Annual Report 2015/2016

IKB Deutsche Industriebank

Contents

Letter from the Chairman of the Board of Managing Directors

Dear Shareholders,

Dear Business Partners of IKB,

IKB again made good progress in the 2015/16 financial year. We reported positive consolidated net income for the third consecutive year, thereby demonstrating the sustainable profitability of our on German Mittelstand focused business model. In the target customer segment of industrial, fast-growing and internationally successful medium-sized companies, IKB was able to attract new customers and expand active customer relationships. In total, we grew the volume of new business visibly compared to the previous year to € 3.7 billion.

IKB has a solid equity position and good liquidity resources. Expressed in figures, we increased our common equity tier 1 ratio (CET 1) to 11.6%; the figure for the CET 1 ratio fully loaded is 10.9%. The leverage ratio amounted to 8.2%. Our liquidity coverage ratio was 283% as at the balance sheet date. In terms of the regulatory capital and liquidity ratios, we are significantly above the minimum legal requirements. IKB therefore also has the scope to expand its business volumes. Our priority is still the profitability of our new business while adhering strict risk standards.

A key requirement for the successful development of our business activities is a lean, efficient organization – in several respects. On the one hand, our customers appreciate our short decision paths, while on the other hand we have to ensure that our costs are strictly controlled in a challenging environment – defined by the intense competition on the market, low interest rates and regulatory requirements.

Administrative expenses were already reduced in the financial year. However, this will not be enough in the long run. In order to implement cost-cutting and optimisation measures, we therefore negotiated a new reconciliation of interests and redundancy scheme with employee representatives, which was signed in April 2016. The agreement provides for the downsizing of approximately 150 full-time employees within two years. We have already taken the financial expenses arising from this into account by recognising a corresponding restructuring provision.

In this context, we are confident that we can achieve a reduction in costs and position the Bank efficiently for what lies ahead. In Dirk Volz as our Chief Financial Officer and Dr Jörg Oliveri del Castillo-Schulz as our Chief Operating Officer, we have secured two proven experts for the Bank's Board of Managing Directors, who will actively support this development and bring new ideas and innovation.

It was with great sadness that we learned of the sudden and unexpected passing of our former Board colleague Dr Dieter Glüder in February 2016. He had taken up his office after the outbreak of the IKB crisis in 2007, and made a decisive contribution to successfully navigating the Bank through challenging times and to its lasting stability. It is most significantly thanks to his commitment that we can look to IKB's future with optimism today.

Our customers are still at the heart of our activities: The German midmarket is facing growing challenges due to increasing globalisation and digitisation. The Bank must also provide the flexibility and speed needed for business – for a broad offering that goes beyond purely financial issues. Building on a long-term trusting relationship, we see ourselves not just as an expert in financial matters, but also offer companies a wide range of capital market and consulting services. Our goal is to strengthen the competitive capability of German medium-sized companies.

Düsseldorf, June 2016

Dr Michael H. Wiedmann

Report of the Supervisory Board

In the financial year 2015/16, the Supervisory Board fulfilled the duties and obligations incumbent upon it in accordance with statutory provisions and the Articles of Association and its by-laws. The Supervisory Board supervised the management of the company and advised the Board of Managing Directors on the management of the company. The Supervisory Board was involved in all decisions of fundamental importance to the bank.

Overview

In its supervisory and advisory activities, the Supervisory Board received regular, timely and comprehensive reports from the Board of Managing Directors, in both oral and written form. The Board of Managing Directors informed the Supervisory Board of the business operations and the economic and financial development of the IKB Group and IKB AG. Other focal points of regular reporting were the general development of IKB and the development of the Group's risk situation. Furthermore, the Supervisory Board addressed Group planning and the actual development of business in the financial year 2015/16.

Reports by the Board of Managing Directors on the business situation and on specific issues were supplemented by written presentations and documentation which each member of the Supervisory Board received prior to the meeting for preparation purposes. The members of the Supervisory Board were also provided with the annual financial statements and consolidated financial statements and the auditors' reports in due time prior to the meeting convened to review the annual financial statements. The members of the Risk and Audit Committee and the Supervisory Board plenary meeting also received the half yearly financial report and quarterly reports in due time for preparation purposes. The Supervisory Board Executive Committee approved management measures requiring approval, such as the approval of large exposure loans or intercompany loans.

The Supervisory Board held seven meetings in the financial year 2015/16. Regular meetings were held in June, August, December and February. The Supervisory Board also convened in August, following the Annual General Meeting for the financial year 2014/15, for a constitutive meeting. Two extraordinary meetings in November 2015 and January 2016 were held to appoint Mr Dirk Volz resp. Dr Jörg Oliveri del Castillo-Schulz as new members of the Board of Managing Directors. The Chairmen of the Supervisory Board and the Board of Managing Directors also consulted regularly on key developments and decisions. Individual members were unable to attend some meetings of the Supervisory Board and sent their apologies.

Topics of the Supervisory Board plenary meeting

At all Supervisory Board meetings in the financial year 2015/16, the Supervisory Board was able to form a detailed opinion on the general development of the bank based on written and oral reporting by the Board of Managing Directors. In this respect, the Board of Managing Directors also provided the Supervisory Board with explanations concerning the development of business volume and result of the Group. Furthermore, the Board of Managing Directors examined in detail the development in the individual business segments and reported on the capital position, financial situation (including taxes) and Group risk. The Supervisory Board was continuously informed by the Board of Managing Directors about the regulatory capital position of the IKB Group according to the CRR and the status of material legal disputes.

At its meeting convened to review the annual financial statements in June 2015, the Supervisory Board examined inter alia the annual financial statements, consolidated financial statements and the dependent company report. The Board of Managing Directors also gave a comprehensive written and oral explanation of the risk situation of the IKB Group including the recovery indicators defined in the recovery plan. Internal

Group Audit and the Chief Compliance Officer made their respective annual reports for 2014/15. Auditing company PwC reported on the audit findings, and the Chairman of the Risk and Audit Committee on preparations for the auditing of the annual financial statements and consolidated financial statements as of 31 March 2015 with the combined management report and dependent company report for the financial year 2014/15. The annual financial statements and consolidated financial statements were approved by the Supervisory Board. No objections were raised to the declaration of the Board of Managing Directors in the closing statement of the dependent company report. The report of the Supervisory Board for the financial year 2014/15 was also approved. Further topics were the explanation in written and oral form of Group planning and the remuneration systems for the company. The Supervisory Board further addressed the agenda for the Annual General Meeting of IKB 2015 and approved the Supervisory Board's proposed resolutions to the Annual General Meeting. Furthermore, the Supervisory Board deliberated on remuneration topics. In particular, the Supervisory Board determined the variable remuneration for the individual members of the Board of Managing Directors for the financial year 2014/15 and verified the determination of the pro-rata variable remuneration for the members of the Board of Managing Directors for the financial years 2012/13 and 2013/14 which, according to the Institutsvergütungsverordnung (Remuneration Ordinance for Institutions), had to be spread over a deferral period of several years.

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

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

The Supervisory Board also deliberated on medium-term quantitative and qualitative HR planning and development. For the first time, the Supervisory Board determined target figures for the proportion of women on the Board of Managing Directors and on the Supervisory Board.

The Advisory Board of IKB, which was formed to provide business advice and a close exchange of ideas on economic and economic policy topics, was also newly appointed resp. reappointed for three years.

Finally, the Supervisory Board deliberated, in the context of the analysis of the crisis which occurred in the summer of 2007 at IKB during the financial year 2007/08, on the assertion of damage claims against former members of the Board of Managing Directors. The Supervisory Board consented to the conclusion of settlement agreements with three former members of the Board of Managing Directors and the D&O insurer which were subsequently approved by the Annual General Meeting on 27 August 2015.

Activities of the Committees

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

The Supervisory Board Executive Committee essentially prepared the meetings of the Supervisory Board and focused on business development, including any approval of transactions requiring approval, and in particular discussed with the Board of Managing Directors the situation of the bank and the Group including the discussion of strategic aspects. In addition, the Supervisory Board Executive Committee deliberated on the preparation of the Annual General Meeting, delisting of the shares of IKB and further matters of the Board of Managing Directors.

The activities of the Risk and Audit Committee focused on monitoring accounting procedures, the efficiency of the internal control system, risk management, the internal audit system, risk strategy and compliance as well as the audit of the financial statements. In respect of pending EU reform regarding statutory audits of public interest entities as well, a central topic here was in particular the independence of the auditor and the additional services provided by the auditor. The Committee deliberated on the preparation of the annual financial statements and the consolidated financial statements and the appointment of the auditor. The Risk and Audit Committee issued the audit assignment to the auditor and agreed on the audit fee with the auditor.

The Nomination Committee discussed the proposals to the Supervisory Board regarding the election of Supervisory Board members by the Annual General Meeting on 27 August 2015. The Nomination Committee furthermore fulfilled the duties incumbent upon it according to the provisions of Section 25 d (11) KWG (Banking Act).

The Remuneration Control Committee deliberated on the requirements of the Institutsvergütungsverordnung and its impact on the remuneration systems of IKB, in particular the Board of Managing Directors, too. The Remuneration Control Committee prepared the respective resolutions relating to remuneration for the plenary meetings and furthermore deliberated on the annual review of the adequacy of the principles of the remuneration system for the Board of Managing Directors.

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

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

Audit of the annual financial statements and consolidated financial statements

The Annual General Meeting appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Düsseldorf, as auditors for the annual financial statements and consolidated financial statements and for any reviews or any audits of the interim financial statements resp. interim consolidated financial statements and the interim management report resp. interim Group management report for the first half of the financial year 2015/16 and all other interim financial statements resp. interim consolidated financial statements and interim management reports resp. interim Group management reports which are prepared prior to the Annual General Meeting 2016. PwC audited the annual financial statements of IKB AG and the Group and the combined management report for IKB AG and the Group and issued unqualified audit opinions. Examination of and deliberation on the annual financial statements, the consolidated financial statements and the relevant combined management report and the related written audit reports of PwC for the financial year 2015/16 by the Risk and Audit Committee and the plenary meeting of the Supervisory Board took place on 8/9 June 2016. All members of the Supervisory Board resp. Committees received these documents in due time prior to the respective meeting. The auditors participated in these deliberations. At the meeting of the Supervisory Board on 9 June 2016, they reported on the key findings of their audit, including findings in respect of the internal control and risk management system of the bank relating to the accounting process, answered questions and provided additional information. There were no circumstances which gave reason to doubt the impartiality of the auditors. The auditors furthermore informed the Supervisory Board of all additional services provided by them in connection with the audit.

The Supervisory Board approved the result of the audit of the financial statements at its meeting held on 9 June 2016. According to the final result of the Supervisory Board's own reviews of the annual financial statements and consolidated financial statements and combined management report, no objections were raised. The Supervisory Board approved the annual financial statements and consolidated financial statements of 19 May 2016, prepared by the Board of Managing Directors, at its meeting on 9 June 2016. The annual financial statements have thus been adopted.

Review and approval of the dependent company report

The report on business relationships with affiliated companies for the financial year 2015/16 (dependent company report) which was presented by the Board of Managing Directors was also examined by the auditors. The dependent company report was issued with the following unqualified audit opinion: "Having duly examined and assessed this report, we confirm that the factual statements made in the report are correct, the company's consideration with respect to the legal transactions listed in the report was not inappropriately high, and there are no circumstances that indicate a materially different assessment of the measures listed in the report from that given by the Board of Managing Directors."

At the meetings held on 8/9 June 2016, first the Risk and Audit Committee and then the Supervisory Board also deliberated on and reviewed the dependent company report. The members of the Supervisory Board resp. Committees received both the dependent company report and the related audit report of the auditors before the respective meeting, enabling them to deal with the respective contents in due time. The auditors also participated in the deliberations on the dependent company report of the Supervisory Board and the Risk and Audit Committee. At the meeting of the Supervisory Board on 9 June 2016, they reported on the result of their audit and were available to answer questions. The Supervisory Board approved the result of the auditors' audit at its meeting on 9 June 2016.

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

Personalia – Supervisory Board

Messrs Benjamin Dickgießer, Dr Claus Nolting and William D. Young, whose terms of office each ended at the close of the Annual General Meeting on 27 August 2015, were re-elected to the Supervisory Board by resolutions of the Annual General Meeting on 27 August 2015.

Ms Carmen Teufel retired from the Supervisory Board as scheduled at the end of the Annual General Meeting on 27 August 2015. In a new election of the employee representatives, Mr Sven Boysen was elected to the Supervisory Board with effect as of end of the Annual General Meeting on 27 August 2015.

In place of the retiring Ms Teufel, the Supervisory Board elected Mr Rainer Lenz as member of the Nomination Committee at its Constitutive Meeting on 27 August 2015.

Mr Bruno Scherrer resigned his mandate as Chairman and member of the Supervisory Board as of the end of the Supervisory Board meeting on 3 December 2015. Dr Karl-Gerhard Eick, member of the Supervisory Board since 5 September 2013 and Deputy Chairman of the Supervisory Board since 16 February 2015, was then elected as new Chairman of the Supervisory Board, and Dr Claus Nolting, member of the Supervisory Board since 22 January 2009, as new Deputy Chairman of the Supervisory Board, each with effect as of the end of the Supervisory Board meeting on 3 December 2015. As Chairman of the Supervisory Board, Dr Karl-Gerhard Eick has also become Chairman of the Supervisory Board Executive Committee, the Nomination Committee and the Remuneration Control Committee. Dr Claus Nolting, who is already a member of the Risk and Audit Committee and the Nomination Committee has, as Deputy Chairman, also become a member of the Supervisory Board Executive Committee and the Remuneration Control Committee. Furthermore, the members of the Supervisory Board elected Mr Benjamin Dickgießer as member of the Nomination Committee with effect as of the end of the Supervisory Board meeting on 3 December 2015.

Mr William D Young resigned his mandate as member of the Supervisory Board with effect as of 14 January 2016. At the request of the Board of Managing Directors, Mr Mark Coker was appointed member of the Supervisory Board as of 27 January 2016 until the end of the next Annual General Meeting by order of Düsseldorf Local Court to replace the retiring Mr William D Young.

Finally, at the proposal of Dr Karl-Gerhard Eick, Dr Claus Nolting was elected on 25 February 2016 as his successor as Chairman of the Risk and Audit Committee.

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

Personalia – Board of Managing Directors

Mr Momburg's term of office was extended on 16 June 2015 until expiry of 10 November 2017.

The Supervisory Board of IKB appointed Mr Dirk Volz as member of the Board of Managing Directors with effect as of 1 December 2015. Mr Volz is responsible for Finance and Taxation, Risk Controlling, Internal Group Audit and Economics and Research. He succeeds Dr Dieter Glüder who resigned from office on the most amicable terms with the Supervisory Board as of 30 November 2015.

The Supervisory Board of IKB appointed Dr Jörg Oliveri del Castillo-Schulz as member of the Board of Managing Directors as of 1 February 2016. He complements the Board as Chief Operating Officer and is responsible for Credit & Treasury Operations, Information Technology, HR & Service, Data Protection, Information Security, Process and Organisational Management, Strategic Outsourcing Management & Group Purchasing, and Central Project Management.

The appointment of Dr Oliveri del Castillo-Schulz has extended the Board of Managing Directors of IKB to four members.

It was with the deepest sorrow and sadness that the Supervisory Board learned in February 2016 of Dr Glüder's sudden death. Dr Glüder's services as member of the Board of Managing Directors had driven IKB forward with great progress in dealing with the crisis since 2007 and during subsequent reorientation. He rendered exceptional services to the bank. The Supervisory Board expresses its immense gratitude to Dr Glüder and recognition of his outstanding achievements.

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

Düsseldorf, 9 June 2016
The Supervisory Board

Dr Karl-Gerhard Eick
Chairmann

Combined Management Report for the Financial Year 2015/16

1. Basic information on the Group

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

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

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

IKB has a sales network of locations of IKB AG and the IKB Leasing Group that covers all regions of Germany. Domestic sales are supplemented by selected European locations. The IKB Leasing Group has a total of 14 leasing companies in ten European countries (Germany, France, Italy, Austria, Poland, Romania, Russia, Slovakia, Czech Republic and Hungary).

The Bank held a share of the market for long-term corporate loans to the German manufacturing industry of around 3.8% as at 31 December 2015. The market share for commercial public programme loans was around 12.4% at the same date. IKB has also succeeded in using and developing its expertise in syndication and placement for medium-sized companies in its capital market business. IKB AG's strongest competitors are the major universal banks and selected larger institutions from the public and cooperative banking sector. In terms of acquisition finance, IKB works together with private equity companies.

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

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

- There is no direct supervision by the ECB.
- IKB is supervised by the German Federal Financial Supervisory Authority (BaFin) and, on account of its classification, is required to prepare a restructuring plan and a liquidation plan in accordance with the German Banking Act (KWG).

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

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

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

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

2. Economic report

Macroeconomic and industry-specific conditions

The 2015/16 financial year was again dominated by market and economic uncertainty. However, the situation remained quite robust for most of the advanced economies. By contrast, on some emerging markets the economic situation deteriorated again. In particular, the downturn in China once more had an unsettling effect, which slowed the economy of its East Asian neighbours as well. In addition, many emerging economies that are dependent on commodity exports are suffering from the sharp fall in the price of crude oil and key industrial commodities since mid-2014.

Price declines on the Chinese stock markets and capital outflows from the Chinese economy were observed again at the start of 2016. The Chinese currency grew weaker at the same time. This was followed by high losses on the other major financial markets of the world, rising stock market volatility and wider yield spreads on bonds. The price of oil also fell significantly again. Since October 2015, the price has since dropped to around US dollar 30 once more. The hopes of many observers that the low price of oil would bring a strong, positive stimulus for the global economy were dashed. On the contrary, these events instead exacerbated the fears of a slowdown on the global economy.

In the US, the recovery still remained intact nonetheless, despite the only moderate economic growth recently. Real gross domestic product (GDP) climbed by 2.4% in 2015. The labour market and consumer demand continued to develop well. The slightly slower momentum in the second half of the year was mainly due to the weak development in exports, which has been heavily influenced by the significant appreciation of the US dollar since the middle of 2014.

The euro area is still in a moderate recovery. The economic situation in the countries relevant to IKB was also largely positive. Italy and France increased their economic performance by 0.8% and 1.2% respectively on the previous year. GDP in Spain expanded by as much as 3.2%. The UK economy has already been on the rise since the beginning of 2013 and in 2015 achieved robust GDP growth of 2.2%.

GDP in Germany rose by 1.7% thanks to the stronger first half of the year. The driving forces behind the upswing came from the domestic market in particular. The contributions to growth by private and public sector spending were especially high at 1.5 percentage points. The export situation has underperformed since the second half of 2015. In the fourth quarter there was even a decline in exports of 0.6%; demand for German export goods from emerging markets was on the wane in particular. In addition, the euro area and the United States provided no positive stimulus for export volumes. The growth contribution of net exports amounted to just 0.2 percentage points in 2015 as a whole. Investment activity remained moderate in this uncertain environment. While the overall increase in highly volatile capital investment was 5.4%, private and public sector contributions developed differently. Thus, private investment did not escape the slowdown in exports. Despite extremely favourable financing conditions, private investment has been in decline or virtually stagnant since the second quarter of 2015 after adjustment for seasonal effects.

Monetary policy in the major industrialised nations remained expansive. However, there were differences in the extent of this. For example, the Fed slightly raised its key rate for the first time in several years. By contrast, the ECB resolved a series of massive new easing measures. It lowered the key interest rate to 0% and the deposit interest rate to -0.4%. It also increased the volume of monthly bond purchases by € 20 billion to € 80 billion and extended the purchase program to include corporate bonds. Finally, the ECB announced that from June 2016 it would be introducing long-term refinancing with a term of four years.

Lending to companies in the euro area remained muted but showed signs of an increasingly broad-based recovery. Although corporate lending in Italy and Spain continued to decline, the downward trend slowed significantly. In France and Germany, the trend was positive but remained cautious on account of the continued low level of investment activity. In addition, German companies were able to meet a large proportion of their overall financing requirements from own funds generated or they continued to make use of alternative financing sources such as the capital markets, thereby continuing a trend that has been visible for several years.

For the banking sector, the pressure on profitability remained. The cost side is being negatively affected by restructuring measures and regulatory requirements. Demand for bank-specific products such as corporate loans remained weak, while the comfortable liquidity situation at companies meant they were able to use alternative sources of financing via the capital markets. In Germany in particular, many companies are so well positioned that they have been able to finance most of their investments internally. The extremely low level of interest rates is also having a growing adverse effect on the margin development of many banks. By contrast, the lower cost of loan loss provisioning is continuing to have a supporting effect. Together with the wide range of regulatory provisions, pressure on earnings is rising in connection with the intense competitive environment.

Significant events in the period under review

Changes in the Group

The sale of the shares in Axit AG, Frankenthal, held by IKB Equity Capital Fund GmbH on 2 March 2015 was followed by the transfer of the shares in early April 2015.

IKB Invest GmbH sold its equity interest in CellGenix GmbH effective 27 May 2015.

Zweite Equity Suporta GmbH was merged into IKB Invest GmbH effective 1 January 2015 (effective merger date). Zweite Equity Suporta GmbH was dissolved with the entry of the merger in the commercial register of IKB Invest GmbH on 3 September 2015.

The IKB Leasing Group acquired the business operations and new business activities of Albis Mobil Lease GmbH and UTA Leasing GmbH on 16 December 2015. With this acquisition, the IKB Leasing Group extended its service range in the area of lease and hire-purchase financing for commercial vehicles and trucks and thus expanded its established market presence as the leading provider of machinery and equipment leasing and leasing IT and business services in Germany and Europe.

Also in December 2015, IKB Equity Capital Fund GmbH acquired further shares in ISOG Technology Holding GmbH to increase its existing holding from 8.67% to currently 57.7%.

The special-purpose entity German Mittelstand Equipment Finance No. 1 S.A., Luxembourg, was deconsolidated as at 31 December 2015 on account of the underlying transaction ending (acquisition of lease receivables of IKB Group companies).

Legally relevant events

Debt issuance programme

The debt issuance programme was updated as at 29 December 2015. This programme has since been used for various new issues.

Personnel changes

Supervisory Board

Mr Benjamin Dickgießer, Dr Claus Nolting and Mr William D. Young, whose terms of office expired at the end of the Annual General Meeting on 27 August 2015, were re-elected to the Supervisory Board by resolutions of the Annual General Meeting on 27 August 2015.

As scheduled, Ms Carmen Teufel stepped down from the Supervisory Board at the end of the Annual General Meeting on 27 August 2015. A re-election of employee representatives resulted in Mr Sven Boysen being elected to the Supervisory Board effective to the end of the Annual General Meeting on 27 August 2015.

The constituent meeting of the Supervisory Board on 27 August 2015 elected Mr Rainer Lenz as a member of the Nomination Committee to replace Ms Teufel.

Mr Bruno Scherrer resigned as the Chairman and a member of the Supervisory Board at the end of the meeting of the Supervisory Board on 3 December 2015. Thereupon, effective from the end of the meeting of the Supervisory Board on 3 December 2015, Dr Karl-Gerhard Eick, a member of the Supervisory Board since 5 September 2013 and Deputy Chairman of the Supervisory Board since 16 February 2015, was elected as the new Chairman of the Supervisory Board and Dr Claus Nolting, member of the Supervisory Board since 22 January 2009, was elected as the new Deputy Chairman. As the Chairman of the Supervisory Board, Dr Karl-Gerhard Eick also became the Chairman of the Supervisory Board Executive Committee, the Nomination Committee and the Remuneration Control Committee. Dr Claus Nolting, who was already a member of the Risk and Audit Committee and the Nomination Committee, became the Deputy Chairman and a member of the Supervisory Board Executive Committee and the Remuneration Control Committee. In addition, the members of the Supervisory Board elected Mr Benjamin Dickgießer as a member of the Nomination Committee effective from the end of the meeting of the Supervisory Board on 3 December 2015.

Mr William D. Young resigned from the Supervisory Board effective 14 January 2016. At the request of the Board of Managing Directors, on 20 January 2016, Mr Mark Coker was appointed as a member of the Supervisory Board in place of Mr William D. Young by the Düsseldorf District Court until the next Annual General Meeting.

At the proposal of Dr Karl-Gerhard Eick, Dr Claus Nolting was elected as his successor as the Chairman of the Risk and Audit Committee on 25 February 2016.

Board of Managing Directors

The term of office of Mr Momburg was extended to the end of 10 November 2017 on 16 June 2015.

The Supervisory Board of IKB AG appointed Dirk Volz to the Board of Managing Directors of IKB effective 1 December 2015. Mr Volz assumed responsibility for Finance and Taxes, Risk Controlling, Corporate Audit, Economics and Research. He succeeds Dr Dieter Glüder, who stepped down from his position on the best of terms with the Supervisory Board effective 30 November 2015.

Effective 1 February 2016, the Supervisory Board of IKB AG appointed Dr Jörg Oliveri del Castillo-Schulz to the Board of Managing Directors of IKB AG. He is the body's Chief Operating Officer and is in charge of Credit & Treasury Operations, IT, HR and Service, Data Protection, Information Security, Process & Organisation Management, Strategic Outsourcing Management & Purchasing and Central Project Management.

With the appointment of Dr Oliveri del Castillo-Schulz IKB's Board of Managing Directors has been expanded to four members.

Annual General Meeting on 27 August 2015

The Annual General Meeting of IKB AG for the financial year 2014/15 was held in Düsseldorf on 27 August 2015. The Annual General Meeting approved all the resolutions proposed by the Bank's management by a large majority. The results of the individual votes can be found on the Bank's website at https://www.ikb.de/en/investor-relations/general-meeting. No legal proceedings against resolutions of the Annual General Meeting are pending.

Valin funds

IKB sold all its shares in Valin Mittelstand Senior Debt Fund S.A., SICAV-SIF effective 8 April 2015. It retains its indirect investment in the fund via bonds issued on shares by a securitisation vehicle.

IKB launched a further investment fund in Valin Ruysdael Fund (€ 150 million) in November 2015. The Valin Ruysdael Fund has the same investment strategy as the Mittelstand Senior Debt Fund that was closed in December 2014. IKB AG is the investment manager for the fund.

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 *Körperschaftsteuergesetz* (KStG – German Corporate Income Tax Act)/section 10a of the *Gewerbesteuergesetz* (GewStG – German Trade Tax Act) in connection with the capital increase implemented by IKB AG during the year and the subsequent sale of KfW's shares in IKB to Lone Star in the 2008/09 financial year was implemented. IKB has appealed against the tax assessments.

Background information and further comments can be found under "Legal risk" in section 4. "Risk report".

Acquisition of the IKB headquarter building

IKB AG has acquired the IKB headquarter building in Düsseldorf plus land holdings from AXA Immoselect Hauptverwaltungsgebäude GmbH & Co. Objekt Düsseldorf Uerdinger Straße KG. The purchase agreement was signed in September 2015 and the property was transferred one month later. The transfer of ownership took place on 15 March 2016.

Purchase bid by LSF6 Rio S.à.r.l. for bonds of Capital Raising GmbH and Hybrid Raising GmbH

On 13 January 2016, LSF6 Rio S.à.r.l., Luxembourg, announced its offer to the holders of bonds issued by Hybrid Raising GmbH (ISIN DE000A0AMCG6) and Capital Raising GmbH (ISIN DE0007490724) to acquire all bonds at a cash purchase price of 20% of the nominal amount. The offer ended on 29 February 2016.

As at 2 March 2016, according to the buyer, it had been notified of the acceptance of its offer for bonds with a total nominal amount of € 177,270,700 (all bonds in total). Accordingly, the buyer's holdings of the Hybrid bonds and the Capital bonds have increased to 86.2% (all bonds in total).

Application for delisting of IKB AG shares

On 29 February 2016, IKB AG filed for the delisting of IKB AG shares (ISIN DE0008063306) on the primary market and in general OTC trading of Börse Düsseldorf AG, and to cancel their listing in the entry standard of Deutsche Börse AG, Frankfurt. The delisting applies to trading on all stock exchanges on which the shares had previously been included at its instigation. In particular, IKB hopes to reduce complexity and its administrative expenses with the delisting. Deutsche Börse AG, Frankfurt, announced on its website on 1 March 2016 that trading in IKB AG shares in the entry standard would be discontinued from 11 April 2016. Börse Düsseldorf AG announced on 4 March 2016 that the listing of IKB AG shares in its primary market would be revoked from 31 March 2016 and that the shares of IKB AG would be removed from general OTC trading from 30 September 2016.

Net assets, financial position and results of operations

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

Business development

With demand for credit on the market still muted and selective lending by IKB, the Group's new business volume increased by € 0.5 billion year-on-year to € 3.7 billion in the financial year 2015/16. In the period under review, loans from own funds accounted for 52% of the new business volume (previous year: 55%), while public programme loans accounted for 28% (previous year: 27%) and equipment leasing accounted for 20% (previous year: 19%).

Results of operations

In the 2015/16 financial year, IKB generated consolidated net income after taxes and additions to the fund for general banking risks in accordance with section 340g of the German Commercial Code (HGB) of € 10 million (previous year: € 5 million). Additions to the fund for general banking risks in accordance with section 340g HGB, which are recognised as an expense and hence serve to reduce consolidated net income, amounted to € 7 million in the financial year 2015/16 (previous year: € 5 million).

As in the previous year, IKB AG reported net income of € 0 million after taxes and additions to the fund for general banking risks in accordance with section 340g HGB as at the balance sheet date. Key factors affecting the Group's results of operations were the net interest and lease income of € 284 million (previous year: € 290 million), net fee and commission income of € 30 million (previous year: € 42 million) and the low net risk provision expense of € 9 million (previous year: € 65 million).

