG will now be applied in determining the retrospective reapplication of the restructuring clause. The prospects for IKB being reimbursed for the tax plus interest paid and the unnecessary payment of trade tax plus interest have therefore improved further. Further information on the tax provision can be found in the “Legal risk” subsection of section 3. “Risk report” in IKB’s 2017/18 annual report.

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

5. Outlook

Future general economic conditions

The global economy has cooled slightly following its dynamic development in 2017. Economic policy risks in the emerging economies and the consequences of a potential escalation in the trade conflict between the USA and China in particular are curbing the outlook, as is the considerable slowdown in world trade growth momentum. An escalation in the trade conflict would have an especially pronounced impact on the growth prospects for open, globally interconnected economies like Germany. A potential slowdown in economic growth in China also poses a risk to the world economy. Meanwhile, rising commodity prices have accelerated the upturn in inflation in many economies. In their joint forecast for 2018 and 2019, however, the research institutes are continuing to forecast robust economic development in Germany, albeit with risks attached.

The US economy is expected to expand by 2.8% in 2018 and 2.4% in 2019 thanks to the positive effects of US fiscal policy in particular. By contrast, GDP growth in the United Kingdom is set to slow to around 1.3% this year and next year. This is not least due to the difficult EU withdrawal negotiations, the outcome of which remains unclear.

The upturn in the euro zone has slowed largely as a result of the downturn in export momentum. However, favourable financing conditions and high capacity utilisation should continue to support investment activity. Furthermore, the positive situation on the employment market and rising wages are expected to strengthen consumer spending in the 2018/19 forecast period, with the latest forecast by the research institutes predicting growth of 2.0% in 2018 and 1.9% in 2019. Inflation is set to remain relatively stable at 1.7% in 2018 and 1.9% in 2019. One risk factor is the unwillingness on the part of Italy to meet its deficit targets, although the capital markets have been signalling an increased risk for some time now.

Despite the uncertainty in the key automotive sector concerning diesel engines, driving bans and registration problems, rising real wages and the high level of employment mean that domestic demand and, in particular, private consumption will remain pillars of German economic growth. Export momentum is expected to decline on the back of the slowdown in global economic growth. The outcome of the Brexit negotiations could represent an additional burden for the export environment. However, the economic prospects for Germany remain favourable on the whole, as is illustrated by the leading indicators. The research institutes also expect fiscal policy to provide an additional economic stimulus from early 2019 due to additional transfers and spending programmes as well as employee relief. High capacity utilisation and favourable financing conditions also suggest that investment activity will rise. Accordingly, the German economy is expected to grow by around 1.7% in 2018 and 1.8% in 2019 after adjustment for calendar effects, while inflation is expected to remain stable at 1.8% in 2018 and 2.0% in 2019, thereby broadly reflecting development in the euro zone.

Monetary policy in the USA and Europe remains fundamentally expansive. The Fed will continue to raise its headline interest rate in extremely moderate intervals in 2018 and 2019. Although the ECB will end its purchase programme in late 2018, the volume of bonds it holds will remain unchanged for the time being. However, there is a growing feeling that the ECB could lay its policy of negative interest rates to rest in the second half of 2019. Until then at least, monetary policy will continue to ensure unusually favourable financing conditions for companies in Germany, a fact that will further reinforce lending.

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 growth in demand for financing for intangible assets. Expansionary monetary policy could also lead to a build-up of systemic risk; on the other hand, a rapid withdrawal from this policy approach and renewed debt problems in the euro zone, such as those observed in Italy in recent times, could lead to disruption on the financial markets and have an adverse impact on banks.

Net assets

For a forecast of its net assets, the Bank refers to the information on the net assets in “section 5. Outlook” on page 52 of IKB’s 2017/18 annual report.

The forecast contained in the 2017/18 annual report described a moderate increase in the credit volume in the financial year 2018/19 accompanied by a sharp rise in receivables from customers. However, IKB is now anticipating only a minor increase in the credit volume in the financial year 2018/19 accompanied by a slight rise in receivables from customers. This is due to unscheduled repayments and the retention of the Bank’s strict pricing and risk policy even in the face of intense competition in lending business.

Liquidity situation

For a forecast of its liquidity situation, the Bank refers to the information on the liquidity situation in “section 5. Outlook” on page 52 of IKB’s 2017/18 annual report and is also maintaining this forecast for the second half of the financial year 2018/19.

Leverage ratio

For a forecast of its leverage ratio, the Bank refers to the information on the leverage ratio in “section 5. Outlook” on page 53 of IKB’s 2017/18 annual report and is also maintaining this forecast for the second half of the financial year 2018/19.

Results of operations

For a forecast of its results of operations, the Bank refers to the information on the results of operations in “section 5. Outlook” on page 53 of IKB’s 2017/18 annual report and is also maintaining this forecast for the second half of the financial year 2018/19.

Overall assessment

IKB generated positive consolidated net income in the first half of the financial year and is therefore also forecasting moderately positive net income after taxes for the full financial year 2018/19.

Combined Interim Financial Statements of IKB Deutsche Industriebank AG and the Group

Consolidated balance sheet of IKB Deutsche Industriebank AG as at 30 September 2018

in € million	30 Sep. 2018	31 Mar. 2018
Assets		
Cash reserve	**37.7**	**30.9**
a) Cash on hand	-	-
b) Balances with central banks	37.6	30.9
thereof: with Deutsche Bundesbank	37.6	30.9
c) Balances in postal giro accounts	-	-
Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks	**-**	**-**
Receivables from banks	**1,658.8**	**2,520.5**
a) Repayable on demand	1,527.8	2,487.3
b) Other receivables	131.0	33.2
Receivables from customers	**9,884.8**	**9,708.8**
thereof: mortgage loans*	731.7	754.1
thereof: public sector loans	320.2	351.7
Bonds and other fixed-income securities	**3,490.4**	**3,904.7**
a) Money market securities	-	-
b) Bonds and notes	3,459.0	3,884.3
ba) Public sector issuers	2,149.7	2,455.2
thereof: eligible as collateral for Deutsche Bundesbank	2,098.2	2,404.7
bb) Other issuers	1,309.4	1,429.1
thereof: eligible as collateral for Deutsche Bundesbank	1,206.6	1,419.2
c) Own bonds	31.4	20.4
Nominal amount	30.6	19.9
Equities and other non-fixed-income securities	**394.7**	**395.5**
Assets held for trading	**-**	**-**
Equity investments	**0.7**	**0.7**
thereof: banks	0.2	0.2
thereof: financial services institutions	-	-
Investments in associates	**-**	**-**
thereof: banks	-	-
thereof: financial services institutions	-	-
Investments in affiliated companies	**0.3**	**0.3**
thereof: banks	-	-
thereof: financial services institutions	-	-
Assets held in trust	**-**	**-**
Compensation receivables on the public sector including debt securities arising from their exchange	**-**	**-**
Lease assets	**7.2**	**8.1**
Intangible assets	**3.0**	**3.1**
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	3.0	3.1
c) Goodwill	-	-
d) Advance payments made	-	-
Tangible assets	**200.7**	**218.7**
Called unpaid capital	**-**	**-**
Other assets	**120.5**	**162.1**
Prepaid expenses	**74.8**	**76.6**
Deferred tax assets	**180.2**	**180.2**
Excess of plan assets over post-employment benefit liability	**7.9**	**7.6**
Total assets	**16,061.6**	**17,217.8**