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

Net interest and lease income

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

The Group's net interest and lease income was € 284 million in the reporting period, slightly less than forecast and below the prior-year figure of € 290 million as the reduced refinancing expenses did not fully compensate for the distributions from funds rendered impossible by market conditions.

IKB AG's net interest income was less than forecast at € 230 million in the year under review (previous year: € 349 million) as a result of the lower profit transfers by subsidiaries to IKB AG compared with the previous year.

Net fee and commission income

The Group's net fee and commission income was lower than expected at € 30 million (IKB AG: € 33 million) and down on the previous year's figure of € 42 million (IKB AG: € 46 million). The decline is essentially due to structuring and syndication income, which was reported more in net interest income and not net commission income, and lower income from lending business and M&A activities.

Net trading income

By way of resolution of the Board of Managing Directors, IKB permanently suspended all trading activities and informed the banking authorities of the resolution in February 2016. The remaining trading items were reclassified to the non-trading book as at 16 February 2016.

The Group's net fee and commission income amounted to € 6 million (IKB AG: € 6 million) after € 8 million in the previous year (IKB AG: € 8 million).

Administrative expenses

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

Administrative expenses were reduced more than expected in the Group by € 13 million to € 299 million (IKB AG: by € 46 million to € 245 million).

Personnel expenses for the Group remained at the previous year's level of € 183 million (IKB AG: reduced by € 6 million to € 141 million). The decline at IKB AG essentially results from the absence of negative one-time effects in the previous year owing to the increase in pensions for former Board of Managing Directors members and the catch-up effects in variable performance-based remuneration by adjusting the Bank factor on account of the positive economic performance of the Bank.

Other administrative expenses and depreciation and write-downs of intangible and tangible assets were reduced by € 13 million to € 116 million at Group level (IKB AG: by € 39 million to € 103 million). The decline at Group level essentially relates to the rental expense saved by buying back the building of IKB's headquarter in Düsseldorf and the absence of the expense incurred in the previous year for IKB's participation in the ECB's comprehensive assessment.

The further decrease in administrative expenses is largely due to the negative extraordinary effect in the previous year of the impairment loss on the goodwill acquired within the Group from IKB Luxemburg S.A. for new customer derivative business in the 2010/11 financial year.

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. Furthermore, net other income includes additions to the fund for general banking risks.

The main factors influencing net other income, which decreased by € 160 million to € 1 million (IKB AG: by € 102 million to € -19 million), are presented below.

The measurement and sale of long-term investments resulted in net income of € 263 million (IKB AG: € 242 million) after net income of € 384 million (IKB AG: € 330 million) in the previous year.

Close-out payments in connection with the strategic early dissolution and closing-out of derivative transactions in the banking book resulted in net expenses of € 213 million (IKB AG: € 213 million) compared with net expenses of € 257 million in the previous year (IKB AG: € 255 million).

Planned restructuring measures resulted in an expense of € 29 million (IKB AG: € 24 million) in the current financial year.

The performance of the assets outsourced under contractual trust arrangements (CTA) resulted in a net expense of € 26 million (IKB AG: € 23 million) in the reporting period after net income in the previous year of € 45 million (IKB AG: € 40 million net).

€ 7 million was appropriated to the fund for general banking risks in accordance with section 340g HGB in the reporting period (previous year: € 5 million) and recognised as an expense in net other income. The common equity tier 1 capital of IKB increased by a corresponding amount.

Net risk provisioning

(Note: Additional information on risk provisioning can be found in the “Risk provisioning” table in section 4. “Risk report”.)

Net risk provisioning included in amortisation/depreciation and write-downs of receivables, specific securities and additions to loan loss provisions decreased by € 56 million compared to the 2014/15 financial year to € 9 million (IKB AG: by € 63 million to € 8 million).

The provisions for possible loan losses included in this figure declined by € 49 million to € 17 million at Group level (IKB AG: by € 55 million to € 16 million).

Group provisions for possible loan losses include € 10 million (IKB AG: € 9 million) in net additions to specific valuation allowances, provisions, income from recoveries on receivables written off and write-downs. This represents a year-on-year decrease of € 6 million (IKB AG: € 13 million). This was due in particular to the lower level of net additions to specific valuation allowances.

In terms of general allowances for lending business in the Group, there was a net addition of € 7 million in the year under review (IKB AG: € 7 million) compared with a net addition of € 49 million in the previous year (IKB AG: € 49 million). The reason for the further addition was higher latent risks in medium and long-term project financing and in the European steel industry, including commodity financing. The development in general allowances is explained in more detail in note 7 “Risk provisions”.

Net risk provisioning includes net income from liquidity reserve securities and derivatives in the amount of € 9 million (IKB AG: € 9 million) after € -1 million in the previous year (IKB AG: € 0 million).

Taxes

Tax expenses amounted to € 1 million (IKB AG: tax income of € 3 million) in the reporting period after € 120 million (IKB AG: € 125 million) in the previous year, essentially on account of the absence of the high non-recurring effect in the previous year due to provisions for taxes for the 2008/09 financial year.

Result

In line with the forecast described in the “Outlook” section of IKB’s 2014/15 annual report, the Group generated net income overall in the year under review. Consolidated net income for the financial year 2015/16 amounted to € 10 million (previous year: € 5 million). As forecast, net income at IKB AG remained unchanged at € 0 million.

Net assets

The Group’s total assets declined by € 2.1 billion in the period under review, amounting to € 19.6 billion on the reporting date (IKB AG: decrease of € 2.4 billion to € 19.4 billion).

The Group’s gross credit volume, which also includes off-balance sheet business (see also section 4. “Risk report”), fell from € 25.6 billion to € 22.8 billion (IKB AG: from € 26.3 billion to € 23.4 billion) as at the reporting date, and essentially comprises medium-term and long-term loans to banks, loans to customers, liabilities held for trading, asset derivatives in the non-trading book and guarantees.

Assets

Receivables from banks in the Group decreased by € 0.2 billion to € 2.1 billion (IKB AG: from € 2.2 billion to € 2.0 billion).

Receivables from customers were decreased as expected. The decline in the Group of € 1.2 billion to € 9.9 billion (IKB AG: € 1.4 billion to € 11.5 billion) is essentially as a result of restrained credit demand on the market and selective lending by IKB. Despite the increases in new business volumes, repayments were not fully offset in the period under review.

Bonds and other fixed-income securities in the Group fell by € 1.0 billion to € 5.5 billion (IKB AG: reduction of € 0.7 billion to € 4.7 billion).

Liabilities

Liabilities to banks decreased by € 1.0 billion to € 7.9 billion at Group level (IKB AG: by € 1.0 billion to € 7.9 billion), particularly due to the lower utilisation of public programme loans.

Liabilities to customers fell by € 0.7 billion to € 7.5 billion (IKB AG: by € 0.7 billion to € 7.5 billion), largely as a result of the reduction in the volume of customer deposits.

Securitised liabilities in the Group were stable year-on-year at € 0.8 billion. In IKB AG, they were decreased from € 1.0 billion to € 0.9 billion, essentially as a result of repayments of bearer bonds in the amount of € 0.7 billion and new issues of € 0.5 billion.

Subordinated liabilities in the Group decreased from € 1.0 billion to € 0.9 billion (IKB AG: from € 0.5 billion to € 0.4 billion), essentially as a result of repayments.

The fund for general banking risks consists of reserves in accordance with section 340g HGB (previous year: section 340g HGB and section 340e HGB). The fund was increased by a net amount of € 5 million to € 585 million in the 2015/16 financial year. Overall, the increase in the fund results from the appropriation of € 7 million in accordance with section 340g HGB and the full reversal of the special reserve recognised in accordance with section 340e (4) HGB of € 2 million due to the suspension of trading activities by the Bank.

Equity

As a result of the consolidated net income and the change in foreign exchange differences recognised in equity in the period under review in particular, equity increased by € 11 million, from € 1,000 million to € 1,011 million (IKB AG: unchanged at € 1,207 million).

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

Unrealised gains and losses have arisen in recent financial years from financial instruments in the banking book in the form of securities, from derivatives and from the refinancing of the credit book without matching maturities as a result of changes in market interest rates, exchange rates and credit ratings. In view of the volatile developments on the capital markets, the Group generated net losses in the value of derivatives and securities of € 50 million in the 2015/16 reporting period as a result of selling or strategically changing derivative positions. Further details on the calculation of unrealised gains and losses can be found in the “Other disclosures: Unrealised gains and losses” section of the notes. Unrealised losses could lead to a lower level of net interest income or losses on disposal in future financial years. As in the previous year, the calculation in accordance with IDW RS BFA3 did not result in any provisioning requirements.

Financial position

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

Regarding the presentation of the maturities of liabilities, please refer to the breakdown of remaining terms in the notes. Regarding the liquidity and financing situation, please refer to section 4. “Risk report”.

Overall assessment

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

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

Financial and non-financial performance indicators

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

Regulatory tier 1 ratio

The regulatory tier 1 ratio or common equity tier 1 ratio is calculated as the ratio of tier 1 capital or CET 1 to regulatory risk-weighted assets. Details of the reconciliation of regulatory CET 1 and risk-weighted assets can be found in the information on the regulatory capital situation in section 4. “Risk report”.

As at 31 March 2016, the CET 1 ratio amounted to 11.6% for the IKB Group and 15.5% for IKB AG (for details see section 4. “Risk report”). Thus, as forecast, IKB exceeded the statutory minimum requirement (CRR) for the CET 1 ratio of 4.5% plus a capital conservation buffer of 0.625%, and the requirement at the level of the individual institution for the countercyclical capital buffer of significantly less than 0.1%.

Leverage ratio

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

The leverage ratio compares the largely unweighted total of balance sheet and off-balance sheet transactions with regulatory tier 1 capital. At present, this indicator is disclosed for monitoring purposes only and is not expected to become binding until 1 January 2019. Although the exact figure for this date is still to be determined, a benchmark of at least 3.0% has become established internationally.

Under the transitional provisions and applying the terms of Delegated Regulation EU 2015/62 of 17 January 2015, the leverage ratio of the IKB Group in accordance with Article 429 CRR was 8.2% (IKB AG: 7.9%) as at 31 March 2016 and, as forecast, roughly at the same level as in the previous year. Thereby comfortably exceeding the benchmark of 3.0%.

Net income after taxes and before additions to the fund for general banking risks (section 340g HGB)

As forecast in the 2014/15 annual report, IKB generated positive operating results in the financial year 2015/16 including disposals of financial instruments. As in the previous year, this was used to strengthen common equity tier 1 capital. Consolidated net income before additions to the fund for general banking risks (section 340g HGB) amounted to € 18 million as at 31 March 2016 (IKB AG: net income before additions of € 7 million). Additions of € 7 million were made to the fund for general banking risks in accordance with section 340g HGB.

Cost/income ratio

The Group's cost/income ratio describes administrative expenses in relation to total net interest income, net commission income and net trading income and was 93.7% as at 31 March 2016 as against 91.7% in the previous year.

Banking income and net banking income

The Group's banking income, which consists of net interest and lease income and net fee and commission income, amounted to € 313 million at Group level as at 31 March 2016 compared with € 332 million in the previous year.

Net banking income is calculated as banking income less provisions for possible loan losses and amounted to € 296 million at Group level as at 31 March 2016 compared with € 267 million in the previous year.

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

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

With a liquidity ratio in accordance with section 2 (1) LiqV of between 1.63 and 2.05, IKB AG had an adequate liquidity buffer at all times during the entire period under review. This meant the liquidity ratio was at the upper end or in excess of the range of 1.25 to 2.00 forecast by IKB for the financial year 2015/16.

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. A minimum LCR of 60% came into effect on 1 October 2015 in accordance with Article 460 (2) of Regulation (EU) No. 575/2013 in conjunction with Article 38 (2) of Delegated Regulation 2015/61/EU, and increased to 70% as at 1 January 2016.

Since the introduction of mandatory minimum requirements, IKB's liquidity management is based on both the LiqV ratio and the LCR. The LCR in accordance with Article 460 (2) of Regulation (EU) No. 575/2013 in conjunction with Article 38 (2) of Delegate Regulation 2015/61/EU was 283% for the IKB Group (IKB AG: 265%) as at 31 March 2016 and was therefore significantly higher than the statutory minimum requirement. For the forecast period, the Bank has projected an LCR of at least 100%, which is the minimum standard after transitional provisions.

3. Supplementary report (events after 31 March 2016)

The following major developments have arisen since 31 March 2016:

Reconciliation of interests/redundancy scheme

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

Delisting

Trading in shares of IKB AG in the entry standard of Deutsche Börse AG, Frankfurt, was discontinued from 11 April 2016.

Classification as not potentially posing a risk to the banking system

By way of letter dated 8 April 2016 and in a departure from its previous classification, IKB was classified by BaFin in consultation with the Bundesbank as not potentially posing a risk to the banking system in accordance with section 20 (1) sentence 3 of the *Gesetz zur Sanierung und Abwicklung von Instituten und Finanzgruppen* (SAG – German Act on the Recovery and Resolution of Credit Institutions). This classification can be changed again in future.

4. Risk report

Risk management organisation

The Bank operates a comprehensive risk management system in accordance with the Minimum Requirements for Risk Management (MaRisk) and other applicable pronouncements by the national and international regulatory authorities, which it develops on a continuous basis. All material risks are included in the risk management system.

The strategic business focus and the resulting opportunities are managed by Corporate Development separately from risk management (see section 5. “Report on opportunities”).

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

The companies included in risk management are defined on the basis of the materiality of the respective risks broken down by risk type (counterparty default risk, market price risk, etc.). Materiality is determined on the basis of various intra-year risk and process analyses and the Group-wide risk inventory, which covers all material Group companies.

Individual tasks and areas of responsibility are documented in risk management rules and regulations, which specify the principles of the risk management system at IKB, taking into account statutory requirements and specific organisational instructions.

Supervisory Board

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.

Board of Managing Directors

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 firmly established within the business and risk strategy of IKB. When establishing these principles, the Board of Managing Directors also takes into account the quality of risk management processes, particularly monitoring.

Board responsibilities were reorganised following the departure of Dr Glüder and Mr Volz and Dr Oliveri del Castillo-Schulz joining the Board of Managing Directors and thereby bringing it to four members. Departmental responsibility for back office functions in terms of transaction-related risk monitoring, intensive support and problem exposure management and departmental responsibility for the compliance function are held by Mr Momburg. Mr Volz is responsible for risk controlling functions and monitoring earnings management and capital resources. The Board of Managing Directors as a whole is responsible for managing risks associated with the strategic business focus and reputation risks.

Risk committees

Special committees set up to manage and monitor risk-relevant decisions support the Board of Managing Directors in risk management and decision-making. The most important is the Strategy and Risk Committee, which monitors the implementation of the targets defined in the business and risk strategy, incorporates current market developments and expectations into the measures required to achieve the targets and discusses the areas of the business and risk strategy requiring adjustment. The Committee is composed of the members of the Board of Managing Directors and the heads of various front and back office divisions, and usually meets at least once a quarter.

Credit risk management

The key tasks of Credit Risk Management division include activities associated with the credit approval process to be carried out independently of front office, developing and monitoring Group-wide standards for the lending business and ongoing risk monitoring of counterparty default risks. This includes the voting process, independent of front office, for investments in securities and derivative instruments. The division also participated in credit portfolio management.

Exposures with an increased risk and restructuring and settlement cases are managed in special management units within Credit Risk Management division, which are also responsible for the impairment process for these exposures. The aim of this special management is to take action in good time in order to maintain the company's capacity for redevelopment, in the event that these endeavours fail, to reduce the economic losses. Particular attention is paid not only to non-performing loans – irrespective of whether permanent impairment is expected – but to all exposures where available information indicates that they require special and intensive management by units specialising in restructuring.

The credit approval and impairment process for securitisation and structured credit products is likewise performed by a specialised Credit Risk Management unit.

Risk controlling

The Risk Controlling division is responsible for calculating and analysing counterparty, market price and liquidity risks in the banking book, monitoring compliance with the limits prescribed by the Board of Managing Directors and reporting on risk positions at Group level.

It also examines and improves the models and procedures used to measure financial instruments and manages and enhances the rating systems used.

The prompt and ongoing monitoring, analysis and reporting of the Bank's total risk, the monitoring of the risk-bearing capacity and the validation of models used in risk quantification and credit assessment are also carried out in separate units.

Group-wide monitoring of operational risk is also located centrally in the Risk Controlling division. In addition to identifying, analysing and reporting on operational risk, this also includes developing and establishing methods for measuring operational risk in the Group. Central operational risk management is aided by local operational risk managers in the segments, subsidiaries and central divisions.

The monitoring of business risk, which is also included in risk-bearing capacity calculations as a significant risk, is performed by the Finance division.

Monitoring earnings development and capital resources

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

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

Internal audit

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

All relevant activities and processes throughout the Group are examined on the basis of risk-oriented process checks. It focuses on particularly risk-sensitive processes and quantitative methods in addition to IT workflows in lending, advisory and capital markets business. There is also a focus on loan reviews on a case-by-case basis. Group Audit also carries out special audits throughout the Group as required by order of the Board of Managing Directors. The processes and activities outsourced by IKB to other service providers are monitored as part of continuous outsourcing controlling and the dedicated audit activities performed by Group Audit at the outsourcing companies.

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

Since the first quarter of 2014, Group Audit has also submitted a quarterly report to the Board of Managing Directors and the Supervisory Board in accordance with section 25c (4a) 3g KWG on the development of the significant and serious audit findings during the course of the year and selected aspects of its work. Independently of this, it is ensured that the Chairman of the Supervisory Board or the Finance and Audit Committee can obtain information directly from the head of Group Audit with the involvement of the Board of Managing Directors.

Regulatory capital resources and risk-bearing capacity

Regulatory capital resources

Since 1 January 2014, the Bank has calculated 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 standard regulatory methods for market price risk (interest risk: duration method; option risk: delta plus method or scenario matrix method). The Bank continues to use the regulatory netting approach to determine the next basis of measurement for derivatives, taking account of existing netting agreements. The following tables provide an overview of the regulatory risk items, equity base and ratios as applicable on approval of the accounts.

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

Figures in € million	**31 Mar. 2016[2)]**	**31 Mar. 2015[2)]**
Counterparty default risk (including CVA charge € 153 million; previous year: € 123 million)	11,970	12,736
Market risk equivalent	182	153
Operational risk	611	451
Total risk-weighted assets (RWA)	**12,763**	**13,340**
Common equity tier 1 (CET 1)	1,479	1,453
Additional tier 1 (AT 1)	282	326
Total Tier 1 (T 1)	**1,761**	**1,779**
Tier 2 (T 2)	429	448
Own funds	**2,190**	**2,228**
CET 1 ratio	**11.6%**	**10.9%**
T 1 ratio	13.8%	13.3%
Own funds ratio	17.2%	16.7%

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

1) Figures taking into consideration the phase-in and phase-out provisions of the CRR. The CET 1 ratios were calculated in accordance with the current legal status of the CRR as at 31 March 2016 and 31 March 2015 respectively, including transitional provisions and the interpretations published by the regulatory authorities. The possibility that future EBA/ECB standards and interpretations or other supervisory actions will lead to a retrospective change in the CET 1 ratio cannot be ruled out.

2) Figures after approval of the accounts and taking into account the addition to the fund for general banking risks in CET 1 at the reporting date.

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

Figures in € million	**31 Mar. 2016[2)]**	**31 Mar. 2015[2)]**
Counterparty default risk (including CVA charge € 153 million; previous year: € 123 million)	11,027	11,670
Market risk equivalent	61	86
Operational risk	366	262
Total risk-weighted assets (RWA)	**11,454**	**12,018**
Common equity tier 1 (CET 1)	1,772	1,754
Additional tier 1 (AT 1)	0	0
Total Tier 1 (T 1)	**1,772**	**1,754**
Tier 2 (T 2)	239	306
Own funds	**2,011**	**2,060**
CET 1 ratio	**15.5%**	**14.6%**
T 1 ratio	15.5%	14.6%
Own funds ratio	17.6%	17.1%

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 31 March 2016 and 31 March 2015 respectively, including transitional provisions and the interpretations published by the regulatory authorities. The possibility that future EBA/ECB standards and interpretations or other supervisory actions will lead to a retrospective change in the CET 1 ratio cannot be ruled out.

2) Figures after approval of the accounts and taking into account the addition to the fund for general banking risks in CET 1 at the reporting date.

The decrease in risk-weighted assets as at 31 March 2016 is primarily attributable to scheduled repayments, unscheduled repayments and sales of non-strategic assets accompanied by limited new business.

At 11.6% at Group level and 15.5% at individual Bank level, IKB's CET 1 ratios are significantly above the minimum legal requirements, including the capital conservation buffer and countercyclical capital buffer.

The Board of Managing Directors expects it to be possible to meet the statutory minimum requirements in future (see also section 6. “Outlook”). Although the CRR has been binding since 1 January 2014, there remains uncertainty with regard to the interpretation of the new regulation. This is also reflected in the large number of interpretation issues raised with the EBA, which are extremely important when it comes to interpreting the regulation. Furthermore, the final versions of many technical regulatory standards to be announced by the EBA are not yet available or their publication has been delayed compared to the EBA’s original timetable. Further uncertainty stems from the fact that the results of the international banking regulation process and the development of a unified European bank supervision are not always foreseeable. This relates in particular to the implementation of the regulations arising from the Banking Recovery and Resolution Directive (BRRD) with national implementation in the form of the German Recovery and Resolution Act and preparations for the Supervisory Review and Evaluation Process (SREP) in accordance with the EBA guidelines and the specific application of German regulation. In addition, in its draft regulation of the European Central Bank on the exercise of options and discretions available in Union law, the ECB advocates the abolition or severe restriction of national options in applying the provisions of the Capital Requirement Regulation. It is not yet clear whether this regulation will be adopted by the German regulatory authorities for institutions not monitored directly by the ECB in the interests of a level playing field. Furthermore, the Basel Committee on Banking Supervision (BCBS) has put up a large number of working papers for discussion, or already adopted them, collected under the working title Basel IV. In particular, these include the papers on revisions to the standardised approach for credit risk (BCBS 347), the standardised approach for measuring counterparty credit risk exposures (BCBS 279), revisions to the securitisation framework (BCBS 303), the fundamental review of the trading book (BCBS 305), the standardised approaches for calculating operational risk capital (BCBS 355), interest rate risk in the banking book (BCBS 368) and capital floors when designing a framework based on standardised approaches (BCBS 306). The exact effect on future capital requirements cannot be quantified at this time. The binding date on which harmonised EU-wide banking supervisory legislation will come into force has also still yet to be defined.

Risk-bearing capacity

The maintenance of risk-bearing capacity is fundamental to risk-related bank management. The legislature laid the foundation for the maintenance of risk-bearing capacity as a major target value in section 25a KWG. The banking authorities subsequently made clarifications to this in the Minimum Requirements for Risk Management. According to MaRisk, banks must ensure on the basis of their overall risk profile that all risks classified as significant are covered by the available economic risk cover.

In the context of risk-bearing capacity, IKB views the continuation of business activities while observing the regulatory minimum capital requirements as its primary objective. Even if both expected and unexpected losses are incurred in the one-year period of analysis, all regulatory minimum capital requirements must continue to be met. Against this backdrop, IKB uses the going-concern perspective as the leading control instrument. The Bank also analyses the overall risk position and risk coverage potential from a liquidation (gone concern) perspective.

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

In accordance with the “Supervisory assessment of bank-internal capital adequacy concepts” guideline published by the German Federal Financial Supervisory Authority (BaFin), IKB applies a fully accounting-based perspective for its going-concern perspective. On the basis of the regulatory equity items, the risk coverage potential is determined in such a way that all minimum capital requirements would be met in the analysis period even if the risk coverage funds including the regulatory capital conservation buffer were completely exhausted. If the regulatory minimum capital requirements change during the analysis period, this is accounted for in the calculation of the risk cover. In addition, when the risk coverage potential is determined, it is ensured that capital items that do not participate in current losses are not included.

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

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

Table: Economic capital requirements – going-concern perspective

	31 Mar. 2016 in € million	31 Mar. 2016 in %	31 Mar. 2015 in € million	31 Mar. 2015 in %
Counterparty default risk	189	56%	180	50%
Market price risk	43	13%	30	8%
Operational risk	15	4%	25	7%
Business risk	67	20%	99	27%
Liquidity risk	26	8%	28	8%
Total	**340**	**100%**	**362**	**100%**
less diversification effects	-64		-68	
Overall risk position	**276**		**294**	
Risk coverage potential	**786**		**781**[1)]	

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

1) Risk coverage potential was also adjusted for the regulatory capital buffer as at 31 March 2015 to allow comparability.

The overall risk position declined significantly by € 22 million year-on-year to € 276 million. This was due primarily to the reduction in business and operational risk. Even taking into account the rise in the capital conservation buffer over time, risk coverage potential increased by € 5 million year-on-year to € 786 million.

As at 31 March 2016, the overall risk position amounted to 35% of the risk coverage potential taking diversification effects into account (31 March 2015: 38%). This means that the risk coverage potential is comfortably sufficient to cover the economic capital requirements arising from the occurrence of unexpected risks across the risk horizon. All regulatory minimum capital requirements under Basel III will continue to be met – even excluding diversification effects – should these unexpected risks occur.

In addition to the above going-concern perspective, the Bank observes and analyses the overall risk position and risk coverage potential from a liquidation perspective. Unlike the primarily management-oriented going-concern perspective, risk coverage potential from the liquidation perspective is calculated as the sum of all the equity components available to the Bank, including profit participation capital and subordinated capital. At the same time, all hidden liabilities/reserves from loans, securities and derivatives and pension obligations are included in full.

Risk coverage potential amounted to € 1,734 million in the liquidation view, a decrease of € 170 million compared to the start of the financial year. At a confidence level of 99.76% (derived from a BBB rating), the total risk position for all risk types is € 1,119 million. Thus, taking diversification effects into account, risk coverage potential significantly exceeds the total risk position with utilisation of 65% (31 March 2015: utilisation of 78%). Even excluding diversification effects, the risk cover still exceeds the overall risk position.

Forecast calculations and stress tests

In light of the continued uncertainty with regard to macroeconomic development, the Bank prepares different forecast calculations for the next two financial years. These forecast calculations are based on the Bank's business plan. The Bank also performs various stress tests on a regular basis and as required. The outcome is that, assuming the business plan occurs in reality, the risk coverage potential will exceed the economic capital requirements for unexpected risks in both the going concern view and the liquidation view in the next two financial years.

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

Risk strategy

The individual risk strategies are a component of the integrated business and risk strategy. They set out the framework towards which IKB's business activities are geared. All risk strategies were revised in the 2015/16 financial year to reflect the current business focus and the economic situation. The areas of the strategies requiring adjustment as identified by the Strategy and Risk Committee were taken into account.

Credit risk strategy

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

Given its core business, IKB's regional focus will remain on Germany in future. With regard to its target customers in the high-end midmarket segment, industry diversification is also highly significant. In assessing its limits, the Bank looks at both the significance of the industry to the German economy and an analysis of the industry in terms of its forecast development.

Market price risk strategy

The market price risk strategy describes the risk profile IKB is prepared to accept when entering into market price risk, how this is measured and controlled and what measures are taken to prevent undesirable risks. At present, market price risks primarily result from the investment portfolio and Treasury. The main risk drivers are credit spread risks and interest rate risks, which the Bank will continue to focus on with a view to its forecast net interest income in light of the continued expected low level of interest rates in the financial year 2016/17. The Bank's trading book activities were discontinued in the 2015/16 financial year.

Liquidity strategy

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

Operational risk strategy

The primary objective of operational risk management at IKB is to reduce the losses resulting from operational loss events. Based on data from the business impact analysis, which tracks and assesses the operational risks that are inherent to IKB's business, processes and systems, contingency plans are prepared for the risks classified as "critical" as a minimum. In each case, the contingency plan for the respective concrete situation describes the immediate measures to be taken and the measures that are required to ensure an orderly return to normal operation. In addition to the business impact analysis, a quarterly individual analysis of the operational risk situation is conducted with a view to human resources, processes, projects, legal risks and infrastructure as well as the measures initiated to reduce or prevent risk in each case.

Counterparty default risk

In counterparty default risk, IKB distinguishes between credit risk and counterparty risk. A credit risk is present if a loan is not paid back – or not paid back in full – according to the loan agreement as a result of the default of a contracting party. At IKB, counterparty risk includes issuer risk and settlement risk in addition to replacement risk relating to derivatives that can result from the default of a contracting party. Issuer risk reflects the potential loss in the event of the default of the issuer of a security held by IKB, while settlement risk constitutes the risk of non-performance of the counterparty following advance payment of IKB in the context of the settlement process.

The starting point for the risk management process in the lending business is the planning process. Risk is explicitly included in planning based on risk-bearing capacity, new business and earnings targets. The target figures derived include not only new business volume, interest and commission income and personnel and material costs, but also the forecast risk provisioning requirement.

Credit approval process and individual exposure monitoring

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

After approval by front office, all credit decisions are made in line with authorisation regulations either centrally by the person responsible within Credit Risk Management or by committees involving the Board of Managing Directors. This is subject to the size of the Group's existing credit exposure, the credit rating of the borrower and the collateral provided. Credit and counterparty (limit) decisions can only be arranged by the persons responsible within Credit Risk Management if industry and country limits and other criteria set out in the risk strategy are observed. If individual criteria are not observed, the corresponding decision is taken by the committee with the involvement of the Board of Managing Directors.

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

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

In syndication transactions, acquisition finance and other individual cases of corporate finance involving the assumption of underwriting risks and subsequent transfer, there is a limit system for the size of individual underwriting positions and the aggregate of all underwriting positions, the aim of which is to ensure that even those risk positions that are intended only to be held in the credit book for a short period are syndicated during the approved period.

Credit decisions regarding investments in securities, securitisation, portfolio investments and other loan products are made either by the person holding powers of approval in the Credit Risk Management division or by the Board of Managing Directors within the scope of existing approval power regulations.

Existing credit exposures are reviewed by Credit Risk Management every twelve months using the appropriate processes and approval procedures. Furthermore, individual sub-portfolios and key individual exposures are analysed with regard to their risk situation and exposure strategies derived on an annual basis. Regular portfolio analysis and measurement for all security investments, securitisations, portfolio investments and other structured loan products are also carried out by the Credit Risk Management division.

Rating process and systems

IKB uses computer-aided rating systems tailored to the respective customer segment or the specific finance type to carry out credit assessments. The forecast overall economic performance is reviewed regularly and included in the rating. The individual rating classes are assigned probabilities of default based on the analysis of historical defaults.

In classic corporate financing, IKB uses a corporate rating that assesses the economic situation of the borrower based on financial ratios using mathematical and statistical processes. Individual customer and industry characteristics (qualitative factors) are taken into account by means of expert opinions.

For acquisition finance, the Bank uses a system that has been specially developed for leveraged finance transactions, which takes into account the financing structure on the basis of key ratios and the qualitative factors of the transaction.

Bank creditworthiness is also assessed using a specially developed system that applies quantitative and qualitative company information taking into account influences from the banking system and factors based on market data.

The development, maintenance and operation of the rating systems for acquisition finance and banks have been outsourced to an external service provider.

For project and special financing, IKB uses models that enable statements as to the debt service capacity by means of various scenarios, as the focus in this area is on the amount and sustainability of the cash flow for servicing interest payments and repayments which arise during the project duration. The real estate rating procedure used in commercial real estate financing rates creditworthiness on the basis of a variety of specific property data and investor information.

Country risk

Country ratings are determined in a dedicated system using economic data and ratios regarding the economic development of the country and its solvency in conjunction with a qualitative assessment of the political and social situation in the country. The further development, maintenance and operation of the rating system have been outsourced to the external service provider.

Quantifying credit risk

An internally developed portfolio model is used to quantify counterparty default risk, which generates a distribution of potential credit losses, taking into account fluctuation ranges for statistical default probabilities. This model takes into account individual aspects of each loan or investment (amount, collateralisation, term, sector, group affiliation, rating) plus a large number of other variables, for example default probability, likely collateral realisation quotas, sector/asset correlations based on the Bank's experience or on external reference sources.

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

Portfolio monitoring and management

When monitoring portfolios, the central focus is on examining the entire credit portfolio. Industry and market changes are jointly and promptly monitored by back office units specialising in industry risks. Their extensive industry expertise is an important component of risk management. The aim here is to recognise and limit sector risks in the lending business as early as possible, taking expected developments into account. In addition, monthly portfolio meetings are generally held between the company advisors and restructuring specialists in back office at the branches in order to discuss potential problem exposures at an early stage and initiate measures aimed at reducing counterparty default risk.

Regular monitoring by the Limit Committee, which comprises representatives from the Credit Risk Management and Risk Controlling divisions, is the starting point for determining concentration limits, which are oriented towards business policy target figures and risk policy guidelines. Sector limits are determined on the basis of the existing structures and portfolio key figures in due consideration of identified sector risks and economic influences on the individual sectors and, where appropriate, upper limits for individual loans and loans to company groups are also defined in order to prevent concentration risks. Furthermore, the credit portfolio is continuously monitored by risk analysts at Credit Risk Management specialising in industrial sectors.

Total exposure is restricted to the country risk limits for all countries. These limits are defined by the Limit Committee and apply to all transactions in these countries. Utilisation of fixed limits is monitored and reported promptly.

Structure of counterparty default risk

The credit volume as at 31 March 2016 was composed as follows:

Table: Credit volume

	Group			IKB AG		
in € million	**31 Mar. 2016**	**31 Mar. 2015**	**Change**	**31 Mar. 2016**	**31 Mar. 2015**	**Change**
Receivables from banks	2,122	2,300	-178	2,013	2,158	-145
Receivables from customers	9,888	11,090	-1,202	11,467	12,865	-1,398
Bonds and other fixed-income securities not including own bonds	5,036	5,764	-728	4,689	5,433	-744
Equities and other non-fixed-income securities	470	483	-13	2	1	1
Liabilities held for trading	-	271	-271	-	271	-271
Equity investments[1)]	11	23	-12	-	-	-
Lease assets	941	1,030	-89	-	-	-
Subtotal: Balance sheet assets	**18,468**	**20,961**	**-2,493**	**18,171**	**20,728**	**-2,557**
Contingent liabilities[2)]	2,257	2,184	73	3,190	3,116	74
Asset derivatives in the non-trading book[3)]	1,792	2,066	-274	1,803	2,089	-286
Write-downs[4)]	355	474	-119	332	445	-113
Leasing: Deferred income and advance payments for intangible assets	-63	-74	11	-	-	-
Provisions for expected losses for embedded derivatives	-50	-52	2	-50	-52	2
Gross credit volume	**22,759**	**25,559**	**-2,800**	**23,446**	**26,326**	**-2,880**
For information purposes: other significant counterparty default risks outside the gross credit volume						
Irrevocable loan commitments	1,559	1,080	479	1,434	969	465
Equity investments[1)] and investments in associated and affiliated companies	28	39	-11	149	170	-21

1) In the Group, investments after consolidation are part of the gross credit volume, at IKB AG they are outside the gross credit volume.
2) Before deducting risk provisions. This item contains the nominal value of all protection seller credit default swaps (CDS), including a nominal amount of € 1,243 million (31 March 2015: € 1,222 million) that is treated as a derivative for accounting purposes in accordance with the provisions of IDW RS BFA 1 new version.
3) Including € 7 million in positive fair values for protection seller CDSs whose nominal values are treated as contingent liabilities for accounting purposes in accordance with the provisions of IDW RS BFA 1 new version.
4) not including provisions for expected losses for embedded derivatives in structured products; credit volume after deduction of write-downs on bonds and other fixed-income securities

The gross credit volume at the Group has decreased by around € 2.8 billion since the start of the financial year. This is due to a decline in receivables from customers of € 1.2 billion. This was partly due to repayments, but mostly related to the reduction of loans no longer consistent with the strategic focus of the Bank and the realisation and reduction of non-performing assets. Other key elements of the decrease in volume were the reduction of bonds by € 0.7 billion and a decline in asset derivatives in the non-trading book of € 0.3 billion. Liabilities held for trading of € 0.3 billion, which mainly included derivatives, were reversed or transferred to the non-trading book.

By contrast, irrevocable loan commitments rose by € 0.5 billion.

Developments were largely the same at IKB AG.

Table: Credit volume by size – Group

	31 Mar. 2016 in € million	31 Mar. 2016 in %	31 Mar. 2016 Number[1)]	31 Mar. 2015 in € million	31 Mar. 2015 in %
Under € 5 million	2,527	11%	22,309	2,931	11%
Between € 5 million and € 10 million	1,452	6%	205	1,606	6%
Between € 10 million and € 20 million	2,545	11%	184	2,407	9%
Between € 20 million and € 50 million	3,323	15%	107	3,515	14%
Over € 50 million	12,114	53%	61	14,032	55%
Subtotal	**21,961**	**96%**	**22,866**	**24,491**	**96%**
Risk transferred to third parties[2)]	798	4%	-	1,068	4%
Total	**22,759**	**100%**	**22,866**	**25,559**	**100%**

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

As a result of the further reduction in derivatives and sales of bonds, at € 1.9 billion the decline in credit volume focused on the "Over € 50 million" category. The share of this size class declined from 55% to 53%. The credit volume attributable to banks and the financial sector in this size category decreased by € 1.0 billion from € 8.0 billion to € 7.0 billion. In addition, the credit volume for corporates (including lease financing) in the largest size class was down by € 0.2 billion at € 1.3 billion. The credit volume for the public sector in this size class was down by € 0.7 billion at € 3.8 billion.

The average exposure per borrower unit in this category has fallen to € 199 million (start of financial year: € 223 million) based on 61 borrower units.

In terms of both volume and number, the "Under € 5 million" category primarily consists of lease finance.

The volume of risks transferred to third parties declined by € 0.3 billion since the start of the financial year to € 0.8 billion, largely as a result of repayments of loans transferred or secured by way of securitisation transactions.

They comprise liability sub-participations by banks (primarily KfW Bankengruppe – KfW) of € 638 million, public guarantees including Hermes cover of € 95 million and synthetic securitisations of € 65 million, in which KfW hedges the credit risk.

The Bank is secured against counterparty default risks by means of synthetic securitisations, although the loans are still reported in the balance sheet. Borrowers continue to be managed by IKB AG, even for transferred loans.

Table: Credit volume by size – IKB AG

	31 Mar. 2016 in € million	31 Mar. 2016 in %	31 Mar. 2016 Number[1)]	31 Mar. 2015 in € million	31 Mar. 2015 in %
Under € 5 million	971	4%	912	1,226	5%
Between € 5 million and € 10 million	1,377	6%	193	1,561	6%
Between € 10 million and € 20 million	2,448	10%	176	2,321	9%
Between € 20 million and € 50 million	3,280	14%	106	3,387	13%
Over € 50 million	10,909	47%	57	12,861	49%
Subtotal	**18,985**	**81%**	**1,444**	**21,356**	**81%**
Risk transferred to third parties[2)]	798	3%	-	1,068	4%
Intragroup transactions	3,663	16%	-	3,902	15%
Total	**23,446**	**100%**	**1,444**	**26,326**	**100%**

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

Collateral, risk transfer and securitisation

The provision of cover by means of traditional collateral (property liens, transfers of ownership and guarantees) is still of considerable importance for the traditional lending business at IKB. The carrying amounts for collateral used as security are reviewed and updated on an ongoing basis. Leased assets are assigned to the "Transfers of ownership" category.

Table: Credit volume by type of collateral – Group

	31 Mar. 2016 in € million	31 Mar. 2016 in %	31 Mar. 2015 in € million	31 Mar. 2015 in %
Property liens and charges[1)]	2,827	12%	3,247	13%
Transfers of ownership and leased assets[1)]	2,282	10%	2,393	9%
Other collateral [1) 2)]	2,814	12%	2,711	11%
Collateralised[1)]	1,589	7%	2,057	8%
Secured credit volume	**9,512**	**42%**	**10,408**	**41%**
Without collateral[3)]	12,449	55%	14,083	55%
Subtotal	**21,961**	**96%**	**24,491**	**96%**
Risk transferred to third parties[4)]	798	4%	1,068	4%
Total	**22,759**	**100%**	**25,559**	**100%**

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

Exposures secured by means of mortgage loans, transfers of ownership and other collateral decreased by € 0.4 billion since the start of the financial year. As a result of the approximately proportional decline in credit volume in the financial year, the share of secured lending in the overall portfolio remained roughly constant. The slight increase in "Other collateral" is due primarily to new business for which collateral such as guarantees and positive/negative pledges have been agreed.

As the Bank does not net asset derivatives against liability derivatives with the same counterparties when presenting its loan volumes, even though this is permitted if the counterparty defaults assuming agreements to this effect are in place, the "Collateralised" column shows the derivative volume for which asset derivatives are offset by liabilities derivatives of the same amount and, at the same time, for which there are offsetting agreements in place. As a result of the reduced lending volume in derivatives business, the volume in the “Collateralised” category fell from € 2.1 billion at the start of the financial year to € 1.6 billion.

Where the Bank also provides collateral in the form of cash and term deposits for derivatives on the interbank market, these are reported under “Without collateral”.

The majority of “Without collateral” relates to “banks and the financial sector” (€ 5.9 billion; 31 March 2015: € 6.5 billion) and the public sector (€ 4.0 billion; 31 March 2015: € 4.6 billion). “Without collateral” relating to banks and the public sector primarily include securities that are assigned to the cash portfolio and are eligible at the ECB, currently including € 1.5 billion in mortgage bonds and covered bonds. € 2.5 billion of “Without collateral” relate to corporate financing (31 March 2015: € 3.0 billion).

Table: Credit volume by type of collateral – IKB AG

	31 Mar. 2016 in € million	31 Mar. 2016 in %	31 Mar. 2015 in € million	31 Mar. 2015 in %
Property liens and charges[1)]	2,827	12%	3,247	12%
Transfers of ownership[1)]	492	2%	523	2%
Other collateral [1) 2)]	2,813	12%	2,711	10%
Collateralised[1)]	1,589	7%	2,057	8%
Secured credit volume	**7,721**	**33%**	**8,538**	**32%**
Without collateral[3)]	11,264	48%	12,818	49%
Subtotal	**18,985**	**81%**	**21,356**	**81%**
Risk transferred to third parties[4)]	798	3%	1,068	4%
Intragroup transactions	3,663	16%	3,902	15%
Total	**23,446**	**100%**	**26,326**	**100%**

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

Geographical structure

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

Table: Credit volume by region – Group

	31 Mar. 2016 in € million	31 Mar. 2016 in %	31 Mar. 2015 in € million	31 Mar. 2015 in %
Germany	9,869	43%	11,219	44%
Outside Germany	12,092	53%	13,272	52%
Western Europe	9,552	42%	10,420	41%
Eastern Europe	1,179	5%	1,179	5%
North America	990	4%	1,314	5%
Other	371	2%	359	1%
Subtotal	**21,961**	**96%**	**24,491**	**96%**
Risk transferred to third parties[1)]	798	4%	1,068	4%
Total	**22,759**	**100%**	**25,559**	**100%**

1) Hermes guarantees, indemnifications, risks transferred

The decline in credit volumes in the current financial year was slightly faster in Germany.

The decline in volume in North America of € 0.3 billion is due to bond sales and lower collateral provided. € 0.6 billion of the unchanged volume attributable to Eastern Europe of € 1.2 billion relates to leasing business. Furthermore, there are essentially bonds of the Republic of Poland and protection seller CDSs referencing the Republic of Poland of € 0.4 billion. The volume in other countries relates mainly to protection seller CDS referencing the People's Republic of China and the elective monarchy of Malaysia, plus one Australian government bond.

Table: Credit volume by region – IKB AG

	31 Mar. 2016 in € million	31 Mar. 2016 in %	31 Mar. 2015 in € million	31 Mar. 2015 in %
Germany	8,758	37%	9,823	37%
Outside Germany	10,227	44%	11,533	44%
Western Europe	8,392	36%	9,350	36%
Eastern Europe	590	3%	585	2%
North America	874	4%	1,239	5%
Other	371	2%	359	1%
Subtotal	**18,985**	**81%**	**21,356**	**81%**
Risk transferred to third parties[1)]	798	3%	1,068	4%
Intragroup transactions	3,663	16%	3,902	15%
Total	**23,446**	**100%**	**26,326**	**100%**

1) Hermes guarantees, indemnifications, risks transferred

Table: Breakdown of country lending obligations by IKB country rating – Group

31 Mar. 2016		Country ratings[1)]				
in € million	**Total[2)]**	**1-6**	**7-9**	**10-12**	**13-15**	**16-19**
Western Europe	9,552	8,574	917	61	-	-
Eastern Europe	1,179	817	230	132	-	-
North America	990	990	-	-	-	-
Other	371	278	54	31	8	-
Total	**12,092**	**10,659**	**1,201**	**224**	**8**	**-**

1) not including risks transferred to third parties; higher credit ratings reflect higher risk levels
2) Export credit guarantees are deducted from the figures presented above. No other adjustments for collateral are made.

In the Group, 88% of the credit volume attributable to countries outside Germany is assigned to the six best country ratings, 1-6. The country obligations in risk classes 13-15 relate to one exposure in Iran and two in Egypt.

Table: Breakdown of country lending obligations by IKB country rating – IKB AG

31 Mar. 2016		Country ratings[1)]				
in € million	**Total[2)]**	**1-6**	**7-9**	**10-12**	**13-15**	**16-19**
Western Europe	8,392	7,500	831	61	-	-
Eastern Europe	590	496	4	90	-	-
North America	874	874	-	-	-	-
Other	371	278	54	31	8	-
Total	**10,227**	**9,148**	**889**	**182**	**8**	**-**

1) not including risks transferred to third parties; higher credit ratings reflect higher risk levels
2) Export credit guarantees are deducted from the figures presented above. No other adjustments for collateral are made.

Within Western Europe, risks relate to the following countries:

Table: Credit volume in Western Europe by risk – Group

31 Mar. 2016 in € million	Credit volume after risk transferred to third parties	Thereof public sector	Thereof banks and financial sector[1)]	Thereof other counterparty default risks
UK	2,249	-	1,735	514
France	1,608	417	756	435
Spain	1,418	647	414	357
EU[2)]	1,254	427	827	-
Italy	866	424	100	342
Belgium	492	316	148	28
Netherlands	407	13	261	133
Ireland	401	223	104	74
Switzerland	307	-	239	68
Austria	203	88	4	111
Denmark	117	110	7	-
Luxembourg	61	-	56	5
Slovenia	50	50	-	-
Sweden	32	-	-	32
Other	87	-	-	87
Total	**9,552**	**2,715**	**4,651**	**2,186**

1) Bank exposures in Spain and Italy primarily contain covered bonds.
2) European Commission, Council of Europe Development, European Stability Mechanism and European Investment Bank

Table: Credit volume in Western Europe by risk – IKB AG

31 Mar. 2016 in € million	Credit volume after risk transferred to third parties	Thereof public sector	Thereof banks and financial sector[1)]	Thereof other counterparty default risks
UK	2,224	-	1,710	514
Spain	1,356	618	381	357
France	1,232	417	584	231
EU[2)]	1,064	289	775	-
Italy	780	424	35	321
Ireland	401	223	104	74
Netherlands	394	-	261	133
Switzerland	307	-	239	68
Austria	186	88	4	94
Denmark	117	110	7	-
Belgium	104	44	32	28
Luxembourg	58	-	55	3
Slovenia	50	50	-	-
Sweden	32	-	-	32
Other	87	-	-	87
Total	**8,392**	**2,263**	**4,187**	**1,942**

1) Bank exposures in Spain and Italy primarily contain covered bonds.
2) European Commission, Council of Europe Development, European Stability Mechanism and European Investment Bank

Sector structure

Table: Credit volume by sector – Group

	31 Mar. 2016 in € million	31 Mar. 2016 in %	31 Mar. 2015 in € million	31 Mar. 2015 in %
Industrial sectors	10,037	44%	10,743	42%
Mechanical engineering	947	4%	1,130	4%
Energy supply	729	3%	682	3%
Chemical industry	687	3%	526	2%
Metal products	663	3%	727	3%
Services	626	3%	763	3%
Other industrial sectors	6,385	28%	6,915	27%
Real estate	434	2%	622	2%
Financial sector	1,361	6%	1,726	7%
Banks	6,041	27%	6,714	26%
Public sector	4,088	18%	4,686	18%
Subtotal	**21,961**	**96%**	**24,491**	**96%**
Risk transferred to third parties[1)]	798	4%	1,068	4%
Total	**22,759**	**100%**	**25,559**	**100%**

1) Hermes guarantees, indemnifications, risks transferred

The reduction in the credit volume is reflected in almost all of the industry clusters.

The credit volume decreased by € 0.7 billion as against the start of the financial year in the industrial sectors and by € 0.2 billion in the real estate industry. The strong credit volume decline in the financial sector and for banks is due to the reduction of bonds, derivatives and collateral provided for derivatives in the form of overnight and term deposits. In the public sector, the volume has declined by € 0.6 billion due to sales of long-term Western European bonds.

The degree of diversification in the industrial sectors is still high, with no single sector accounting for more than 5% of the portfolio.

Table: Credit volume by sector – IKB AG

	31 Mar. 2016 in € million	31 Mar. 2016 in %	31 Mar. 2015 in € million	31 Mar. 2015 in %
Industrial sectors	8,165	35%	8,726	33%
Mechanical engineering	787	3%	937	4%
Energy supply	727	3%	680	3%
Chemical industry	634	3%	471	2%
Retail	522	2%	756	3%
Food industry	463	2%	445	2%
Other industrial sectors	5,032	21%	5,437	21%
Real estate	422	2%	610	2%
Financial sector	1,266	5%	1,644	6%
Banks	5,576	24%	6,114	23%
Public sector	3,556	15%	4,262	16%
Subtotal	**18,985**	**81%**	**21,356**	**81%**
Risk transferred to third parties[1)]	798	3%	1,068	4%
Intragroup transactions	3,663	16%	3,902	15%
Total	**23,446**	**100%**	**26,326**	**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

	31 Mar. 2016 in € million	31 Mar. 2016 in %	31 Mar. 2015 in € million	31 Mar. 2015 in %
1-4	7,659	34%	9,297	36%
5-7	7,512	33%	8,063	32%
8-10	4,288	19%	4,263	17%
11-13	1,565	7%	1,628	6%
14-15	378	2%	341	1%
Non-performing assets[2)]	559	2%	899	4%
Subtotal	**21,961**	**96%**	**24,491**	**96%**
Risk transferred to third parties[3)]	798	4%	1,068	4%
Total	**22,759**	**100%**	**25,559**	**100%**

1) Higher rating classes reflect lower creditworthiness
2) Before specific valuation allowances/loan loss provisions, after writing down securities to the lower of cost or market
3) Hermes guarantees, indemnifications, risks transferred

The volume in the best credit rating group (1-4) has decreased mainly due to the decline of € 1.6 billion in business activities with credit institutions since the beginning of the financial year. The decline in the second-best rating group (5-7) of € 0.5 billion is mainly due to repayments of corporate financing and the decrease in activities in the financial sector. Overall, the share attributable to the two best rating categories (1-4 and 5-7) remained virtually unchanged at 67% of the total credit volume.

A significant proportion of the 14-15 credit ratings relate to lease exposures for which the leased assets serve as collateral.

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

	31 Mar. 2016 in € million	31 Mar. 2016 in %	31 Mar. 2015 in € million	31 Mar. 2015 in %
1-4	6,768	29%	8,447	32%
5-7	7,155	31%	7,555	29%
8-10	3,311	14%	3,364	13%
11-13	1,046	4%	1,038	4%
14-15	210	1%	121	0%
Non-performing assets[2)]	495	2%	831	3%
Subtotal	**18,985**	**81%**	**21,356**	**81%**
Risk transferred to third parties[3)]	798	3%	1,068	4%
Intragroup transactions	3,663	16%	3,902	15%
Total	**23,446**	**100%**	**26,326**	**100%**

1) Higher rating classes reflect lower creditworthiness
2) Before specific valuation allowances/loan loss provisions, after writing down securities to the lower of cost or market
3) Hermes guarantees, indemnifications, risks transferred

The increase in the credit volume in rating grades 14 to 15 is due to the change in the definition of non-performing assets (see below).

Non-performing assets

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

Securities are classified as non-performing assets if the Bank considers permanent impairment to be probable.

In line with the criteria of Article 178 CRR and the guidance and consultation papers published in this context, the term “non-performing assets” as used by IKB has been adjusted. Exposures that are managed by the Bank’s units specialising in restructuring but for which the obligor does not have amounts impaired or past due by more than 90 days or any other indications of default (such as insolvency), were removed from the “Non-performing assets” category.

These exposures were previously classified as non-performing assets (default level 16). As a result of the redefinition, they have now been migrated to better ratings (predominantly 14 and 15).

If forbearance measures are implemented after a default, they undergo a probation period of at least twelve months until they can be classified as “healthy” again following an individual review by specialised Credit Risk Management units.

The change in definition related to a credit volume after risk mitigation of € 102 million as at 31 March 2016. The management approach for these exposures has not changed. Together with the non-performing assets, these exposures are subject to intensive monitoring and are still supervised by the specialist units. Non-performing assets and other exposures managed by the specialist units totalled € 688 million or 3.0% of the credit volume in the IKB Group as at 31 March 2016.

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

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

	31 Mar. 2016 in € million	31 Mar. 2015 in € million	Change in € million	Change in %
Assets with specific risk provisions	447	638	-191	-30%
Non-impaired	139	290	-151	-52%
Total	**586**	**928**	**-342**	**-37%**
as % of credit volume	2.6%	3.6%		

1) Before specific risk provisions/loan loss provisions, after writing down securities to the lower of cost or market

Non-performing assets decreased by € 342 million or 37% since the start of the financial year. At € 191 million, most of the decline related to assets with specific risk provisions (see below). The decrease in non-impaired, non-performing assets primarily related to the change in definition.

Non-performing assets do not include:

- Risks transferred to third parties for non-performing assets (€ 99 million; 31 March 2015: € 149 million), as these credit risks have been assumed by other banks, public sector entities or via collateralised loan obligations (CLOs) and are assigned to the party assuming liability (change in credit rating). The credit portions transferred are only considered to be non-performing assets if the party assuming liability also meets one of the default criteria (double default).
- Unutilised commitments for debtors whose residual exposure is classified as a non-performing asset (€ 30 million; 31 March 2015: € 19 million); open commitments are not included in the credit volume, and
- Securities transferred to Rio Debt Holdings – see "Structured credit products" under "Counterparty default risk" in section 4. "Risk report".

Table: Non-performing assets[1)]– IKB AG

	31 Mar. 2016 in € million	31 Mar. 2015 in € million	Change in € million	Change in %
Assets with specific risk provisions	421	604	-183	-30%
Non-impaired	101	256	-155	-61%
Total	**522**	**860**	**-338**	**-39%**
as % of credit volume	2.2%	3.3%		

1) Before specific risk provisions/loan loss provisions, after writing down securities to the lower of cost or market

Table: Assets with specific risk provisions – Group

	31 Mar. 2016 in € million	31 Mar. 2015 in € million	Change in € million	Change in %
Germany	214	321	-107	-33%
Outside Germany	184	254	-70	-28%
Loans with specific risk provisions	**398**	**575**	**-177**	**-31%**
Securities written down[1)]	49	63	-14	-22%
Total assets with specific risk provisions	**447**	**638**	**-191**	**-30%**
as % of credit volume	2.0%	2.5%		

1) Before writing down to the lower of cost or market (31 March 2016: € 27 million; 31 March 2015: € 29 million)

The reduction in loans with specific risk provisions was attributable to settlement and sales activities in Germany and abroad. The Bank also again disposed of older non-performing assets and reversed the specific risk provisions it had previously recognised. The reduction in securities with specific risk provisions was essentially due to receipts on securities partially written down.

Table: Assets with specific risk provisions – IKB AG

	31 Mar. 2016 in € million	31 Mar. 2015 in € million	Change in € million	Change in %
Germany	205	305	-100	-33%
Outside Germany	167	236	-69	-29%
Loans with specific risk provisions	**372**	**541**	**-169**	**-31%**
Securities written down[1)]	49	63	-14	-22%
Total assets with specific risk provisions	**421**	**604**	**-183**	**-30%**
as % of credit volume	1.8%	2.3%		

1) Before writing down to the lower of cost or market (31 March 2016: € 27 million; 31 March 2015: € 29 million)

Provisions for possible loan losses

In the event of acute risk of default, risk provisions are recognised for possible loan losses in the form of a specific risk provisions. For contingent liabilities, a provision is recognised in the event of threatened utilisation. Risk provisions are also recognised in the form of a provision for the permanent impairment of CDSs and for CDSs embedded in credit-linked notes (CLNs). See also the disclosures in the notes under "7. Risk provisioning".

Table: Provisions for possible loan losses – Group

	31 Mar. 2016 in € million	31 Mar. 2015 in € million	Change in %
Additions to specific risk provisions/provisions[1)]	67.1	133.8	-50%
Direct write-downs	14.4	2.7	>100%
Recoveries on loans previously written off	-8.7	-13.8	-37%
Reversal and unwinding of specific risk provisions/provisions[1)]	-62.5	-106.3	-41%
Additions to/reversals of general allowances[2)]	7.0	49.1	-86%
Provisions for possible loan losses	**17.3**	**65.5**	**-74%**
Embedded derivatives/expenses for credit insurance	0.5	0.3	
Net addition to risk provisioning	**17.8**	**65.8**	**-73%**
Net income from securities and derivatives in the liquidity reserve	-8.5	-1.0	>100%
Net risk provisioning	**9.3**	**64.8**	**-86%**
Development of specific risk provisions/provisions[3)]			
Opening balance	330.7	406.6	-19%
Utilisation	-130.0	-120.8	8%
Reversal	-56.0	-96.5	-42%
Reclassification and net interest expense and discounting	0.2	14.1	
Unwinding	-6.5	-9.8	-34%
Additions to specific risk provisions/provisions	67.1	133.8	-50%
Effect of changes in exchange rates	1.4	3.3	-58%
Total specific risk provisions/provisions	**206.9**	**330.7**	**-37%**
General allowances[4)]			
Opening balance	159.2	109.9	45%
Addition/reversal	7.0	49.1	-86%
Reclassification	-	0.2	
Total general allowances	**166.2**	**159.2**	**4%**
Total provisions for possible loan losses (including provisions)	**373.1**	**489.9**	**-24%**

1) not including general allowances for contingent liabilities recognised as provisions, net addition of € 1.1 million in the period from 1 April 2015 to 31 March 2016; addition of € 2.7 million in prior-year period
2) including general allowances for contingent liabilities recognised as provisions
3) not including provisions for embedded derivatives, excluding general allowances for contingent liabilities recognised as provisions in the amount of € 8.4 million at 31 March 2016 and € 7.3 million at 31 March 2015
4) including general allowances for contingent liabilities recognised as provisions

At an expense of € 17 million, provisions for possible loan losses were well below the figure for the previous year. The decline is mainly due to the development in the general allowances: € 7 million was added to this in the reporting period after an addition of € 49 million in the previous year. The reason for the further addition was higher latent risks in medium and long-term project financing and in the European steel industry, including commodity financing. The development in general allowances is explained in more detail in note 7 “Risk provisions”.