* The prior-year figure for receivables from customers secured by way of mortgage loans was reduced by € 3.3 million in respect of a consolidated special-purpose entity.

in € million	30 Sep. 2018	31 Mar. 2018
Equity and liabilities		
Liabilities to banks	**7,067.9**	**7,432.1**
a) Repayable on demand	101.3	80.9
b) With agreed lifetime or notice period	6,966.6	7,351.2
Liabilities to customers	**5,768.2**	**6,447.5**
a) Savings deposits	-	-
b) Other liabilities	5,768.2	6,447.5
ba) Repayable on demand	1,152.9	1,202.6
bb) With agreed lifetime or notice period	4,615.3	5,244.9
Securitised liabilities	**601.2**	**720.6**
a) Bonds issued	601.2	720.6
b) Other securitised liabilities	-	-
Liabilities held for trading	**-**	**-**
Liabilities held in trust	**-**	**-**
Other liabilities	**137.3**	**123.1**
Deferred income	**50.3**	**50.5**
Deferred tax liabilities	**-**	**-**
Provisions	**185.6**	**206.2**
a) Provisions for pensions and similar obligations	48.0	45.5
b) Tax provisions	40.0	41.9
c) Other provisions	97.7	118.8
Subordinated liabilities	**825.9**	**831.0**
Profit participation capital	**-**	**-**
thereof: due within two years	-	-
Fund for general banking risks	**585.0**	**585.0**
thereof: trading-related special reserve according to section 340e (4) HGB	-	-
Equity	**840.2**	**821.8**
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	-0.9
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	-3.3
d) Difference in equity from currency translation	-0.2	-0.2
e) Net accumulated losses	-2,532.2	-2,551.1
f) Non-controlling interests	1.4	1.8
Total equity and liabilities	**16,061.6**	**17,217.8**

Contingent liabilities	**2,036.0**	**1,944.0**
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	2,036.0	1,944.0
c) Liability arising from the provision of collateral for third-party liabilities	-	-
Other obligations	**1,682.2**	**1,527.4**
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	-	-
c) Irrevocable loan commitments	1,682.2	1,527.4

Balance sheet of IKB Deutsche Industriebank AG as at 30 September 2018

in € million	30 Sep. 2018	31 Mar. 2018
Assets		
Cash reserve	**37.7**	**30.9**
a) Cash on hand	-	-
b) Balances with central banks	37.6	30.9
thereof: with Deutsche Bundesbank	37.6	30.9
c) Balances in postal giro accounts	-	-
Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks	**-**	**-**
Receivables from banks	**1,643.5**	**2,308.7**
a) Repayable on demand	1,512.6	2,275.5
b) Other receivables	130.9	33.2
Receivables from customers	**10,874.7**	**10,968.8**
thereof: mortgage loans	735.0	757.4
thereof: public sector loans	320.2	351.7
Bonds and other fixed-income securities	**3,508.9**	**3,925.3**
a) Money market securities	-	-
b) Bonds and notes	3,477.5	3,904.9
ba) Public sector issuers	2,149.5	2,455.2
thereof: eligible as collateral for Deutsche Bundesbank	2,098.0	2,404.7
bb) Other issuers	1,328.0	1,449.7
thereof: eligible as collateral for Deutsche Bundesbank	1,225.3	1,439.9
c) Own bonds	31.4	20.4
Nominal amount	30.6	19.9
Equities and other non-fixed-income securities	**1.5**	**1.9**
Assets held for trading	**-**	**-**
Equity investments	**0.2**	**0.2**
thereof: banks	0.2	0.2
thereof: financial services institutions	-	-
Investments in affiliated companies	**260.3**	**271.5**
thereof: banks	-	-
Assets held in trust	**-**	**-**
Compensation receivables on the public sector including debt securities arising from their exchange	**-**	**-**
Intangible assets	**3.0**	**3.1**
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	3.0	3.1
c) Goodwill	-	-
d) Advance payments made	-	-
Tangible assets	**3.8**	**4.2**
Called unpaid capital	**-**	**-**
Other assets	**111.8**	**155.8**
Prepaid expenses	**85.1**	**88.4**
Deferred tax assets	**181.0**	**181.0**
Excess of plan assets over post-employment benefit liability	**7.7**	**7.4**
Total assets	**16,719.2**	**17,947.2**

in € million			30 Sep. 2018	31 Mar. 2018
Equity and liabilities				
Liabilities to banks			**7,065.7**	**7,429.9**
a)	Repayable on demand		101.2	80.9
b)	With agreed lifetime or notice period		6,964.5	7,349.0
Liabilities to customers			**5,949.1**	**6,521.6**
a)	Savings deposits		-	-
b)	Other liabilities		5,949.1	6,521.6
	ba)	Repayable on demand	1,339.5	1,282.3
	bb)	With agreed lifetime or notice period	4,609.7	5,239.3
Securitised liabilities			**1,021.4**	**1,140.9**
a)	Bonds issued		1,021.4	1,140.9
b)	Other securitised liabilities		-	-
Liabilities held for trading			**-**	**-**
Liabilities held in trust			**-**	**-**
Other liabilities			**131.2**	**279.8**
Deferred income			**59.4**	**61.3**
Deferred tax liabilities			**-**	**-**
Provisions			**170.6**	**186.7**
a)	Provisions for pensions and similar obligations		43.3	40.9
b)	Tax provisions		36.7	40.9
c)	Other provisions		90.6	104.9
Subordinated liabilities			**825.9**	**831.0**
Profit participation capital			**-**	**-**
Fund for general banking risks			**585.0**	**585.0**
	thereof: trading-related special reserve according to section 340e (4) HGB		-	-
Equity			**910.9**	**911.0**
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		-2,463.7	-2,463.6
Total equity and liabilities			**16,719.2**	**17,947.2**

Contingent liabilities		**2,098.5**	**2,006.5**
a)	Contingent liabilities from rediscounted and settled bills of exchange	-	-
b)	Liabilities from guarantees and indemnity agreements	2,098.5	2,006.5
c)	Liability arising from the provision of collateral for third-party liabilities	-	-
Other obligations		**1,679.3**	**1,531.7**
a)	Repurchase obligations from non-genuine repurchase agreements	-	-
b)	Placement and underwriting obligations	-	-
c)	Irrevocable loan commitments	1,679.3	1,531.7

Consolidated income statement of IKB Deutsche Industriebank AG for the period from 1 April 2018 to 30 September 2018

in € million	2018/19	2017/18	2017/18 restated*
Expenses			
Lease expenses	**-0.9**	**-90.5**	**-1.7**
Interest expenses	**-146.3**	**-214.7**	**-210.2**
thereof: positive interest	26.4	9.9	9.2
Commission expenses	**-1.3**	**-8.5**	**-2.9**
Net trading results	**-**	**-**	**-**
General administrative expenses	**-89.6**	**-126.5**	**-100.0**
a) Personnel expenses	-52.2	-80.8	-63.5
aa) Wages and salaries	-45.4	-67.7	-53.4
ab) Social security, post-employment and other employee benefit costs	-6.8	-13.1	-10.1
thereof: for pensions	-1.5	-4.2	-3.7
b) Other administrative expenses	-37.4	-45.7	-36.6
Amortisation and write-downs on intangible fixed assets and depreciation and write-downs on tangible fixed assets	**-5.1**	**-146.8**	**-5.9**
a) On lease assets	-0.9	-141.0	-0.9
b) On intangible and tangible assets	-4.2	-5.8	-5.0
Other operating expenses	**-259.2**	**-232.5**	**-214.7**
Expenses for the addition to the fund for general banking risks	**-**	**-**	**-**
Depreciation and write-downs of receivables, specific securities and additions to loan loss provisions	**-9.6**	**-**	**-**
Depreciation and write-downs of equity investments, investments in affiliated companies and long-term investments	**-15.7**	**-0.9**	**-0.9**
Costs of loss absorption	**-**	**-**	**-**
Extraordinary expenses	**-3.9**	**-136.6**	**-89.7**
Income taxes	**-3.1**	**-17.5**	**-11.5**
Other taxes not reported under "Other operating expenses"	**-0.4**	**-0.7**	**-0.2**
Profit transfer on the basis of profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**	**-**
Net income for the financial year	**-18.4**	**-24.2**	**-70.9**
Total expenses	**-553.5**	**-999.4**	**-708.8**