Not including general allowances, as in the previous year, net risk provisioning declined to a historically low level, from € 16 million to € 10 million. This was due to the 50% reduction in additions to specific risk provisions and loan loss provisions. In the past financial year as well, there were considerable reversals of specific risk provisions and provisions in addition to recoveries on loans previously written off, though these were lower than the decline in impaired non-performing assets.

The net risk provisioning of € 9 million (previous year: € 65 million) also contains income of € 9 million due to claims for reimbursement for securities in the liquidity reserve at the special-purpose entity Rhinebridge.

Risk reporting

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

Structured credit products

The Bank's exposure in structured credit products was scaled back significantly in the 2015/16 financial year by selling two synthetic transactions with six tranches and corporate and state reference assets at a total nominal volume of € 200 million at par value.

The risks of the remaining structured credit products relate to items that mostly reference corporate risks and the retention of IKB's own securitisation. IKB now has economic risks from investments with sub-prime content only for the assets transferred to the special-purpose entity Rio Debt Holdings.

The portfolio investments sub-segment included the following elements as at 31 March 2016:

- Securitisation positions with a nominal amount of € 57 million (31 March 2015: € 81 million) and a carrying amount of € 30 million (31 March 2015: € 49 million) assigned to the strategic core business of the Bank and primarily deriving from the securitisation of own loans. These assets largely have a sub-investment grade rating.
- Securities with a nominal volume of € 135 million (31 March 2015: € 179 million) and a carrying amount of € 69 million (31 March 2015: € 75 million) that were transferred to Rio Debt Holdings. IKB's sub-prime risks have a carrying amount of € 46 million (31 March 2015: € 30 million). The residual income from the portfolio is now attributable to IKB in full, as the mezzanine loan previously held by LSF Aggregated Lendings S.à.r.l. was transferred to IKB Lux Beteiligungen S.à.r.l. at fair value in December 2014.

In terms of asset classes, the risk from investments with corporate underlyings (CLOs) amounts to € 22 million (31 March 2015: € 239 million). The risk of assets with ABS underlyings (ABS and CDO of ABS) amounted to € 77 million (31 March 2015: € 84 million).

Liquidity risk

At IKB, liquidity risk encompasses insolvency risk, liquidity maturity transformation risk and economic liquidity risk.

Insolvency risk (also described as operational liquidity risk) represents the risk that IKB will be unable to meet its current or future payment obligations in full or in good time. The identification and analysis of liquidity risk is based on the expected cash flows for transactions that have already been contracted, supplemented by modelling, the planning of measures and new business and the liquidity reserve (options for borrowing with the ECB and cash on hand). The planning of measures relates in particular to the extension and establishment of customer deposits secured via the Deposit Protection Fund. The future liquidity balances thus calculated are reduced further via additional stress components (market disruptions, credit disruptions, changes in conditions, etc.) in order to establish a limit for the minimum liquidity balance over a one-year period. Furthermore, liquidity balances in the long-term funding matrix can lead to insolvency risk if appropriate controlling measures are not taken. This structural liquidity risk is made transparent via the reporting of long-term liquidity balances and is controlled by Treasury in the same way as for insolvency risk. At the same time, the liquidity limit for controlling purposes in liquidity reporting is based on a one-year horizon.

Maturity transformation risk describes the risk of increased refinancing costs (refinancing risk) and the risk that it will be possible to close out transactions only at a discount due to market disruptions (market liquidity risk). These two components are included in the calculation of the Bank's risk-bearing capacity in the form of a cost risk and are taken into account within the limit concept.

Economic risk describes the risk that IKB will find itself in a crisis situation as a result of market disruptions or changes in conditions. This risk is taken into account through the regular updating of stress tests and stress scenarios. The most negative consequences of the combined stress scenarios are applied in the limited scenario. The aim is to ensure that IKB can continue to operate under planning measures in certain stress scenarios for a defined period of time. Stress tests are also conducted as required.

In addition to the calculation of individual stress tests and combined stress scenarios on a regular basis and as required, IKB has implemented an early warning system for changes in the liquidity situation. The early warning indicators and the potential consequences are discussed with Treasury at regular intervals.

Liquidity risk controlling

Treasury is responsible for the operational controlling of the liquidity risks discussed above and reported in the liquidity risk report. Treasury and Risk Controlling discuss the liquidity situation and all of the liquidity measures currently available promptly and regularly. The liquidity situation is also presented to the Asset Liability Committee of the Bank on a weekly basis and measures are discussed and resolved as required.

Refinancing situation

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

The secured refinancing volume on the interbank market including refinancing via the ECB amounted to around € 2.3 billion as at 31 March 2016 (previous year: € 3.0 billion).

The volume of customer deposits covered by the Deposit Protection Fund declined slightly in the period under review, amounting to approximately € 5.3 billion as at 31 March 2016 (previous year: € 5.7 billion).

In addition to these customer deposits, IKB has promissory note loans secured via the Deposit Protection Fund with a total volume of € 1.8 billion (previous year: € 2.1 billion). IKB AG also expanded the issue of unsecured bearer bonds in the retail customer segment to a total volume of just under € 0.6 billion as at 31 March 2016 (previous year: € 0.5 billion).

IKB will continue to actively utilise programme loans and global loans from government development banks for its customers.

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 approximately € 7 billion. This figure is derived from the legal maturities of the Bank's asset and liability positions and its planned new lending business.

As previously, the main options currently available for refinancing these requirements are accepting secured customer deposits and promissory note loans, secured borrowing on the interbank market (cash and term deposits), participating in ECB tenders, bearer bonds and selling balance sheet assets. A further option for the Bank lies in collateralised refinancing structures.

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 can result in liquidity bottlenecks. For example, this may include market developments that prevent the Bank from extending liabilities guaranteed by the Deposit Protection Fund or selling balance sheet assets to a sufficient extent or at all. IKB has a liquidity contingency plan for this eventuality that describes a bundle of measures and a set procedure for responding to a liquidity bottleneck.

IKB had secured its liquidity situation for the longer term as at 31 March 2016. The limited minimal liquidity balance is around € 1.0 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. Changes in the value of securities in the liquidity reserve and derivatives could lead to changes in the liquidity situation via changes in collateral values/holdings.

The maturity transformation risk included in the calculation of the Bank's risk-bearing capacity amounts to € 26 million (see table in the notes).

In accordance with the German Liquidity Regulation (LiqV), the Bank will ensure that its liquidity ratio remains within a corridor of between 1.25 and 2.00. In the period under review, the average liquidity ratio was 1.8, thereby comfortably exceeding the regulatory minimum of 1.00.

A minimum liquidity coverage ratio (LCR) of 60% came into effect on 1 October 2015 in accordance with Article 460 (2) of Regulation (EU) No. 575/2013 in conjunction with Article 38 (2) of Delegated Regulation 2015/61/EU, and increased to 70% as at 1 January 2016. The Bank also intends to comfortably exceed this minimum requirement. The target value is in excess of 100% and was complied with at all times.

Market price risk

Market price risk is defined as the risk of economic and accounting losses as a result of changes in market prices.

Market price risk is broken down into the risk factors of interest rates, credit spreads, FX (foreign exchange) rates, stock market and inflation indexes and their volatilities.

- Interest rate risks relate to potential changes in the value of transactions due to shifts in the risk-free yield curve.
- Credit spread risks result from changes in the default and liquidity premiums over the risk-free interest rate that are priced into securities and derivatives.
- FX rate risks result from fluctuations in the respective exchange rate with the euro.
- Stock market and inflation index risks relate to potential changes in the value of the affected stock market and inflation indices.
- Volatility risks relate to potential changes in the value of direct or indirect option positions as a result of fluctuations in the implicit volatility observable on the market or in option prices.

Market price risk profile and business segments

IKB distinguishes between the following portfolios:

- Investment portfolio including liquidity reserve,
- Credit refinancing including customer derivatives.

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

The relevant credit spread risk for IKB results in particular from securities and promissory note loans, the credit derivatives in its investment portfolio and the remaining portfolio investments. The specific management/hedging of credit spread risk is performed selectively depending on the respective market environment. The fundamental holding intention in the Bank's lending business means that credit spread risks are not considered to be relevant to the management of market price risk and are not actively managed.

In its customer derivatives business, the Bank focuses on providing interest and currency derivatives to support the interest and currency management of its customers with regard to possible market price risks.

IKB largely holds only currency positions in USD, GBP and CHF.

Accordingly, the majority of market price risks result from the investment portfolio and credit refinancing. The key risk drivers are credit spread and interest rate risks.

Quantification and evaluation of market price risk

Risk identification takes the form of the calculation of value at risk (VaR), supplemented by stress tests and scenario analyses. All portfolios are valued on a daily basis. To measure market price risk, the Bank applies a VaR approach using historical simulations taking into account all relevant risk factors, i.e. interest rates, credit spreads, FX rates, stock market and inflation indexes and their volatilities. This is based on the aggregate holdings to which all material units of the Bank contribute.

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

Internal VaR reporting is broken down not only by portfolio, but also by risk type in order to enable a comprehensive assessment of the risk situation: the overall VaR, interest rate/volatility VaR, FX/volatility VaR, credit spread VaR and inflation VaR is calculated for each portfolio.

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

As VaR-based market price risk measurement can only provide information on the development of the respective risk under "normal" conditions and historical simulation is limited to conditions over the last 250 trading days, VaR-based risk measurement is supplemented by stress testing. Depending on the scenario applied, stress tests also provide information on the development of a portfolio under "abnormal" conditions. Generally, stress testing at IKB involves the application of various extreme historical and hypothetical changes in the market for all risk factors as prescribed by BaFin, Deutsche Bundesbank and IKB itself, and the calculation of the present value gain/loss resulting from these scenarios.

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

Market price risk management and hedging

The main task of market price risk management is the management of the market price-sensitive positions entered into by the individual segments. Risks can only be taken within the assigned limits. Risk measurement and monitoring is performed on an end-of-day basis.

IKB uses a combination of risk indicators, earnings indicators and other indicators to manage market price risk. Market price risk is derived from the daily measurement of all transactions. The extent to which market data still enables adequate measurement is examined regularly. Accordingly, market values derived from measurement models are applied for clearly defined portfolios.

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

Moreover, the Board of Managing Directors is provided with detailed information once a month on relevant market developments, changes in the portfolio, measurement of the portfolio, earnings development and the market risk profile. This monthly report also supplements market risk observation on the basis of VaR by adding the present value risk assuming stress conditions and comments on particular developments. The Supervisory Board is informed of market price risks every quarter in the context of overall risk reporting.

Limitation of market price risk at Group level

At IKB, market price risk is managed at the level of the risk consolidation group. Market risk is limited within the Bank's agreed portfolio structure using a system that contains the following elements:

- VaR limits,
- Interest rate basis point value limits,
- Accounting limits on currency positions,
- Position limits on the nominal volume, rating and holding period.

Limits are monitored on a daily basis as part of the preparation of the daily market price risk report. The Board of Managing Directors is informed immediately if limits are exceeded.

VaR limits are derived from risk-bearing capacity. This concerns the limits for the accounting-based going-concern perspective and the economic liquidation perspective. The detailed controlling resulting from the economic liquidation perspective consists of a VaR limit based on a 99% confidence level and assuming a holding period of one day.

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

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

Table: Market price risk profile

in € million	**Value at 31 Mar. 2016**	**Value at 31 Mar. 2015**
Interest rate basis point value (BPV)	**-2.0**	**-1.5**
Credit spread BPV	**-6.3**	**-7.3**
VaR – interest rate and volatility	-20.7	-29.2
VaR – credit spread	-53.5	-58.8
VaR – FX and volatility	-3.5	-1.5
VaR – inflation and volatility	-0.8	-1.4
Correlation effect	19.7	39.0
VaR (total)	**-58.0**	**-51.9**
thereof proprietary and customer trading	**0.0**	**-0.2**

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

Operational risk

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

Operational Risk Management (ORM), located in the Risk Controlling division, coordinates and monitors the management of operational risks. ORM is also responsible for analysing potential damages across the Group and developing Group-wide OpRisk management and training concepts. Operating risk management is the responsibility of individual segments, divisions and subsidiaries. In addition to the regular analysis and identification of weaknesses and potential areas for optimisation in all business processes, ORM's activities also focus on expanding the security organisation and adapting the underlying processes. Annual business impact analyses are carried out for this purpose. They analyse the specific risk profiles for the individual segments and divisions and derive impetus for risk management.

Group-wide business continuity management is also the responsibility of ORM. All contingency plans are stored in comprehensive format on the IKB intranet and in hardcopy format in business continuity management manuals. The quality of the contingency plans is ensured by means of regular emergency drills and user exercises.

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

The gross loss volume identified in the financial year amounted to € 13.8 million in total at Group level (previous year: € 5.0 million; the increase is largely due to settlements in connection with three older swaps in the amount of € 10.3 million). Around € 13.7 million of this figure related to IKB AG (previous year: € 3.3 million). Loss reductions (e.g. insurance, settlement or goodwill payments) mean that the loss recognised in the income statement may be lower. If individual loss amounts cannot (yet) be determined exactly, the values are based on estimates; it may not be possible to obtain accurate figures until considerably later in some cases. This can also lead to adjusting events for prior periods.

Legal risk

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

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

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

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

A sample contract system based on text modules is used in the lending business and related business. Standard texts exist for other transactions in some cases. Deviations from these samples or individually worded agreements and transactions are examined and approved by the Legal division. All sample contracts are reviewed constantly to determine whether adjustments are required as a result of legislative changes or adjudications.

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

As an additional measure, the Legal division heads the Legal Development working group to identify current regulatory and banking supervisory developments in good time and in a coordinated manner and to synchronise their impact and the resulting implementation requirements for the Bank.

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

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

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

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

Legal disputes

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

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

If IKB culpably violates a specific obligation in the indemnification agreement in connection with a specific claim covered by the indemnification agreement, under certain circumstances, the indemnification claim to this specific claim may be extinguished. The Board of Managing Directors regards the risk of a dereliction of duty as slight. This is because, to assure the contractual obligations of IKB, the necessary implementation steps for securing behaviour in line with the agreement were specified in detail and documented in writing following in close coordination and cooperation with KfW. The indemnification claims of IKB are also extinguished retroactively if the share sale and transfer agreement or the share transfer in rem between KfW and

LSF6 Europe Financial Holdings, L.P., Delaware, Dallas/USA (LSF6 Europe), are null and void or one of the parties exercises a right to terminate a legal relationship by unilateral declaration which results in the reversal of the performance rendered in the transaction covering the obligation. Furthermore, the claims from the indemnification agreement are extinguished if, also taking into account the claims for the indemnification agreement, there is reason for insolvency at IKB or insolvency proceedings have been instituted against the assets of IKB.

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

Third-party lawsuit against IKB

In February 2016, Wells Fargo Securities LLC, Wells Fargo Bank, N. A. and others (“Wells Fargo”) filed a third-party lawsuit against IKB with the New York Supreme Court, Southern District. The third-party lawsuit relates to a complaint by various special-purpose entities from the Rhineland Funding Program since liquidated (“Loreleys”) against Wells Fargo in New York from 2011. The Loreleys are demanding compensation from Wells Fargo for failed investments in various structured credit portfolios arranged by Wells Fargo. Wells Fargo is accusing IKB of having violated its duties in consulting on and preparing investment decisions by the Loreleys, and is demanding that IKB is liable for some of the claim to compensation in the event that it is sentenced. IKB intends to file to have this suit thrown out. A first instance ruling is not expected in the 2016/17 financial year. On the basis of the indemnification agreement between KfW and IKB of September 2008 and the agreement between the two of September 2011, IKB assumes that KfW will pay all court costs and any successfully claimed contributions by IKB to the claims for damages from the defendant, plus interest.

Suits against US trustees

On 30 December 2015, IKB AG and IKB International S.A. in Liquidation filed a suit in New York against various US trustees and other companies claiming damages resulting from investments in various residential mortgage-backed securities papers.

Special audit under German stock corporation law

In August 2009, the Düsseldorf Regional Court resolved at the request of shareholders to appoint a special auditor to examine whether members of the Board of Managing Directors or the Supervisory Board of IKB committed breaches of duty in connection with certain transactions relating to the crisis at IKB. The report submitted in February 2014 came to the conclusion that the former members of the Supervisory Board were not responsible for breaches of duty in connection with the events that triggered the crisis. Although the special audit report identified individual breaches of duty by the former members of the Board of Managing Directors, these breaches of duty did not lead to the subsequent crisis at IKB or there is insufficient certainty that this was the case.

The special audit report under stock corporation law by Dr Harald Ring was included on the agenda of the Annual General Meeting on 27 August 2015. Following thorough analysis, the Supervisory Board initially resolved to seek damages from former members of the Board of Managing Directors for the failure to publish an ad hoc disclosure in July 2007. Settlement agreements were concluded with three former members of the Board of Managing Directors and the D&O insurer on account of these claims. The Annual General Meeting approved these settlement agreements on 27 August 2015.

Overall, the possibility that the facts and assessments included in the report by the special auditor will lead to the initiation of legal proceedings against the company by third parties cannot be ruled out. IKB expects any such legal proceedings to be unsuccessful.

Recessionary actions against resolutions by Annual General Meetings

No actions for annulment/nullity against resolutions by IKB annual general meetings are pending as at 31 March 2016. The last actions for annulment still pending before the court of appeal against the resolutions by the Annual General Meeting on 25 March 2009 were ended in the second instance by way of amicable settlement statements/the withdrawal of the appeal. The first instance decisions with which these actions were dismissed were therefore final.

Derivatives trading

In individual cases, customers criticised the advisory services provided by the Bank in connection with certain swap products. Three cases are currently pending. The values in dispute total just under € 12.5 million.

Dissenting view of the tax authorities

Towards the end of the 2014/15 financial year, the tax authorities informed IKB that they had a dissenting view on the application of regulations relating to detrimental acquisitions within the meaning of sections 8c KStG/10a GewStG. The basis for this view is a procedure mentioned to the company by the tax authorities regarding the methodology applied in offsetting the taxable losses of IKB AG calculated pro rata temporis against the taxable gains of IKB Beteiligungen GmbH, a participating tax entity of IKB AG, in the 2008/09 financial year. A detrimental acquisition within the meaning of sections 8c KStG/10a GewStG can exist in the event of a capital increase or the disposal of shares, resulting in a restriction on offsetting losses. IKB AG implemented a capital increase during the course of the financial year 2008/09; this was followed by the sale of KfW's shares in IKB to Lone Star. At the time of the preparation of the annual financial statements as at 31 March 2015, the amount disputed was around € 291 million in total, which had been recognised in the income statement as at 31 March 2015 in the amount of € 145 million through the recognition of a provision and the write-down of an existing tax receivable. The total amount was composed of a potential tax burden of € 235 million (roughly equally attributable to corporation tax/solidarity surcharge and trade tax) and interest on these taxes at a rate of 0.5% per month (assuming an assessment notice by 30 June 2015: € 56 million). In August 2015, IKB AG received tax assessment notices in which the dissenting view of the tax authorities was implemented. IKB has appealed against the tax assessments. The tax authorities have not yet reached a decision on the objections. The corporation tax and the solidarity surcharge for 2009 including interest of € 141 million in total were paid. Payment was made in the amount of around € 140 million from the provisions recognised as at 31 March 2015 and in the amount of € 1 million from net other operating income (other 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. The acquired company was merged into IKB Beteiligungen GmbH in the financial year 2008/09. IKB had supported IVG Kavernen GmbH in structuring a sales transaction and reorganising its Caverns division. The tax authorities currently hold the view that the gains reported by the participating tax entities prior to the detrimental acquisitions must not be used by IKB AG for offsetting losses in accordance with sections 8c KStG/10a GewStG. In addition to this acquisition in the 2008/09 financial year, there were similar transactions in the 2007/08 and 2010/11 financial years, in which there was no detrimental acquisition and sections 8c KStG/10a GewStG therefore did not apply. In the financial years in which IKB AG suffered heavy losses, the associated profits resulted in an urgently needed strengthening to the own funds of IKB AG and the regulatory IKB Group. Nonetheless, it must be assumed that the tax authorities will make an issue of these transactions as standard in future audits as well.

IKB has again conducted a comprehensive tax risk assessment of the view held by the tax authorities with the assistance of internal and external experts. IKB's assessment of the tax law situation is unchanged since the report dated 31 March 2015. 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.

Provisions have still not been 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 € 117 million plus interest of 0.5% per month and cost allocations for chamber of commerce and industry membership fees in the amount of around € 1 million. The potential interest rate risk amounted to around € 33 million as at 31 March 2016 plus around € 0.6 million for each additional month. If this risk were to occur, this would have the following impact on the key financial performance indicators as at 31 March 2016:

- The regulatory tier 1 ratio or common equity tier 1 ratio calculated as at 31 March 2016 would deteriorate by 1.2 percentage points at the level of the IKB Group and by 1.3 percentage points at the level of IKB AG.
- The leverage ratio calculated in accordance with Delegated Regulation (EU) 2015/62 of 17 January 2015 as at 31 March 2016 would decline by 0.7 percentage points for the regulatory Group and IKB AG alike.
- Net income after taxes and before additions to/reversals of the fund for general banking risks (section 340g HGB) as at 31 March 2016 would decline by around € 151 million.

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

At the end of April 2016, Aleanta GmbH (wholly owned subsidiary of IKB AG without a profit transfer agreement and therefore not included in the income tax group), in the context of an audit of a company to which it is the legal successor (Olessa GmbH), received an initial written statement to the effect that the tax authorities are considering evaluating the retroactive merger of Olessa GmbH with Aleanta GmbH in the 2010/11 financial year as a case of section 42 of the *Abgabenordnung* (AO – German Fiscal Code). The audit is not yet complete; the company was invited to comment on the matter and the current assessment of the audit. The maximum risk amounts to around € 27 million in taxes plus interest (notionally around € 6 million by 31 March 2016) and the reallocation of CIC contributions of € 0.2 million. This will be appealed if necessary.

Information security risk

IKB's information security is based on the international standard ISO 27001. Protection requirements were assessed for all processes on this basis in the past financial year.

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

IT risk

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

System and network security are updated on an ongoing basis to reflect changing external threats. Infrastructure availability risks are minimised by dividing the data centres between two separate locations. The

ISMS also takes account of the risk involved in outsourcing key IT services. Measures for addressing this risk are verified through regular checks and emergency drills. Operational risk is further reduced by applying standardised processes (including ITIL – IT Infrastructure Library) and through staff training.

Compliance risk

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

In particular, this includes the legal standards of the German Banking Act (KWG), the German Securities Trading Act (WpHG) and the German Money Laundering Act (GwG), which result in obligations concerning the prevention of market manipulation and conflicts of interest, the proper performance of investment services and ancillary investment services, the prevention of money laundering, the financing of terrorism and other illegal acts. The regulatory requirements contained in BaFin circulars, such as the “Minimum Requirements for the Compliance Function and the Other Conduct, Organisational and Transparency Duties arising from sections 31 et seq. of the WpHG” (MaComp) or the “Minimum Requirements for Risk Management (MaRisk)”, must also be implemented. The compliance function in accordance with MaRisk focuses on the material provisions where non-compliance could endanger the Bank’s assets.

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

The regulatory control regime for compliance is reflected in binding targets for the Bank and its employees, and guides the associated operational processes. IKB’s regulations specify conduct requirements with regard to securities compliance as binding for all employees (compliance concept) and that describe process instructions for the key areas of the investment services and ancillary investment services rendered (organisational instructions). The values of the Bank are also described in a Code of Conduct. The principles set out in the IKB Code of Conduct include requirements for the conduct of all employees at all locations of the Group.

The MaComp and MaRisk compliance functions perform a regular, Group-wide risk analysis (at least once a year) to identify the risks in terms of compliance with the relevant regulatory provisions and to determine the focal points for its ongoing advisory and monitoring activities. The monitoring and other activities by the MaComp and MaRisk compliance functions are performed on the basis of a risk-based task and monitoring plan (MaComp) and an activities plan (MaRisk). These activities and measures are aimed at aiding the implementation of effective procedures for ensuring compliance with the material legal provisions and regulations and corresponding supervision by the departments.

Through their inclusion in the new business activities process, the compliance functions work towards compliance with the relevant regulatory requirements and the implementation of the necessary measures. Prior to material changes in the structural and procedural organisation and IT systems, they also participate in the analysis of the impact of the planned changes.

The MaComp and MaRisk compliance functions also continuously monitor regulatory developments, evaluate specialist literature and cooperate in associations and committees to allow them to identify and address areas requiring action at an early stage.

In addition, both compliance functions regularly participate in the Bank’s Legal Development working group. The Legal Development working group was established with the aim of identifying current regulatory and banking supervisory developments in good time and in a coordinated manner and synchronising their impact and the resulting implementation requirements for IKB. Through the “BV Compliance Cockpit MaRisk” offered by Bank-Verlag in cooperation with the Association of German Banks (BdB), the MaComp and MaRisk compliance functions have a constantly updated overview of existing statutory and regulatory requirements and pending changes.

IKB’s business activities give rise to legal obligations for trading with financial instruments, rendering investment services and ancillary investment services and providing investment advice to customers. Against this background, a variety of compliance measures are required to protect the information obtained in the above operations against misuse. The establishment of confidentiality areas, the management of the directory of insiders and the controlling of employee transactions are performed to this end. To ensure that first-line employees are fully aware of the relevant requirements and regulatory developments, regular training is provided and the necessary individual measures and workflows are documented in organisational instructions/manuals. Furthermore, the MaComp compliance function manages the registers of inducements as defined by the WpHG, financial analyses/securities bulletins and the directory of insiders. The central office administers the fraud register and the internal whistle-blower system. The central complaints register is held in the Legal division.

As part of the annual risk inventory and the resulting update to the threat analysis for money laundering and fraud prevention, the business activities of IKB indicate slightly elevated risks of money laundering or terrorist financing compared to previous years. In particular, business activities with partners outside the EU require a more stringent duty of care. The economic sanctions against Russia that have been resolved will also result in increased investigative efforts to ensure compliance with the relevant sanction provisions.

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

The focus of business policy on advisory products is also connected with a reduced money-laundering risk.

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

Personnel risk

The management of personnel risks is the responsibility of the individual central divisions and front office units in collaboration with the Human Resources division. This includes not only the need for an adequate workforce to implement operating and strategic requirements, but also maintaining the level of knowledge and experience employees need to carry out their duties and responsibilities. IKB applies extensive and ongoing training and further training management for this purpose in order to maintain the high qualification level of its employees. In order to accommodate the risk that the absence or leaving of employees may lead to ongoing disruption to operations, clear deputisation regulations and procedural requirements are in place at IKB. These are regularly checked and adjusted if necessary.

In the financial year 2015/16, the number of people leaving the Bank was roughly the same as the number of new appointments. The people leaving the Bank were spread equally across all segments.

Under the provisions of the new version of the German Remuneration Ordinance for Institutions (InstitutsVergV) dated 16 December 2013, IKB was classified as a major institution. Following consultation with BaFin, it was agreed that the necessary regulatory adjustments were only required to be implemented from the start of the past financial year on 1 April 2014. In accordance with Commission Delegated Regulation (EU) 604/2014, based on the EBA's corresponding regulatory technical standards (RTS), which came into effect in June 2014, a risk analysis to identify risk-takers was performed in line with the prescribed qualitative and quantitative criteria. This is updated regularly.

The provisions on variable remuneration for all employees were applied in accordance with the new provisions of the InstitutsVergV. Among other things, this means that variable remuneration may only be paid under the conditions set out in section 7 InstitutsVergV. Furthermore, special variable remuneration regulations were applied to risk-takers (e.g. deferred payment, penalty and sustainability assessment requirements).

When introducing the new remuneration system for the 2014/15 financial year, a payment model was implemented for variable remuneration in which the price performance of IKB AG shares was used as a benchmark for the sustainable development in value. Against the backdrop of an internal analysis regarding the suitability of the shares as a tool for mapping the sustainable performance of the Institution and the delisting of IKB's shares, the Board of Managing Directors has resolved, subject to executive approval, to implement a system of (regulatory and economic) key performance indicators retroactively from the 2014/15 financial year.

On the basis of this internal analysis, the system will be introduced retroactively from the 2014/15 financial year. Executive approval for this was still in place as at the time of the annual and consolidated financial statements being prepared.

Strategic risk and reputation risk

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

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

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

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

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

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

Business risk

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

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

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

Risk reporting

Deviations from planning and target figures in terms of risk are reported to the Board of Managing Directors and the relevant central division and front office managers on a monthly basis in order to be able to take any countermeasures in good time. In so doing, all front office and central divisions are provided with the information they require in good time and in full.

Participation risk

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

IKB pursues the objective of minimising the number of subsidiaries and investments.

The Bank makes a distinction between credit substitution and strategic investments. In particular, credit substitution investments are investments in the Bank’s product range. The Bank enters into strategic investments to generate sustainable (strategic) value added. The Bank distinguishes between primary strategic investments that are intended to increase customer and market potential and that form part of its business model and strategic investments in joint ventures and other companies that can be entered into with the aim of supplementing the product range, tapping synergies and reaching new target customers (cooperation/joint ventures). These are supplemented by investments in companies that perform services for the Bank (outsourcing) or that represent joint investments or shelf companies. The strategic investments are examined for materiality once a year. The resulting material investments are included in the investment report produced three times per year.