* Figures for the prior-year comparative period from 1 April to 30 September 2017 restated for improved comparability due to significant changes in the consolidated group

in € million	2018/19	2017/18	2017/18 restated*
Income			
Lease income	**2.9**	**259.7**	**3.7**
Interest income from	**251.1**	**336.8**	**322.5**
a) Lending and money market transactions	221.5	294.1	**279.8**
thereof: negative interest	17.5	10.1	**-9.8**
b) Fixed-income securities and government-inscribed debts	29.6	42.7	**42.7**
thereof: negative interest	-	-	**-**
Current income from	**0.1**	**1.1**	**0.3**
a) Equities and other non-fixed-income securities	0.1	0.1	**0.1**
b) Equity investments	-	0.1	**0.1**
c) Investments in associates	-	0.9	**-**
d) Investments in affiliated companies	-	-	**-**
Income from profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**	**-**
Commission income	**20.0**	**28.9**	**24.2**
Net trading results	**-**	**-**	**-**
Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions	**-**	**9.5**	**10.0**
Income from reversals of write-downs of equity investments, investments in affiliated companies and long-term investment securities	**125.4**	**90.3**	**90.3**
Other operating income	**138.3**	**91.4**	**76.0**
Income from the reversal of the fund for general banking risks	**-**	**-**	**-**
Extraordinary income	**15.7**	**181.7**	**181.7**
Income from assumption of losses	**-**	**-**	**-**
Net loss for the financial year	**-**	**-**	**-**
Total income	**553.5**	**999.4**	**708.8**
Net income/loss for the financial year	**18.9**	**24.1**	**70.9**
Non-controlling interests	**-0.4**	**0.1**	**0.1**
Loss carryforward from the previous year	**-2,551.1**	**-2,335.6**	**-2,394.6**
Withdrawals from capital reserves	**-**	**-**	**-**
Withdrawals from revenue reserves	**-**	**-**	**-**
Withdrawals from profit participation capital	**-**	**-**	**-**
Withdrawals from silent partnership contributions	**-**	**-**	**-**
Allocations to revenue reserves	**-**	**-**	**-**
Replenishment of profit participation capital	**-**	**-**	**-**
Net accumulated losses	**-2,532.2**	**-2,311.5**	**-2,323.7**

* Figures for the prior-year comparative period from 1 April to 30 September 2017 restated for improved comparability due to significant changes in the consolidated group

Income statement of IKB Deutsche Industriebank AG for the period from 1 April 2018 to 30 September 2018

in € million	2018/19	2017/18
Expenses		
Interest expenses	**-152.8**	**-222.3**
thereof: positive interest	26.4	9.7
Commission expenses	**-1.2**	**-2.8**
Net trading results	**-**	**-**
General administrative expenses	**-91.4**	**-101.4**
a) Personnel expenses	-51.6	-59.1
aa) Wages and salaries	-44.8	-49.7
ab) Social security, post-employment and other employee benefit costs	-6.8	-9.4
thereof: for pensions	-1.5	-3.6
b) Other administrative expenses	-39.9	-42.3
Amortisation and write-downs on intangible fixed assets and depreciation and write-downs on tangible fixed assets	**-0.8**	**-1.4**
Other operating expenses	**-254.2**	**-187.2**
Expenses for the addition to the fund for general banking risks	**-**	**-**
Depreciation and write-downs of receivables, specific securities and additions to loan loss provisions	**-9.1**	**-**
Depreciation and write-downs of equity investments, investments in affiliated companies and long-term investments	**-30.3**	**-1.2**
Costs of loss absorption	**-3.8**	**-143.7**
Extraordinary expenses	**-2.6**	**-46.5**
Income taxes	**-0.7**	**-10.7**
Other taxes not reported under “Other operating expenses”	**-**	**-**
Profit transfer on the basis of profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**
Net income for the financial year	**-**	**-**
Total expenses	**-546.9**	**-717.2**

in € million		2018/19	2017/18
Income			
Interest income from		**251.5**	**331.8**
a)	Lending and money market transactions	223.9	294.2
	thereof: negative interest	17.5	10.0
b)	Fixed-income securities and government-inscribed debts	27.6	37.6
	thereof: negative interest	-	-
Current income from		**15.7**	**0.1**
a)	Equities and other non-fixed-income securities	-	0.1
b)	Equity investments	-	-
c)	Investments in affiliated companies	15.7	-
Income from profit-pooling, profit transfer and partial profit transfer agreements		**-**	**0.2**
Commission income		**20.1**	**24.5**
Net trading results		**-**	**-**
Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions		**-**	**11.2**
Income from reversals of write-downs of equity investments, investments in affiliated companies and long-term investment securities		**128.9**	**49.7**
Other operating income		**130.7**	**38.9**
Income from the reversal of the fund for general banking risks		**-**	**-**
Extraordinary income		**-**	**184.8**
Income from assumption of losses		**-**	**-**
Net loss for the financial year		**-**	**76.0**
Total income		**546.9**	**717.2**
Net income/loss for the financial year		**-**	**-76.0**
Loss carryforward from the previous year		**-2,463.6**	**-2,167.3**
Withdrawals from capital reserves		**-**	**-**
Withdrawals from revenue reserves		**-**	**-**
Withdrawals from profit participation capital		**-**	**-**
Withdrawals from silent partnership contributions		**-**	**-**
Allocations to revenue reserves		**-**	**-**
Replenishment of profit participation capital		**-**	**-**
Net accumulated losses		**-2,463.7**	**-2,243.3**

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

Applied accounting principles

(1) Preparation of the condensed interim financial statements and consolidated interim financial statements

The condensed interim financial statements of IKB Deutsche Industriebank AG (IKB AG), Düsseldorf, entered in the commercial register of the Düsseldorf Local Court under HRB 1130, and the IKB Group (Group) for the period ended 30 September 2018 is prepared in accordance with the provisions of the Handelsgesetzbuch (HGB – German Commercial Code) in conjunction with the Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute (RechKredV – German Bank Accounting Directive) and taking into account the relevant regulations of the Aktiengesetz (AktG – German Stock Corporation Act). The consolidated interim 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. These condensed interim financial statements and consolidated interim financial statements should be read together with the annual financial statements and consolidated financial statements of IKB AG for the year ended 31 March 2018 as audited by Ernst & Young.

The interim report 2018/19 of IKB AG as at 30 September 2018 comprises the consolidated balance sheet, the balance sheet, the consolidated income statement, the income statement and selected explanatory disclosures in the condensed notes to the interim financial statements and consolidated interim financial statements in addition to an interim group management report. It was opted against the voluntary preparation of a (condensed) (consolidated) statement of changes in equity and a (condensed) (consolidated) cash flow statement. With respect to the events and items arising in the current interim reporting period that are relevant for an understanding of the material changes in items of the consolidated balance sheet and the consolidated income statement in comparison to the comparative figures shown, please refer to the information on the results of operations, financial and assets position in the interim group management report in addition to the disclosures in the condensed notes to the consolidated interim financial statements.

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. Due to the deconsolidation of the IKB Leasing Group in the financial year 2017/18, the comparative prior-year figures in the consolidated income statement have been restated and are presented in a separate column of the table. The restatements are discussed in note (24).

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

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 interim financial statements and consolidated interim financial statements of IKB AG as "-".

The condensed notes to the interim consolidated financial statements and the condensed notes to the interim financial statements of IKB AG have been combined. Unless noted otherwise, statements made apply to both the Group and IKB AG.

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

The same accounting policies were applied in preparing the interim financial statements and consolidated interim financial statements as for the annual financial statements and consolidated financial statements for the year ended 31 March 2018 with the following exception:

(2) Changes in presentation and measurement

In the half-yearly financial statements, there are changes to the measurement of pension provisions due to the change in biometric data and the adjustment of the wage and salary increase as well as the recognition of the BilMoG transition amount in the income statement.

The new mortality tables published by Heubeck Richttafeln GmbH (2018 G mortality tables) set out material parameters for the measurement of pension provisions. The new mortality tables reflect the latest developments in terms of probable life expectancy, invalidity, marriage and employee fluctuation and were applied in determining the necessary settlement amount for the pension obligations on the basis of a preliminary estimate. Unlike in the previous year, assumptions of 0%/1.5% were applied for the wage and salary increase. The other assumptions remained unchanged. The transition to the 2018 G Heubeck mortality tables results in a non-recurring expense of € 3.3 million. This was more than offset by a reduction in expenses of € 8.1 million due to the change in assumptions concerning the wage and salary trend, resulting in a positive overall earnings effect of € +4.8 million in the period under review. This was recognised in the income statement as a reduction in personnel expenses in the current financial year (€ 1.9 million) and other operating income (€ 2.9 million).

In accordance with section 67 (1) sentence 1 EGHGB, the Bank previously exercised the option 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. In a departure from this, the scheduled addition in the period under review was accompanied by the recognition of an extraordinary addition corresponding to the BilMoG transition amount of € 0.4 million as an extraordinary expense at the level of IKB AG and the IKB Group (see note (19)).

Information on the effects of the transition to the new mortality tables, the change in the assumptions concerning the wage and salary increase and the recognition of the BilMoG transition expense can be found in note (17) (Pension provisions), note (19) (Extraordinary income and expenses) and note (23) (Other operating income).

(3) Consolidated group

In addition to IKB AG, 30 (31 March 2018: 30) subsidiaries were included in the consolidated interim financial statements as of 30 September 2018. A further 29 (31 March 2018: 30) subsidiaries were excluded from consolidation in accordance with section 296 (2) and section 311 (2) HGB. The non-consolidation of these companies does not result in a significantly different view of the economic position of the Group than if they were included in consolidation.

For further information, please refer to note (25).

(4) Consolidation methods

The consolidated interim 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 does not prepare interim financial statements as of 30 September, the material transactions that have occurred between its balance sheet date and 30 September 2018 are taken into account.

The same principles of consolidation were applied in the consolidated interim financial statements as in the consolidated financial statements as at 31 March 2018.

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.

(5) 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.

As a matter of principle, 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. In order to estimate current latent counterparty risks, however, a general allowance is recognised in at least the amount of the one-year expected loss on this portfolio.

For information on the calculation of general allowances and globally calculated loan loss provisions, please also refer to the information on risk provisioning on page 72 f. of IKB's 2017/18 annual report.

Notes on the balance sheet

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

	Group		IKB AG	
in € million	**30 Sep. 2018**	**31 Mar. 2018**	**30 Sep. 2018**	**31 Mar. 2018**
Receivables from banks[1)]	**131.0**	**33.2**	**130.9**	**33.2**
remaining term				
up to 3 months	52.6	3.1	52.5	3.1
between 3 months and 1 year	54.8	3.6	54.8	3.6
between 1 and 5 years	23.5	26.5	23.5	26.5
more than 5 years	0.1	-	0.1	-
Receivables from customers	**9,884.8**	**9,708.8**	**10,874.7**	**10,968.8**
remaining term				
up to 3 months	766.1	834.4	1,156.8	833.6
between 3 months and 1 year	1,342.4	1,313.0	1,349.9	1,718.9
between 1 and 5 years	5,699.0	5,537.8	5,732.8	5,602.1
more than 5 years	2,077.3	2,023.6	2,635.3	2,814.2
Liabilities to banks[1)]	**6,966.6**	**7,351.2**	**6,964.5**	**7,349.0**
remaining term				
up to 3 months	374.6	484.7	374.1	484.3
between 3 months and 1 year	724.1	720.7	723.9	720.6
between 1 and 5 years	4,579.3	4,876.1	4,577.7	4,874.4
more than 5 years	1,288.7	1,269.7	1,288.7	1,269.7
Liabilities to customers[1)]	**4,615.3**	**5,244.9**	**4,609.7**	**5,239.3**
remaining term				
up to 3 months	501.4	525.3	497.6	521.4
between 3 months and 1 year	1,258.1	1,368.6	1,258.1	1,368.6
between 1 and 5 years	2,385.8	2,851.6	2,384.0	2,849.9
more than 5 years	470.0	499.4	470.0	499.4

1) not including receivables or liabilities repayable on demand

€ 122.6 million (31 March 2018: € 81.3 million) of bonds and other fixed-income securities have a remaining term of up to one year in the Group and € 122.6 million (31 March 2018: € 81.3 million) have a remaining term of up to one year at IKB AG. € 225.9 million (31 March 2018: € 267.3 million) of the bonds issued and reported under securitised liabilities have a remaining term of up to one year in the Group and € 226.1 million (31 March 2018: € 267.5 million) have a remaining term of up to one year at IKB AG.

(7) Repurchase agreements

The book value of the assets reported in the balance sheet at the reporting date and transferred in repurchase agreements is € 116.1 million (31 March 2018: € 195.2 million) in the Group and € 116.1 million (31 March 2018: € 195.4 million) at IKB AG.