The Investment Management and Corporate Development teams handle and coordinate the operative investment processes. The Legal division is responsible for examining and designing all matters relating to company and regulatory law and consults on the legal aspects of strategic decisions and on the performance of shareholder functions. The Finance division is responsible for investment controlling and the evaluation of strategic investments in addition to several selected credit substitution investments. Authority for decisions on strategic investments lies with the Board of Managing Directors as a whole; in a few defined cases (such as investment decisions relating to less than € 500,000 or mandate decisions), the authority resides solely with the relevant responsible member of the Board of Managing Directors. The Executive Committee must approve the acquisition, disposal or formation of companies if the subject of the respective transaction accounts for more than 5% of the liable equity of IKB or this is required by the regulatory standards.

In terms of disciplinary and technical matters, the key subsidiaries and investment companies of IKB are assigned to individual members of the Board of Managing Directors in the executive organisation chart. According to this, as at the balance sheet date, Dr Oliveri del Castillo-Schulz was responsible for the IKB Leasing subgroup and IKB Data, Dr Wiedmann for IKB Finance B.V. and Mr Volz was in charge of IKB Lux Beteiligungen S.a.r.l, IKB International S.A. in Liquidation, IKB Invest GmbH and the property companies being wound up or sold. The investment companies are integrated into the implementation of the Group-wide business and risk strategy by way of regular investment workshops for each significant strategic investment, at which performance targets and risk limits are defined and analyses and discussions are held on the early identification of undesirable trends and the initiation of adequate countermeasures.

An annual Group-wide risk inventory is carried out to determine the key risks faced by the investment companies. All risks to investment companies classified as significant are included in Risk Controlling at Group level.

Overall assessment of the risk situation

In terms of the regulatory capital and liquidity ratios, IKB's position was satisfactory as at the end of the 2015/16 financial year. The Group's CET 1 ratio was increased to 11.6%, the leverage ratio is above 8% and the liquidity ratio in accordance with the Liquidity Regulation, at an average of 1.8 in the financial year, is well above the statutory minimum requirements. IKB therefore has sufficient latitude to implement its planned expansion of business volumes.

However, there is still considerable uncertainty in connection with a number of current regulatory projects that are expected to be realised cumulatively over the coming months and in the medium term. What all these projects have in common is that they will further raise existing capital requirements. Given the uncertainty and capital risks entailed by these projects, sufficiently high capital buffers must be built up and maintained as a precaution. Based on a planned development of results and the business model, the necessary strengthening of capital can be implemented gradually.

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

Counterparty risk is currently at a very moderate level, particularly in view of the low risk provisioning requirements and the decrease in non-performing assets.

The low interest rate environment is causing major challenges for all market players, including IKB as well. In order to generate adequate net interest income in this environment, banks are being forced to take increased market risk in the form of interest rate and credit spread risks, taking into account their risk appetite, without jeopardizing their capital adequacy.

Currently and in future, liquidity is assured with a buffer. Operational risk is assessed as moderate.

The stability of the Bank remains crucial, not just with regard to regulation, but also in terms of protection against the current geopolitical tensions (possible Brexit, unstable situation in the Middle East), the uncertainty of the development of the world economy, the monetary policy of central banks and the impact of low interest rate policy.

The process of creating the banking union and the accompanying banking supervisory measures are entering the next phase. Thus, for 2016, IKB is anticipating the results of the newly designed Supervisory Review and Evaluation Process (SREP), which will give rise to new capital requirements. The planned and potential regulatory measures for banks (such as the “Basel IV” package) will present IKB with significant challenges. The costs of fulfilling regulatory requirements, including the bank levy, will be a major cost driver. The wave of regulation is therefore increasingly becoming a risk and competitive factor, as it can have a considerable impact on the orientation of business models and lead to substantial expenses for smaller banks.

5. Report on opportunities

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

The Bank will enjoy particular opportunities if

- as anticipated, German companies seek to increase their investment volume or generate external growth once again. This heightened demand on the market could also reduce the intensity of competition between providers, which currently often also involves inappropriate conditions; this could improve the earnings prospects for IKB in its lending business with larger companies and in its leasing activities with SMEs;
- demand for credit picks up again in the neighbouring euro countries;
- access to the capital markets and the use of credit fund solutions continue to become more important for companies, as the regulation of bank financing is becoming increasingly oppressive and this is becoming particularly evident from the growth in demand for credit;
- companies are increasingly offered services such as asset-based finance, export finance, commodity trade finance, etc., as is already being implemented at IKB;
- there is a tangible improvement in sentiment on the securitisation issuance markets, which would lead to increased issuance activity on the back of a substantial rise in demand. Building on its many years of experience (Promise, Mobility, Bacchus), IKB could harness this development efficiently for its target customers and its own balance sheet and capital management.

With regard to the “dissenting view of the tax authorities” (see the “Legal risk” part of section 4. “Risk report”), IKB still believes that it has a good chance of success if any judicial proceedings were to reach the court of last instance based on the risk assessment by internal and external experts, even after having received the tax assessment notices in the meantime. In this case, the reimbursement of the taxes and interest paid and the reversal of the write-down of the tax receivable could have a positive effect on earnings.

Further information on the tax provision can be found in the “Legal risk” subsection of section 4. “Risk report” and in the disclosures on “Income taxes” in the notes.

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

In this context, IKB believes that leasing business will provide particular opportunities. IKB has decades of experience on this market and is well positioned. The downturn in growth in the past years was attributable to the crisis at the Bank and the subsequent restructuring. By contrast, IKB believes that it currently has opportunities to return to pre-crisis levels.

On the refinancing side, IKB will have opportunities as refinancing costs continue to decline. In particular, the ECB’s quantitative easing programme will lead to a high level of liquidity in the economy, thereby allowing for refinancing costs to be gradually reduced with revolving deposits.

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

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

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

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

6. Outlook

Future general economic conditions

The pattern of the global economy in the past year is set to continue in 2016 and 2017. The weak growth in the emerging markets is expected to persist. In addition to the political problems, there are also structural problems consistently slowing momentum. However, some of the emerging markets currently in recession – especially Russia – might be able to find their footing again somewhat by the end of the year. Modest increases in oil and commodity prices should also contribute to stabilisation during the year. By contrast, economic growth in the developed countries should remain at the previous year's level.

In the US, the recovery is still intact despite the only moderate economic growth recently. While the low price of oil is holding back US oil producers, it is not a systemic risk to the US economy or its banking sector. Economic growth in the US is expected to be 2.3% in 2016 in the opinion of the Council of Economic Experts.

The recovery that began two years ago in the euro area is continuing at a medium pace. The structural weaknesses affecting many Member States will likely prove an impediment to a more dynamic recovery. Following economic growth of 1.6% last year, the Council of Economic Experts is predicting approximately the same rate for both 2016 and 2017. The central pillar of growth is private consumption, which is benefiting from the lower energy prices and the moderate, but overall far too slow, decline in unemployment. However, investment is expected to expand only modestly in the face of continued economic and political uncertainties. For the countries relevant to IKB of France and Italy, the Council of Economic Experts is forecasting moderate GDP growth of 1.2% and 0.7% respectively. By contrast, the Spanish economy should continue to expand quite strongly by 3.0%. Continued strong GDP growth of 2.0% is also expected for the UK.

The Council of Economic Experts expects solid growth for the German economy of 1.5% for 2016. The economy is mainly being driven by domestic factors, above all private consumption and government spending. Private consumption is benefiting from the favourable employment situation, the good wage settlements and low inflation. In public sector consumption it is mainly spending on refugees, leading to an increase of 2.6%. The Council of Economic Experts also sees construction investment as relatively robust. This should rise by 3.1% after a surprisingly weak increase of only 0.3% last year. Construction investment is expected to feel the effects of low interest rates in addition to high demand in housing as a result of immigration. The recent very positive order development in the construction sector is a clear indication of both of these factors. The German economy will be slowed by foreign trade this year. Exports are likely to grow by 2.4%. As imports are expanding significantly faster at 4.5%, the balance of trade will contribute negatively to GDP growth.

Equipment investment could be a weak point in the German economic situation again this year. Although the Council of Economic Experts is forecasting a rise of 3.5%, which would already be a slowdown compared to the pace of the previous year, uncertainties regarding the global economy, the further escalation of political problems in Europe (refugees, border controls, strengthening of nationalist tendencies) and the absence of targeted growth reforms in Germany could impact the propensity to invest more significantly.

Monetary policy in the major industrialised countries remains highly expansive. This is causing historically low yields on the bond markets in many places in the world. The level of monetary policy expansion in the individual industrial countries has been increasingly divergent since the beginning of 2014. The ECB and the Bank of Japan have further eased their monetary policy in view of the significantly more moderate economic momentum and excessively low inflation. By contrast, the US Federal Reserve has gradually reduced its degree of expansion and in December 2015 raised interest rates for the first time since the financial crisis. In light of the global economic risks, it is assumed that the low interest rates will continue even longer in the euro area and that monetary policy will be very slowly tightened in the US.

Lending in the countries that are relevant to IKB is expected to improve moderately as the economic recovery progresses. In addition to the slow recovery in investment activity and the positive financing conditions, Italy and Spain in particular are likely to see a reduction in the supply-side restrictions. Needless to say, there is a risk that the high volume of non-performing loans that can still be found on bank balance sheets in both countries will not be resolved as quickly as might be liked. In Germany, corporate demand for credit is likely to remain relatively low on account of the good internal financing situation and the use of other sources of funding. At the same time, banks are expected to report lower risk provisioning for corporate loans in future.

Banks are facing considerable challenges. Extensive regulatory requirements and a more sustained low-interest environment are likely to limit earnings opportunities in the euro zone. Low interest rates for the foreseeable future could further intensify the pressure on earnings. This situation is exacerbated by the fact that banks are unable to offset the reduction in interest rates for loans as negative deposit rates can only be passed on to a limited extent. Banks are also increasingly having to prepare themselves for a general shift in corporate financing, with corporations and large midmarket companies at least favouring capital market finance over traditional bank lending to an ever greater extent. As such, the adaptation of their business models remains on the agenda.

Forecast risks result from a range of uncertainties. In particular, these include global uncertainties such as a crisis-like escalation of the economic situation in China and other emerging markets, possible turbulence on the international financial markets and an intensification of geopolitical conflicts. Low commodity prices pose a risk to many developing countries dependent on them. Firstly, the state budgets are being severely impacted, and financial difficulties in individual countries cannot be ruled out. Secondly, there may be an increased withdrawal of capital from commodity-exporting emerging economies together with an unexpectedly stronger rate hike in the US. The sustained uncertainty on the financial markets could also start to have an even more pronounced negative impact, as there would likely be a tangible reduction in international capital flows to the emerging economies in this scenario.

In Europe, a flaring debate on the future course of monetary policy and the future of the euro area, a lack of consolidation in the public or private sector, a stop in the implementation of structural reforms or a rise in support for populist parties could develop significant levels of interference for forecasts. The referendum in the UK (“Brexit”), regional independence movements and the ongoing tough negotiations with Greece represent further risks. Moreover, the refugee crisis could exacerbate the political disunity in the European Union.

Net assets

IKB will maintain its common equity tier 1 ratio at a high level. This will be achieved by transferring appropriate amounts of results to the reserves in accordance with section 340g HGB and by further reducing risk-weighted assets in the form of non-strategic loans in particular. IKB also intends to use funds in which third parties can also invest in order to enable it to reduce its risk-weighted assets and lend to its customers.

For the 2016/17 financial year, the Bank expects to see a slight reduction in receivables from customers, as the growth in new lending business is likely to be more than offset by repayments in lending business and reductions of assets. The Bank will continue to be selective when it comes to new lending business in the financial year 2016/17 in order to generate appropriate income for the risks entered into and to take into account the growing requirements imposed by the banking authorities at an early stage. If the economic performance in Germany proves lastingly stable, this could lead to a catch-up effect in terms of demand for credit, and thus to an improvement in the lending opportunities available to IKB. The development of the securities portfolio will depend to a large extent on the liquidity requirements, while investment opportunities are also an important factor. The equity and liabilities side of the balance sheet will continue to be characterised by a diverse funding mix for asset refinancing in the forecast period, with deposit-taking business remaining an important component. The funding mix will take into account any new requirements arising from the European Single Resolution Mechanism (SRM).

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

Liquidity situation

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

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

The Bank expects its liquidity ratio in accordance with the German Liquidity Regulation (LiqV) to remain within a corridor of between 1.25 and 2.00 in the financial year 2016/17. Following the initial experience of managing the liquidity coverage ratio (LCR) in the supervisory monitoring period, the value to be complied with was at least 60% from 1 October 2015 and increased to 70% as at 1 January 2016. Since the introduction of mandatory minimum requirements, IKB's liquidity management is based on both the LiqV ratio and the LCR. The LCR was 283% at Group level as at 31 March 2016 (IKB AG: 265%) and therefore significantly higher than the statutory minimum requirement. For the forecast period, the Bank is projecting an LCR of at least 100%, which is the minimum standard after transitional provisions.

Leverage ratio

The basis of calculation for the leverage ratio changed as a result of Delegated Regulation (EU) 2015/62 of the European Commission dated 17 January 2015 and is expected to apply six months after the publication of the Implementing Technical Standards on Amending Commission Implementing Regulation (EU) No. 680/2014 on Supervisory Reporting of Institutions with regard to the debt ratio in accordance with the Delegated Regulation in the Official Journal of the European Commission. Publication in the Official Journal of the European Commission occurred on 31 March 2016. Delegated Regulation 2015/62 will apply to reporting for the first time as at 30 September 2016.

Even though this standard does not have to be based on reports to the regulatory authorities until that time, this Regulation has legal effect, which IKB has taken as an opportunity to change the calculation of its publications in accordance with the disclosure requirements of Pillar III to this standard as well. IKB expects that its leverage ratio, which was 8.2% at Group level as at 31 March 2016 (IKB AG: 7.9%), can be kept at this level in the 2016/17 financial year.

Results of operations

In the past financial year, new lending business increased as against the previous year thanks to the growth in demand for credit in Germany. IKB maintained its standards with regard to risk and margins and entered into lending business on this basis. IKB expects that the level of demand for credit in Germany will remain modest in the 2016/17 financial year, and that competitive intensity will stay high. With low interest rates and an improved assessment of IKB's rating by market participants, the decline in refinancing costs that was observed in the year under review is expected to continue to a limited extent. Overall, IKB is forecasting a slight decrease in net interest income in the 2016/17 financial year.

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

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

Further reductions in administrative costs in the Group are to be achieved through cost-cutting and optimisation measures. Accordingly, IKB expects its total administrative expenses to decline slightly in the financial year 2016/17.

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

IKB is expecting to generate a moderately higher level of net income in the 2016/17 financial year, which can be used to protect against general banking risks by recognising section 340g HGB reserves in an appropriate amount.

Overall assessment

IKB is forecasting positive net income after taxes and before additions to the fund for general banking risks (section 340g HGB) for the coming 2016/17 financial year. Net income is expected to be moderately higher than in the 2015/16 financial year. IKB intends to transfer the net income generated by IKB AG to the fund for general banking risks in accordance with section 340g HGB as at the end of the financial year. Among other things, the transfer, which will take into account IKB's general banking risks, is intended to protect the Bank against the risks described in this management report.

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

7. Disclosures in accordance with section 312 AktG

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

8. Corporate Governance Declaration

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

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

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

Combined Annual Financial Statements of the Group and IKB Deutsche Industriebank AG for the Financial Year 2015/16

Consolidated balance sheet of IKB Deutsche Industriebank AG as at 31 March 2016

in € million	31 Mar. 2016	31 Mar. 2015
Assets		
Cash reserve	**33.7**	**34.6**
a) Cash on hand	-	-
b) Balances with central banks	33.7	34.6
thereof: with Deutsche Bundesbank	33.7	34.6
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	**2,122.2**	**2,300.0**
a) Repayable on demand	1,918.6	2,195.4
b) Other receivables	203.6	104.6
Receivables from customers	**9,887.8**	**11,089.8**
thereof: mortgage loans	1,045.1	1,164.3
thereof: public sector loans	514.4	717.9
Bonds and other fixed-income securities	**5,051.6**	**5,773.8**
a) Money market securities	-	-
b) Bonds and notes	5,035.7	5,764.2
ba) Public sector issuers	2,887.6	3,345.7
thereof: eligible as collateral for Deutsche Bundesbank	2,835.5	3,345.7
bb) Other issuers	2,148.1	2,418.5
thereof: eligible as collateral for Deutsche Bundesbank	1,994.5	2,042.8
c) Own bonds	15.9	9.6
Nominal amount	22.8	10.1
Equities and other non-fixed-income securities	**470.1**	**483.2**
Assets held for trading	**-**	**270.5**
Equity investments	**11.1**	**22.7**
thereof: banks	0.2	0.2
thereof: financial services institutions	-	-
Investments in associates	**15.0**	**13.6**
thereof: banks	-	-
thereof: financial services institutions	15.0	13.6
Investments in affiliated companies	**2.1**	**2.3**
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	**941.1**	**1,029.9**
Intangible assets	**11.8**	**10.9**
a) Internally generated industrial and similar rights and assets	-	-
b Purchased concessions, industrial and similar rights and assets and licenses in such rights and assets	7.3	10.4
c) Goodwill	4.0	-
d) Advance payments made	0.5	0.5
Tangible assets	**220.0**	**25.7**
Called unpaid capital	**-**	**-**
Other assets	**251.8**	**235.1**
Prepaid expenses	**275.3**	**74.7**
Deferred tax assets	**253.6**	**243.1**
Excess of plan assets over post-employment benefit liability	**12.0**	**44.5**
Total assets	**19,559.2**	**21,654.4**

in € million	31 Mar. 2016	31 Mar. 2015
Equity and liabilities		
Liabilities to banks	**7,897.0**	**8,893.3**
a) Repayable on demand	1,457.8	924.8
b) With agreed lifetime or notice period	6,439.2	7,968.5
Liabilities to customers	**7,498.4**	**8,165.3**
a) Savings deposits	-	-
b) Other liabilities	7,498.4	8,165.3
ba) Repayable on demand	1,318.6	1,590.1
bb) With agreed lifetime or notice period	6,179.8	6,575.2
Securitised liabilities	**773.8**	**756.3**
a) Bonds issued	773.8	756.3
b) Other securitised liabilities	-	-
Liabilities held for trading	**-**	**279.7**
Liabilities held in trust	**-**	**-**
Other liabilities	**345.2**	**465.1**
Deferred income	**147.1**	**113.3**
Deferred tax liabilities	**-**	**-**
Provisions	**348.1**	**398.3**
a) Provisions for pensions and similar obligations	8.7	3.5
b) Tax provisions	43.1	220.0
c) Other provisions	296.3	174.8
Subordinated liabilities	**921.7**	**970.9**
Profit participation capital	**32.2**	**32.2**
thereof: due within two years	32.2	32.2
Fund for general banking risks	**585.0**	**579.7**
thereof: trading-related special reserve according to section 340e (4) HGB	-	1.8
Equity	**1,010.7**	**1,000.3**
a) Called-up capital	1,621.5	1,621.5
Subscribed capital	1,621.5	1,621.5
Less uncalled unpaid contributions	-	-
Contingent capital	810.7	810.7
b) Capital reserves	1,750.7	1,750.7
c) Revenue reserves	5.3	5.1
ca) Legal reserve	2.4	2.4
cb) Reserve for shares in a parent or majority investor	-	-
cc) Statutory reserves	-	-
cd) Other revenue reserves	2.9	2.7
d) Difference in equity from currency translation	-5.7	-5.5
e) Net accumulated losses	-2,361.1	-2,371.5
Total equity and liabilities	**19,559.2**	**21,654.4**

Contingent liabilities	**1,007.9**	**1,156.2**
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	1,007.9	1,156.2
c) Liability arising from the provision of collateral for third-party liabilities	-	-
Other obligations	**1,560.2**	**1,079.7**
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	0.8	-
c) Irrevocable loan commitments	1,559.4	1,079.7

The figures for the previous year have been restated (see note (2)).

Balance sheet of IKB Deutsche Industriebank AG as at 31 March 2016

in € million	31 Mar. 2016	31 Mar. 2015
Assets		
Cash reserve	**33.7**	**34.5**
a) Cash on hand	-	-
b) Balances with central banks	33.7	34.5
thereof: with Deutsche Bundesbank	33.7	34.5
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	**2,013.3**	**2,158.1**
a) Repayable on demand	1,822.1	2,062.3
b) Other receivables	191.2	95.8
Receivables from customers	**11,467.0**	**12,864.6**
thereof: mortgage loans	1,045.1	1,164.3
thereof: public sector loans	514.4	717.9
Bonds and other fixed-income securities	**4,704.6**	**5,442.4**
a) Money market securities	-	-
b) Bonds and notes	4,688.7	5,432.7
ba) Public sector issuers	2,502.9	2,959.7
thereof: eligible as collateral for Deutsche Bundesbank	2,450.7	2,959.7
bb) Other issuers	2,185.8	2,473.0
thereof: eligible as collateral for Deutsche Bundesbank	1,879.1	1,928.7
c) Own bonds	15.9	9.7
Nominal amount	16.1	10.0
Equities and other non-fixed-income securities	**1.7**	**1.5**
Assets held for trading	**-**	**270.5**
Equity investments	**0.7**	**9.9**
thereof: banks	0.2	0.2
thereof: financial services institutions	-	-
Investments in affiliated companies	**148.4**	**160.2**
thereof: banks	-	-
thereof: financial services institutions	-	-
Assets held in trust	**-**	**-**
Compensation receivables on the public sector including debt securities arising from their exchange	**-**	**-**
Intangible assets	**4.6**	**8.1**
a) Internally generated industrial and similar rights and assets	-	-
b) Purchased concessions, industrial and similar rights and assets and licenses in such rights and assets	4.6	8.1
c) Goodwill	-	-
d) Advance payments made	-	-
Tangible assets	**199.8**	**5.5**
Called unpaid capital	**-**	**-**
Other assets	**217.7**	**368.7**
Prepaid expenses	**314.5**	**128.9**
Deferred tax assets	**249.7**	**238.1**
Excess of plan assets over post-employment benefit liability	**11.9**	**43.5**
Total assets	**19,367.6**	**21,734.5**

in € million	31 Mar. 2016	31 Mar. 2015
Equity and liabilities		
Liabilities to banks	**7,872.5**	**8,881.7**
a) Repayable on demand	1,456.8	924.5
b) With agreed lifetime or notice period	6,415.7	7,957.2
Liabilities to customers	**7,506.2**	**8,198.4**
a) Savings deposits	-	-
b) Other liabilities	7,506.2	8,198.4
ba) Repayable on demand	1,318.9	1,613.8
bb) With agreed lifetime or notice period	6,187.3	6,584.6
Securitised liabilities	**870.7**	**1,014.2**
a) Bonds issued	870.7	1,014.2
b) Other securitised liabilities	-	-
Liabilities held for trading	**-**	**279.7**
Liabilities held in trust	**-**	**-**
Other liabilities	**379.0**	**537.2**
Deferred income	**153.8**	**131.4**
Deferred tax liabilities	**-**	**-**
Provisions	**314.3**	**376.9**
a) Provisions for pensions and similar obligations	-	-
b) Tax provisions	42.3	218.8
c) Other provisions	272.0	158.1
Subordinated liabilities	**446.6**	**495.8**
Profit participation capital	**32.2**	**32.2**
thereof: due within two years	32.2	32.2
Fund for general banking risks	**585.0**	**579.7**
thereof: trading-related special reserve according to section 340e (4) HGB	-	1.8
Equity	**1,207.3**	**1,207.3**
a) Called-up capital	1,621.5	1,621.5
Subscribed capital	1,621.5	1,621.5
Less uncalled unpaid contributions	-	-
Contingent capital	810.7	810.7
b) Capital reserves	1,750.7	1,750.7
c) Revenue reserves	2.4	2.4
ca) Legal reserve	2.4	2.4
cb) Reserve for shares in a parent or majority investor	-	-
cc) Statutory reserves	-	-
cd) Other revenue reserves	-	-
d) Difference in equity from currency translation	-	-
e) Net accumulated losses	-2,167.3	-2,167.3
Total equity and liabilities	**19,367.6**	**21,734.5**

Contingent liabilities	**1,941.5**	**2,086.8**
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	1,941.5	2,086.8
c) Liability arising from the provision of collateral for third-party liabilities	-	-
Other obligations	**1,435.0**	**968.6**
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	0.8	-
c) Irrevocable loan commitments	1,434.2	968.6

Consolidated income statement of IKB Deutsche Industriebank AG for the period from 1 April 2015 to 31 March 2016

in € million	2015/16	2014/15
Expenses		
Lease expenses	**-210.8**	**-207.5**
Interest expenses	**-646.9**	**-936.5**
thereof: positive interest	6.1	-
Commission expenses	**-13.5**	**-13.4**
Net trading results	**-**	**-**
General and administrative expenses	**-288.1**	**-302.6**
a) Personnel expenses	-183.3	-183.4
aa) Wages and salaries	-159.6	-152.7
ab) Social security, post-employment and other employee benefit costs	-23.7	-30.7
thereof: for pensions	-4.8	-12.6
b) Other administrative expenses	-104.8	-119.2
Depreciation and write-downs on intangible and tangible fixed assets	**-322.0**	**-359.1**
a) On leasing assets	-310.8	-349.4
b) On intangible and tangible assets	-11.2	-9.7
Other operating expenses	**-985.2**	**-1,097.5**
Expenses for the addition to the fund for general banking risks	**-7.2**	**-4.8**
Depreciation and write-downs of receivables, specific securities and additions to loan loss provisions	**-9.2**	**-64.8**
Depreciation and write-downs of equity investments, investments in affiliated companies and long-term investments	**-14.1**	**-15.8**
Costs of loss absorption	**-0.1**	**-0.1**
Extraordinary expenses	**-33.5**	**-4.6**
Income taxes	**1.2**	**-118.7**
Other taxes not reported under “Other operating expenses”	**-2.4**	**-1.4**
Profit transfer on the basis of profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**
Net income for the financial year	**-10.4**	**-4.7**
Total expenses	**-2,542.2**	**-3,131.5**

in € million	2015/16	2014/15
Income		
Lease income	**585.8**	**627.9**
Interest income from	**862.3**	**1,103.6**
a) Lending and money market transactions	738.2	944.5
thereof: negative interest	2.8	-
b) Fixed-income securities and government-inscribed debts	124.1	159.1
thereof: negative interest	-	-
Current income from	**4.1**	**51.9**
a) Equities and other non-fixed-income securities	0.2	46.2
b) Equity investments	1.9	1.8
c) Investments in associates	2.0	1.9
d) Investments in affiliated companies	-	2.0
Income from profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**
Commission income	**43.3**	**55.8**
Net trading results	**6.0**	**8.2**
thereof: addition to (-)/reversal of (+) trading-related special reserve according to section 340e (4) HGB	1.8	**-0.9**
Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions	**-**	**-**
Income from reversals of write-downs of equity investments, investments in affiliated companies and long-term investment securities	**281.4**	**416.1**
Other operating income	**758.5**	**866.1**
Income from the reversal of the fund for general banking risks	**-**	**-**
Extraordinary income	**0.8**	**1.9**
Income from assumption of losses	**-**	**-**
Net loss for the financial year	**-**	**-**
Total income	**2,542.2**	**3,131.5**
Net income for the financial year	**10.4**	**4.7**
Loss carryforward from the previous year	**-2,371.5**	**-2,376.2**
Withdrawals from capital reserves	**-**	**-**
Withdrawals from revenue reserves	**-**	**-**
Withdrawals from profit participation capital	**-**	**-**
Withdrawals from silent partnership contributions	**-**	**-**
Allocation to revenue reserves	**-**	**-**
Replenishment of profit participation capital	**-**	**-**
Net accumulated losses	**-2,361.1**	**-2,371.5**