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

	Group			
	30 Sep. 2018		31 Mar. 2018	
in € million	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Receivables from customers	9.7	-	9.7	-
Other assets	-	-	-	-

	IKB AG			
	30 Sep. 2018		31 Mar. 2018	
in € million	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Receivables from customers	1,418.1	-	1,712.6	-
Other assets	6.2	-	8.2	-

(9) Fixed assets

Group:

in € million	Intangible assets	Tangible assets	Lease assets	Equity investments	Investments in associates	Investments in affiliated companies	Bonds and other fixed-income securities	Equities and other non-fixed-income securities	Total
Acquisition costs as at 31 Mar. 2018	**38.1**	**249.4**	**12.1**	**1.7**	**-**	**1.5**	**3,886.7**	**400.4**	**4,589.9**
Additions to the consolidated group	-	-	-	-	-	-	-	-	-
Additions	0.5	-	-	-	-	0.1	1,011.0	-	1,011.6
Reclassifications	-	-	-	-	-	-	-	-	-
Effects of currency translation	-	-	-	-	-	-	-0.1	-	-0.1
Disposals	-	-26.9	-	-	-	-0.6	-1,435.9	-0.5	-1,463.9
Acquisition costs as at 30 Sep. 2018	**38.6**	**222.5**	**12.1**	**1.7**	**-**	**1.0**	**3,461.7**	**399.9**	**4,137.5**
Cumulative depreciation/amortisation, write-downs and reversals thereof by 31 Mar. 2018	**-35.0**	**-30.7**	**-4.0**	**-1.0**	**-**	**-1.2**	**-2.4**	**-4.9**	**-79.2**
Reversals of write-downs	-	-	-	-	-	-	0.5	-	0.5
Depreciation/amortisation and write-downs	-0.5	-3.7	-0.9	-	-	-0.1	-0.8	-0.3	-6.3
Reclassifications	-	-	-	-	-	-	-	-	-
Effects of currency translation	-	-	-	-	-	-	-	-	-
Disposals from the consolidated group	-	-	-	-	-	-	-	-	-
Disposals	-	12.6	-	-	-	0.5	-	-	13.1
Cumulative depreciation/amortisation, write-downs and reversals thereof by 30 Sep. 2018	**-35.5**	**-21.9**	**-4.9**	**-0.9**	**-**	**-0.8**	**-2.7**	**-5.1**	**-71.8**
Residual book value as at 30 Sep. 2018	**3.0**	**200.7**	**7.2**	**0.7**	**-**	**0.3**	**3,459.0**	**394.7**	**4,065.7**
Residual book value as at 31 Mar. 2018	**3.1**	**218.7**	**8.1**	**0.7**	**-**	**0.3**	**3,884.3**	**395.5**	**4,510.7**

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

IKB AG:

in € million	Intangible assets*	Tangible assets	Equity investments	Investments in affiliated companies	Bonds and other fixed-income securities	Equities and other non-fixed-income securities	Total
Acquisition costs as at 31 Mar. 2018	**81.3**	**12.4**	**0.6**	**1,260.7**	**3,907.3**	**1.9**	**5,264.2**
Additions	0.5	-	-	-	1,011.2	-	1,011.7
Reclassifications	-	-	-	-	-	-	-
Effects of currency translation	-	-	-	-	-0.1	-	-0.1
Disposals	-	-1.0	-	-	-1,438.2	-0.5	-1,439.7
Acquisition costs as at 30 Sep. 2018	**81.8**	**11.4**	**0.6**	**1,260.7**	**3,480.2**	**1.5**	**4,836.2**
Cumulative depreciation/ amortisation, write-downs and reversals thereof by 31 Mar. 2018	**-78.2**	**-8.2**	**-0.4**	**-989.2**	**-2.4**	**-**	**-1,078.4**
Reversals of write-downs	-	-	-	3.7	0.5	-	4.2
Depreciation/amortisation and write-downs	-0.5	-0.3	-	-14.9	-0.8	-	-16.5
Reclassifications	-	-	-	-	-	-	-
Effects of currency translation	-	-	-	-	-	-	-
Disposals	-	1.0	-	-	-	-	1.0
Cumulative depreciation/ amortisation, write-downs and reversals thereof by 30 Sep. 2018	**-78.7**	**-7.6**	**-0.4**	**-1,000.5**	**-2.7**	**-**	**-1,089.7**
Residual book value as at 30 Sep. 2018	**3.0**	**3.8**	**0.2**	**260.3**	**3,477.5**	**1.5**	**3,746.5**
Residual book value as at 31 Mar. 2018	**3.1**	**4.2**	**0.2**	**271.5**	**3,904.9**	**1.9**	**4,185.8**

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

* The amounts reported for acquisition costs and cumulative depreciation/amortisation, write-downs and reversals thereof for intangible assets as at 31 March 2018 were each reduced by € 8.5 million compared with the amounts reported in the 2017/18 annual report due to a disposal that took place in the previous financial year.

At the reporting date, the Group had one item (31 March 2018: two items) of land and buildings partially used for banking operations in its portfolio with a total book value of € 181.2 million (31 March 2018: € 197.8 million) and one building used by a third party with a book value of € 15.5 million (31 March 2018: € 16.6 million). As in the previous year, IKB AG had no buildings in its portfolio. Disposals of tangible assets in the Group primarily relate to the sale of an office building in Frankfurt/Main by IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG, Düsseldorf.

Operating and office equipment is included in tangible assets in the amount of € 3.9 million (31 March 2018: € 4.3 million) in the Group and € 3.8 million (31 March 2018: € 4.2 million) at IKB AG.

Write-downs on investments in affiliated companies at IKB AG relate in particular to a write-down of € 14.9 million on the book value of the investment in IKB Lux Beteiligungen S.à.r.l., Munsbach, which corresponds to the amount distributed as retained profits. Reversals of write-downs on investments in affiliated companies at IKB AG in the amount of € 3.7 million relate to the reversal of a write-down on the investment in IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf, the limited partner of IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG. The change in the book value of the investment reflects the gains on the disposal of the bank building in Frankfurt/Main.

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, the Group reported unrealised losses from long-term investments of € 65.5 million (31 March 2018: € 38.3 million) based on book values of € 1,845.0 million (31 March 2018: € 944.7 million) and fair values of € 1,779.5 million (31 March 2018: € 906.4 million). At IKB AG, unrealised losses from long-term investments totalled € 53.7 million (31 March 2018: € 34.6 million) based on book values of € 1,555.1 million (31 March 2018: € 1,032.0 million) and fair values of € 1,501.4 million (31 March 2018: € 997.4 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 € 0.3 million (previous year: € 1.7 million) in the Group and € 14.9 million (previous year: € 0 million) at IKB AG.

The reported amounts do not include deferred interest.

(10) Subordinated assets

	Group		IKB AG	
in € million	**30 Sep. 2018**	**31 Mar. 2018**	**30 Sep. 2018**	**31 Mar. 2018**
Receivables from customers	117.8	148.7	117.8	148.7
Total	**117.8**	**148.7**	**117.8**	**148.7**

(11) Other assets

Other assets include the following:

	Group		IKB AG	
in € million	**30 Sep. 2018**	**31 Mar. 2018**	**30 Sep. 2018**	**31 Mar. 2018**
Foreign currency adjustment item	17.4	39.6	17.4	39.6
Receivables from tax authorities	16.7	27.5	15.7	26.2
Receivables from derivatives	11.7	11.1	11.7	11.1
Deferred interest on derivatives	51.4	64.5	51.4	64.6
Trade receivables	1.6	0.4	1.5	0.2
Receivables from affiliated companies	-	-	6.2	8.2
Miscellaneous assets	21.7	19.0	7.9	5.9
Total	**120.5**	**162.1**	**111.8**	**155.8**

The foreign currency adjustment item is used to report translation differences on currency derivatives in the non-trading book in accordance with section 340h HGB.

(12) Prepaid expenses

Prepaid expenses primarily include discounts on liabilities recognised at their nominal amount of € 2.3 million (31 March 2018: € 2.9 million) in the Group and € 2.3 million (31 March 2018: € 2.9 million) at IKB AG and prepaid expenses for derivatives business of € 69.1 million (31 March 2018: € 69.6 million) in the Group and € 79.8 million (31 March 2018: € 81.8 million) at IKB AG.