Income statement of IKB Deutsche Industriebank AG for the period from 1 April 2015 to 31 March 2016

in € million	2015/16	2014/15
Expenses		
Interest expenses	**-666.3**	**-962.4**
thereof: positive interest	**6.1**	**-**
Commission expenses	**-5.6**	**-6.6**
Net trading results	**-**	**-**
General and administrative expenses	**-237.6**	**-257.7**
a) Personnel expenses	-141.2	-147.7
aa) Wages and salaries	-124.6	-122.8
ab) Social security, post-employment and other employee benefit costs	-16.6	-24.9
thereof: for pensions	-3.1	-11.5
b) Other administrative expenses	-96.4	-110.0
Depreciation and write-downs of intangible and tangible fixed assets	**-6.9**	**-32.5**
Other operating expenses	**-924.6**	**-1,021.0**
Expenses for the addition to the fund for general banking risks	**-7.2**	**-4.8**
Depreciation and write-downs on receivables, specific securities and additions to loan losses provisions	**-7.8**	**-71.1**
Depreciation and write-downs on investments, shares in affiliated companies and long-term investment securities	**-15.1**	**-10.2**
Expenses of assumption of losses	**-0.1**	**-0.1**
Extraordinary expenses	**-27.9**	**-4.1**
Income taxes	**3.4**	**-124.9**
Other taxes not reported under “Other operating expenses”	**-0.8**	**-0.1**
Profit transfer on the basis of profit-pooling, profit transfer and partial profit transfer agreements	**-**	**-**
Net income for the financial year	**-**	**-**
Total expenses	**-1,896.5**	**-2,495.5**

in € million	2015/16	2014/15
Income		
Interest income from	**875.4**	**1,129.3**
a) Lending and money market transactions	770.9	987.2
thereof: negative interest	2.8	-
b) Fixed-income securities and government-inscribed debts	104.5	142.1
thereof: negative interest	-	-
Current income from	**1.8**	**2.6**
a) Equities and other non-fixed-income securities	-	-
b) Equity investments	1.8	0.6
c) Investments in affiliated companies	-	2.0
Income from profit-pooling, profit transfer and partial profit transfer agreements	**18.9**	**179.2**
Commission income	**38.7**	**52.7**
Net trading results	**6.0**	**8.2**
thereof: addition to (-)/reversal of (+) trading-related special reserve according to section 340e (4) HGB	1.8	-0.9
Income from reversals of write-downs on receivables and certain securities and from the reversal of loan loss provisions	**-**	**-**
Income from reversals of write-downs of equity investments, investments in affiliated companies and long-term investment securities	**258.5**	**354.6**
Other operating income	**694.8**	**765.6**
Income from the reversal of the fund for general banking risks	**-**	**-**
Extraordinary income	**2.4**	**3.3**
Income from assumption of losses	**-**	**-**
Net loss for the financial year	**-**	**-**
Total income	**1,896.5**	**2,495.5**
Net income for the financial year	**-**	**-**
Loss carryforward from the previous year	**-2,167.3**	**-2,167.3**
Withdrawals from capital reserves	**-**	**-**
Withdrawals from revenue reserves	**-**	**-**
Withdrawals from profit participation capital	**-**	**-**
Withdrawals from silent partnership contributions	**-**	**-**
Appropriation to revenue reserves	**-**	**-**
Replenishment of profit participation capital	**-**	**-**
Net accumulated losses	**-2,167.3**	**-2,167.3**

Consolidated cash flow statement

	in € million	2015/16
Net income for the period (consolidated net income/loss for the year including minority interest)		**10.4**
+/-	Amortisation/depreciation, write-downs and reversals thereof on receivables and fixed assets	335.4
+/-	Increase/decrease in provisions	138.4
+/-	Other non-cash expenses/income	-1.3
-/+	Gain/loss on the disposal of fixed assets	-251.7
+/-	Other adjustments (net)	-5.5
+/-	Increase/decrease in receivables from banks	176.4
+/-	Increase/decrease in receivables from customers	1,173.1
+/-	Increase/decrease in securities (if not long-term investments)	260.0
+/-	Increase/decrease in lease assets	-
+	Receipts from disposal	84.5
-	Payments for acquisition	-303.2
+/-	Increase/decrease in other assets from operating activities	-237.3
+/-	Increase/decrease in liabilities to banks	-987.7
+/-	Increase/decrease in liabilities to customers	-645.3
+/-	Increase/decrease in securitised liabilities	18.3
+/-	Increase/decrease in other liabilities from operating activities	-318.4
+/-	Interest expenses/interest income	-219.6
+/-	Lease expenses/lease income	-375.0
+/-	Expenses/income from extraordinary items	32.7
+/-	Income tax expenses/income	1.2
+	Interest and dividends received	890.1
-	Interest paid	-706.9
+/-	Cash flows from/used in leasing activities	371.4
+	Extraordinary receipts	0.8
-	Extraordinary payments	-0.1
+/-	Income tax	-180.2
Cash flow from operating activities		**-739.5**
+	Proceeds from the disposal of long-term investments	3,614.2
-	Payments for the acquisition of long-term investments	-2,616.5
+	Proceeds from the disposal of tangible assets	0.8
-	Payments for the acquisition of tangible assets	-200.5
+	Proceeds from the disposal of intangible assets	-
-	Payments for the acquisition of intangible assets	-6.1
+	Proceeds from disposals from consolidated group	-
-	Payments for additions to consolidated group	-
+/-	Change in cash funds from other investing activities (net)	-3.3
+	Receipts from extraordinary items	-
-	Payment for extraordinary items	-
Cash flow from investing activities		**788.6**

in € million		2015/16
+	Receipts from equity contributions by shareholders of the parent company	-
+	Receipts from equity contributions by other shareholders	-
-	Payments for equity reductions to shareholders of the parent company	-
-	Payments for equity reductions to other shareholders	-
+	Receipt from extraordinary items	-
-	Payment for extraordinary items	-
-	Dividends paid to shareholders of the parent company	-
-	Dividends paid to other shareholders	-
+/-	Change in cash funds from other capital (net)	-50.0
Cash flow from financing activities		**-50.0**
	Net change in cash funds	-0.9
+/-	Effect on cash funds of changes in exchange rates and remeasurement	-
+/-	Changes in cash funds due to consolidated group	-
+	Cash funds at beginning of period	34.6
Cash funds at end of period		**33.7**

Notes on the consolidated cash flow statement

For the first time, the consolidated cash flow statement was prepared in accordance with the provisions of German Accounting Standard no. 21 (DRS 21) on cash flow statements promulgated by the Federal Ministry of Justice and Consumer Protection on 8 April 2014. DRS 21 replaces the previous standards on cash flow statements (DRS 2, DRS 2-10 and DRS 2-20) and is effective for the first time for periods beginning after 31 December 2014. IKB is exercising the option provided under DRS 21.22 to dispense with the disclosure of prior-year figures in the cash flow statement.

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

- operating activities,
- investing activities and
- financing activities

to cash funds at the end of the financial year.

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

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

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

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

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

Applied accounting principles

(1) Preparation of the annual and consolidated financial statements

IKB Deutsche Industriebank AG is required to prepare annual financial statements and a management report in accordance with section 242 HGB in conjunction with section 264 HGB and consolidated financial statements and a Group management report in accordance with section 340i (1) HGB in conjunction with section 290 et seq. HGB.

The consolidated financial statements (Group) and the annual financial statements (IKB AG) of IKB Deutsche Industriebank AG for the 2015/16 financial year are prepared in line with the provisions of the German Commercial Code (HGB) in conjunction with the *Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* (RechKredV – German Bank Accounting Directive) and in line with the relevant regulations of the *Aktiengesetz* (AktG – German Stock Corporation Act). The consolidated financial statements also take into account the standards promulgated by the German Standardisation Council (DSR) and endorsed by the Federal Ministry of Justice in accordance with section 342 (2) HGB.

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

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

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

The notes to the consolidated financial statements and the notes to the annual financial statements of IKB AG have been compiled in accordance with section 298 (3) HGB. Unless noted otherwise, comments apply to both the Group and IKB AG. The management report of IKB AG and the Group management report have also been combined in accordance with section 315 (3) HGB in conjunction with section 298 (3) HGB.

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

(2) Changes in presentation and measurement

IKB implemented a change in its measurement model for derivatives in May 2015. The cash flows of secured derivatives are now discounted using the overnight indexed swap rate (OIS), as it is standard. Had this change been implemented as at 31 March 2015, the unrealised gains/losses for the previous year shown under note (62) would have decreased by € 51.5 million.

In the current financial year, pension obligations are now discounted on the basis of the average ten-year interest rate on account of the *Rückstellungsabzinsungsverordnung* (RückAbzinsV – German Ordinance on the Discounting of Provisions). The transition resulted in a one-time reduction in expense in the current financial year of € 27.5 million in the Group and € 23.8 million at IKB AG.

From this financial year, negative interest for asset financial instruments is reported in the income statement under interest income, while positive interest for liability financial instruments is reported as a “thereof” sub-item. The negative interest for asset financial instruments amounts to € 2.8 million and the positive interest for liability financial instruments to € 6.1 million.

The treatment of bonds issued by Group companies, held by another Group company and not acquired on the market was altered as at 31 March 2016. Deviating from the past presentation in the consolidated financial statements, bonds issued within the Group are no longer reported as own bonds under “Bonds and other fixed-income securities”, and are instead offset against each other in the consolidation of intercompany balances. Thus, the carrying amounts for bonds and other fixed-income securities and for securitised liabilities were each reduced by € 471.8 million in the year under review and € 755.6 million in the previous year. As a result of this change in reporting, the prior-year information under notes (21), (24), (25) and (62) was restated and is no longer comparable with the information published in the previous year.

(3) Consolidated group

In addition to IKB AG, 46 (31 March 2015: 47) subsidiaries have been included in consolidation in the consolidated financial statements as at 31 March 2016.

The entire assets of Zweite Equity Suporta GmbH were transferred to IKB Invest GmbH effective 1 January 2015 by way of merger through acquisition. The merger was entered in the commercial register on 31 August 2015.

IKB Leasing GmbH acquired new business activities from third-party leasing companies as part of an asset deal. The purchased assets were contributed to IKB Beteiligungsgesellschaft 6 mbH, which has since operated as UTA Truck Lease GmbH. UTA Truck Lease GmbH was included in the consolidated financial statements for the first time as a consolidated subsidiary as at 31 December 2015. The purpose of the company is to arrange new leasing business for IKB Leasing GmbH.

The special purpose entity German Mittelstand Equipment Fin No. 1 S.A. was included in the consolidated financial statements by way of full consolidation for the first time in the 2012/13 financial year. The transaction was ended in full following the repayment of the company’s securitised liabilities. The company was deconsolidated in December 2015. The deconsolidation has not had any material effects.

One associated company is included in the consolidated financial statements using the equity method (31 March 2015: one).

For further information please see note (27).

(4) Consolidation methods

The consolidated financial statements were prepared in accordance with the uniform accounting policies of IKB AG. The annual financial statements of the subsidiaries included that are neither credit nor financial services institutions have been reconciled to the structure of the RechKredV formats. If a Group company has a reporting date other than 31 March, the material transactions that occur between the balance sheet date and 31 March 2016 are taken into account. Selected companies are included using financial statements updated to the reporting date of the Group.

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

Before the BilMoG came into effect, the book value method was used for companies included in consolidation for the first time. The book value method is still used in accordance with the retention option of section 66 (3) of the *Einführungsgesetz zum Handelsgesetzbuch* (EGHGB – Introductory Act to the German Commercial Code). In the last HGB consolidated financial statements before the transition to IFRS Group accounting (31 March 2005), the carrying amounts of the subsidiary as at the date of acquisition or first-time inclusion in consolidation were used. Companies acquired after 31 March 2005 have been included at carrying amount as at the date of acquisition in accordance with section 301 (2) HGB. Prior to 31 March 2005, positive and negative consolidation differences were offset. The resulting difference is reported in revenue reserves. This netting has been retained in accordance with section 66 EGHGB.

A positive difference remaining after the realisation of unrealised gains and losses not offset against revenue reserves is reported in the consolidated balance sheet as goodwill under “Intangible assets”. A corresponding negative difference remaining is reported separately after equity under “Difference from capital consolidation”.

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

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

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Accounting policies

(5) Receivables

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

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

(6) Securities

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

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

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

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

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

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

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

Structured financial instruments are accounted for separately for securities from synthetic securitisation transactions in which the credit risk of the reference portfolio was transferred to the issuer of the securities with a credit default swap (CDS). The embedded derivatives in synthetic securitised instruments are reported at nominal amount as contingent liabilities under the below-the-line items if the embedded derivatives are recognised as guarantees. In the event of pending utilisation of the embedded credit derivative, provisions for expected losses from executory contracts are recognised and the contingent liabilities reduced by the same amount. If embedded derivatives are recognised as executory contracts in accordance with IDW RS BFA 1 new version, provisions for expected losses are recognised in the amount of the negative fair values of the embedded derivatives.

(7) Provisions for possible loan losses

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

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

The economic factor used to calculate general allowances was unchanged in the reporting year. As a result of the decline in customer receivables and contingent liabilities from guarantees, the global valuation allowance recognised for lending business decreased by around € 13 million as at the reporting date.

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

In addition, there are general allowances totalling € 76 million (previous year: € 58 million) for latent counterparty default risk in connection with the following items:

- Above-average risks of loss in the area of acquisition financing in the amount of € 28 million (unchanged year-on-year)
- Losses in connection with planned sales medium- and long termed project financing of € 23 million (previous year: € 15 million, € 13 million of which reversed after sales and € 21 million recognised as a new allowance for further sales)
- Impact of EU sanctions against Russia on borrowers in the amount of € 12 million (unchanged year-on-year)
- Impact of more stringent legislation on borrowers in the renewable energies segment in Southern Europe in the amount of € 5 million (previous year: € 3 million)
- Above-average risks of loss on exposures relating to the European steel industry and commodity financing of € 8 million (new allowance).

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

To cover country risk, a global valuation allowance was recognised for the credit volume in high-risk countries with internal ratings from class 8 for which the risk has not been placed with third parties. The general allowance for country risk is recognised in the amount of at least the one-year expected loss. The Bank considers whether additional country risk provisioning appears necessary on a case-by-case basis. Accordingly, as in the previous year, country risk provisioning within the published tax ranges was recognised for risk classes 13-15 as at 31 March 2016. The general allowance resulting from country risk amounts to € 4.3 million and has thus barely changed compared to the previous year (€ 4.4 million).

Total general allowances including country risk provisioning for customer receivables, receivables from banks, contingent liabilities and irrevocable loan commitments in the Group amounted to € 166.2 million (previous year: € 159.2 million), while the figure for IKB AG amounted to € 165.8 million (previous year: € 158.8 million). There were general allowances for securities of € 3.3 million (previous year: € 3.1 million) in the Group and € 2.8 million (previous year: € 2.9 million) at IKB AG.

(8) Financial instruments held for trading

The Bank has assigned all financial instruments with which it intends to generate a short-term trading gain to this portfolio in accordance with IDW RS BFA 2. The criteria for this intention are taken from the regulatory requirements for allocation to the trading book. These criteria have not been changed. Assets and liabilities held for trading are reported separately.

Since the middle of December 2015, IKB has completely and permanently suspended trading and has reclassified its trading portfolio to the non-trading portfolio. This is an instance of exceptional circumstances in accordance with section 340e (3) sentence 3 HGB.

Reclassification was effected at the fair value at the reclassification date. In subsequent measurement, the fair values as at the reclassification date were reported as the new acquisition cost in accordance with section 255 (4) sentence 4 HGB.

The risk deduction previously recognised for the trading portfolio in accordance with section 340e (3) sentence 1 HGB of € 0.5 million and the trading-related fund for general banking risks in accordance with section 340g HGB in conjunction with section 340e (4) HGB of € 1.8 million in total was recognised in the income statement in net trading income.

The carrying amounts of transactions reclassified from the trading to the non-trading portfolio amounted to € 172.6 million (assets held for trading) and € 178.1 million (liabilities held for trading) as at the reclassification date. € 131.2 million of this was reclassified to prepaid expenses and € 133.3 million to deferred income, and € 14.2 million was reclassified to other assets and € 21.4 million to other liabilities. As a result of the currency valuation of FX derivatives in accordance with section 340h HGB, asset derivatives in the amount of € 27.2 million were offset against liability derivatives of € 23.4 million and reclassified to other assets (foreign currency adjustment item). Thus, the financial instruments in the year under review cannot be compared with those in the previous year.

In accordance with section 340e (3) sentence 1 HGB, trading portfolio financial instruments were measured at fair value less a risk deduction prior to the discontinuation of trading activities. Their fair value was calculated in line with the measurement hierarchy of section 255 (4) HGB. The fair values of financial instruments not traded on exchanges are determined on the basis of financial and mathematical measurement models and market measurement parameters (including interest rates, interest rate volatilities, exchange rates). 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 financial instrument and the credit standing of the respective counterparty.

The Bank charged the risk deduction in the amount of the value-at-risk calculated for regulatory purposes. The calculation of value-at-risk was based on a holding period of ten days and a confidence level of 99%. The value-at-risk expresses the loss in value for the portfolio of the Bank over a period of ten days which has a 99% probability of not being exceeded. The observation period was 250 bank working days. The risk deduction calculated for the entire trading portfolio was deducted from the asset trading portfolio.

In line with section 340e (4) HGB, an amount of at least 10% of the net income of the trading portfolio must be added to the special reserve “Funds for general banking risks” in line with section 340g HGB and reported there separately each financial year.

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

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

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

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

At the end of October 2015, IKB AG acquired its administrative building at Wilhelm-Bötzkes-Straße 1/ Uerdinger Straße 96 in Düsseldorf. In doing so the Bank exercised an existing pre-emption right. This was entered in the land title register in March 2016. The buildings are reported as a single asset at acquisition cost plus incidental expenses in the tangible assets of IKB AG and depreciated on a straight-line basis over their remaining useful life.

(10) Lease assets

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

Depreciation on lease assets in the Group is reported in “Depreciation on lease assets”.

(11) Securities repurchase and lending transactions

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

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

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

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

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

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

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

(13) Liabilities

With the exception of liabilities held for trading, liabilities are measured at their settlement amount in line with prudent business judgement. Any negative difference between this and the amount paid in is deferred and allocated in profit or loss as planned.

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

(14) Provisions

Provisions for pensions and similar obligations

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

Measurement factor	31 Mar. 2016 Assumption	31 Mar. 2015 Assumption
Interest rate (7 or 10-year average)	3.71%/4.24%	4.37%
Wage and salary increase	2.0%/3.0%	2.0%/3.0%
Pension trend	2.0%	2.0%
Fluctuation rate in line with grading by age and sex		
Age up to 35 m/f	6.0%/6.0%	6.5%/4.5%
Age from 36 to 45 m/f	4.0%/4.0%	4.5%/5.5%
Age over 45 m/f	1.5%/1.5%	1.5%/1.0%

Pension provisions are usually discounted at flat rate using the average market interest rate. Owing to the change in section 253 HGB, in this financial year the average market interest rate is calculated on the basis of the ten-year average market interest rate (previous year: seven-year average market interest rate) for an assumed remaining term of 15 years (see note (37)). The seven-year average market interest rate is still used for similar obligations. The interest rate was announced by the Bundesbank in line with the German Regulation on the Discounting of Provisions. For securities-linked commitments, provisions are carried in the amount of the fair value of the plan assets if a guaranteed minimum amount is exceeded.

In accordance with section 67 (1) sentence 1 EGHGB, the option is exercised to add one fifteenth of the additional provision required on account of the change in the measurement of pension obligations due to BilMoG each financial year (see note (37)). The Bank also exercises the option not to recognise indirect pension obligations (2015 pension fund plan) in its balance sheet.

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

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

Tax provisions and other provisions

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

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

(15) Contingent liabilities and other obligations

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

(16) Extraordinary result

The recognition of extraordinary income or expense requires that these arise from transactions that are regarded as extraordinary and that are of some significance. Among other things, this item therefore includes expenses directly relating to the redundancy programme.

(17) Derivatives

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

For derivative financial instruments included in a hedge in accordance with section 254 HGB, a provision for expected losses resulting from the hedged risk is not recognised if these losses are offset by an unrealised gain in the same amount (see notes (14) and (19)).

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

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

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

Please see note (8) for information on the measurement of derivative financial instruments held for trading.

(18) Currency translation

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

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

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

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

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

In accordance with section 340c (1) HGB in conjunction with section 340e (3) HGB, trading portfolio financial instruments in foreign currency were measured at fair value less a risk deduction prior to the discontinuation of trading activities. After calculating the fair value in foreign currency, the trading portfolios are translated at the middle spot exchange rate as at the balance sheet date and unrealised gains and losses are recognised in net trading results.

(19) Valuation units

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

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

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

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

The net hedge presentation method is generally used to present hedge accounting at IKB. An exception to this were micro hedges for avoiding currency risks in the Group, which were accounted for using the gross hedge presentation method. This hedge accounting was dissolved in the financial year as the hedges no longer existed.

There is no hedge accounting for highly probable transactions.

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

(20) Deferred taxes

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

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

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

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

Notes on the balance sheet

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

	Group		IKB AG	
in € million	31 Mar. 2016	31 Mar. 2015	31 Mar. 2016	31 Mar. 2015
Receivables from banks[1)]	**203.6**	**104.6**	**191.2**	**95.8**
remaining term				
up to 3 months	123.8	66.5	111.4	59.3
between 3 months and 1 year	35.1	4.4	35.1	2.8
between 1 and 5 years	25.3	17.4	25.3	17.4
more than 5 years	19.4	16.3	19.4	16.3
Receivables from customers	**9,887.8**	**11,089.8**	**11,467.0**	**12,864.6**
remaining term				
up to 3 months	949.3	1,680.9	986.0	1,712.7
between 3 months and 1 year	1,495.0	1,687.1	1,618.3	1,861.0
between 1 and 5 years	5,177.2	5,487.5	6,292.3	6,776.3
more than 5 years	2,266.3	2,234.3	2,570.4	2,514.6
Liabilities to banks[1)]	**6,439.2**	**7,968.5**	**6,415.7**	**7,957.2**
remaining term				
up to 3 months	892.9	1,905.6	891.2	1,905.1
between 3 months and 1 year	1,121.9	1,358.0	1,115.6	1,352.2
between 1 and 5 years	3,247.8	3,518.5	3,232.6	3,513.5
more than 5 years	1,176.6	1,186.4	1,176.3	1,186.4
Liabilities to customers[1)]	**6,179.8**	**6,575.2**	**6,187.3**	**6,584.6**
remaining term				
up to 3 months	922.0	1,181.9	929.5	1,191.2
between 3 months and 1 year	2,141.1	2,185.5	2,141.1	2,185.5
between 1 and 5 years	2,442.1	2,278.1	2,442.1	2,278.2
more than 5 years	674.6	929.7	674.6	929.7

1) not including receivables or liabilities repayable on demand

€ 145.0 million (previous year: € 204.9 million) of bonds and other fixed-income securities are payable in the following year in the Group and € 135.6 million (previous year: € 445.4 million) are payable in the following year at IKB AG. € 161.9 million (previous year: € 262.1 million) of the bonds issued and reported under securitised liabilities are payable in the following year in the Group and € 85.9 million (previous year: € 658.6 million) are payable in the following year at IKB AG.

(22) Financial instruments held for trading

In the middle of December, IKB completely and permanently suspended all trading activities. Its trading book positions were sold/closed out or reclassified to the non-trading book (see note (8)).

As at the reporting date, after the reversal of the risk deduction and the special reserve recognised in accordance with section 340e (4) HGB, trading activities resulted in net income of € 6.0 million (previous year: € 8.2 million).

In the previous year, the trading book derivatives were interest swaps, spot transactions, CDS/caps/floors/collars, FX swaps, FX options, FX forwards, cross-currency swaps and swaptions.

Assets held for trading:

	Group		IKB AG	
in € million	**31 Mar. 2016**	**31 Mar. 2015**	**31 Mar. 2016**	**31 Mar. 2015**
Derivative financial instruments	-	254.0	-	254.0
Receivables	-	4.9	-	4.9
Bonds and other fixed-income securities	-	12.1	-	12.1
Risk deduction	-	-0.5	-	-0.5
Total	**-**	**270.5**	**-**	**270.5**

Liabilities held for trading:

	Group		IKB AG	
in € million	**31 Mar. 2016**	**31 Mar. 2015**	**31 Mar. 2016**	**31 Mar. 2015**
Derivative financial instruments	-	263.6	-	263.6
Liabilities	-	16.1	-	16.1
Total	**-**	**279.7**	**-**	**279.7**

(23) Valuation units

Valuation units (hedge accounting) are essentially used at IKB to present hedges of interest and/or currency risks.

At the reporting date, there were hedges with assets with a carrying amount of € 101.4 million (previous year: € 241.8 million) and liability derivatives of € 127.0 million (previous year: € 3.2 million) as hedged items in the Group. At IKB AG, there were derivatives with negative market value of € 125.6 million (previous year: € 0.8 million) as hedged items as at the reporting date. The increase as against the previous year is essentially due to new hedge accounting for inflation risks at IKB AG.

As at the reporting date, hedged risks amounted to € 0.6 million (previous year: € 25.3 million) for assets and € 9.9 million (previous year: € 2.6 million) for derivatives in the Group, and € 8.7 million (previous year: € 0.8 million) for derivatives at IKB AG. The hedged risk is equal to the value of the changes in the value or cash flows of the hedged item compensated by the hedging instrument.

(24) Fixed assets

Group:

in € million	Intangible assets	Tangible assets	Lease assets	Equity invest- ments	Invest- ments in associates	Invest- ments in affiliated companies	Bonds and other fixed- income securities	Equities and other non-fixed- income securities	Total
Acquisition costs as at 31 Mar. 2015	**61.3**	**77.8**	**2,091.2**	**30.7**	**11.1**	**12.1**	**5,841.3**	**487.9**	**8,613.4**
Additions	6.1	200.5	303.2	-	-	0.1	2,648.1	13.8	3,171.8
Reclassifications	0.2	-0.2	-	-	-	-	-	-	-
Effects of currency translation	-	-	-0.3	-	-	-	-6.8	-	-7.1
Disposals	-	-5.1	-499.1	-14.2	-	-3.0	-3,403.1	-26.8	-3,951.3
Acquisition costs as at 31 Mar. 2016	**67.6**	**273.0**	**1,895.0**	**16.5**	**11.1**	**9.2**	**5,079.5**	**474.9**	**7,826.8**
Cumulative depreciation/ amortisation, write-downs and reversals thereof as at 31 Mar. 2015	**-50.4**	**-52.1**	**-1,061.3**	**-8.0**	**2.5**	**-9.8**	**-77.1**	**-4.6**	**-1,260.8**
Reversals of write-downs	-	0.2	0.7	1.2	1.4	-	16.7	0.1	20.3
Depreciation, amortisation and write-downs	-5.4	-5.5	-311.6	-0.3	-	-0.2	-0.5	-0.3	-323.8
Reclassifications	-	-	-	-	-	-	-	-	-
Effects of currency translation	-	-	0.1	-	-	-	1.8	-	1.9
Disposals	-	4.4	418.2	1.7	-	2.9	15.3	-	442.5
Cumulative depreciation/ amortisation, write-downs and reversals thereof as at 31 Mar. 2016	**-55.8**	**-53.0**	**-953.9**	**-5.4**	**3.9**	**-7.1**	**-43.8**	**-4.8**	**-1,119.9**
Residual book value as at 31 Mar. 2016	**11.8**	**220.0**	**941.1**	**11.1**	**15.0**	**2.1**	**5,035.7**	**470.1**	**6,706.9**
Residual book value as at 31 Mar. 2015	**10.9**	**25.7**	**1,029.9**	**22.7**	**13.6**	**2.3**	**5,764.2**	**483.3**	**7,352.6**

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. 2015	**85.7**	**26.2**	**10.1**	**1,175.6**	**5,465.2**	**1.5**	**6,764.3**
Additions	0.8	197.0	-	-	2,638.6	0.2	2,836.6
Reclassifications	-	-	-	-	-	-	-
Effects of currency translation	-	-	-	-	-3.6	-	-3.6
Disposals	-	-	-8.9	-16.5	-3,374.5	-	-3,399.9
Acquisition costs as at 31 Mar. 2016	**86.5**	**223.2**	**1.2**	**1,159.1**	**4,725.7**	**1.7**	**6,197.4**
Cumulative depreciation/ amortisation, write-downs and reversals thereof as at 31 Mar. 2015	**-77.6**	**-20.7**	**-0.2**	**-1,015.4**	**-32.5**	**-**	**-1,146.4**
Reversals of write-downs	-	-	-	2.0	1.2	-	3.2
Depreciation/amortisation and write-downs	-4.3	-2.7	-0.3	-0.2	-6.9	-	-14.4
Reclassifications	-	-	-	-	-	-	-
Effects of currency translation	-	-	-	-	-	-	-
Disposals	-	-	-	2.9	1.2	-	4.1
Cumulative depreciation/ amortisation, write-downs and reversals thereof as at 31 Mar. 2016	**-81.9**	**-23.4**	**-0.5**	**-1,010.7**	**-37.0**	**-**	**-1,153.5**
Residual book value as at 31 Mar. 2016	**4.6**	**199.8**	**0.7**	**148.4**	**4,688.7**	**1.7**	**5,043.9**
Residual book value as at 31 Mar. 2015	**8.1**	**5.5**	**9.9**	**160.2**	**5,432.7**	**1.5**	**5,617.9**

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

The additions to intangible assets for the Group include purchased goodwill of € 4.2 million. Given its long-term usability, the goodwill will be amortised over a period of ten years.

In particular, the additions to tangible assets include the acquisition in October 2015 of the administrative building of IKB’s headquarter in Düsseldorf, which is partly used for banking operations.

Two land and building items (previous year: one) partially used for banking operations were included in the portfolio at Group level at a carrying amount of € 204.4 million (previous year: € 10.0 million). One land and building item (previous year: none) partially used for banking operations was included in the portfolio at IKB AG at a carrying amount of € 194.5 million (previous year: € 0.0 million).

Operating and office equipment was included in tangible assets at € 13.6 million (previous year: € 13.1 million) in the Group and € 5.0 million (previous year: € 5.5 million) at IKB AG.

The disposals in equity investments essentially result from a capital reduction at AXA Immoselect Hauptverwaltungsgebäude GmbH & Co. Objekt Düsseldorf Uerdinger Straße KG, caused by the sale of the administrative building in Düsseldorf to IKB AG. Furthermore, a reversal of impairment of € 1.2 million in current account was subsequently recognised under equity investments in the Group.

The item “Bonds and other fixed-income securities” predominantly includes European government bonds, bank bonds and structured products in the form of CDOs.

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

In total, there were unrealised losses from long-term investments of € 31.5 million (previous year: € 49.7 million) based on the carrying amounts of € 705.3 million (previous year: € 588.8 million) and the fair values of € 673.8 million (previous year: € 539.1 million). At IKB AG, unrealised losses for long-term investments amounted to a total of € 53.0 million (previous year: € 42.0 million) based on carrying amounts of € 516.6 million (previous year: € 542.6 million) and fair values of € 463.6 million (previous year: € 500.6 million).

There were no write-downs for these impairment losses in the Group or at IKB AG as the differences are not considered to be permanent as defined by section 253 (3) HGB.

In the current financial year, write-downs on fixed assets of € 2.8 million (previous year: € 12.5 million) were recognised in the Group and of € 7.4 million (previous year: € 25.1 million) at IKB AG on account of impairment expected to be permanent.

The reported amounts do not include deferred interest.

(25) Negotiable securities

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

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

	Group			IKB AG		
31 Mar. 2015 in € million	**Total negotiable**	**Listed**	**Not listed**	**Total negotiable**	**Listed**	**Not listed**
Bonds and other fixed-income securities	5,773.8	5,675.3	98.5	5,442.3	5,418.2	24.1
Equities and other non-fixed-income securities[1)]	478.0	-	478.0	1.5	-	1.5
Equity investments	4.1	-	4.1	-	-	-

1) The comparative figure as at 31 March 2015 for listed equities and other non-fixed-income securities was reduced by € 1.5 million to the benefit of unlisted equities and other non-fixed-income securities .

The item "Bonds and other fixed-income securities" includes the negotiable securities assigned to fixed assets of € 5,035.7 million (previous year: € 5,764.1 million) in the Group and € 4,688.7 million (previous year: € 5,424.5 million) at IKB AG. The item "Equities and other non-fixed-income securities" includes the negotiable securities assigned to fixed assets of € 465.8 million (previous year: € 478.0 million) in the Group and € 1.7 million (previous year: € 1.5 million) at IKB AG.

(26) Disclosures on investment funds

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

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

	Group				IKB AG			
in € million	Carrying amount 31 Mar. 2015	Fair value 31 Mar. 2015	Difference to carrying amount 31 Mar. 2015	Distribution 2014/15	Carrying amount 31 Mar. 2015	Fair value 31 Mar. 2015	Difference to carrying amount 31 Mar. 2015	Distribution 2014/15
Mixed funds	302.0	302.0	**-**	6.0	270.6	270.6	-	5.2
Other special funds	478.1	485.4	**7.3**	45.0	-	-	-	-
Total	**780.1**	**787.4**	**7.3**	**51.0**	**270.6**	**270.6**	**-**	**5.2**

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

Furthermore, CTA assets were invested in a German special fund. If the offsetting of CTA assets against pension obligations (depending on the pension plan and company) results in an excess of CTA assets, this is reported under “Excess of plan assets over pension liability” (see note (30)). If the offsetting results in an excess pension obligation, this is recognised as a pension provision. The fund predominantly invests in investment funds and fixed-income securities.

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

(27) Investments accounted for using the equity method

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

Carrying amount of investment accounted for using the equity method:

in € million	31 Mar. 2016	31 Mar. 2015
Linde Leasing GmbH, Wiesbaden	15.0	13.6
Total	**15.0**	**13.6**

Key figures for companies accounted for using the equity method:

31 Mar. 2016 in € million	Assets	Liabilities	Net income/loss for the financial year	Income
Linde Leasing GmbH, Wiesbaden	492.9	442.8	6.7	201.3

(28) Receivables from and liabilities to affiliated companies and other investees and investors

	Group			
	31 Mar. 2016		31 Mar. 2015	
in € million	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Receivables from banks	-	-	-	-
Receivables from customers	-	38.8	9.5	20.2
Other assets	-	-	-	-
Liabilities to banks	-	-	-	-
Liabilities to customers	3.7	0.8	3.0	0.3
Securitised liabilities	-	-	0.9	-
Other liabilities[1]	165.2	-	145.0	-

1) The prior-period figure as at 31 March 2015 for other liabilities to affiliated companies was increased to include amounts due to an unconsolidated special purpose entity.

	IKB AG			
	31 Mar. 2016		31 Mar. 2015	
in € million	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Receivables from banks	-	-	-	-
Receivables from customers	2,535.7	38.6	2,730.6	20.0
Other assets	21.9	-	184.7	-
Liabilities to banks	-	-	-	-
Liabilities to customers	35.0	0.8	68.8	0.3
Securitised liabilities	250.1	-	508.6	-
Other liabilities	16.0	-	15.6	-

(29) Subordinated assets

	Group		IKB AG	
in € million	31 Mar. 2016	31 Mar. 2015	31 Mar. 2016	31 Mar. 2015
Receivables from customers	353.3	548.0	353.3	547.9
Bonds and other fixed-income securities	0.7	0.7	0.7	0.7
Liabilities held for trading	-	3.8	-	3.8
Total	**354.0**	**552.5**	**354.0**	**552.4**

The subordinated assets reported in “Bonds and other fixed-income securities” are own bonds.

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

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

31 Mar. 2015 in € million	Group	IKB AG
Offset assets		
Acquisition costs	287.6	257.8
Fair value	333.1	298.7
Offset liabilities		
Settlement amount	-290.5	-255.1
Excess of plan assets over post-employment benefit liability	**44.5**	**43.5**
Expenses and income offset in the reporting year	**2014/15**	**2014/15**
Expenses and income from pension obligations		
Expenses for pension obligations	-34.5	-30.2
Expenses and income from plan assets		
Income from plan assets	45.1	40.3
Expenses of plan assets	-0.4	-0.4
Net income/expense	**10.2**	**9.7**

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

(31) Leases

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

(32) Repurchase agreements

The carrying amount of assets reported in the balance sheet as at the reporting date and transferred in genuine agreements is € 2,162.3 million (previous year: € 2,134.2 million) in the Group and € 2,391.1 million (previous year: € 2,439.4 million) at IKB AG. The figure for IKB AG in the previous year was increased by € 978.7 million compared to the annual report as at 31 March 2015. In particular, the increase is due to the inclusion of intra-group repurchase agreements.

(33) Foreign-currency assets and liabilities

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

	Group		IKB AG	
in € million	**31 Mar. 2016**	**31 Mar. 2015**	**31 Mar. 2016**	**31 Mar. 2015**
Assets	1,237.5	1,612.3	1,036.2	1,430.0
Liabilities	141.2	286.0	264.3	423.7

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

(34) Other assets and other liabilities

Other assets include the following items:

	Group		IKB AG	
in € million	**31 Mar. 2016**	**31 Mar. 2015**	**31 Mar. 2016**	**31 Mar. 2015**
Foreign currency adjustment item	35.6	-	34.8	-
Receivables from leasing business	27.3	26.3	-	-
Receivables from tax authorities	37.8	41.9	29.8	36.7
Hire-purchase properties not yet realised	9.3	7.5	-	-
Receivables from derivatives	2.1	7.8	2.1	9.8
Deferred interest on derivatives	104.7	123.1	105.2	123.6
Trade receivables	2.6	2.4	0.8	1.2
Receivables from affiliated companies	-	-	21.9	184.7
Miscellaneous assets	32.4	26.1	23.1	12.7
Total	**251.8**	**235.1**	**217.7**	**368.7**

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

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

Other liabilities break down as follows:

in € million	Group 31 Mar. 2016	Group 31 Mar. 2015	IKB AG 31 Mar. 2016	IKB AG 31 Mar. 2015
True sale securitisations	-	-	213.4	261.4
Liabilities from the disposal of lease receivables	172.4	145.0	-	-
Synthetic securitisations	-	-	0.5	0.7
Foreign currency adjustment item	-	53.0	-	53.0
Obligations from derivatives	21.0	79.8	21.0	79.8
Deferred interest on derivatives	101.0	112.9	96.4	107.2
Liabilities to tax authorities	12.8	13.6	10.7	11.4
Deferred income for subordinates liabilities	2.4	2.6	2.4	2.6
Trade payables	12.2	4.5	11.4	2.4
Miscellaneous liabilities	23.4	53.7	23.2	18.7
Total	**345.2**	**465.1**	**379.0**	**537.2**

Lease receivables were sold to non-consolidated special purpose entities in the Group. The transaction did not result in a de-recognition, hence corresponding other liabilities are reported for the leasing receivables sold. These liabilities have been reported separately as “Liabilities from the disposal of lease receivables” for the first time in the interests of a more transparent presentation.

(35) Deferred income and prepaid expenses

Prepaid expenses essentially include discounts on liabilities recognised at nominal amount of € 5.0 million (previous year: € 6.9 million) in the Group and € 5.0 million (previous year: € 6.9 million) at IKB AG and prepaid expenses for derivatives business of € 259.0 million (previous year: € 54.7 million) in the Group and € 304.8 million (previous year: € 113.3 million) at IKB AG.

Deferred income essentially includes discounts on receivables recognised at nominal amount of € 22.8 million (previous year: € 21.5 million) in the Group and € 22.8 million (previous year: € 21.5 million) at IKB AG and deferred income for derivatives business of € 72.6 million (previous year: € 33.4 million) in the Group and € 129.7 million (previous year: € 108.0 million) at IKB AG.

(36) Deferred tax assets

in € million	Group 31 Mar. 2016	Group 31 Mar. 2015	IKB AG 31 Mar. 2016	IKB AG 31 Mar. 2015
Excess deferred tax assets	253.6	243.1	249.7	238.1

in € million	Group 31 Mar. 2016	Group 31 Mar. 2015	IKB AG 31 Mar. 2016	IKB AG 31 Mar. 2015
Reported corporation tax loss carryforwards	38.6	50.7	9.1	8.9
Reported trade tax loss carryforwards	-	-	-	-

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

(37) Pension provisions

The reported pension provisions amount to € 8.7 million in the Group (previous year: € 3.5 million). Obligations under pension commitments at IKB AG are offset against corresponding plan assets in the current financial year.

In the context of the first-time adoption regulations of the BilMoG, the option was exercised to distribute the additional amount to the pension provisions evenly over a term of 15 years. The outstanding addition as at 31 March 2016 amounted to € 41.8 million (previous year: € 46.4 million) in the Group and € 36.8 million (previous year: € 40.9 million) at IKB AG.

As a result of the mandatory application of amended section 253 HGB, there is the following difference in pension provisions measured using the average ten-year market interest rate:

31 Mar. 2016 **in € million**	**Group**	**IKB AG**
Measurement of obligation using average ten-year market interest rate	338.0	294.8
Measurement of obligation using average seven-year market interest rate	365.5	318.6
Difference in accordance with section 253 (6) HGB	**27.5**	**23.8**

(38) Subordinated liabilities

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

As at the reporting date, subordinated liabilities amounted to € 921.7 million (previous year: € 970.9 million) in the Group and € 446.6 million (previous year: € 495.8 million) at IKB AG. The interest expenses on these amounted to € 10.4 million in the financial year (previous year: € 11.6 million) in the Group and € 10.4 million (previous year: € 11.6 million) at IKB AG. Interest expenses were not incurred for the 2004/05 issue (Group) in the year under review as payment is dependent on IKB AG reporting distributable net income.

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

Group Year of issue	Carrying amount in € million	Currency	Interest rate in %	Maturity
2005/2006	101.6	JPY	2.76	21 July 2035
2006/2007	120.0	EUR	0.96	23 Jan. 2017
2004/2005 (Group)	400.0	EUR	1)	Perpetual

IKB AG Year of issue	Carrying amount in € million	Currency	Interest rate in %	Maturity
2004/2005	73.0	EUR	1.10	13 Sep. 2016
2005/2006	101.6	JPY	2.76	21 July 2035
2006/2007	120.0	EUR	0.96	23 Jan. 2017

1) 10Y EUR mid-swap rate + 5bp, cap 9%

(39) Profit participation capital

After loss allocation, profit participation capital in the Group and at IKB AG amounted to € 32.2 million as at the balance sheet date (previous year: € 32.2 million). The nominal value as at the balance sheet date was € 120.0 million (previous year: € 120.0 million). In line with the terms and conditions, profit participation capital participates fully in the net loss for the year or net accumulated losses of IKB AG. Depending on the issue, interest payments are only made if IKB AG reports distributable net income for the year. The claims of profit participation certificate bearers to capital repayment are subordinate to the claims of other creditors.

The loss participation of the profit participation certificate bearers or the replenishment of profit participation capital are calculated on the basis of the pro rata net loss for the year or net accumulated losses (not including the loss carryforward) in proportion to the balance sheet equity including total profit participation capital or all capital shares participating in net accumulated losses up to the repayment amount. The replenishment of the repayment amount after a loss participation and a repayment of suspended distributions are expressly provided for in the issue conditions when certain conditions are met within the term of the issue or, in one case, within a four-year recovery period.

The profit participation capital in the Group and at IKB AG breaks down as follows:

Year of issue	Original nominal value in € million	Currency	Interest rate in %	Maturity
2006/2007	50.0	EUR	4.70	31 March 2017
2007/2008	70.0	EUR	5.63	31 March 2017

No interest was incurred on profit participation certificates for the 2015/16 financial year. Had the requirements for an interest payment been met, interest of € 6.3 million (previous year: € 13.4 million) would have been payable on profit participation certificates in the 2015/16 financial year.

(40) Fund for general banking risks

On the suspension of trading activities, the special reserve in accordance with section 340e (4) HGB of € 1.8 million was reversed to net trading income in the income statement in accordance with the statutory provisions (see note (8)).

Taking this reversal into account, the fund for general banking risks in accordance with section 340g HGB, which is eligible as common equity tier 1 capital in accordance with the CRR, was increased to € 585.0 million by an addition of € 7.2 million in the 2015/16 financial year. Among other things, the transfer, which will take into account IKB's general banking risks, is intended to protect the Bank against the risks described in this management report.

(41) Development of capital

Treasury stock

By way of resolution of the Annual General Meeting on 5 September 2013, the company was authorised to acquire and sell treasury shares for the purpose of securities trading until 4 September 2018. The amount of shares acquired for this purpose must not exceed 5% of the share capital at the end of any one day. Together with the treasury shares acquired for other reasons held by the company or assigned to it in accordance with sections 71a et seq. AktG, the treasury shares acquired on the basis of this authorisation must not exceed 10% of the share capital at any time. This authorisation was not utilised in the 2015/16 financial year. The authorisation to acquire treasury shares for trading purposes up to and including 25 August 2015 that was issued by the Annual General Meeting on 26 August 2010 was already revoked by way of resolution of the Annual General Meeting on 5 September 2013 from the time at which the new authorisation comes into effect.

By way of resolution of the Annual General Meeting held on 5 September 2013, the company was authorised to acquire treasury shares of up to 10% of the share capital for purposes other than securities trading up to and including 4 September 2018. The shares can be acquired on the stock exchange (OTC) or by way of a public bid to all shareholders. The acquisition of shares can be carried out using put or call options. Such share acquisitions are limited to shares of a maximum volume of 5% of the share capital at the time of the resolution on this authorisation by the Annual General Meeting on 5 September 2013. The options must mature by 4 September 2018 at the latest. Together with the treasury shares acquired for trading purposes and other reasons held by the company or assigned to it in accordance with sections 71a et seq. AktG, the treasury shares acquired on the basis of this authorisation must not exceed 10% of the share capital of the company at any time. The acquired shares can be sold on the stock exchange (OTC) or in some other way or, in full or in part, called in. This authorisation was not utilised in the 2015/16 financial year. The authorisation to acquire and utilise treasury shares in accordance with section 71 (1) no. 8 AktG up to and including 25 August 2015 that was issued by the Annual General Meeting on 26 August 2010 was already revoked by way of resolution of the Annual General Meeting on 5 September 2013 from the time at which the new authorisation comes into effect.

No treasury shares were held in the 2015/16 financial year, nor were there any additions or disposals of the same.

Equity

By way of resolution of the Annual General Meeting on 5 September 2013, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the company by a total of up to € 560,000,000.00 against cash or non-cash contributions by issuing new no-par-value bearer shares until 4 September 2018. The number of shares must increase by the same proportion as the share capital. With the approval of the Supervisory Board, the statutory pre-emption rights of shareholders can be disapplied under this authorisation. The authorised capital was entered in the commercial register on 14 October 2013. This authorisation was not utilised in the 2015/16 financial year.

By way of resolution of the Annual General Meeting on 4 September 2014, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital of the company by a total of up to € 250,732,700.16 against cash or non-cash contributions by issuing up to 97,942,461 new no-par-value bearer shares until 3 September 2019. The number of shares must increase by the same proportion as the share capital. With the approval of the Supervisory Board, the statutory pre-emption rights of shareholders can be disapplied under this authorisation. The authorised capital was entered in the commercial register on 28 October 2014. This authorisation was not utilised in the 2015/16 financial year.

By way of resolution of the Annual General Meeting on 26 August 2010, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to issue bearer convertible or option bonds or combinations of these instruments (referred to together as “bonds” hereafter) with a total nominal value of up to € 400,000,000.00 on one or several occasions, with or without a limited term in each case, until 25 August 2015, and to grant the bearers of bonds conversion or option rights to subscribe to a maximum of 74,874,422 no-par value bearer ordinary shares of the company with a proportionate interest in the share capital of up to € 191,678,520.32 in total in accordance with the terms of issue of the bonds. The resolution was entered in the commercial register on 8 November 2010. The authorisation expired owing to the passage of time as at 25 August 2015. This authorisation was not exercised in the 2015/16 financial year.

By way of resolution of the Annual General Meeting on 4 September 2014, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to issue bearer option or convertible bonds or combinations of these instruments (referred to together as “bonds” hereafter) with a total nominal value of up to € 2,500,000,000.00 with or without a limited term on one or several occasions, including in various tranches, until 3 September 2019, and to grant the bearers of the bonds option or conversion rights for a total of up to 241,818,039 new no-par value shares with a proportionate interest in the share capital of up to € 619,054,179.84 in accordance with the terms of issue of the respective bonds. The resolution was entered in the commercial register on 28 October 2014. This authorisation was not utilised in the 2015/16 financial year.

By way of resolution of the Annual General Meeting on 27 August 2015, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to issue bearer option or convertible bonds or combinations of these instruments (referred to together as “bonds” hereafter) with a total nominal value of up to € 800,000,000.00 with or without a limited term on one or several occasions, including in various tranches, until 26 August 2020, and to grant the bearers of the bonds option or conversion rights for a total of up to 74,874,422 new no-par value shares with a proportionate interest in the share capital of up to € 191,678,520.32 in accordance with the terms of issue of the respective bonds. The resolution was entered in the commercial register on 29 October 2015. This authorisation was not utilised in the 2015/16 financial year.

Hybrid capital instruments

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

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

As in the previous year, the carrying amounts of the preferred shares in the Group were equal to the nominal amounts of € 475.1 million as at 31 March 2016.

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

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

Statement of changes in equity

Group:

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

IKB AG:

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

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

The own funds of IKB AG in accordance with Article 72 CRR amount to a total of € 2.0 billion (previous year: € 2.1 billion). The common equity tier 1 capital in accordance with Article 50 CRR amounts to € 1.8 billion at IKB AG (previous year: € 1.8 billion).

The restricted amounts of distributable profits break down as follows:

Group:

31 Mar. 2016 in € million	Gross income	Deferred tax assets	Deferred tax liabilities	Restriction on distribution
Unrealised gains on plan assets	15.1	-	-3.9	11.2
Recognition of deferred taxes	-	327.6	-70.1	257.5
Difference from the change in the market interest rate for the measurement of pension obligations	27.5	-	-	27.5
Total	**42.6**	**327.6**	**-74.0**	**296.2**

IKB AG:

31 Mar. 2016 in € million	Gross income	Deferred tax assets	Deferred tax liabilities	Restriction on distribution
Unrealised gains on plan assets	12.3	-	-3.9	8.4
Recognition of deferred taxes	-	255.6	-2.1	253.5
Difference from the change in the market interest rate for the measurement of pension obligations	23.8	-	-	23.8
Total	**36.1**	**255.6**	**-6.0**	**285.7**

Notes on the income statement

(42) Income by geographical market

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

	Group		IKB AG	
in € million	**2015/16**	**2014/15**	**2015/16**	**2014/15**
Germany	1,977.4	2,415.1	1,571.1	1,914.7
Europe not including Germany	282.7	298.3	45.6	43.7
USA	-	0.1	-	-
Total	**2,260.1**	**2,713.5**	**1,616.7**	**1,958.4**

Income is allocated to geographical regions on the basis of the domicile of the company in the Group and the head office of operations at IKB AG.

(43) Administrative and brokerage services for third parties

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

(44) Other operating income

“Other operating income” essentially breaks down as follows:

	Group		IKB AG	
in € million	**2015/16**	**2014/15**	**2015/16**	**2014/15**
Income from the reversal of swap agreements	601.6	536.7	601.6	538.1
Income from derivatives in the non-trading book	50.0	192.4	52.0	190.7
Income from currency translation	56.2	76.1	5.7	3.8
Income from the reversal of provisions	21.3	11.1	20.9	7.1
Pension scheme income (CTA-funded)	-	10.2	-	9.6
Rental income	3.3	3.2	3.2	5.2
Income from compensation payments[1)]	8.7	14.1	2.1	1.9
Income from the discounting of provisions	2.3	2.2	2.3	2.2

1) from out-of-court settlements

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

Income from derivatives in the non-trading book essentially relates to compensation payments for the reversal of derivative transactions and premium payments received.

The income from the reversal of provisions essentially relates to the acquisition of the administrative building used by IKB in Düsseldorf (see note (9)).

(45) Other operating expenses

Other operating expenses essentially include:

	Group		IKB AG	
in € million	2015/16	2014/15	2015/16	2014/15
Expenses from the reversal of swap agreements	-676.1	-793.3	-676.1	-793.4
Expenses from derivatives in the non-trading book	-68.7	-176.0	-70.7	-176.0
Expenses from currency translation	-47.3	-55.1	-	-0.2
Expenses for additions to provisions	-130.0	-37.6	-128.8	-37.3
Pension plan expense (CTA-funded)	-46.7	-	-41.4	-
Rent/upkeep (not for operational purposes)	-2.5	-5.9	-3.3	-7.7
Expenses for interest on provisions	-0.9	-3.9	-0.9	-4.0
Expenses from deconsolidation	-0.1	-16.8	-	-

The expenses for the reversal of swap agreements originates from strategic close-outs of banking book derivatives. These expenses are offset by income in the item “Other operating income”.

The “Expenses for additions to provisions” item essentially includes the addition to a provision for expected losses in connection with the hedging of inflation risks (see note (23)).

(46) Income from profit transfer agreements

The income from profit transfers at IKB AG of € 18.9 million (previous year: € 179.2 million) essentially relates to the profit transfer from IKB Beteiligungen GmbH of € 16.9 million (previous year: € 177.4 million).

(47) Extraordinary income and expenses

Extraordinary income includes income from the reimbursement of legal costs to KfW in connection with the settlement of portfolio investments in the amount of € 0.0 million (previous year: € 1.8 million). Furthermore, income of € 2.4 million (previous year: € 1.5 million) from higher realisation proceeds on intragroup receivables transferred in restructuring activities is reported at IKB AG.

The “Extraordinary expenses” item also includes the earnings effect of the transfer to provisions as part of the restructuring measures. The expenses for these activities amount to € 28.8 million in the Group and € 23.8 million at IKB AG in the year under review and, in particular, relate to expenses for personnel measures.

At € 4.1 million at IKB AG (previous year: € 4.1 million) and € 4.6 million in the Group (previous year: € 4.6 million), extraordinary expenses relate to the distribution of the additional expenses from the remeasurement of pension provisions in accordance with BilMoG (see note (37)).

(48) Income and expenses from leases

	Group	
in € million	2015/16	2014/15
Depreciation and impairment losses on lease assets	-310.8	-349.4
Other operating income from leases	57.1	63.4

(49) Income taxes

The item "Income taxes" includes current taxes of € -9.2 million (previous year: € -112.8 million) in the Group and € -8.2 million (previous year: € -111.3 million) at IKB AG. The interest on income taxes of € 3.4 million is reported in other operating expenses. Interest on income taxes is presented under "Tax provisions" for accounting purposes. The decline in tax provisions essentially relates to the payment of corporation tax, the solidarity surcharge and interest on corporation tax on the basis of the tax assessments received for the 2009 assessment-period. Furthermore, some of the tax provisions were utilised after the completion of the current external audit.

Furthermore the change in the "Income taxes" item includes the change in the recognition of deferred tax assets of € 10.4 million (previous year: € -5.9 million) in the Group and € 11.6 million (previous year: € -13.6 million) at IKB AG. The increase in deferred tax assets is due to improved income prospects.

(50) Contingent liabilities and other obligations

On the balance sheet date, the "Contingent liabilities" item included CDSs (Bank as pledgor) under guarantees and warranties of € 824.4 million (previous year: € 761.4 million) both in the Group and at IKB AG. Here, IKB has assumed the default risk for a pre-defined credit event for specific credit portfolios. In the previous year, guarantees and warranties also included derivative components of structured products (embedded CDS) of € 200 million both in the Group and at IKB AG.

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

As part of the sale of the 50% interest in Movesta Lease and Finance GmbH, Pullach i. Isartal (formerly Düsseldorf), IKB AG jointly and severally assumed warranties and indemnification obligations with IKB Beteiligungen GmbH. These include, for example, the transferred GmbH shares and the proper settlement of and compliance with obligations from the past (including issuing tax returns).

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

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

(51) Other financial obligations

As at the reporting date, other financial obligations totalled € 1,497.2 million (previous year: € 1,366.3 million) in the Group and € 1,473.6 million (previous year: € 1,351.1 million) at IKB AG.

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

In addition, there are payment obligations under long-term rental agreements for the term of the lease of € 26.8 million (previous year: € 190.6 million) in the Group and € 9.7 million (previous year: € 179.1 million) at IKB AG. In particular, the decline is due to the fact that the Bank acquired the administrative building of headquarter in Düsseldorf, which is used for banking purposes, effective October 2015, and the resulting payment obligations in connection with long-term leases no longer exist. There are still leases for the Bank's branches for properties used for banking purposes and the maintenance of these properties. Provisions for expected losses from executory contracts have been recognised for the event that the expenses exceed the benefit of the rental agreement. The risk or opportunity lies in the fact that after the end of a limited rent agreement, the contract can be extended or a follow-up agreement can be concluded at less advantageous or more advantageous conditions.

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

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

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

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

€ 0.7 million (previous year: € 1.0 million) of the total financial obligations of IKB AG relates to affiliated companies.

Dissenting view of the tax authorities

In August 2015 IKB AG received tax assessment notices in which the dissenting view of the tax authorities on the application of section 8c of the German Corporate Income Tax Act (KStG)/section 10a of the German Trade Tax Act (GewStG) in connection with the capital increase implemented by IKB AG during the course of the year and the subsequent sale of KfW’s shares in IKB to Lone Star in the financial year 2008/09 was implemented. IKB has appealed against the tax assessments. The corporation tax and the solidarity surcharge for 2009 were paid including interest. Payment was made in the amount of around € 140 million from the provisions recognised as at 31 March 2015 and in the amount of € 1 million from net other operating income (additional 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 € 151 million for trade tax, interest on this (with interest calculated until 31 March 2016) and CIC contributions. A further € 0.6 million would be added per month by the end of the proceedings. IKB has appealed against the corresponding assessments.

At the end of April 2016, Aleanta GmbH (wholly owned subsidiary of IKB AG without a profit transfer agreement and therefore not included in the income tax group), in the context of an audit of a company to which it is the legal successor (Olessa GmbH), received an initial written statement to the effect that the tax authorities are considering evaluating the retroactive merger of Olessa GmbH with Aleanta GmbH in the 2010/11 financial year as a case of section 42 of the *Abgabenordnung* (AO – German Fiscal Code). The external audit has not yet been concluded. Aleanta GmbH was invited to comment on the matter and the current assessment of the audit. The maximum risk amounts to around € 27 million in taxes plus interest (notionally around € 6 million by 31 March 2016) and the reallocation of CIC contributions of € 0.2 million. This will be appealed if necessary.

(52) Off-balance sheet transactions

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

Special purpose entities in connection with securitisation transactions

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

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

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

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

Valin Funds

In 2011 IKB launched Valin Funds S.A., SICAV-SIF, its first fund platform in Luxembourg. The fund company includes the sub-fund Mittelstand Mezzanine 1, which seeks to provide SMEs with mezzanine capital. The targeted volume of this sub-fund is € 300 million. A second Luxembourg-based fund, Valin Mittelstand Senior Debt Fund S.A., SICAV-SIF, was launched in the financial year 2014/15. The sub-fund Valin MSD has a target volume of € 475 million and seeks to invest in long-term, senior corporate loans, secured and unsecured, to German SMEs. In April 2015, IKB sold all its units in Valin Mittelstand Senior Debt Fund to the third-party special purpose entity MSD S.à.r.l., and therefore its only interest in the fund is now through the bonds of MSD S.á.r.l.

A further sub-fund of Valin Funds S.A., SICAF-SIF was launched in November 2015 in Valin Ruysdael Fonds (VRF). The fund invests exclusively in the same corporate loans as Valin Mittelstand Senior Debt Fund.

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

Forward transactions

As at the balance sheet date there are obligations from contingent and non-contingent forwards. These are essentially for hedging interest and currency risks and lead to future inflows or outflows of cash. Please also see the information on forwards (see note (60)).