(13) Deferred tax assets

	Group		IKB AG	
in € million	**30 Sep. 2018**	**31 Mar. 2018**	**30 Sep. 2018**	**31 Mar. 2018**
Excess deferred tax assets	180.2	180.2	181.0	181.0

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

	Group			
	30 Sep. 2018		31 Mar. 2018	
in € million	**Affiliated companies**	**Investees and investors**	**Affiliated companies**	**Investees and investors**
Liabilities to customers	0.3	0.5	0.3	0.5
Securitised liabilities	-	-	-	-
Other liabilities	-	-	-	-

	IKB AG			
	30 Sep. 2018		31 Mar. 2018	
in € million	**Affiliated companies**	**Investees and investors**	**Affiliated companies**	**Investees and investors**
Liabilities to customers	188.1	0.5	82.0	0.5
Securitised liabilities	420.2	-	420.2	-
Other liabilities	0.9	-	163.0	-
Subordinated liabilities	75.1	-	75.4	-

(15) Other liabilities

Other liabilities break down as follows:

	Group		IKB AG	
in € million	**30 Sep. 2018**	**31 Mar. 2018**	**30 Sep. 2018**	**31 Mar. 2018**
Obligations from derivatives	16.0	16.3	16.0	16.3
Deferred interest on derivatives	88.4	69.8	87.4	68.7
Liabilities to tax authorities	4.4	5.4	3.9	4.7
Deferred income for subordinated liabilities	14.5	11.8	14.5	11.8
Trade payables	1.4	8.5	1.0	8.0
Miscellaneous liabilities	12.7	11.3	8.3	170.3
Total	**137.3**	**123.1**	**131.2**	**279.8**

(16) Deferred income

Deferred income primarily includes discounts on receivables recognised at their nominal amount of € 17.3 million (31 March 2018: € 18.3 million) in the Group and € 17.3 million (31 March 2018: € 18.3 million) at IKB AG and deferred income for derivatives business of € 28.1 million (31 March 2018: € 27.7 million) in the Group and € 39.6 million (31 March 2018: € 40.7 million) at IKB AG.

(17) Pension provisions

The reported pension provisions amount to € 48.0 million (31 March 2018: € 45.5 million) in the Group and € 43.3 million (31 March 2018: € 40.9 million) at IKB AG.

In addition to the scheduled recognition in the income statement of the outstanding addition from the first-time application of BilMoG, an extraordinary addition of € 0.4 million was recognised in the Group and at IKB AG in the first half of the financial year 2018/19, meaning that the remaining outstanding addition amounted to € 3.3 million as at 30 September 2018 (31 March 2018: € 5.7 million).

The difference in accordance with section 253 (6) HGB is composed as follows:

30 Sep. 2018 in € million	Group	IKB AG
Measurement of obligation using the ten-year average market interest rate	339.6	334.4
Measurement of obligation using the seven-year average market interest rate	387.4	381.2
Difference in accordance with section 253 (6) HGB	**47.8**	**46.8**

(18) Other financial obligations

There have been no significant changes in “Other financial obligations” compared with the report as at 31 March 2018.

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 € 159 million for trade tax, interest on this (with interest calculated until 30 September 2018) and additional Chamber of Commerce and Industry (CCI) 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 € 37 million including interest (up to and including 30 September 2018) and additional CCI contributions. An appeal will be lodged if necessary.

Notes on the income statement

(19) Extraordinary income and expenses

In connection with the transfer to pension provisions due to the BilMoG transition, the Group incurred expenses of € 2.4 million (previous year: € 2.1 million) while IKB AG incurred expenses of € 2.4 million (previous year: € 2.0 million). This increase is due to an extraordinary addition to the undistributed adjustment from the BilMoG transition in the first half of the year in the amount of € 0.4 million.

The sale of an office building in Frankfurt/Main by IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG, Frankfurt/Main, generated extraordinary income of € 15.4 million and extraordinary expenses of € 0.6 million in the period under review.

The spin-off of the IKB Leasing Group resulted in further extraordinary expenses of € 0.7 in the Group and € 0.2 million at IKB AG.

(20) Other operating expenses

Other operating expenses essentially include:

	Group		IKB AG	
in € million	**2018/19**	**2017/18**	**2018/19**	**2017/18**
Expenses from the reversal of swap agreements	-166.1	-136.7	-166.1	-136.7
Expenses from derivatives in the non-trading book	-74.0	-32.5	-74.0	-32.5
Expenses from currency translation	-2.9	-39.8	-0.4	-0.8
Expenses from additions to provisions	-5.1	-2.5	-5.1	-1.7
Pension scheme expense (CTA-funded)	-7.1	-13.5	-6.9	-11.6

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”.

(21) Costs of loss absorption

Costs of loss absorption at IKB AG in the amount of € 3.8 million (previous year: € 143.7 million) relate to loss absorption obligations in connection with the profit and loss transfer agreement with the subsidiary IKB Beteiligungen GmbH.

(22) Income taxes

Income taxes are calculated using the expected effective income tax rate for earnings before income taxes (DRS 16.24).

For the German group of IKB AG, income taxes are calculated on the basis of the earnings incurred as at the interim reporting date as a more exact estimate (DRS 16.25).

(23) Other operating income

Other operating income essentially breaks down as follows:

	Group		IKB AG	
in € million	**2018/19**	**2017/18**	**2018/19**	**2017/18**
Income from the reversal of swap agreements	36.7	0.2	36.7	0.2
Income from derivatives in the non-trading book	84.4	32.1	84.4	32.1
Income from currency translation	2.6	39.7	-	0.1
Income from the reversal of provisions	3.9	3.0	4.4	2.0
Income from compensation payments[1)]	1.3	6.7	0.2	0.1

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 operating income in the Group and at IKB AG also includes € 2.9 million for an adjustment due to changes in the assumptions for pension provisions. For further information, please refer to note (2).

(24) Effects of significant changes in the consolidated group on the income statement

The disposal of the IKB Leasing Group effective 28 February 2018 means that the prior-year figures for the period ended 30 September 2017 are not comparable with the figures for the current financial year. In addition to the following notes, reference is made to the additional column of the consolidated income statement containing the restated figures for the comparative prior-year period. The restated prior-period figures are pro forma figures that have been derived as if the change in the consolidated group and the disposal of the IKB Leasing Group had already taken place as at 31 March 2017.

The main effects of the disposal are as follows:

Lease expenses decreased from € 90.5 million to € 0.9 million and depreciation on lease assets decreased from € 141.0 million to € 0.9 million compared with the same period of the previous year. Accordingly, lease income also declined from € 259.7 million to € 2.9 million. Excluding the IKB Leasing Group companies that were sold, lease expenses would have amounted to € 1.7 million in the previous year, depreciation on lease assets would have amounted to € 0.9 million and lease income would have amounted to € 3.7 million. The expenses and income relate to the lease receivables and leasing companies that remained in the Group in the period under review.

General administrative expenses were reduced from € 126.5 million to € 89.6 million compared with the same period of the previous year. Personnel expenses decreased from € 80.8 million to € 52.2 million, while other administrative expenses declined from € 45.7 million to € 37.4 million. The restated general administrative expenses for the same period of the previous year totalled € 100.0 million, with personnel expenses amounting to € 63.5 million and other administrative expenses to € 36.6 million. The leasing companies remaining in the Group accounted for only minor administrative expenses in the period under review.

Extraordinary expenses for the same period of the previous year adjusted for the significant changes in the consolidated group amounted to € 89.7 million. The difference of € 47.0 million compared with the actual extraordinary expenses of € 136.6 million is attributable to extraordinary expenses in connection with the sale of the IKB Leasing Group.

Other disclosures

(25) Consolidated group as at 30 September 2018

			Equity interest in %
A.	**Consolidated subsidiaries**		
1.	**Domestic companies**		
	Aleanta GmbH, Düsseldorf		100
	IKB Beteiligungen GmbH, Düsseldorf		100
	IKB Beteiligungsgesellschaft 1 mbH, Düsseldorf		100
	IKB Beteiligungsgesellschaft 2 mbH, Düsseldorf		100
	IKB Beteiligungsgesellschaft 3 mbH, Düsseldorf		100
	IKB Beteiligungsgesellschaft 5 mbH, Düsseldorf		100
	IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG, Düsseldorf		94.9
	IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG, Düsseldorf	1)	94.9
	IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf		100
	IKB Grundstücks GmbH, Düsseldorf		100
	IKB Grundstücksgesellschaft Düsseldorf GmbH, Düsseldorf		100
	IKB Invest GmbH, Düsseldorf	1)	100
	IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf	3)	100
	IKB Real Estate Holding GmbH, Düsseldorf		100
	IKB Struktur GmbH, Düsseldorf	1)	100
	Istop 1 GmbH, Düsseldorf	1)	100
	Istop 2 GmbH, Düsseldorf	1)	100
	Istop 4 GmbH, Düsseldorf	1)	100
	Istop 6 GmbH, Düsseldorf	1)	100
	Ligera GmbH, Düsseldorf	1)	100
	Rhodana GmbH, Düsseldorf	1)	100
	Tempelhofer Hafen GmbH & Co. KG, Düsseldorf	1)	100
2.	**Foreign companies**		
	IKB Finance B.V., Amsterdam, Netherlands		100
	IKB Funding LLC I, Wilmington, United States of America		100
	IKB International S.A. i.L., Munsbach, Luxembourg	2)3)	100
	IKB Leasing Finance IFN S.A., Bucharest, Romania	1)	100
	IKB Leasing S.A., Bucharest, Romania	1)	100
	IKB Leasing SR, s.r.o., Bratislava, Slovakia	1)	100
	IKB Lux Beteiligungen S.à.r.l., Munsbach, Luxembourg		100
3.	**Special-purpose entities in accordance with section 290 (2) no. 4 HGB**		
	HIMERA Grundstücks-Vermietungsgesellschaft mbH, Pullach i. Isartal		

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

(26) List of shareholdings as at 30 September 2018

30 Sep. 2018		Financial year	Equity interest in %
1. German subsidiaries (consolidated)			
Aleanta GmbH, Düsseldorf		1.4. - 31.3.	100.00
IKB Beteiligungen GmbH, Düsseldorf	2)	1.4. - 31.3.	100.00
IKB Beteiligungsgesellschaft 1 mbH, Düsseldorf	2)	1.1. - 31.12.	100.00
IKB Beteiligungsgesellschaft 2 mbH, Düsseldorf	2)	1.1. - 31.12.	100.00
IKB Beteiligungsgesellschaft 3 mbH, Düsseldorf	2)	1.1. - 31.12.	100.00
IKB Beteiligungsgesellschaft 5 mbH, Düsseldorf	2)	1.4. - 31.3.	100.00
IKB Grundbesitzgesellschaft Düsseldorf GmbH & Co. KG, Düsseldorf	4)	1.4. - 31.3.	94.90
IKB Grundbesitzgesellschaft Frankfurt GmbH & Co. KG, Düsseldorf	4)	1.4. - 31.3.	94.90
IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf	4)	1.1. - 31.12.	100.00
IKB Grundstücks GmbH, Düsseldorf		1.1. - 31.12.	100.00
IKB Grundstücksgesellschaft Düsseldorf GmbH, Düsseldorf		1.4. - 31.3.	100.00
IKB Invest GmbH, Düsseldorf	2)	1.4. - 31.3.	100.00
IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf	3)	1.1. - 31.12.	100.00
IKB Real Estate Holding GmbH, Düsseldorf	2)	1.4. - 31.3.	100.00
IKB Struktur GmbH, Düsseldorf	2)	1.4. - 31.3.	100.00
Istop 1 GmbH, Düsseldorf	2)	1.1. - 31.12.	100.00
Istop 2 GmbH, Düsseldorf	2)	1.1. - 31.12.	100.00
Istop 4 GmbH, Düsseldorf	2)	1.1. - 31.12.	100.00
Istop 6 GmbH, Düsseldorf	2)	1.1. - 31.12.	100.00
Ligera GmbH, Düsseldorf	2)	1.1. - 31.12.	100.00
Rhodana GmbH, Düsseldorf	2)	1.1. - 31.12.	100.00
Tempelhofer Hafen GmbH & Co. KG, Düsseldorf	4)	1.1. - 31.12.	100.00
2. Foreign subsidiaries (consolidated)			
IKB Finance B.V., Amsterdam, Netherlands		1.4. - 31.3.	100.00
IKB Funding LLC I, Wilmington, United States of America		1.4. - 31.3.	100.00
IKB International S.A. i.L., Munsbach, Luxembourg	3)	1.4. - 31.3.	100.00
IKB Leasing Finance IFN S.A., Bucharest, Romania		1.1. - 31.12.	100.00
IKB Leasing S.A., Bucharest, Romania		1.1. - 31.12.	100.00
IKB Leasing SR, s.r.o., Bratislava, Slovakia		1.1. - 31.12.	100.00
IKB Lux Beteiligungen S.à.r.l., Munsbach, Luxembourg		1.4. - 31.3.	100.00
3. Special-purpose entities (special-purpose entities included in the consolidated financial statements in line with section 290 (2) no. 4 HGB)			
HIMERA Grundstücks-Vermietungsgesellschaft mbH, Pullach i. Isartal			