Other disclosures

(53) Consolidated group as at 31 March 2016

			Equity interest in %
A.	**Consolidated subsidiaries**		
1.	**Other domestic companies**		
	Aleanta GmbH, Düsseldorf		100
	Equity Fund GmbH, Düsseldorf	1)	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 4 mbH, Düsseldorf		100
	IKB Beteiligungsgesellschaft 5 mbH, Düsseldorf		100
	IKB Data GmbH, Düsseldorf		100
	IKB Equity Capital Fund GmbH, Düsseldorf	1)	100
	IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf		100
	IKB Grundstücks GmbH, Düsseldorf		100
	IKB Invest GmbH, Düsseldorf	1)	100
	IKB Leasing GmbH, Hamburg	1)	100
	IKB Leasing Beteiligungsgesellschaft mbH, Hamburg	1)	100
	IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf	3)	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 5 GmbH, Düsseldorf	1)	100
	Istop 6 GmbH, Düsseldorf	1)	100
	MATRONA GmbH, Düsseldorf	1)	100
	Projektbeteiligung TH GmbH & Co. KG, Düsseldorf	1)	89.8
	Tempelhofer Hafen GmbH & Co. KG, Düsseldorf	1)	94.9
	UTA Truck Lease GmbH, Neu-Isenburg	1)	100
2.	**Other foreign companies**		
	IKB Finance B.V., Amsterdam, Netherlands		100
	IKB Funding LLC II, Wilmington, United States of America	1)	100
	IKB Funding LLC I, Wilmington, United States of America	1)	100
	IKB International S.A. i.L., Munsbach, Luxembourg	2)	100
	IKB Leasing Austria GmbH, Vienna, Austria	1)	100
	IKB Leasing CR s.r.o., Prague, Czech Republic	1)	100
	IKB Leasing Finance IFN SA, Bucharest, Romania	1)	100
	IKB Leasing France S.A.R.L., Marne La Vallée, France	1)	100
	IKB Leasing Kft., Budapest, Hungary	1)	100
	IKB Leasing Polska Sp.z.o.o, Poznan (Posen), Poland	1)	100
	IKB Leasing SR, s.r.o., Bratislava, Slovakia	1)	100
	IKB Leasing S.R.L., Bucharest, Romania	1)	100
	IKB Lux Beteiligungen S.à.r.l, Munsbach, Luxembourg		100
	IKB Pénzügyi Lízing Zrt., Budapest, Hungary	1)	100
	STILL LOCATION S.à.r.l., Marne La Vallee, France	1)	100
	IKBL Renting and Service S.r.l., Lainate (MI), Italy	1)	100
	AO IKB Leasing geschlossene Aktiengesellschaft, Moscow, Russia	1)	100
3.	**Special purpose entities in accordance with section 290 (2) no. 4 HGB**		
	Bacchus 2008-2 Plc, Dublin, Ireland		
	German Mittelstand Equipment Finance S.A., Luxembourg, Luxembourg		
	RIO DEBT HOLDINGS (IRELAND) LIMITED, Dublin, Ireland		
B.	**Associates**		
	Linde Leasing GmbH, Wiesbaden	1)	30.0

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

(54) List of shareholdings as at 31 March 2016

31 Mar. 2016		Financial year	Letter of comfort	Equity interest in %	Equity € thou-sand	Result € thou-sand
1. German subsidiaries (consolidated)						
Aleanta GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00	1,531	-20
Equity Fund GmbH, Düsseldorf		1 Jan. - 31 Dec.		100.00	625	0
IKB Beteiligungen GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00	79,742	0
IKB Beteiligungsgesellschaft 1 mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00	55	0
IKB Beteiligungsgesellschaft 2 mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00	80	0
IKB Beteiligungsgesellschaft 3 mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00	55	0
IKB Beteiligungsgesellschaft 4 mbH, Düsseldorf		1 Apr. - 31 Mar.		100.00	54	0
IKB Beteiligungsgesellschaft 5 mbH, Düsseldorf		1 Apr. - 31 Mar.		100.00	54	0
IKB Data GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00	13,000	0
IKB Equity Capital Fund GmbH, Düsseldorf		1 Apr. - 31 Mar.	X	100.00	8,304	1,572
IKB Grundstücks GmbH, Düsseldorf		1 Jan. - 31 Dec.	X	100.00	98	-1
IKB Grundstücks GmbH & Co.Objekt Holzhausen KG, Düsseldorf	3)	1 Jan. - 31 Dec.	X	100.00	8,847	976
IKB Invest GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00	263,408	0
IKB Leasing Beteiligungsgesellschaft mbH, Hamburg		1 Apr. - 31 Mar.		100.00	5,825	0
IKB Leasing GmbH, Hamburg		1 Apr. - 31 Mar.	X	100.00	178,223	0
IKB Projektentwicklung GmbH & Co. KG i.L., Düsseldorf	3)4)	1 Jan. - 31 Dec.	X	100.00	5,787	1,172
IKB Struktur GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00	103,750	0
Istop 1 GmbH, Düsseldorf		1 Jan. - 31 Dec.		100.00	115,975	0
Istop 2 GmbH, Düsseldorf		1 Jan. - 31 Dec.		100.00	155,025	0
Istop 4 GmbH, Düsseldorf		1 Jan. - 31 Dec.		100.00	93,525	0
Istop 5 GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00	525	0
Istop 6 GmbH, Düsseldorf		1 Jan. - 31 Dec.		100.00	114,445	0
MATRONA GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00	45,025	0
Projektbeteiligung TH GmbH & Co. KG, Düsseldorf		1 Jan. - 31 Dec.		89.80	0	-4
Tempelhofer Hafen GmbH & Co. KG, Düsseldorf		1 Jan. - 31 Dec.		94.90	0	3
UTA Truck Lease GmbH, Neu-Isenburg		1 Apr. - 31 Mar.		100.00	9,028	0
2. Foreign subsidiaries (consolidated)						
AO IKB Leasing geschlossene Aktiengesellschaft, Moscow, Russia		1 Jan. - 31 Dec.		100.00	3,367	-2,165
IKB Leasing France S.A.R.L., Marne La Vallée, France		1 Jan. - 31 Dec.		100.00	3,655	1,040
STILL LOCATION S.à.r.l., Marne La Vallee, France		1 Jan. - 31 Dec.		100.00	21,500	2,741
IKB International S.A. i.L., Munsbach, Luxembourg	4)	1 Apr. - 31 Mar.	X	100.00	39,655	-127
IKB Lux Beteiligungen S.à.r.l., Munsbach, Luxembourg		1 Apr. - 31 Mar.	X	100.00	10,212	-105
IKB Finance B.V., Amsterdam, Netherlands		1 Apr. - 31 Mar.	X	100.00	6,113	8,659
IKB Leasing Austria GmbH, Vienna, Austria		1 Jan. - 31 Dec.		100.00	770	33
IKB Leasing Polska Sp.z.o.o, Poznan (Posen), Poland		1 Jan. - 31 Dec.		100.00	11,544	693
IKB Leasing Finance IFN S.A., Bucharest, Romania		1 Jan. - 31 Dec.		100.00	4,620	370
IKB Leasing S.R.L., Bucharest, Romania		1 Jan. - 31 Dec.		100.00	1,591	257
IKB Leasing SR, s.r.o., Bratislava, Slovakia		1 Jan. - 31 Dec.		100.00	1,932	82
IKB Leasing CR s.r.o., Prague, Czech Republic		1 Jan. - 31 Dec.		100.00	31,186	1,582
IKB Leasing Kft., Budapest, Hungary		1 Jan. - 31 Dec.		100.00	5,906	1,126
IKB Pénzügyi Lizing Zrt., Budapest, Hungary		1 Jan. - 31 Dec.		100.00	3,080	362
IKB Funding LLC I, Wilmington, United States of America	2)	1 Apr. - 31 Mar.	X	100.00	323	22
IKB Funding LLC II, Wilmington, United States of America	2)	1 Apr. - 31 Mar.	X	100.00	596	-2
IKBL Renting and Service S.r.l., Lainate (MI), Italy		1 Jan. - 31 Dec.		100.00	949	-71

31 Mar. 2016	Financial year	Letter of comfort	Equity interest in %	Equity € thousand	Result € thousand
3. Special purpose entities (special purpose entities included in the consolidated financial statements in line with section 290 (2) no. 4 HGB)					
Bacchus 2008-2 Plc, Dublin 2, Ireland					
RIO DEBT HOLDINGS (IRELAND) LIMITED, Dublin 2, Ireland					
German Mittelstand Equipment Finance S.A., Luxembourg, Luxembourg					

31 Mar. 2016		Financial year	Letter of comfort	Equity interest in %
4. German subsidiaries (not included in consolidation due to section 296 HGB)	1)			
Brunnenstraße 105-109 Berlin Grundbesitz GmbH, Düsseldorf		1 Jan. - 31 Dec.		94.90
Einsteinufer 63-65 Berlin GmbH i.L., Düsseldorf	4)	1 Jan. - 31 Dec.		100.00
Erste Equity Suporta GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00
Feldmühleplatz 1 Verwaltungsgesellschaft mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
FRANA Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
GAP 15 GmbH i.L., Düsseldorf	4)	1 Jan. - 31 Dec.		92.80
GARUMNA GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00
HAUSTUS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Yachtzentrum Berlin KG i.L., Düsseldorf	4)	1 Jan. - 31 Dec.		94.67
IKB Beteiligungsgesellschaft 7 mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
IKB Beteiligungsgesellschaft 8 mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
IKB Beteiligungsgesellschaft 9 mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
IKB Beteiligungsgesellschaft 10 mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
IKB Projektentwicklungsverwaltungsgesellschaft mbH i.L., Düsseldorf	4)	1 Oct. - 30 Sep.	X	100.00
IKB NewCo 1 GmbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
IKB NewCo 3 GmbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
IKB NewCo 4 GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00
IKB NewCo 5 GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00
IKB Real Estate GmbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
ILF Immobilien-Leasing-Fonds Verwaltung GmbH & Co. Objekt Boxdorf KG i.L., Düsseldorf	4)	1 Jan. - 31 Dec.		94.26
IMAS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf		1 Apr. - 31 Mar.	X	100.00
ISOG Technology Holding GmbH, Weilheim		1 Apr. - 31 Mar.		57.70
ISOG Management GmbH, Weilheim		1 Apr. - 31 Mar.		57.70
ISOG Technology GmbH & Co. KG, Weilheim		1 Apr. - 31 Mar.		57.70
Istop 3 GmbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
ISTOS Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
ISTOS Dritte Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf		1 Jan. - 31 Dec.		100.00
ISTOS Zweite Beteiligungsverwaltungs- und Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf		1 Jan. - 31 Dec.		100.00
Ligera GmbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
MD Capital Solingen Verwaltungsgesellschaft mbH i.L., Düsseldorf	4)	1 Jan. - 31 Dec.		100.00
MD Objekt Solingen Verwaltungsgesellschaft mbH i.L., Düsseldorf	4)	1 Jan. - 31 Dec.		100.00
MFRSI Beteiligungsholding Verwaltungsgesellschaft mbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
RAVENNA Vermögensverwaltungs AG, Berlin		1 Jan. - 31 Dec.		100.00
Restruktur 2 GmbH i.L., Düsseldorf	4)	1 Apr. - 31 Mar.		100.00

31 Mar. 2016		Financial year	Letter of comfort	Equity interest in %
Restruktur 3 GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00
Rhodana GmbH, Düsseldorf		1 Jan. - 31 Dec.		100.00
Robert Adams Str. 12 London GmbH i.L., Düsseldorf	4)	1 Jan. - 31 Dec.		100.00
SEQUANA GmbH, Düsseldorf		1 Apr. - 31 Mar.		100.00
5. Foreign subsidiaries (not included in consolidation due to section 296 HGB)	1)			
Valin Asset Management S.à.r.l., Luxembourg, Luxembourg		1 Apr. - 31 Mar.		100.00
IKB Funding Trust I, Wilmington, United States of America		1 Apr. - 31 Mar.		100.00
IKB Funding Trust II, Wilmington, United States of America		1 Apr. - 31 Mar.		100.00
IKBL Asset spólka z ograniczona odpowiedzialnoscia & Co. spólka komandytowa, Posen, Poland		1 Jan. - 31 Dec.		100.00
IKBL ASSET Spolka z ograniczona odpowiedzialnoscia, Posen, Poland		1 Jan. - 31 Dec.		100.00
ISOG Technology Co. Ltd., Shanghai, China		1 Apr. - 31 Mar.		57.70
ISOG Technology Italia S.r.l., Turate, Italy		1 Apr. - 31 Mar.		57.70
6. Special purpose entities (not included in consolidation due to section 296 HGB)				
Weinberg Capital Ltd., Dublin, Ireland				
Corelux Purchaser No. 1 S. A., Luxembourg, Luxembourg				
HIMERA Grundstücks- Vermietungsgesellschaft mbH, Pullach i. Isartal, Germany				
Rosaria Grundstücks-Vermietungsgesellschaft mbH Objekt Heimstetten KG, Grünwald, Germany				
7. German associates	1)			
Linde Leasing GmbH, Wiesbaden		1 Jan. - 31 Dec.		30.00
8. German associates/joint ventures (not accounted for using the equity method due to section 311 (2) HGB)	1)			
Argantis GmbH i.L., Cologne	4)	1 Jan. - 31 Dec.		50.00
AWEBA Werkzeugbau GmbH Aue, Aue		1 Jan. - 31 Dec.		25.10
Chemtura Verwaltungs GmbH, Bergkamen		1 Jan. - 31 Dec.		50.00
Dritte Hubschraubertechnologiepark Donauwörth GmbH, Düsseldorf		1 Jan. - 31 Dec.		50.00
equiNotes Management GmbH, Düsseldorf		1 Jan. - 31 Dec.		50.00
FUNDIS Projektentwicklungsholding GmbH & Co. KG, Düsseldorf		1 Jan. - 31 Dec.		50.00
FUNDIS Verwaltungsgesellschaft mbH, Düsseldorf		1 Jan. - 31 Dec.		50.00
HABITO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt EINS KG, Pullach i. Isartal		1 Jan. - 31 Dec.		6.00
Hafenspitze Verwaltungsgesellschaft mbH, Hamburg		1 Jan. - 31 Dec.		25.00
LOUDA SYSTEMS GmbH, Triptis		1 Jan. - 31 Dec.		45.00
MFRSI Beteiligungsholding GmbH & Co. KG, Düsseldorf		1 Jan. - 31 Dec.		50.00
Mike's Sandwich GmbH, Hamburg		1 Jan. - 31 Dec.		35.59
MOTORRAD-ECKE GmbH, Villingen-Schwennigen		1 Jan. - 31 Dec.		38.86
ODS Business Services Group GmbH, Hamburg		1 Jan. - 31 Dec.		32.00
Projektgesellschaft Hafenspitze mbH & Co. KG, Düsseldorf		1 Jan. - 31 Dec.		25.00
Vermögensverwaltungsgesellschaft DVD Dassow GmbH, Dassow		1 Jan. - 31 Dec.		30.00

31 Mar. 2016		Financial year	Letter of comfort	Equity interest in %
9. German equity investments in corporations and partnerships in which the interest exceeds 5% of voting rights	1)			
AXA Immoselect Hauptverwaltungsgebäude GmbH & Co. Objekt Düsseldorf Uerdinger Straße KG, Cologne		1 Jan. - 31 Dec.		5.10
Global Safety Textiles HoldCo One GmbH i.L., Maulburg	4)	1 Jan. - 31 Dec.		8.80
Könemann Verlagsgesellschaft mbH, Cologne		1 Jan. - 31 Dec.		12.50
10. Foreign equity investments in large corporations in which the interest exceeds 5% of voting rights	1)			
Ring International Holding AG, Vienna, Austria		1 Jan. - 31 Dec.		9.37

1) The information in accordance with section 285 no. 11 HGB on equity and results is not shown for companies not included in the consolidated financial statements in accordance with section 286 (3) sentence 1 no. 1 HGB.
2) Subordinated letter of comfort
3) Company exercised exemption under section 264b HGB and did not prepare notes.
4) in liquidation

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

As a result of the expiry of the IKB profit participation certificates it acquired, ProPart Funding Limited Partnership has no longer been listed as a consolidated special purpose entity since 30 September 2015. The companies Capital Raising GmbH and Hybrid Raising GmbH also no longer qualify as consolidated special purpose entities in accordance with the criteria of section 290 HGB. The companies Capital Raising GmbH and Hybrid Raising GmbH are therefore not affiliates of IKB in accordance with section 271 HGB. The inclusion of these companies in the consolidated financial statements was waived in previous years on the basis of section 296 HGB. This qualification did not result in a change in the net assets of the Group.

(55) Special investments

Following the change in stock market segment of all securities of IKB from the regulated market to the quality segments of the unregulated market on 7 November 2012, IKB is no longer listed on the stock market and therefore the disclosure requirements of sections 21 et seq. WpHG have not applied to it since this date.

As at 7 November 2012, the Bank had received the following notifications in accordance with section 21 WpHG:

Date of change	Notifying party	Location	Threshold reached, exceeded or fallen below	Held directly	Held in-directly	Total
29 October 2008	John P. Grayken	USA	Threshold of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% exceeded		90.81%	90.81%
29 October 2008	Lone Star Europe Holdings, Ltd. (Bermuda)	Hamilton (Bermuda)	Threshold of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% exceeded		90.81%	90.81%
29 October 2008	Lone Star Europe Holdings, L.P. (Bermuda)	Hamilton (Bermuda)	Threshold of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% exceeded		90.81%	90.81%
29 October 2008	LSF6 Europe Partners, L.L.C. (Delaware)	Dallas (Texas)	Threshold of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% exceeded		90.81%	90.81%
29 October 2008	LSF6 Europe Financial Holdings, L.P. (Delaware)	Dallas (Texas)	Threshold of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% exceeded	90.81%		90.81%
15 July 2009	LSF6 Rio S.à.r.l.	Luxembourg (Luxembourg)	Threshold of 3% and 5% exceeded	7.62%		7.62%
15 July 2009	Lone Star Capital Investments S.à.r.l.	Luxembourg (Luxembourg)	Threshold of 3% and 5% exceeded		7.62%	7.62%
15 July 2009	Lone Star Global Holdings, Ltd.	Hamilton (Bermuda)	Threshold of 3% and 5% exceeded		7.62%	7.62%
20 July 2009	LSF6 Rio S.à.r.l.	Luxembourg (Luxembourg)	Threshold of 5% and 3% fallen below	0%		0%
20 July 2009	Lone Star Capital Investments S.à.r.l.	Luxembourg (Luxembourg)	Threshold of 5% and 3% fallen below		0%	0%
20 July 2009	Lone Star Global Holdings, Ltd.	Hamilton (Bermuda)	Threshold of 5% and 3% fallen below		0%	0%

The Bank did not receive any notifications under stock corporation law in accordance with section 20 (1) or (4) AktG in the reporting period. In accordance with section 20 AktG, an enterprise must notify a company in writing as soon as it holds more than 25% (section 20 (1) AktG) or 50% (section 20 (4) AktG) of the shares in a non-listed company based in Germany. The Bank also did not receive any notifications in accordance with section 20 (5) AktG that an investment of a reportable amount no longer exists.

(56) Disclosure of auditor's fees

	Group		IKB AG	
in € million	**2015/16**	**2014/15**	**2015/16**	**2014/15**
Audit of financial statements	-2.5	-2.5	-2.0	-2.0
Other assurance or valuation services	-	-0.5	-	-0.5
Other services	-0.1	-1.0	-0.1	-0.8
Total	**-2.6**	**-4.0**	**-2.1**	**-3.3**

Auditor fees include € 0.2 million (previous year: € 0.0 million) in expenses for previous financial years.

(57) 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.

(58) Letters of comfort

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

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

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

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

31 Mar. 2016 in € million	Group	IKB AG
Liabilities to banks	8,618.3	8,156.9
Liabilities to customers	43.6	728.8
Securitised liabilities	153.2	-
Other liabilities	-	213.4
Contingent liabilities	116.4	2.2
Total	**8,931.5**	**9,101.3**

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

(60) Forward transactions

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

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

Please see note (61) for the fair values of interest-related derivatives in the Group and at IKB AG.

(61) Derivative financial instruments not recognised at fair value

Group:

31 Mar. 2016 in € million	Nominal	Fair value Positive	Fair value Negative	Carrying amount Assets	Carrying amount Liabilities
Interest-related derivatives	21,371.8	1,550.9	2,736.1	329.6	261.7
Credit-related derivatives	1,401.9	8.6	54.8	7.4	68.8
Currency-related derivatives	2,218.6	44.8	26.9	40.7	7.8
Derivatives assigned to several categories	1,451.2	181.0	151.1	17.5	18.9
Total	**26,443.5**	**1,785.3**	**2,968.9**	**395.2**	**357.2**

31 Mar. 2016 in € million	Carrying amount Other assets	Carrying amount Prepaid expenses	Carrying amount Provisions[1)]	Carrying amount Other liabilities	Carrying amount Deferred income
Interest-related derivatives	99.4	230.2	117.1	112.6	32.0
Credit-related derivatives	0.2	7.2	52.9	-	15.9
Currency-related derivatives	40.7	-	0.3	7.5	-
Derivatives assigned to several categories	1.9	15.6	-	1.8	17.1
Total	**142.2**	**253.0**	**170.3**	**121.9**	**65.0**

1) Relates to embedded derivatives

IKB AG:

31 Mar. 2016 in € million	Nominal	Fair value Positive	Fair value Negative	Carrying amount Assets	Carrying amount Liabilities
Interest-related derivatives	21,642.5	1,561.5	2,734.6	374.4	313.5
Credit-related derivatives	1,401.9	8.6	54.8	7.4	68.8
Currency-related derivatives	2,372.5	44.8	27.7	39.9	7.8
Derivatives assigned to several categories	1,451.2	181.0	151.1	18.9	19.9
Total	**26,868.1**	**1,795.9**	**2,968.2**	**440.6**	**410.0**

31 Mar. 2016 in € million	Carrying amount Other assets	Carrying amount Prepaid expenses	Carrying amount Provisions[1)]	Carrying amount Other liabilities	Carrying amount Deferred income
Interest-related derivatives	99.8	274.6	116.9	109.0	87.6
Credit-related derivatives	0.2	7.2	52.9	-	15.9
Currency-related derivatives	39.9	-	0.3	7.5	-
Derivatives assigned to several categories	1.9	17.0	-	1.3	18.6
Total	**141.8**	**298.8**	**170.1**	**117.8**	**122.1**

1) Relates to embedded derivatives

(62) Unrealised gains and losses

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

Group	31 Mar. 2016			31 Mar. 2015		
in € million	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference[1]
Receivables from banks	2,122.2	2,123.7	1.5	2,300.0	2,301.0	1.0
Receivables from customers	9,887.8	10,372.5	484.7	11,089.8	11,595.6	505.8
Bonds and other fixed-income securities	5,051.6	5,522.4	470.8	5,773.8	6,713.3	939.5
Equities and other non-fixed-income securities	470.1	473.3	3.2	483.2	490.6	7.4
Derivative financial instruments not recognised at fair value	395.3	1,785.3	1,390.0	177.8	2,051.2	1,873.4
Subtotal	**17,927.0**	**20,277.2**	**2,350.2**	**19,824.6**	**23,151.7**	**3,327.1**
Liabilities to banks	7,897.0	8,045.1	-148.1	8,893.3	9,076.5	-183.2
Liabilities to customers	7,498.4	7,633.3	-134.9	8,165.3	8,341.6	-176.3
Securitised liabilities	773.8	779.2	-5.4	756.3	762.6	-6.3
Subordinated liabilities	921.7	538.2	383.5	970.9	561.7	409.2
Profit participation capital	32.2	28.2	4.0	32.2	27.2	5.0
Silent partnership contributions	0.0	72.5	-72.5	0.0	53.5	-53.5
Derivative financial instruments not recognised at fair value	357.2	2,968.9	-2,611.7	337.7	3,839.8	-3,502.1
Subtotal	**17,480.3**	**20,065.4**	**-2,585.1**	**19,155.7**	**22,662.9**	**-3,507.2**
Total			**-234.9**			**-180.1**

1) IKB implemented changes in the calculation of fair values in the financial year. Applying the current measurement methods to the portfolio as at 31 March 2015, unrealised losses would be around € 51.5 million higher. Please see the comments on the changes in measurement methods for an explanation of the effect.

In addition to its net asset surplus included in the consolidated financial statements, the IKB Leasing Group also has a net asset value (unrealised gains from leasing business) of € 131.4 million (31 March 2015: € 145.4 million). The net asset value is calculated using the model of the Federal Association of German Leasing Companies (Bundesverband Deutscher Leasingunternehmen).

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

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

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

Securities (including securitised subordinated liabilities, securitised profit participation capital 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 exclusively 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 measurement parameters (including interest rates, interest rate volatilities, exchange rates). Future cash flows are derived using swap curves specific to currencies and remaining terms. 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 overnight index curve for the appropriate currency.

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.

(63) Remuneration of the Board of Managing Directors

Total remuneration of € 4.6 million (previous year: € 4.1 million) was incurred for active and former members of the Board of Managing Directors in the 2015/16 financial year. This includes fixed salaries, variable performance-based remuneration, severance payments, pension compensation for a pension not agreed, reimbursed moving costs and non-cash remuneration. The Supervisory Board regularly reviews the appropriateness of the respective total remuneration.

Former and retired members of the Board of Managing Directors

The total remuneration for former members of the Board of Managing Directors and their surviving dependents amounted to € 3.2 million (previous year: € 3.2 million). In the 2015/16 financial year, € 46.6 million was recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents based on an average interest rate of ten years (previous year: € 42.7 million, based on an average interest rate of seven years).

(64) Remuneration of the Supervisory Board

The total remuneration of the members of the Supervisory Board for the 2015/16 financial year amounted to € 275 thousand (previous year: € 217 thousand). This contains reimbursed expenses of € 60 thousand including the VAT incurred on remuneration (previous year: € 6 thousand).

(65) Remuneration of the Advisory Board

The members of the Advisory Board received € 233 thousand (previous year: € 299 thousand), including VAT.

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

No loans were granted to members of the Board of Managing Directors or the Advisory Board. Loans totalling € 8.1 thousand were extended to the members of the Supervisory Board (previous year: € 14.7 thousand).

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

	Group		IKB AG	
	31 Mar. 2016	**31 Mar. 2015**	**31 Mar. 2016**	**31 Mar. 2015**
Men	973	920	680	666
Women	570	523	319	318
Total	**1,543**	**1,443**	**999**	**984**

(68) Executive bodies

Board of Managing Directors

Dr Michael H. Wiedmann (Chairman)

Dr Dieter Glüder (member of the Board of Managing Directors until 30 November 2015)

Claus Momburg

Dirk Volz (member of the Board of Managing Directors since 1 December 2015)

Dr Jörg Oliveri del Castillo-Schulz (member of the Board of Managing Directors since 1 February 2016)

Supervisory Board

Bruno Scherrer, London, UK (member and Chairman until 3 December 2015)
Senior advisor at Lone Star Funds

Dr Karl-Gerhard Eick, London, UK (Deputy Chairman until 3 December 2015, Chairman since 3 December 2015)
Management consultant

Dr Claus Nolting, Frankfurt/Main (Deputy Chairman since 3 December 2015)
Lawyer

Stefan A. Baustert, Krefeld
Member of the Management Board, QSC AG

Sven Boysen, Quickborn (since 27 August 2015)
Employee representative

Mark Coker, London, UK (since 27 January 2016)
Managing Director & General Counsel – Europe at Hudson Advisors UK Ltd.

Benjamin Dickgießer, London, UK
Director of Lone Star Europe Acquisitions LLP

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

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

Bernd Klein, Mönchengladbach
Employee representative

Rainer Lenz, Bad Kreuznach
Employee representative

Nicole Riggers, Düsseldorf
Employee representative

Carmen Teufel, Neustetten (until 27 August 2015)
Employee representative

William D. Young, London, UK (until 14 January 2016)
Senior Vice President Hudson Advisors UK Ltd.

Offices held by employees

As at 31 March 2016, the following employees were represented in the statutory supervisory boards of large corporations:

Dr Reiner Dietrich
Tricor Packaging & Logistics AG

Düsseldorf, 19 May 2016

IKB Deutsche Industriebank AG

The Board of Managing Directors

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

Auditor’s reports

Auditors Report of the auditor for the consolidated financial statements and the Group management report of IKB Deutsche Industriebank AG for the financial year from 1 April 2015 to 31 March 2016

We have audited the consolidated financial statements comprising the balance sheet, the income statement, cash flow statement, statement of changes in equity and the notes of the consolidated financial statements, which are combined with the notes of the annual financial statements of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, and the group management report, which is combined with the management report of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf for the business year from 1 April 2015 to 31 March 2016. The preparation of the consolidated financial statements and the combined management report in accordance with German commercial law is the responsibility of the parent Company’s Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

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

Our audit has not led to any reservations.

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

Düsseldorf, 25. May 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

Auditors Report of the audit for the annual financial statements and the management report of IKB Deutsche Industriebank AG for the financial year from 1 April 2015 to 31 March 2016

We have audited the annual financial statements comprising the balance sheet, the income statement and the notes to the financial statements, which are combined with the notes of the consolidated financial statements – together with the bookkeeping system and the management report which is combined with the group management report of IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf, for the business year from 1 April 2015 to 31 March 2016. The maintenance of the books and records and the preparation of the annual financial statements and the combined management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the combined management report based on our audit.

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

Our audit has not led to any reservations.

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

Düsseldorf, 25. May 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

Note on forward-looking statements

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

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

IKB Deutsche Industriebank AG
Communications – COM
Wilhelm-Bötzkes-Strasse 1
40474 Düsseldorf
Tel +49 211 8221-4511
Fax +49 211 8221-2511
E-mail: investor.relations@ikb.de

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