30 Sep. 2018		Financial year	Equity interest in %
4. German subsidiaries (not included in consolidation due to section 296 (2) HGB [5])	1)		
Brunnenstraße 105-109 Berlin Grundbesitz GmbH i.L., Düsseldorf	3)	1.1. - 31.12.	100.00
FRANA Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf		1.1. - 31.12.	100.00
IKB NewCo 1 GmbH, Düsseldorf		1.1. - 31.12.	100.00
IKB NewCo 3 GmbH, Düsseldorf		1.1. - 31.12.	100.00
IKB NewCo 5 GmbH, Düsseldorf		1.4. - 31.3.	100.00
IKB Projektentwicklungsverwaltungsgesellschaft mbH i.L., Düsseldorf	3)	1.10. - 30.09.	100.00
IKB Real Estate GmbH, Düsseldorf	2)	1.1. - 31.12.	100.00
ISOG Technology Holding GmbH, Weilheim		1.4. - 31.3.	57.70
ISTOS Beteiligungsverwaltungs- und Grundstücks- Vermietungsgesellschaft mbH, Düsseldorf		1.1. - 31.12.	100.00
MFRSI Beteiligungsholding Verwaltungsgesellschaft mbH, Düsseldorf		1.1. - 31.12.	100.00
Restruktur 2 GmbH i.L., Düsseldorf	3)	30.3. - 29.3.	100.00
Restruktur 3 GmbH, Düsseldorf		1.4. - 31.3.	100.00
5. Foreign subsidiaries (not included in consolidation due to section 296 (2) HGB)	1)		
IKB Funding Trust I, Wilmington, United States of America		1.4. - 31.3.	100.00
Valin Asset Management S.à.r.l., Munsbach, Luxembourg		1.4. - 31.3.	100.00
6. Special-purpose entities (not included in consolidation due to section 296 (2) HGB)	1)		
Capital Raising GmbH, Norderfriedrichskoog			
Hybrid Raising GmbH, Norderfriedrichskoog			
Rosaria Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Heimstetten KG, Grünwald			
7. German associates/joint ventures (not accounted for using the equity method due to section 311 (2) HGB)	1)		
Argantis Beteiligungs-Holding GmbH i.L., Cologne	3)	1.1. - 31.12.	50.00
Argantis GmbH i.L., Cologne	3)	1.1. - 31.12.	50.00
Dritte Hubschraubertechnologiepark Donauwörth GmbH, Düsseldorf		1.1. - 31.12.	50.00
equiNotes Management GmbH, Düsseldorf		1.1. - 31.12.	50.00
FUNDIS Verwaltungsgesellschaft mbH i.L., Düsseldorf	3)	1.1. - 31.12.	50.00
Hafenspitze Verwaltungsgesellschaft mbH, Hamburg		1.1. - 31.12.	25.00
LOUDA SYSTEMS GmbH, Triptis		1.1. - 31.12.	45.00
MFRSI Beteiligungsholding GmbH & Co. KG, Düsseldorf		1.1. - 31.12.	50.00
Mike's Sandwich GmbH, Hamburg		1.1. - 31.12.	35.59
MOTORRAD-ECKE GmbH, Villingen-Schwennigen		1.1. - 31.12.	38.86
ODS Business Services Group GmbH, Hamburg		1.1. - 31.12.	32.00
Vermögensverwaltungsgesellschaft DVD Dassow GmbH, Dassow		1.1. - 31.12.	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 and loss transfer agreement
3) in liquidation
4) IKB AG or a Group company is a shareholder with unlimited liability
5) The Bank exercises the option of not including subsidiaries in consolidation where they are of only minor importance to the net assets, financial position and results of operations of the Group.

(27) Related party transactions

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

(28) Derivative financial instruments not recognised at fair value

Group:

	Nominal	Fair value		Book value	
30 Sep. 2018 in € million		**positive**	**negative**	**Assets**	**Liabilities**
Interest-related derivatives	28,953.4	642.6	1,232.7	87.1	91.4
Credit-related derivatives	216.0	-	3.2	-	3.2
Currency-related derivatives	1,469.5	23.3	26.2	6.4	15.7
Derivatives assigned to several categories	930.5	97.3	69.4	22.8	3.4
Total	**31,569.4**	**763.2**	**1,331.5**	**116.3**	**113.7**

IKB AG:

	Nominal	Fair value		Book value	
30 Sep. 2018 in € million		**positive**	**negative**	**Assets**	**Liabilities**
Interest-related derivatives	28,953.4	642.6	1,232.7	97.7	101.8
Credit-related derivatives	216.0	-	3.2	-	3.2
Currency-related derivatives	1,469.5	23.3	26.2	6.4	15.7
Derivatives assigned to several categories	930.5	97.3	69.4	22.9	3.6
Total	**31,569.4**	**763.2**	**1,331.5**	**127.0**	**124.3**

(29) Unrealised gains and losses

The table shows the unrealised gains and losses for the following material financial balance sheet items and offbalance 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	**30 Sep. 2018**			**31 Mar. 2018**		
in € million	**Book value**	**Fair value**	**Difference**	**Book value**	**Fair value**	**Difference**
Receivables from banks	1,658.8	1,659.5	0.7	2,520.5	2,520.9	0.4
Receivables from customers	9,884.8	10,210.0	325.2	9,708.8	10,066.8	358.0
Bonds and other fixed-income securities	3,490.4	3,521.7	31.3	3,904.7	4,127.0	222.3
Equities and other non-fixed-income securities	394.7	390.6	-4.1	395.5	400.1	4.6
Derivative financial instruments not recognised at fair value	116.2	763.2	647.0	162.6	841.6	679.0
Credit default swaps recognised as loan collateral	25.7	40.1	14.4	22.1	40.5	18.4
Subtotal	**15,570.6**	**16,585.1**	**1,014.5**	**16,714.2**	**17,996.9**	**1,282.7**
Liabilities to banks	7,067.9	7,042.1	25.8	7,432.1	7,441.8	-9.7
Liabilities to customers	5,768.2	5,843.6	-75.4	6,447.5	6,543.4	-95.9
Securitised liabilities	601.2	607.9	-6.7	720.6	724.4	-3.8
Subordinated liabilities	825.9	747.8	78.1	831.0	748.2	82.8
Silent partnership contributions	0.0	28.2	-28.2	0.0	27.1	-27.1
Derivative financial instruments not recognised at fair value	113.8	1,331.5	-1,217.7	98.2	1,511.9	-1,413.7
Credit default swaps recognised as loan collateral	15.6	4.9	10.7	17.0	1.7	15.3
Subtotal	**14,392.6**	**15,606.0**	**-1,213.4**	**15,546.4**	**16,998.5**	**-1,452.1**
Total			**-198.9**			**-169.4**

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 book value 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. The measurement model for floating-rate loans takes into account assumptions concerning unscheduled payments. 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.

The receivables purchased and forfaited 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.

(30) Significant events after 30 September 2018

The following major developments have arisen since 30 September 2018:

Sale of leasing companies in Slovakia

The subsidiaries Ligera GmbH and Rodana GmbH sold the business operations of IKB Leasing SR s.r.o. by way of a business disposal and transfer agreement dated 1 October 2018. Closing and the transfer of ownership, benefits and encumbrances took place at the same date. The sale did not have a material effect on earnings in the IKB Group.

Sale of leasing companies in Romania

Ligera GmbH and Rodana GmbH sold all of the shares in IKB Leasing Finance IFA S.A. and IKB Leasing S.A. by way of a company purchase agreement dated 8 June 2018. The responsible antitrust and banking supervisory authorities have approved the closing of this transaction, which is now expected in late November 2018. The sale is not expected to have a material effect on earnings in the IKB Group.

Debt issuance programme

The debt issuance programme was updated on 4 October 2018 and can be used for various new issues of bearer bonds and subordinated securities.

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 related 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 accused IKB of having violated its duties in consulting on and preparing investment decisions by the Loreleys, and demanded that IKB be held liable for some of the claim to compensation in the event of its sentencing.

A judicial decision on 23 October 2018 rejected the complaint by Wells Fargo at the applicant’s request, meaning that IKB AG has prevailed in full.

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.

Derivative disputes

In individual cases, customers criticised the advisory services provided by the Bank in connection with certain swap products. Three cases were pending as at 30 September 2018, of which IKB won one case in late October 2018. One pre-trial dispute is currently also in progress.

(31) 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)

Dr Claus Nolting (Deputy Chairman)

Sven Boysen*

Mark Coker

Benjamin Dickgießer

Dr Lutz-Christian Funke

Arndt G. Kirchhoff

Bernd Klein* (until 5 September 2018)

Nicole Riggers*

Jörn Walde* (since 5 September 2018)

* elected by the employees

Düsseldorf, 13 November 2018

IKB Deutsche Industriebank AG

The Board of Managing Directors

Dr. Michael H. Wiedmann

Claus Momburg

Dr Jörg Oliveri del Castillo-Schulz

Dirk Volz

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.)